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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 20-F**

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**OR**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended September 30, 2022**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Date of event requiring this shell company report**

**For the transition period from    to**

**Commission file number: 001-39111**

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**FLJ Group Limited**

(Exact name of Registrant as specified in its charter)

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**Cayman Islands**

(Jurisdiction of incorporation or organization)

**2F, Building 5**

**No.18, Gongping Road**

**Hongkou District, Shanghai, 200082**

**People's Republic of China**

(Address of principal executive offices)

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**No.18, Gongping Road**

**Hongkou District, Shanghai, 200082**

**People's Republic of China**

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
American depositary shares (one American depositary share representing one hundred and fifty (150) Class A ordinary shares, par value US\$0.00001 per share)  Class A ordinary shares, par value US\$0.00001 per share*	FLJ	NASDAQ Global Market

\* Not for trading, but only in connection with the listing of American depositary shares on the NASDAQ Global Market.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Not Applicable  
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

Not Applicable  
(Title of Class)

As of September 30, 2022, there were 25,878,920,464 ordinary shares outstanding, consisting of 25,878,920,464 Class A ordinary shares and nil Class B ordinary shares, all with a par value of US\$0.00001 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Emerging growth company ☒

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13 (a) of the Exchange Act. ☐

† The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☒

International Financial Reporting Standards as issued by the International Accounting Standards Board ☐

Other ☐

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes ☐ No ☒

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☐ No ☐

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## INTRODUCTION

Unless otherwise indicated or the context otherwise requires in this annual report on Form 20-F:

- “ADSs” refers to our American depositary shares, each of which represents 150 Class A ordinary shares;
- “apartments contracted” or “rental units contracted” refer to apartments or rental units that we have leased in from landlords, as applicable;
- “available apartments” or “available rental units” refer to the apartments or rental units in operation, as applicable, which have been renovated and ventilated and are ready to rent to tenants;
- “average month-end occupancy rate” refers to the aggregate number of leased-out rental unit nights of the last day of each month in the relevant period as a percentage of the aggregate number of available rental unit nights of the last day of each month in the same period;
- “average monthly rental after discount for rental prepayment” refers to the total rental received by a rental operator from tenants for the relevant period the tenants stay in the rental operator’s apartments, net of value-added tax, divided by the number of leased-out rental unit nights for the same period times 30.5 (which represents the average number of days in a month); for avoidance of doubt, the total rental does not include any utility fees a rental operator charges tenants for the relevant period;
- “average monthly rental before discount for rental prepayment” refers to the total rental received by a rental operator from tenants for the relevant period the tenants stay in the rental operator’s apartments, net of value-added tax, adding back any discount the rental operator offers for rental prepayment, divided by the number of leased-out rental unit nights for the same period times 30.5 (which represents the average number of days in a month); for avoidance of doubt, the total rental does not include any utility fees a rental operator charges tenants for the relevant period;
- “China” or the “PRC” refers to the People’s Republic of China, excluding, for the purposes of this annual report only, Hong Kong, Macau and Taiwan;
- “leased-out rental unit nights” refer to the number of nights that the rental units of a rental apartment were leased out for a relevant period;
- “long-term apartment rental” refers to apartment rental business in which the rents are normally collected on a monthly or quarterly basis, and the lease terms are normally over six months;
- “long-term apartment operator” refers to a company which operates long-term apartment rental business, collects vacant apartment resources and rents those apartments directly to tenants;
- “ordinary shares” refers to our Class A ordinary shares and Class B ordinary shares, par value US\$0.00001 per share;
- “period-average occupancy rate” refers to the aggregate number of leased-out rental unit nights as a percentage of the aggregate number of available rental unit nights during the relevant period;
- “tenant renewal rate” refers to the percentage of tenants who choose to rent from the same operator after the end of the applicable lock-in period in the lease;
- “rental spread after discount for rental prepayment” refers to the difference between the average monthly rental after discount for rental prepayment on a lease to a tenant, and the monthly straight-lined rental that the rental operator pays to the landlord for the same space;
- “rental spread before discount for rental prepayment” refers to the difference between the average monthly rental before discount for rental prepayment on a lease to a tenant, and the monthly straight-lined rental that the rental operator pays to the landlord for the same space;
- “rental spread margin after discount for rental prepayment” refers to the rental spread after discount for rental prepayment as a percentage of the average monthly rental after discount for rental prepayment on a lease to a tenant on the same space;

- “rental spread margin before discount for rental prepayment” refers to the rental spread before discount for rental prepayment as a percentage of the average monthly rental before discount for rental prepayment on a lease to a tenant on the same space;
- “rental unit” refers to each bedroom in a rental apartment; we typically convert a leased-in apartment to add an additional bedroom, or the N+1 model, and rent each bedroom separately to individual tenants after standardized decoration and furnishing;
- “RMB” and “Renminbi” refer to the legal currency of China;
- “straight-lined rental” refer to the rental a rental operator pays to a landlord after adjustment to record rent holidays/rent free period and rent escalation clauses on a straight line basis over the term of the lease with the landlord;
- “tier 1 cities” refer to Beijing, Shanghai, Guangzhou and Shenzhen;
- “US\$,” “U.S. dollars,” “\$,” and “dollars” refer to the legal currency of the United States;
- “VIE” refers to Shanghai Qingke E-commerce Co., Ltd.\*;
- “VIE entities” refer to (i) before the Equity Transfer\*, Shanghai Qingke E-commerce Co., Ltd. and its subsidiaries and (ii) after the Equity Transfer\*\*, Qingke (China) Limited, Shanghai Qingke Investment Consulting Co., Ltd. and Shanghai Qingke E-commerce Co., Ltd.;
- “we,” “us,” “our company,” “our,” and “the Company” refer to FLJ Group Limited and its subsidiaries, except in the context of describing the consolidated financial information, also include the VIE entities; and
- “WFOE” refers to Shanghai Qingke Investment Consulting Co., Ltd.\*

\* On October 26, 2021 and December 17, 2021, FLJ Group Limited (the “Group”) transferred of all of its equity interest in Shanghai Qingke Investment Consulting Co., Ltd. (“Q&K Investment Consulting”) and Qingke (China) Limited (“Q&K HK”), respectively, to Wangxiancai Limited, which is a related party of the Group and is beneficially owned by the legal representative and executive director of one of the Group’s subsidiaries (the “Equity Transfer”). As of the date of this annual report, the Group no longer conducts any business operation through a variable interest entity.

\*\* After the Equity Transfer, although the Group does not hold direct equity interest in QK HK, QK Investment Consulting, and QK E-commerce, the Group is the primary beneficiary of these entities, as the Group has the power to direct the activities of these companies that most significantly impact their economic performance and has the obligation to absorb losses of these companies that could potentially be significant to these companies since their inception. Therefore, the Group consolidated these entities in the consolidated financial statements as of September 30, 2022. See Note 1—Organization and Principal Activities to our consolidated financial statements for more information.

Unless otherwise indicated, the number of our tenants, tenant renewal rate, average lease term of our tenants, and our other operating data in this annual report do not take into account tenants who choose not to stay in our apartments after the first week of their leases. To encourage prospective tenants to try out our apartments, we have put in place a policy to allow a new tenant to cancel a lease within three days from the move-in date, and we will return all rental, deposits and fees penalty free. If a new tenant cancels the lease on the fourth to the seventh day, we will return all unused rental, deposit and fees penalty free. In FY 2022, approximately 1.91% of our leases with tenants were terminated during the first week of their leases.

Our fiscal year-end is September 30. “FY 2020” refers to our fiscal year ended September 30, 2020, “FY 2021” refers to our fiscal year ended September 30, 2021, and “FY 2022” refers to our fiscal year ended September 30, 2022.

Our reporting currency is the Renminbi. This annual report on Form 20-F also contains translations of certain foreign currency amounts into U.S. dollars for the convenience of the reader. Unless otherwise stated, all translations from Renminbi to U.S. dollars were made at RMB7.1135 to US\$1.00, the noon buying rate on September 30, 2022 set forth in the H.10 statistical release of the U.S. Federal Reserve Board. We make no representation that the Renminbi or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all. The PRC government restricts or prohibits the conversion of Renminbi into foreign currency and foreign currency into Renminbi for certain types of transactions. On January 13, 2023, the noon buying rate set forth in the H.10 statistical release of the Federal Reserve Board was RMB6.7010 to US\$1.00.

Names of certain companies provided in this annual report are translated or transliterated from their original Chinese legal names.

Discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding.

## FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains forward-looking statements that reflect our current expectations and views of future events. Known and unknown risks, uncertainties and other factors, including those listed under “Item 3. Key Information—D. Risk Factors,” may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigations Reform Act of 1995.

You can identify some of these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “is/are likely to,” “potential,” “continue” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, but are not limited to, statements relating to:

- our mission and strategies;
- our ability to continue as a going concern;
- our ability to achieve or maintain profitability;
- general economic and business condition in China and elsewhere, particularly the long-term apartment rental market and government measures aimed at China’s real estate industry and apartment rental industry;
- health epidemics, pandemics and similar outbreaks, including COVID-19;
- competition in the apartment rental industry;
- our future business development, financial condition and results of operations;
- our expectations regarding demand for and market acceptance of our apartments and services;
- our ability to attract and retain tenants and landlords, including tenants and landlords from our acquired lease contracts;
- our ability to control the quality of operations, including the operation of our rental apartments managed by our own apartment managers or by third-party contractors;
- our ability to integrate strategic investments, acquisitions and new business initiatives; and
- our relationship with financial institution partners and third party product and service providers.

These forward-looking statements involve various risks and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, our expectations may later be found to be incorrect. Our actual results could be materially different from our expectations. You should thoroughly read this annual report and the documents that we refer to with the understanding that our actual future results may be materially different from and worse than what we expect. We qualify all of our forward-looking statements by these cautionary statements.

This annual report contains certain data and information that we obtained from various government and private publications. Statistical data in these publications also include projections based on a number of assumptions. Our industry may not grow at the rate projected by market data, or at all. Failure of this market to grow at the projected rate may have material and adverse effect on our business and the market price of our ADSs. In addition, the rapidly changing nature of China’s branded long-term apartment rental industry results in significant uncertainties for any projections or estimates relating to the growth prospects or future condition of our market. Furthermore, if any one or more of the assumptions underlying the market data are later found to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

## Risks Associated with Being Based in or Having the Majority of the Operations in China

We are exposed to legal and operational risks associated with our operations in China. The PRC government has significant authority to exert influence on the ability of a company with operations in China, including us, to conduct its business. Changes in China's economic, political or social conditions or government policies could materially and adversely affect our business and results of operations. We are subject to risks due to the uncertainty of the interpretation and the application of the PRC laws and regulations, including but not limited to the risks of uncertainty about any future actions of the PRC government on U.S. listed companies. We may also be subject to sanctions imposed by PRC regulatory agencies, including CSRC, if we fail to comply with their rules and regulations. Any actions by the PRC government to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in companies having operations in China, including us, could significantly limit or completely hinder our ability to offer or continue to offer securities to investors, and cause the value of our securities to significantly decline or become worthless. These China-related risks could result in a material change in our operations and/or the value of our securities, or could significantly limit or completely hinder our ability to offer securities to investors in the future and cause the value of such securities to significantly decline or become worthless.

The PRC government may exert, at any time, substantial intervention and influence over the manner our operations. Recently, the PRC government initiated a series of regulatory actions and statements to regulate business operations in China with little advance notice, including cracking down on illegal activities in the securities market, enhancing supervision over China-based companies listed overseas, adopting new measures to extend the scope of cybersecurity reviews and new laws and regulations related to data security, and expanding the efforts in anti-monopoly enforcement.

The regulatory framework for the collection, use, safeguarding, sharing, transfer and other processing of personal information and important data worldwide is rapidly evolving in PRC and is likely to remain uncertain for the foreseeable future. Regulatory authorities in China have implemented and are considering a number of legislative and regulatory proposals concerning data protection. For example, the PRC Cybersecurity Law, which became effective in June 2017, established China's first national-level data protection for "network operators," which may include all organizations in China that connect to or provide services over the internet or other information network. The PRC Data Security Law, which was promulgated by the Standing Committee of PRC National People's Congress, or the SCNPC, on June 10, 2021 and became effective on September 1, 2021, outlines the main system framework of data security protection.

In December 2021, the Cyberspace Administration of China (the "CAC") promulgated the amended Measures of Cybersecurity Review which require cyberspace operators with personal information of more than one million users to file for cybersecurity review with the Cybersecurity Review Office ("CRO"), in the event such operators plan for an overseas listing. The amended Measures of Cybersecurity Review provide that, among others, an application for cybersecurity review must be made by an issuer that is a "critical information infrastructure operator" or a "data processing operator" as defined therein before such issuer's securities become listed in a foreign country, if the issuer possesses personal information of more than one million users, and that the relevant governmental authorities in the PRC may initiate cybersecurity review if such governmental authorities determine an operator's cyber products or services, data processing or potential listing in a foreign country affect or may affect China's national security. The amended Measures of Cybersecurity Review took effect on February 15, 2022. In August 2021, the Standing Committee of the National People's Congress of China promulgated the Personal Information Protection Law which became effective on November 1, 2021. The Personal Information Protection Law provides a comprehensive set of data privacy and protection requirements that apply to the processing of personal information and expands data protection compliance obligations to cover the processing of personal information of persons by organizations and individuals in China, and the processing of personal information of persons outside of China if such processing is for purposes of providing products and services to, or analyzing and evaluating the behavior of, persons in China. The Personal Information Protection Law also provides that critical information infrastructure operators and personal information processing entities who process personal information meeting a volume threshold to be set by Chinese cyberspace regulators are also required to store in China the personal information generated or collected in China, and to pass a security assessment administered by Chinese cyberspace regulators for



any export of such personal information. Moreover, pursuant to the Personal Information Protection Law, persons who seriously violate this law may be fined for up to RMB50 million or 5% of annual revenues generated in the prior year and may also be ordered to suspend any related activity by competent authorities.

In November 2021, the CAC released the Regulations on Network Data Security (draft for public comments) and accepted public comments until December 13, 2021. The draft Regulations on Network Data Security provide more detailed guidance on how to implement the general legal requirements under laws such as the Cybersecurity Law, Data Security Law and the Personal Information Protection Law. The draft Regulations on Network Data Security follow the principle that the state will regulate based on a data classification and multi-level protection scheme, under which data is largely classified into three categories: general data, important data and core data. Under the current PRC cybersecurity laws in China, critical information infrastructure operators that intend to purchase internet products and services that may affect national security must be subject to the cybersecurity review. On July 30, 2021, the State Council of the PRC promulgated the Regulations on the Protection of the Security of Critical Information Infrastructure, which took effect on September 1, 2021. The regulations require, among others, that certain competent authorities shall identify critical information infrastructures. If any critical information infrastructure is identified, they shall promptly notify the relevant operators and the Ministry of Public Security.

Currently, the cybersecurity laws and regulations have not directly affected our business and operations, but in anticipation of the strengthened implementation of cybersecurity laws and regulations and the expansion of our business, we face potential risks if we are deemed as a critical information infrastructure operator under the Cybersecurity Law. In such case, we must fulfill certain obligations as required under the Cybersecurity Law and other applicable laws, including, among others, storing personal information and important data collected and produced within the PRC territory during our operations in China, which we are already doing in our business, and we may be subject to review when purchasing internet products and services. When the amended Measures of Cybersecurity Review take effect in February 2022, we may be subject to review when conducting data processing activities, and may face challenges in addressing its requirements and make necessary changes to our internal policies and practices in data processing. As of the date of this annual report, we have not been involved in any investigations on cybersecurity review made by the CAC on such basis, and we have not received any inquiry, notice, warning, or sanctions in such respect. Based on the foregoing, we and our PRC legal counsel, JunHe LLP, do not expect that, as of the date of this annual report, the current applicable PRC laws on cybersecurity would have a material adverse impact on our business.

On September 1, 2021, the PRC Data Security Law became effective, which imposes data security and privacy obligations on entities and individuals conducting data-related activities, and introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, as well as the degree of harm it will cause to national security, public interests, or legitimate rights and interests of individuals or organizations when such data is tampered with, destroyed, leaked, or illegally acquired or used. As of the date of this annual report, we have not been involved in any investigations on data security compliance made in connection with the PRC Data Security Law, and we have not received any inquiry, notice, warning, or sanctions in such respect. Based on the foregoing, we do not expect that, as of the date of this annual report, the PRC Data Security Law would have a material adverse impact on our business.

On July 6, 2021, the relevant PRC governmental authorities publicated the Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law. These opinions require the relevant regulators to coordinate and accelerate amendments of legislation on the confidentiality and archive management related to overseas issuance and listing of securities, and to improve the legislation on data security, cross-border data flow and management of confidential information. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. As these opinions were recently issued, official guidance and related implementation rules have not been issued yet and the interpretation of these opinions remains unclear at this stage. As of the date of this annual report, we have not received any inquiry, notice, warning, or sanctions from the CSRC or any other PRC government authorities. Based on the foregoing and the currently effective PRC laws, we and our PRC legal counsel, JunHe LLP, are of the view that, as of the date of this annual report, these opinions do not have a material adverse impact on our business.

On December 24, 2021, the CSRC published the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments), and Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments), or, collectively, the Draft Overseas Listing Regulations, which set out the new regulatory requirements and filing procedures for Chinese companies seeking direct or indirect listing in overseas markets. The Draft Overseas Listing Regulations, among others, stipulate that Chinese companies that seek to offer and list securities in overseas markets shall fulfill the filing procedures with and report relevant information to the CSRC, and that an initial filing shall be submitted within three working days after the application for an initial public offering is submitted, and a second filing shall be submitted within three working days after the listing is completed. Moreover, an overseas offering and listing is prohibited under circumstances if (i) it is prohibited by PRC laws, (ii) it may constitute a threat to or endanger national security as reviewed and determined by competent PRC authorities, (iii) it has material ownership disputes over equity, major assets, and core technology, (iv) in recent three years, the Chinese operating entities and their controlling shareholders and actual controllers have committed relevant prescribed criminal offenses or are currently under investigations for suspicion of criminal offenses or major violations, (v) the directors, supervisors, or senior executives have been subject to administrative punishment for severe violations, or are currently under investigations for suspicion of criminal offenses or major violations, or (vi) it has other circumstances as prescribed by the State Council. The Draft Overseas Listing Regulations, among others, stipulate that when determining whether an offering and listing shall be deemed as “an indirect overseas offering and listing by a Chinese company”, the principle of “substance over form” shall be followed, and if the issuer meets the following conditions, its offering and listing shall be determined as an “indirect overseas offering and listing by a Chinese company” and is therefore subject to the filing requirement: (i) the revenues, profits, total assets or net assets of the Chinese operating entities in the most recent financial year accounts for more than 50% of the corresponding data in the issuer’s audited consolidated financial statements for the same period; and (ii) the majority of senior management in charge of business operation are Chinese citizens or have domicile in PRC, and its principal place of business is located in PRC or main business activities are conducted in PRC. As advised by our PRC legal counsel, the Draft Overseas Listing Regulations were released only for soliciting public comment at this stage and their provisions and anticipated adoption or effective date are subject to changes, and thus their interpretation and implementation remain substantially uncertain. It is uncertain whether the Draft Overseas Listing Regulations apply to the follow-on offerings or other offerings of the Chinese companies that have been listed overseas. We cannot predict the impact of the Draft Overseas Listing Regulations on us at this stage.

On April 2, 2022, the CSRC published the Provisions on Strengthening the Confidentiality and Archives Administration Related to the Overseas Securities Offering and Listing by Domestic Enterprises (Draft for Comments), or the Draft Provisions on Confidentiality and Archives Administration, which was open for public comments until April 17, 2022. The Draft Provisions on Confidentiality and Archives Administration requires that, in the process of overseas issuance and listing of securities by domestic entities, the domestic entities, and securities companies and securities service institutions that provide relevant securities service shall strictly implement the provisions of relevant laws and regulations and the requirements of these provisions, establish and improve rules on confidentiality and archives administration. Where the domestic entities provide with or publicly disclose documents, materials or other items related to the state secrets and government work secrets to the relevant securities companies, securities service institutions, overseas regulatory authorities, or other entities or individuals, the companies shall apply for approval of competent departments with the authority of examination and approval in accordance with law and report the matter to the secrecy administrative departments at the same level for record filing. Where there is unclear or controversial whether or not the concerned materials are related to state secrets, the materials shall be reported to the relevant secrecy administrative departments for determination. However, the Draft Provisions on Confidentiality and Archives Administration have not yet been settled or become effective, and there remain uncertainties regarding the further interpretation and implementation of the Draft Provisions on Confidentiality and Archives Administration.

Further, the CAC issued the Measures for the Security Assessment of Outbound Data Transfer (the “Measures”) on July 7, 2022, which took effect on September 1, 2022. The Measures shall apply to the security assessment of data processors’ provision of important data and personal information collected and generated in their operations within the territory of the PRC to overseas recipients. The Measures require relevant data processors to submit a data security assessment to the CAC for review prior to the outbound data transfer activities in order to prevent illegal data transfer activities.

As there are still uncertainties regarding these new laws and regulations as well as the amendment, interpretation and implementation of the existing laws and regulations related to cybersecurity and data protection, We cannot assure you that we will be able to comply with these laws and regulations in all respects. The regulatory authorities may deem our activities or services non-compliant and therefore require us to suspend or terminate its business. We may also be subject to fines, legal or administrative sanctions and other adverse consequences, and may not be able to become in compliance with relevant laws and regulations in a timely manner, or at all. These may materially and adversely affect its business, financial condition, results of operations and reputation.

Since these statements and regulatory actions are new, it is highly uncertain how soon legislative or administrative regulation making bodies will respond and what existing or new laws or regulations or detailed implementations and interpretations will be modified or promulgated, if any, and the potential impact such modified or new laws and regulations will have on our daily business operation, our ability to accept foreign investments and conduct follow-on offerings, and listing or continuing listing on a U.S. or other foreign exchanges. In addition, the PRC government has recently published new policies that significantly affected certain industries such as the education and internet industries, and we cannot rule out the possibility that it will in the future release regulations or policies regarding any other industry including the industry in which we operate, which could adversely affect our business, financial condition and results of operations. See “Item 3. Key Information—D. Risk Factors—Risk Factors—Risks Related to Doing Business in China” for more details.

### **Risks Associated with Our Corporate Structure**

FLJ Group Limited is not a Chinese operating company but a Cayman Islands holding company with operations conducted by our subsidiaries. Investors in our securities have purchased securities of a holding company incorporated in the Cayman Islands.

On October 26, 2021 and December 17, 2021, FLJ Group Limited (the “Group”) transferred of all of its equity interest in Shanghai Qingke Investment Consulting Co., Ltd. (“Q&K Investment Consulting”) and Qingke (China) Limited (“Q&K HK”), respectively, to Wangxiancai Limited, which is a related party of the Group and is beneficially owned by the legal representative and executive director of one of the Group’s subsidiaries (the “Equity Transfer”). As of the date of this annual report, we no longer conduct any business operation through a variable interest entity. See “Item 4. Information on the Company—A. History and Development of the Company” for more details.

After the Equity Transfer, although the Group does not hold direct equity interest in QK HK, QK Investment Consulting, and QK E-commerce, the Group is the primary beneficiary of these entities, as the Group has the power to direct the activities of these companies that most significantly impact their economic performance and has the obligation to absorb losses of these companies that could potentially be significant to these companies since their inception. Therefore, the Group consolidated these entities in the consolidated financial statements as of September 30, 2022. They are consolidated for accounting purposes for FY 2022, but are not entities in which we owned equity. See Note 1—Organization And Principal Activities to our consolidated financial statements for more information.

As of September 30, 2022, four of the subsidiaries of the VIE filed the voluntary petition for bankruptcy under the Article 2 of the PRC Enterprise Bankruptcy Law with Shanghai Third Intermediary Court (“Court”), and the Court announced the effectiveness of the petition and the administrator of bankruptcy was assigned on board. As a result, the Company had no control over the allocation of remaining assets in liquidation of these subsidiaries and therefore deconsolidated the subsidiaries of the VIE.

In this annual report, “we,” “us,” “our company” and “our” refer to FLJ Group Limited and its subsidiaries, except in the context of describing the consolidated financial information, also include the VIE and its subsidiaries.

## How Cash Is Transferred through Our Organization

The following table presents the cash flows among FLJ Group Limited (the “Company”), its VIE entities and subsidiaries in FY 2020, FY 2021 and FY 2022.

	FY 2020 RMB	FY 2021 RMB (in thousands)	FY 2022 RMB
The Company transferred to the VIE entities	143,314	62,033	—
The Company transferred to the subsidiaries	263,983	25,199	14,988
The subsidiaries transferred to the VIE entities	234,911	48,806	—

All cash flows above were for financing purposes. No transfer of assets other than cash has occurred among the Company, its subsidiaries and the VIE entities. Our subsidiaries and the VIE entities have not made any dividend or distribution to the Company. The Company has not made any dividend or distribution to any U.S. investor. The WFOE and the VIE entities, on a consolidated basis, had been loss making and the VIE had not intended to pay, and had never paid, any earnings or amounts, such as service fee to the WFOE under the contractual arrangement as it had been loss making. See “Item 3. Key information—Condensed Consolidating Schedules” and the consolidated financial statements included elsewhere in this annual report for more details.

As a holding company, we rely upon dividends paid to us by our subsidiaries in the PRC to pay dividends and to finance any debt we may incur. If our subsidiaries or any newly formed subsidiaries or other consolidated entities incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our subsidiaries and other consolidated entities are permitted to pay dividends to us only out of their accumulated profits, if any, as determined in accordance with PRC accounting standards and regulations. Pursuant to laws applicable to entities incorporated in the PRC, each of our subsidiaries and other consolidated entities in the PRC must make appropriations from after tax profit to a statutory surplus reserve fund. The reserve fund requires annual appropriation of 10% of after tax profit (a determined under accounting principles generally accepted in the PRC at each year-end) after offsetting accumulated losses from prior years, until such reserve reaches 50% of the subsidiary’s registered capital. The reserve fund can only be used to increase the registered capital and eliminate further losses of the respective companies under PRC regulations. These reserves are not distributable as cash dividends, loans or advances. In addition, due to restrictions under PRC laws and regulations, our PRC subsidiaries and other consolidated entities are restricted in their ability to transfer their net assets to us in the form of dividend payments, loans or advances. In addition, under regulations of the State Administration of Foreign Exchange of the PRC (the “SAFE”), Renminbi is not convertible into foreign currencies for capital account items, such as loans, repatriation of investments and investments outside of China, unless the prior approval of the SAFE is obtained and prior registration with the SAFE is made.

## Risks Associated with the Holding Foreign Companies Accountable Act

Pursuant to the Holding Foreign Companies Accountable Act (the “HFCA Act”), if the Public Company Accounting Oversight Board (the “PCAOB”), is unable to inspect an issuer’s auditors for three consecutive years, the issuer’s securities are prohibited to trade on a U.S. stock exchange. The PCAOB issued a Determination Report on December 16, 2021 (the “Determination Report”) which found that the PCAOB is unable to inspect or investigate completely registered public accounting firms headquartered in: (1) mainland China of the People’s Republic of China because of a position taken by one or more authorities in mainland China; and (2) Hong Kong, a Special Administrative Region and dependency of the PRC, because of a position taken by one or more authorities in Hong Kong. Furthermore, the Determination Report identified the specific registered public accounting firms which are subject to these determinations (“PCAOB Identified Firms”).

The Company's current auditor, Marcum Asia CPAs LLP ("Marcum Asia"), the independent registered public accounting firm that issues the audit report included elsewhere in this annual report, as an auditor of companies that are traded publicly in the United States and a firm registered with the PCAOB, is subject to laws in the U.S. pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. Marcum Asia, whose audit report is included in this annual report, is headquartered in New York, New York, and, as of the date of this annual report, was not included in the list of PCAOB Identified Firms in the Determination Report.

On August 26, 2022, the PCAOB announced that it had signed a Statement of Protocol (the "Protocol") with the China Securities Regulatory Commission (the "CSRC") and the Ministry of Finance ("MOF") of the People's Republic of China, governing inspections and investigations of audit firms based in mainland China and Hong Kong. Pursuant to the Protocol, the PCAOB conducted inspections on select registered public accounting firms subject to the Determination Report in Hong Kong between September and November 2022.

On December 15, 2022, the PCAOB board announced that it has completed the inspections, determined that it had complete access to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong, and voted to vacate the Determination Report.

Notwithstanding the foregoing, the Company's ability to retain an auditor subject to the PCAOB inspection and investigation, including but not limited to inspection of the audit working papers related to us, may depend on the relevant positions of U.S. and Chinese regulators. Marcum Asia CPAs LLP's audit working papers related to us are located in China. With respect to audits of companies with operations in China, such as the Company, there are uncertainties about the ability of its auditor to fully cooperate with a request by the PCAOB for audit working papers in China without the approval of Chinese authorities. If the PCAOB is unable to inspect or investigate completely the Company's auditor because of a position taken by an authority in a foreign jurisdiction, or the PCAOB re-evaluates its determination as a result of any obstruction with the implementation of the Statement of Protocol, then such lack of inspection or re-evaluation could cause trading in the Company's securities to be prohibited under the HFCA Act, and ultimately result in a determination by a securities exchange to delist the Company's securities. Accordingly, the HFCA Act calls for additional and more stringent criteria to be applied to emerging market companies upon assessing the qualification of their auditors, especially the non-U.S. auditors who are not inspected by the PCAOB. These developments could add uncertainties to our offering.

On December 29, 2022, the Accelerating Holding Foreign Companies Accountable Act, or the AHFCA Act, was signed into law, which reduced the number of consecutive non-inspection years required for triggering the prohibitions under the HFCA Act from three years to two. As a result, the risks mentioned above have been heightened.

If our ADSs are subject to a trading prohibition under the HFCA Act or the AHFCA Act, the price of our ADSs may be adversely affected, and the threat of such a trading prohibition would also adversely affect their price. If we are unable to be listed on another securities exchange that provides sufficient liquidity, such a trading prohibition may substantially impair your ability to sell or purchase our ADSs when you wish to do so. Furthermore, if we are able to maintain a listing of our ordinary shares on a non-U.S. exchange, investors owning our ADSs may have to take additional steps to engage in transactions on that exchange, including converting ADSs into ordinary shares and establishing non-U.S. brokerage accounts.

The HFCA Act also imposes additional certification and disclosure requirements for Commission Identified Issuers, and these requirements apply to issuers in the year following their listing as Commission Identified Issuers. The additional requirements include a certification that the issuer is not owned or controlled by a governmental entity in the Relevant Jurisdiction, and the additional requirements for annual reports include disclosure that the issuer's financials were audited by a firm not subject to PCAOB inspection, disclosure on governmental entities in the Relevant Jurisdiction's ownership in and controlling financial interest in the issuer, the names of Chinese Communist Party, or CCP, members on the board of the issuer or its operating entities, and whether the issuer's articles include a charter of the CCP, including the text of such charter.

## **ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

## **ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

## **ITEM 3. KEY INFORMATION**

For risks associated with being based in or having the majority of the operations in China, see “—Risks Associated with Being Based in or Having the Majority of the Operations in China” as set forth at the outset of Part I.

We conduct operations through our subsidiaries in China. These subsidiaries are required to, and have obtained, the business licenses from local authorities for their operations. Other than the business licenses and relevant registration as a real estate brokerage enterprise, currently we are not required to obtain permissions from the CSRC, CAC or other entity in China for our operations in China. It is highly uncertain how existing or new laws or regulations or detailed implementations and interpretations will be modified or promulgated with respect to the approvals we need for our operations. If we mistakenly conclude that certain approvals are not required, or applicable laws, regulations, or interpretations change, we may be required to obtain approval in the future. We may not be able to obtain required approvals in a timely and cost-effective manner, or at all, which may adversely affect our operations, financial condition and reputation. See “—Risks Associated with Being Based in or Having the Majority of the Operations in China” as set forth at the outset of Part I for more details.

For the risks related to the HFCA Act, see “—Risks Associated with the Holding Foreign Companies Accountable Act” as set forth at the outset of Part I and “—Risk Factors—Risks Related to Doing Business in China—If the U.S. Public Company Accounting Oversight Board, or the PCAOB, is unable to inspect our auditors as required under the Holding Foreign Companies Accountable Act, the SEC will prohibit the trading of our ADSs. A trading prohibition for our ADSs, or the threat of a trading prohibition, may materially and adversely affect the value of your investment. Additionally, the inability of the PCAOB to conduct inspections of our auditors would deprive our investors of the benefits of such inspections.”

For the description of how cash is transferred through our organization, see “—How Cash Is Transferred through Our Organization” as set forth at the outset of Part I.

Condensed Consolidating Schedules

The condensed consolidating schedules below include the financial information of the Company, the WOFE, the VIE entities, and the other consolidated subsidiaries for the year/period indicated. All intercompany balances and transactions have been eliminated upon consolidation:

	As of September 30, 2020						As of September 30, 2021						As of September 30, 2022					
	The Company	The WFOE	The VIE entities	Other Consolidated Subsidiaries	Eliminations	Group consolidated	The Company	The WFOE	The VIE entities	Other Consolidated Subsidiaries	Eliminations	Group consolidated	The Company	The WFOE	The VIE entities	Other Consolidated Subsidiaries	Eliminations	Group Consolidated
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
	(thousands)																	
Cash and cash equivalents	6,015	372	15,227	1,265	—	22,879	1,355	7	10,982	3,973	—	16,317	556	—	62	2,154	—	2,772
Restricted cash	—	—	8,887	—	—	8,887	—	—	2,893	42	—	2,935	—	—	—	106	—	106
Accounts receivable	—	—	1,943	—	—	1,943	—	—	370	—	—	370	—	—	—	752	—	752
Amounts due from related parties	—	—	168	—	—	168	—	—	—	201	—	201	—	—	—	—	—	—
Prepaid rent and deposit	—	—	51,281	—	—	51,281	—	—	571	—	—	571	—	—	—	—	—	—
Advances to suppliers	—	—	16,043	—	—	16,043	—	—	5,323	7,610	—	12,933	—	—	6,131	2,370	—	8,501
Other current assets	—	—	44,400	57,403	—	101,803	—	—	97,978	45,365	—	143,343	4	—	2,572	56,453	—	59,029
Property and equipment, net	—	—	358,022	—	—	358,022	—	—	38,940	—	—	38,940	—	—	—	500	—	500
Intangible assets, net	—	—	222,123	—	—	222,123	—	—	539	151,925	—	152,464	—	—	—	13,475	—	13,475
Land use rights	—	—	10,448	—	—	10,448	—	—	—	—	—	—	—	—	—	—	—	—
Other assets	—	109	57,024	—	—	57,133	—	—	108	9,448	—	9,556	—	—	98	10,307	—	10,405
Intercompany receivables	1,385,814	—	—	—	(1,385,814)	—	1,465,312	—	—	—	(1,465,312)	—	1,258,949	—	—	—	(1,258,949)	—
Total assets	1,391,829	481	785,566	58,668	(1,385,814)	850,730	1,466,667	7	157,704	218,564	(1,465,312)	377,630	1,259,509	—	8,863	86,117	(1,258,949)	95,540
Accounts payable	—	—	294,469	—	—	294,469	—	—	281,458	38,811	—	320,269	—	—	34	122,633	—	122,667
Amounts due to related parties	—	—	6,594	—	—	6,594	—	—	—	—	—	—	4,066	—	—	765	—	4,831
Deferred revenue	—	—	152,619	—	—	152,619	—	—	1,125	194,511	—	195,636	—	—	16	129,914	—	129,930

	As of September 30, 2020						As of September 30, 2021						As of September 30, 2022					
	The Company	The WFOE	The VIE entities	Other Consolidated Subsidiaries	Eliminations	Group consolidated	The Company	The WFOE	The VIE entities	Other Consolidated Subsidiaries	Eliminations	Group consolidated	The Company	The WFOE	The VIE entities	Other Consolidated Subsidiaries	Eliminations	Group Consolidated
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
	(thousands)																	
Short-term debt	221,328	—	540,808	—	—	762,136	210,776	—	256,773	91,156	—	558,705	10,514	—	13,000	86,583	—	110,097
Rental installment loans	—	—	54,505	—	—	54,505	—	—	33	18,061	—	18,094	—	—	—	15,756	—	15,756
Deposits from tenants	—	—	82,191	—	—	82,191	—	—	1,422	64,363	—	65,785	—	—	—	38,439	—	38,439
Payable for asset acquisition	—	—	—	165,808	—	165,808	—	—	—	—	—	—	—	—	—	—	—	—
Accrued expenses and other current liabilities	12,911	2,160	427,109	1,238	—	443,418	—	1,653	875,572	147,657	—	1,024,882	128	—	67,908	13,613	—	81,649
Long-term debt	—	—	464,920	—	—	464,920	—	—	201,041	—	—	201,041	—	—	—	—	—	—
Convertible note, net	206,466	—	—	—	—	206,466	313,870	—	—	—	—	313,870	—	—	—	—	—	—
Long-term deferred rent	—	—	212,054	—	—	212,054	—	—	—	—	—	—	—	—	—	—	—	—
Contingent liabilities of asset acquisition	—	—	—	—	—	—	—	—	—	—	—	—	165,033	—	—	—	—	165,033
Contingent earn out liabilities	—	—	—	—	—	—	164,254	—	—	—	—	164,254	—	—	—	—	—	—
Intercompany payables	2,955,202	536,546	549,666	299,602	(4,341,016)	—	3,272,273	473,655	642,146	349,511	(4,737,585)	—	1,652,630	—	676,030	582,919	(2,911,579)	—
Total liabilities	3,395,907	538,706	2,784,935	466,648	(4,341,016)	2,845,180	3,961,173	475,308	2,259,570	904,070	(4,737,585)	2,862,536	1,832,371	—	756,988	990,622	(2,911,579)	668,402
Total shareholders' deficit	(2,004,078)	(538,225)	(1,999,369)	(407,980)	2,955,202	(1,994,450)	(2,494,506)	(475,301)	(2,101,866)	(685,506)	3,272,273	(2,484,906)	(572,862)	—	(748,125)	(904,505)	1,652,630	(572,862)

	For the year ended September 30, 2020						For the year ended September 30, 2021						For the year ended September 30, 2022					
	The Company	The WFOE	The VIE entities	Other Consolidated Subsidiaries	Eliminations	Group consolidated	The Company	The WFOE	The VIE entities	Other Consolidated Subsidiaries	Eliminations	Group consolidated	The Company	The WFOE	The VIE entities	Other Consolidated Subsidiaries	Eliminations	Group Consolidated
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
	(thousands)																	
Net Revenues	—	—	965,093	242,870	—	1,207,963	—	—	173,921	862,285	—	1,036,206	—	—	1,635	650,698	—	652,333
Net (loss) income	(1,533,641)	(46,387)	(1,491,565)	(13,042)	1,550,994	(1,533,641)	(569,202)	(56,746)	(375,470)	(6,458)	438,674	(569,202)	819,980	—	(43,940)	(195,446)	239,386	819,980
Net cash provided by (used in) operating activities	(17,452)	—	72,293	—	—	54,841	(30,664)	45,804	(108,705)	(16,096)	—	(109,661)	—	—	(16,087)	(23,502)	—	(39,589)
Net cash (used in) provided by investing activities	(407,297)	(246,558)	(99,172)	(27,851)	642,208	(138,670)	(87,232)	(50,060)	—	(5,232)	136,038	(6,486)	(22,190)	—	(217)	(13,719)	24,658	(11,468)
Net cash provided by (used in) financing activities	329,839	246,453	(95,948)	26,940	(642,208)	(134,924)	113,236	3,891	98,466	22,046	(136,038)	101,601	20,070	—	2,267	31,630	(24,658)	29,309

The following table presents the amount due from (due to) the WFOE, the VIE entities, and other consolidated subsidiaries as of the date indicated:

Amount due from (due to) WFOE, the consolidated VIE and its subsidiaries and other consolidated subsidiaries	As of September 30, 2020				As of September 30, 2021				As of September 30, 2022			
	The Company	The WFOE	The VIE entities	Other Consolidated Subsidiaries	The Company	The WFOE	The VIE entities	Other Consolidated Subsidiaries	The Company	The WFOE	The VIE entities	Other Consolidated Subsidiaries
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
	(thousands)				(thousands)				(thousands)			
<b>Starting Amount</b>	522,124	(573,439)	(140,862)	192,177	1,385,814	(536,546)	(549,666)	(299,602)	1,465,312	(473,655)	(642,146)	(349,511)
Reclassification of the balance of the WFOE and Q&K HK to the VIE entities.*	—	—	—	—	—	—	—	—	—	473,655	(473,966)	311
The Company transferred to the VIE	143,314	—	(143,314)	—	62,033	—	(62,033)	—	—	—	—	—
The Company transferred to the WFOE	246,102	(246,102)	—	—	3,891	(3,891)	—	—	—	—	—	—
The consolidated subsidiaries transferred to the VIE	—	—	(7,516)	7,516	—	—	(37,490)	37,490	—	—	—	—
The WFOE transferred to the VIE	—	227,395	(227,395)	—	—	11,316	(11,316)	—	—	—	—	—
Intercompany transactions	478,081	32,062	(29,838)	(480,305)	—	16,834	9,725	(26,559)	—	—	12,547	(12,547)
The Company transferred to the consolidated subsidiaries	17,881	—	—	(17,881)	21,308	—	—	(21,308)	14,988	—	—	(14,988)
The consolidated subsidiaries transferred to the WFOE	—	(351)	—	351	—	38,744	—	(38,744)	—	—	—	—
Due to deconsolidation of VIE subsidiaries	—	—	—	—	—	—	—	—	(220,208)	—	428,171	(207,963)
Reclassification	—	—	—	—	—	—	32	(32)	—	—	—	—
Impact of foreign exchange rate	(21,688)	23,889	(741)	(1,460)	(7,734)	(112)	8,602	(756)	(1,143)	—	(636)	1,779
<b>Total</b>	1,385,814	(536,546)	(549,666)	(299,602)	1,465,312	(473,655)	(642,146)	(349,511)	1,258,949	—	(676,030)	(582,919)

\*On October 26, 2021 and December 17, 2021, the Group transferred of all of its equity interest in Q&K Investment Consulting Co., Ltd. (“Q&K Investment Consulting” or “WFOE”) and Qingke (China) Limited (“Q&K HK”), respectively, to Wangxiancai Limited, which is a related party of the Group. However, although the Group does not hold direct equity interest in QK HK, QK Investment Consulting, and QK E-commerce, the Group is the primary beneficiary of the two entities, as the Group has the power to direct the activities of these companies that most significantly impact their economic performance and has the obligation to absorb losses of these companies that could potentially be significant to these companies since their inception. Accordingly, WFOE and Q&K HK were consolidated as VIEs of the Group on the date of transfer of equity interest.



The following table presents the roll-forward of deficit of investments in our subsidiaries and the VIE entities in FY 2020, FY 2021 and FY 2022.

	Investments in Subsidiaries and VIE
	RMB in thousand
<b>Balance as of September 30, 2019</b>	<b>(1,346,408)</b>
Equity in earnings of the VIE entities	(1,491,565)
Equity in earnings of subsidiaries	(59,429)
Foreign exchange impact	(57,800)
<b>Balance as of September 30, 2020</b>	<b>(2,955,202)</b>
Equity in earnings of the VIE entities	(375,470)
Equity in earnings of subsidiaries	(63,204)
Foreign exchange impact	121,603
<b>Balance as of September 30, 2021</b>	<b>(3,272,273)</b>
Equity in earnings of the VIE entities	(43,940)
Equity in earnings of subsidiaries	(195,446)
Equity in earnings of deconsolidation of subsidiaries	1,554,450
Foreign exchange impact	304,579
<b>Balance as of September 30, 2022</b>	<b>(1,652,630)</b>

**B Capitalization and Indebtedness**

Not applicable.

**C Reasons for the Offer and Use of Proceeds**

Not applicable.

## D Risk Factors

Our business, financial condition and results of operations are subject to various changing business, competitive, economic, political and social conditions. In addition to the factors discussed elsewhere in this annual report, the following are some of the important factors that could adversely affect our operating results, financial condition and business prospects, and cause our actual results to differ materially from those projected in any forward-looking statements.

### Summary of Risk Factors

- If the PRC government determines that the contractual arrangements with the VIE entities did not comply with PRC regulations, or if these regulations change or are interpreted differently in the future, our shares and/or ADSs may decline in value if we are deemed to be unable to assert our contractual control rights over the assets of the VIE entities.
- We have a limited operating history in an emerging and rapidly evolving market, which makes it difficult to evaluate our future prospects and results of operations and may increase the risk that we will not be successful. In addition, our historical growth and financial condition may not be indicative of our future growth, profitability, and financial condition.
- The report of our independent registered public accounting firm on our consolidated financial statements includes an explanatory paragraph questioning our ability to continue as a going concern. We recorded net losses in the past and may not be able to continue as a going concern or achieve or maintain profitability in the future.
- Our business requires significant capital expenditure for sourcing, renovation and maintenance of rental apartments. Inability to access financing on favorable terms in a timely manner or at all would materially and adversely affect our business, results of operations, financial condition and growth prospects.
- We depend on third parties for different aspects of our business and the services that we offer. Our business, results of operation, financial condition and reputation may be materially and adversely affected if the third parties do not continue to maintain or expand their relationship with us, or fail to provide services or products according to the terms of our contracts or otherwise below standard, or by the third parties operational failure.
- The COVID-19 outbreak has adversely affected, and may continue to adversely affect, our business, results of operations and financial condition. We also face risks related to other health epidemics, natural disasters, civil and social disruptions and other outbreaks and catastrophes, which could materially and adversely affect our results of operations and financial condition.
- Tenants may terminate their leases during lease terms, exposing us to the risk of re-leasing our rental apartments, which we may be unable to do on a timely basis, on favorable terms or at all.
- We have relied on our tenants' rental prepayments to finance our growth. To the extent a lease agreement is terminated during the rental period covered by the prepayment, we need to return the unused prepaid rentals. If a significant number of the lease agreements are terminated early, our liquidity and financial condition may be materially and adversely affected.
- We rely on our cooperation with a limited number of financial institutions.
- Capital and credit market conditions may adversely affect our access to capital and/or the cost of capital, which could impact our future prospects, results of operations and growth prospects.
- Our business is susceptible to China's macro-economic conditions, particularly the long-term apartment rental market and government measures aimed at China's real estate industry and apartment rental industry.
- Our expansion into new markets may present increased risk.

- Strategic investments, acquisitions or new business initiatives may disrupt our ability to effectively manage our business and adversely affect our operating results. In addition, to the extent we fund these business initiatives through the issuance of equity or convertible debt securities, the ownership interests of our shareholders could be significantly diluted.
- We have started and may continue to expand our business by acquiring lease contracts and related fixtures and equipment of rental units from other rental service companies, and have engaged and may engage more third-party contractors to manage these rental units. We may not be able to control the quality of sourcing, renovation, marketing, maintenance and other rental unit management activities or participate in the tenant screening process. The third-party contractors may not manage the rental units according to the terms of our contracts or otherwise below standard, or do not continue to maintain or expand their relationship with us. These may materially and adversely affect our business, results of operation, financial condition and reputation.
- We have been, and may from time to time be, subject to claims, controversies, lawsuits and other legal and administrative proceedings, which could have a material adverse effect on our business, results of operations, financial condition and reputation.
- Any negative publicity with respect to us, our employees, business partners, contractors, the VIE and its subsidiaries, the apartment rental industry in general, the rental installment loans, or our cooperation with other parties may materially and adversely affect our business and results of operations.
- If the U.S. Public Company Accounting Oversight Board, or the PCAOB, is unable to inspect our auditors as required under the Holding Foreign Companies Accountable Act, the SEC will prohibit the trading of our ADSs. A trading prohibition for our ADSs, or the threat of a trading prohibition, may materially and adversely affect the value of your investment. Additionally, the inability of the PCAOB to conduct inspections of our auditors would deprive our investors of the benefits of such inspections.
- Changes in China's economic, political or social conditions or government policies could have a material adverse effect on our business and results of operations.
- The PRC government may exert, at any time, substantial intervention and influence over the manner of our operations, and the rules and regulations to which we are subject, including the ways they are enforced, may change rapidly and with little advance notice to us or our shareholders. Any such actions by the Chinese government, including any decision to intervene or influence the operations of our subsidiaries in China or to exert control over any offering of securities conducted overseas and/or foreign investment in China-based issuers, may cause us to make material changes to our operations in China, may limit or completely hinder our ability to offer or continue to offer securities to investors, and may cause the value of such securities to significantly decline or be worthless.
- Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to us.
- We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of internet-related businesses and companies, and any lack of requisite approvals, licenses or permits applicable to our business may have a material adverse effect on our business and results of operations.
- We rely on dividends and other distributions on equity paid by our PRC subsidiary to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiary to make payments to us could have a material adverse effect on our ability to conduct our business.
- The market price for the ADSs may be volatile.
- An active market for the ADSs may not be maintained.
- If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, the market price for the ADSs and trading volume could decline.
- Conversion of the convertible notes and exercise of the warrants we issued may dilute the ownership interest of existing shareholders, including holders who had previously converted their convertible notes.

## Risks Related to Our Corporate Structure

***If the PRC government determines that the contractual arrangements with the VIE entities did not comply with PRC regulations, or if these regulations change or are interpreted differently in the future, our shares and/or ADSs may decline in value if we are deemed to be unable to assert our contractual control rights over the assets of the VIE entities.***

The Regulations for the Administration of Foreign-Invested Telecommunications Enterprises, promulgated by the State Council on December 11, 2001 and last amended with immediate effect on February 6, 2016, requires foreign-invested value-added telecommunications enterprises in the PRC to be established as Sino-foreign joint ventures, and foreign investors shall not acquire more than 50% of the equity interest of such an enterprise. In addition, the main foreign investor who invests in such an enterprise shall demonstrate a good track record and experience in such industry. Moreover, the joint ventures must obtain approvals from the MIIT and the Ministry of Commerce of the PRC (“MOFCOM”), or their authorized local counterparts, before launching the value-added telecommunications business in the PRC. On March 29, 2022, the Decision of the State Council on Revising and Repealing Certain Administrative Regulations, which took effect on May 1, 2022, was promulgated to amend certain provisions of regulations including the Provisions on the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (2016 Revision), the requirement for major foreign investor to demonstrate a good track record and experience in operating value-added telecommunications businesses is deleted.

The Special Administrative Measures (Negative List) for Access of Foreign Investment (2021 version) (the “Negative List”) was jointly promulgated by the National Development and Reform Commission of the PRC (“NDRC”) and MOFCOM on December 27, 2021 and came into effect on January 1, 2022. According to the Negative List, the proportion of foreign investments in an entity engages in value-added telecommunications business (except for e-commerce, domestic multi-party communications, storage-forwarding and call centers) shall not exceed 50%.

Accordingly, none of our subsidiaries is eligible to provide commercial internet content or other value-added telecommunication service, which foreign-owned companies are or restricted from conducting in Mainland China. To comply with PRC laws and regulations, we have conducted such business activities to offer internet access services through the VIEs in China. WFOE has entered into contractual arrangements with the VIE entities and their respective shareholders, and such contractual arrangements enable us to exercise effective control over, receive substantially all of the economic benefits of, and have an exclusive option to purchase all or part of the equity interest and assets in the VIE entities when and to the extent permitted by PRC law. Because of these contractual arrangements, we are the primary beneficiary of the VIE entities in China for accounting purposes for the effective period of these contractual arrangements. Accordingly, under U.S. GAAP, the financial statements of the VIE entities are consolidated as part of our financial statements for the years ended September 31, 2020, 2021 and 2022 in this annual report. The VIE is consolidated for accounting purposes for FY 2022, but is not an entity in which we owned equity. As of September 30, 2022, four of the subsidiaries of the VIE filed the voluntary petition for bankruptcy under the Article 2 of the PRC Enterprise Bankruptcy Law with Shanghai Third Intermediary Court (“Court”), and the Court announced the effectiveness of the petition and the administrator of bankruptcy was assigned on board. As a result, the Company had no control over the allocation of remaining assets in liquidation of these subsidiaries and therefore deconsolidated the subsidiaries of the VIE.

As we continued to evaluate our business plan, we have decided to adjust our business model in China. On October 26, 2021 and December 17, 2021, we transferred all of our equity interest in the WFOE and Q&K HK, respectively, to Wangxiancai Limited, which is beneficially owned by the legal representative and executive director of one of our subsidiaries, a related party, for nominal consideration (the “Equity Transfer”). As of the date of this annual report, we no longer conduct any business operation through the variable interest entity. See “Item 4. Information on the Company—A. History and Development of the Company” in this annual report.

Although we no longer conduct any business operation through the variable interest entity, there are uncertainties regarding the interpretation and application of current and future PRC laws, regulations, and rules relating to the agreements that established the VIE structure for our operations in China, including potential future actions by the PRC government, which may retroactively affect the enforceability and legality of our historical contractual arrangements with the VIE entities and, consequently, significantly affect the historical financial condition and results of operations of the VIE entities, and our ability to consolidate the results of the VIE entities

into our consolidated financial statements for the periods prior to the completion of the Equity Transfer. If the PRC government finds such agreements non-compliant with relevant PRC laws, regulations, and rules, or if these laws, regulations, and rules or the interpretation thereof change in the future, and such changes may be retroactively applied to our historical contractual arrangements, we could be subject to severe penalties and our control over the VIE entities may be rendered ineffective, which could result in potential restatement of our historical financial statements. As a result, our shares and/or ADSs may decline in value or become worthless.

## **Risks Related to Our Business and Industry**

***We have a limited operating history in an emerging and rapidly evolving market, which makes it difficult to evaluate our future prospects and results of operations and may increase the risk that we will not be successful. In addition, our historical growth and financial condition may not be indicative of our future growth, profitability, and financial condition.***

We have a limited operating history in the branded long-term apartment rental industry, which is an emerging and rapidly evolving market in China. In addition, we had experienced some material change to our business, such as the Equity Transfer. We may not continue our growth or maintain our historical growth rates or financial condition. For example, our number of rental units contracted decreased by 17.5% from September 30, 2019 to September 30, 2020 and by 23.6% from September 30, 2020 to September 30, 2021, and by 37% from September 30, 2021 to September 30, 2022, compared to an increase of 3.2% from September 30, 2018 to September 30, 2019. You should not consider our historical growth or financial condition as indicative of our future performance.

You should consider our future operations in light of the challenges and uncertainties that we may encounter. These risks and challenges include, among other things:

- changes in national, regional or local economic, demographic or real estate market conditions;
- changes in laws and policies on rental housing, including but not limited to rent control laws or tenant protection laws;
- changes in job markets and employment levels on a national, regional and local basis;
- health epidemics, pandemics and similar outbreaks, including COVID-19;
- overall conditions in the rental market, including:
  - macroeconomic shifts in demand for rental homes;
  - inability to lease or re-lease homes to tenants on a timely basis, on attractive terms or at all; and
  - development of branded apartment rental industry in China;
- our ability to integrate strategic investments, acquisitions and new business initiatives;
- failure of tenants to pay rent when due or otherwise perform their obligations in connection with the lease;
- significant number of early terminations of leases;
- level of competition for suitable rental homes;
- our ability to expand and manage our apartment network and maintain rapid business growth;
- our ability to manage our procedures, control and systems under different business models, including for rental apartments managed by our apartment managers or by third-party contractors;
- our ability to maintain high occupancy rate and target rent levels;
- our ability to raise rents;
- costs and time period required to renovate rental homes;
- unanticipated repairs, capital expenditures or other costs;

- our ability to maintain or renew favorable terms with financing partners and other strategic partners;
- our ability to maintain, deepen and broaden cooperation with financial institutions, service providers and other third parties;
- our ability to develop more value-added products and services;
- our ability to effectively control our operating costs and expenses;
- our ability to maintain the proper functioning of our technology systems and infrastructure;
- disputes and potential negative publicity in connection with early termination of leases with landlords, rental collection, eviction proceedings, quality control and other aspects of our business;
- costs resulting from the clean-up of, and liability to third parties for damages resulting from, environmental or safety problems;
- decoration and supply capabilities;
- our ability to increase our brand awareness;
- our ability to attract and retain employees; and
- changes in U.S. accounting standards regarding operating leases.
- In addition, we utilize a lease-and-operate model, under which we lease apartments, usually in bare-bones condition, and lease to tenants after renovation. Therefore, we are also subject to the risks inherent in a lease-and-operate model, including:
- upfront capital outlay for apartment sourcing and renovation;
- ongoing capital needs to maintain and operate apartments; and
- mismatch between our lease term with landlords, which generally provides a lease-in contract lock-in period of five to six years, subject to the extension for another two to three years at the option of landlords, and our lease term with tenants, which generally has a contracted term of 12 months and an average lock-in period of 8.3 months in FY 2022.

Any one or more of these factors could adversely affect our business, financial condition and results of operations.

***The report of our independent registered public accounting firm on our consolidated financial statements includes an explanatory paragraph questioning our ability to continue as a going concern. We recorded net losses in the past and may not be able to continue as a going concern or achieve or maintain profitability in the future.***

We incurred net losses of RMB1,533.6 million in FY 2020 and of RMB569.2 million in FY 2021 and generated a net income of RMB820.0 million (US\$115.3 million) in FY 2022. As of September 30, 2022, we had an accumulated deficit of RMB3,558.7 million (US\$500.3 million). Our net cash generated from operating activities was RMB54.8 million for FY 2020, our net cash used in operating activities was RMB109.7 million for FY 2021 and RMB39.6 million (US\$5.6 million) for FY2022. Our balance of cash and cash equivalents has declined and amounted to RMB22.9 million, RMB16.3 million and RMB2.8 million (US\$0.39 million) as of September 30, 2020, 2021 and 2022, respectively. As of September 30, 2020, 2021 and 2022, our current liabilities exceeded our current assets by RMB1,758.7 million, RMB2,171.0 million and RMB597.2 million (US\$84.0 million), respectively. Furthermore, in July 2020, to replenish and expand our rental units portfolio, one of our subsidiaries entered into agreements with a rental service company and its affiliates to acquire-lease contracts with landlords and tenants and related fixtures, equipment and other assets for approximately 72,000 rental units in various cities across China at a total consideration of US\$130 million, less certain liabilities to be assumed by us. To finance this acquisition, in July 2020, we issued series 1 and series 2 convertible notes in the aggregate principal amount of US\$30.050 million at par and warrants to purchase 20,974 ADSs to Key Space (S) Pte Ltd and Veneto Holdings Ltd., and subsequently, from September 2020 to March 2022, we issued additional series 1 and series 2 convertible notes in the aggregate

principal amount of US\$21.6 million at par and warrants to purchase 78,237 ADSs to Key Space (S) Pte Ltd, pursuant to the convertible notes and warrant purchase agreements. In May 2021, the remaining consideration for the acquisition consisted of US\$23.2 million in cash and RMB289.7 million worth of our Class A ordinary shares, and we entered into supplemental agreements with the rental service company and its affiliates, pursuant to which we settled the remaining consideration by delivering 186,375,850 Class A ordinary shares to them. They are entitled to sell these Class A ordinary shares in the open market, subject to certain lock-up arrangements. Among the 186,375,850 Class A ordinary shares delivered, we are obliged to (i) make up the shortfall if the proceeds they receive from the sale of 57,786,458 Class A ordinary shares are lower than US\$0.4014 per share and (ii) repurchase 20,860,749 Class A ordinary shares at US\$0.4015 per share in installments if they do not trade these shares in the open market, subject to the terms and conditions set forth in the agreements with them. We will also issue in installments, to a third-party contractor that manages the rental units as previously announced, up to 99.6 million Class A ordinary shares, subject to certain performance indicators and other terms and conditions set forth in the agreement. In addition, our operations have been affected by the COVID-19 pandemic. See “—The COVID-19 outbreak has adversely affected, and may continue to adversely affect, our business, results of operations and financial condition. We also face risks related to other health epidemics, natural disasters, civil and social disruptions and other outbreaks and catastrophes, which could materially and adversely affect our results of operations and financial condition.” These factors raise substantial doubt about our ability to continue as a going concern. We have adopted a series mitigation plans and actions as discussed in “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources.” However, future financing requirements will depend on many factors, including the scale and pace of the expansion of our apartment network, our efficiency in apartment operation, including apartment renovation and pricing, the expansion of our sales and marketing activities, and potential investments in, or acquisitions of, businesses or technologies, and there can be no assurance that these plans and arrangements will be sufficient to fund our ongoing capital expenditures, working capital, and other requirements. Inability to access financing on favorable terms in a timely manner or at all would materially and adversely affect our business, results of operations, financial condition, and growth prospects.

The report of our independent registered public accounting firm on our consolidated financial statements included elsewhere in this annual report includes an explanatory paragraph questioning our ability to continue as a going concern. Our financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern. If we are unable to continue as a going concern or achieve or maintain profitability, we may have to liquidate our assets, and the value we receive for our assets in liquidation or dissolution could be significantly lower than the values reflected in our audited consolidated financial statements. If we cease operations, it is likely that all of our investors would lose their investment. Our lack of cash resources and our potential inability to continue as a going concern may materially and adversely affect the price of our ADSs and our ability to raise new capital or to continue our operations.

In addition, we will need to generate increased revenue levels in future periods to become profitable, and, even if we do, we may not be able to maintain or improve profitability as we intend to continue to spend significant funds to expand our operations, including expanding our apartment network, developing and enhancing our technology systems and infrastructure, and expanding offerings of other value-added services. Our efforts to grow our business may be more costly than we expect, and we may not be able to increase our revenue immediately or significantly to offset our operating expenses. We may incur significant losses in the future for a number of reasons, including the other risks described in this annual report, and unforeseen expenses, difficulties, complications and delays and other unknown events.

***Our business requires significant capital expenditure for sourcing, renovation and maintenance of rental apartments. Inability to access financing on favorable terms in a timely manner or at all would materially and adversely affect our business, results of operations, financial condition and growth prospects.***

We recorded negative working capital. As of September 30, 2020, 2021 and 2022, our current liabilities exceeded our current assets by RMB1,758.7 million, RMB2,171.0 million and RMB597.2 million (US\$84.0 million), respectively. Our capital expenditures totaled RMB138.7 million, RMB6.5 million and nil in FY 2020, FY 2021 and FY 2022, respectively. We are in need of additional funding to sustain and expand our business, and we have formulated a plan to address our liquidity problem, including but not limited to, obtaining proceeds from our tenants’ rental prepayment, raising funds from follow-on offerings, and adoption of a stringent cash management policy. See “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources.” Our

management reviews our forecasted cash flows on an on-going basis to ensure that we will have sufficient capital from a combination of internally generated cash flows and proceeds from financing activities, if required, in order to fund our working capital and capital expenditures. We believe that adequate sources of liquidity will exist to fund our working capital and capital expenditures, and to meet our short-term debt obligations, other liabilities and commitments as they become due.

We utilize a lease-and-operate model. Under this model, we may incur substantial upfront capital outlay before we start to generate revenues on the relevant apartments. These include capital outlay for market research and evaluation of the target geographic area for expansion, apartment searching, prepayment of a few months' rental to our landlords, and renovation of the apartments we lease, which may be in bare-bone condition, to add an additional bedroom and make them suitable for lease-out to tenants. We followed a disciplined and systematic process to expand our apartment network, involving comprehensive market research, site visits and other preparation work, during which period we may incur substantial operating costs and expenses. After we have identified the geographic area to expand into and available apartments to lease, the typical period from the time we enter into a lease agreement with landlords to successfully leasing out the apartment and receiving the first rental payments from tenants is approximately 30 days as of September 30, 2022, which may be significantly extended due to some factors that are beyond our control, including but not limited to, substantial delay during the renovation period due to third-party contractors' default, and inability to attract and retain tenants in a timely manner due to apartment rental market condition. Inability to timely access financing on favorable terms or at all would materially and adversely affect our apartment sourcing and expansion, which could materially and adversely affect our future business, results of operations, financial condition and growth prospects.

In addition, our rental apartments have infrastructure and appliances of varying ages and conditions. In order to maintain and operate our rental apartments, ongoing renovations and other leasehold improvements, including periodic home cleaning and replacement of furniture, fixtures and equipment, are required. These investments and expenditures also require ongoing funding and, to the extent we cannot fund these expenditures from our existing cash or cash flow generated from operations, we must borrow or raise capital through financing. If we fail to access capital that are necessary to maintain or improve the rental apartments, our rental apartments' attractiveness could be reduced, we could lose market share to our competitors and our occupancy rates may decline.

We cooperated with financial institutions which provide rental installment loans to our tenants to finance their rental prepayments, which have helped us finance our capital expenditure for apartment sourcing, renovation, and ongoing apartment maintenance and operation. Since May 2020, the financial institutions have suspended providing new rental installment loans to tenants. As of September 30, 2020, 1.4% of rental payment made by our tenants had been facilitated by rental installment loans. However, the Opinions on Rectification and Normalization of Home-rental Market, which became effective on December 13, 2019, requires that a residential rental company, such as us, shall make sure that the total rental income it receives through rental installment loan does not exceed 30% of the rental income of such company by the end of 2022. Moreover, the Measures on Residential Tenancy (Discussion Draft) published by the Ministry of Housing and Urban-Rural Development of the PRC, or the MOHURD, for public discussion in September 2020, which has not taken effect as of the date of this annual report, state that (i) residential rental operators are prohibited from inducing tenants to utilize rental installment loans by providing rental discounts or by including any term of rental installment loans in the rental agreement; and (ii) commercial banks may extend a rental installment loan only if the lease agreement has been registered with local housing bureau and the term of the loan does not exceed the duration of the tenancy. Furthermore, the Opinions on Strengthening Regulation on Light-asset Residential Rental Enterprises published in April 2021 by, among other government authorities, the Ministry of Housing and Urban-Rural Development of the PRC, or the MOHURD, state that residential rental enterprises shall not conduct any financial business and shall not induce tenants to utilize rental installment loans by providing rental discounts or by including any term of rental installment loans in the rental agreement. We cannot assure you that we can find alternative sources of financing and our business operations, cash flow or financial condition would not be negatively affected by significantly reducing the percentage of our rental income received through rental installment loan.



***We depend on third parties for different aspects of our business and the services that we offer. Our business, results of operation, financial condition and reputation may be materially and adversely affected if the third parties do not continue to maintain or expand their relationship with us, or fail to provide services or products according to the terms of our contracts or otherwise below standard, or by the third parties operational failure.***

We rely on third parties for different aspects of our business, including apartment sourcing, renovation, leasing out, management and maintenance. Currently, substantially all of our rental units are sourced and managed by third-party contractors. In addition, we rely on third parties for the provision of value-added services to our tenants. Selecting, managing and supervising these third-party service providers requires significant resources and expertise. Poor performance by such third-party service providers or misconduct or fraud on the part of their employees may reflect poorly on us and could significantly damage our reputation among desirable tenants. In the event of fraud or misconduct by a third party, we could also be exposed to material liability and be held responsible for damages, fines or penalties and our reputation may suffer. If we do not select, manage and supervise appropriate third parties to provide these services and products, our reputation and financial results may suffer.

The service or cooperative agreements we have with third party vendors, service providers or strategic partners are subject to a term, and not on an exclusive basis. If the third-party service providers or strategic partners do not continue to maintain or expand their relationship with us, we would be required to seek new service providers or partners, which would cause delays and adversely affect our operations and the range and quality of the products and services that we offer. Moreover, our strategic partner may compete with us or enter into strategic cooperation with our competitors, which may materially and adversely affect our business and competitive position.

For example, we engage outside contractors for apartment sourcing and management functions. As of September 30, 2022, we had 763 apartment managers, all of whom was from our outside contractors. Although the apartment managers and agents for apartment sourcing are supervised by our regional supervisors who are our own employees at more senior positions, we cannot assure you that those outside contractors will provide services that meet our requirements. Besides, the outside contractors may not continue to maintain or expand their relationship with us, and we may not be able to acquire additional apartment managers or agents for apartment sourcing on a timely manner or at all. These may materially and adversely affect our business, financial condition and results of operation.

Moreover, we engage third-party contractors and suppliers for our rental apartments' renovation. If these contractors or suppliers fail to finish the renovation on schedule or below standard, we may incur additional costs and delay to make our apartment suitable for leasing, and may not be able to rent out the apartments in a timely manner and with favorable terms, or at all. Below quality renovation may also expose us to potential complaints from tenants on the conditions of the apartments, including safety hazards as well as significant maintenance and repair costs. In addition, although it is our third-party contractors and suppliers' responsibility for the salaries of their employees, we may become a target towards which such employees demand their unpaid salaries if our third-party contractors and suppliers withhold or unreasonably deduct their salaries. Pursuant to the PRC Civil Code, where a debtor defaults on its debt obligations, the creditor shall be entitled to retain the already lawfully possessed movable property of the debtor, and have a priority over the movable property in satisfaction of its claim. Despite the fact that the decoration material are legally owned by us, not the third-party contractors or suppliers, we cannot eliminate the possibility that the unpaid employees may retain the decoration materials as a relief they think reasonable. As a result, we request our third-party contractors and suppliers to provide the evidence of payment once the salaries of their employees who have been involved in renovation and maintenance of our rental apartments are paid. However, we cannot assure you that we will not be sued or investigated for our third-party contractors or suppliers' unpaid salaries, or requested by the local governments to compensate such unpaid employees which may materially and adversely affect our reputation, financial condition and results of operation.

Furthermore, we cooperate with third parties for home cleaning, broadband internet access and other products and services to our tenants. Our customer satisfaction may be adversely affected as a result of any disruption or termination of services of our service provider or partners. In addition, our service providers frequently interact with our tenants. Notwithstanding our efforts to implement and enforce strong policies and practices regarding service providers, we may not successfully detect and prevent fraud, misconduct, incompetence, of our service providers including their employees or stability of their services, which may adversely affect our business and reputation.

***The COVID-19 outbreak has adversely affected, and may continue to adversely affect, our business, results of operations and financial condition. We also face risks related to other health epidemics, natural disasters, civil and social disruptions and other outbreaks and catastrophes, which could materially and adversely affect our results of operations and financial condition.***

We may be subject to social and natural catastrophic events that are beyond our control, such as health epidemics, natural disasters, civil and social disruptions and other outbreaks and catastrophes, which may materially and adversely affect our business, particularly in locations where we operate.

Since December 2019, a novel strain of coronavirus, or COVID-19, has become widespread in China and around the world. In March 2020, the World Health Organization declared the spread of COVID-19 a pandemic after characterizing it as a public health emergency of international concern in January 2020. Since the beginning of 2020, China has taken various restrictive measures to contain the spread of COVID-19, such as quarantines, travel restrictions and home office policies. This has resulted in a material and negative effect on the economy and apartment rental market in China and caused significant loss of our tenants, decrease in our occupancy rates and decrease in average rental rates of our rental units, particularly in the quarters ended March 31, 2020 and June 30, 2020, which in turn resulted in a decrease in our revenue. In FY 2020, our average month-end occupancy rate and the rental spread margin before discount for rental prepayments decreased as compared with FY 2019 mainly due to the impact of the COVID-19, pandemic. In addition, some of our employees and business partners were unable to return to work timely during the COVID-19 pandemic in China, which temporarily interrupted our operation. As a result, our business, results of operations and financial condition have been adversely affected by the COVID-19 pandemic.

In response to the challenges and uncertainties resulting from the COVID-19 pandemic and its impact on our business, we have actively taken actions including, but not limited to, reducing our costs and expenses, controlling our number of rental units contracted by reducing leases with landlords given the decrease in occupancy rate, taking necessary measures to sanitize our working spaces and apartments, modifying and terminating the cooperation with the rental service company owned by a state-owned bank, seeking additional financial support from banks and financial institutions and seeking consolidation opportunities through acquiring high quality assets. We have offered, and may continue to offer, promotions to our tenants, such as discounts on the rentals we charge our tenants for, so as to retain tenants and maintain our occupancy rate. Moreover, we will continue to monitor the quality of our rental units contracted, available rental units and other asset portfolio, and seek additional source of funds and acquisition opportunities.

However, because the situation of COVID-19 is very fluid, we cannot predict whether or when the spread of COVID-19 may recur in China or worldwide. In December 2022, the local government abandoned its policies on quarantine at home and large-scale lockdowns, and the COVID-19 has been spreading rapidly in China. However, based on the assessment of current economic environment, customer demand and revenue trend, and the negative impact from COVID-19 outbreak and spread, it appears that our revenue and operating cash flows may continue to underperform in the next 12 months. Further, a resurgence could further negatively affect both major business segments and impair their ability to regain pre-covid operating levels. As such, the future impact of COVID-19 is still highly uncertain and cannot be predicted as of the financial statement reporting date. Our business, results of operations, financial conditions and prospects may be materially and adversely affected if another wave of the COVID-19 pandemic or epidemic of another disease occur.

***Tenants may terminate their leases during lease terms, exposing us to the risk of re-leasing our rental apartments, which we may be unable to do on a timely basis, on favorable terms or at all.***

Our leases with tenants typically have a contracted lease term of 3 to 12 months. In FY 2022, our tenants stayed in our rental units for an average duration of 4.7 months. A majority of our lease-out agreements include a lock-in period (during which termination will result in forfeiture of the security deposit) equals to the contracted lease term. If the market rental rates decline, we anticipate our rental revenues may be affected greater than if our leases were for longer terms. For example, the market rental rates may decline if another wave of COVID-19 outbreak occurs in regions where we operate. Short-term leases may result in high turnover, which involves costs such as restoring the rental apartments, marketing costs and lower occupancy levels. Our estimates on tenant turnover rate and related cost may be less accurate than if we had more operating data upon which to base such

estimates. On the other hand, we are subject to a five to six-year lease-in contract lock-in period, during which neither landlords nor us may terminate the lease without paying a penalty equal to the rentals for the remaining lease-in contract lock-in period, and continue to incur rental costs. If our monthly rentals received from tenants decrease or our tenants do not continue to stay with us, our business, results of operations and financial conditions will be materially and adversely affected.

In addition, tenants may terminate the lease during the lock-in period, subject to the forfeiture of their security deposits. In FY 2022, 43.8% of our leases with tenants were terminated before the expiration of the applicable lock-in period, increased from 38.7% in FY 2021 mainly attributable to impact of COVID-19 pandemic in 2022 in China. In FY 2022, 34.3% of our leases with tenants remained in their rental units through the end of the contracted lease term. Our liquidity may be materially and adversely affected by tenants' early termination. See "—We have relied on our tenants' rental prepayments to finance our growth. To the extent a lease agreement is terminated during the rental period covered by the prepayment, we need to return the unused prepaid rentals. If a significant number of the lease agreements are terminated early, our liquidity and financial condition may be materially and adversely affected." To the extent tenants terminate the lease during the lease term, our business, results of operation and financial condition may be materially and adversely affected.

***We have relied on our tenants' rental prepayments to finance our growth. To the extent a lease agreement is terminated during the rental period covered by the prepayment, we need to return the unused prepaid rentals. If a significant number of the lease agreements are terminated early, our liquidity and financial condition may be materially and adversely affected.***

We subsidize the interests on the rental installment loans, which the tenants use to finance rental prepayments. In the event of rental installment loans, we typically receive from our financial institution partners a lump-sum payment covering the contracted lease term, which we can use to finance our growth without restrictions. Since May 2020, the financial institutions have suspended providing new rental installment loans to tenants. These rental prepayments have helped us finance our capital expenditure for apartment sourcing, renovation, and ongoing apartment maintenance and operation.

However, our tenant may terminate the lease agreement during the rental period covered by the prepayment, subject to the forfeiture of his/her security deposit should such termination take place during the lock-in period. In addition, we may terminate the lease agreement with a tenant, for example, if the tenant defaults on the repayment of his/her rental installment loan, which is granted by our financial institution partner and used by the tenant to finance his/her rental prepayment.

To the extent a lease agreement is terminated before the rental period covered by the prepayment, whether by the tenant or by us, we shall, upon such termination, return the unused prepaid rents, typically in a lump sum, to the tenant, or to our financial institution partner where the tenant has used the rental installment loan granted by such financial institution to finance his/her rental prepayment. Since tenants who prepay rental for certain lease period can enjoy rental discount for the applicable lock-in period, and tenants who terminate the lease within the lock-in period are subject to forfeiture of their security deposits, our tenants may be incentivized to terminate their lease around the end or shortly after the expiry of the applicable lock-in period. In FY 2022, 43.8% of our terminated leases with tenants were terminated during the rental period covered by the prepayment. When a significant number of lease agreements are terminated during the rental period covered by the rental prepayments, we may not have sufficient immediate funds to return all unused rents, and we may not be able to timely re possess the apartments and identify new tenants. See "—Our results of operation, financial condition, and reputation would be adversely affected if a significant number of our tenants fail to meet their obligations in connection with the lease." Failure to adequately manage our cash and liquidity could adversely affect our business, financial condition, results of operations and cash flows.

***We rely on our cooperation with a limited number of financial institutions.***

In line with industry practice, we provide guarantee and may also provide additional credit enhancement in the form of security deposits to our financial institution partners with respect to tenants' repayment of the rental installment loans. As of September 30, 2022, rental payment of 5.6% of our occupied rental units had been facilitated by rental installment loans. Since May 2020, the financial institutions have suspended providing new rental installment loans to tenants.

In addition, in August 2018, we started to cooperate with a rental service company owned by a state-owned bank in apartment sourcing and renovation. Under this model, for certain newly sourced apartments, we continue to be responsible for the entire operating process, including identifying potential apartments for rent, rental pricing and procuring and paying for apartment renovation. Once we have finished the renovation, the rental service company reimburses us for our costs incurred for the renovation. We make payments to the rental service company in installments equal to the reimbursed renovation costs plus interest and tax over a period of five years. At the end of the five-year period, the ownership of the renovation will be transferred to us. Under this arrangement, we also sell leasehold improvements and furniture, fixtures and equipment of certain existing apartments to the rental service company at carrying value and simultaneously lease them back. The cooperation has provided us with access to a stable source of low-cost capital to finance our apartment renovation upfront, which helps us scale in a cost efficient manner. Due to the rising vacancy rate of our rental units caused by the COVID-19 pandemic, we decreased the number of apartment contracted by terminating some of the leases with landlords under this model. In April 2020, we also started to modify this cooperation for apartments in certain cities. For some apartments under this model, we no longer lease in apartments from the rental service company or enter into new lease-out agreements with tenants. Instead, we transferred existing leases with tenants to the rental service company. The rental service company maintains the lease-in agreements with the landlords of the apartments, collects rental from the tenants directly and enters into lease-out agreements with new tenants directly. We are engaged by the rental service company to manage these apartments. Pursuant to this arrangement, we are responsible for hiring and supervising the third-party contractor including in its identification of potential tenants and daily operation, and receives fee income equals to the rental income from tenants minus the rental fee to landlords. For each of these apartments, if the rental collected from the tenants is less than the rental paid to the landlords, we are required to pay the rental service company this difference. We had transferred 25,375 of our rental units contracted and managed these rental units under this modified cooperation. We did not generate such revenues in FY 2022.

If our financial institution partners reduce, discontinue or do not expand their cooperation with us, for example, as a result of changes in regulatory landscape, tightening of the credit market, default by a significant number of our tenants or otherwise, we may not be able to find alternative sources of financing on similar or better terms in a timely manner or at all, and as a result, our business, financial condition and growth prospects may be materially and adversely affected.

***Capital and credit market conditions may adversely affect our access to capital and/or the cost of capital, which could impact our future prospects, results of operations and growth prospects.***

In periods when the capital and credit markets experience significant volatility, the amounts, sources and cost of capital available to us may be adversely affected. We primarily use external financing to fund our expansion and renovation. If sufficient sources of external financing are not available to us on cost-effective terms, we could be forced to limit our expansion and renovation and/or take other actions to fund our business activities. If economic conditions deteriorate or credit market tightens, there can be no assurance that the scope of cooperation with those financial institutions would not be terminated or reduced. To the extent that we are able and/or choose to access capital at a higher cost than we have experienced in recent years, absent changes in other factors, our earnings per share and cash flows could be adversely affected. In addition, the price of our ADSs may fluctuate significantly and/or decline in a high interest rate or volatile economic environment.

In addition, rising interest rates could increase interest costs and could affect our ability to become profitable. We currently have, and may in the future incur floating interest rate debt, which subject us to interest risks. See “—Our outstanding and future indebtedness and capital lease and other financing arrangement payable may adversely affect our available cash flow and our ability to operate our business. In addition, we may not be able to obtain additional capital when desired, on favorable terms or at all.” In addition, we pay the interest on our tenants' rental

installment loans, which also exposes us to the risks associated with rising interest. If interest rates increase, our financing costs will also rise and our ability to become profitable could be adversely affected.

***Our business is susceptible to China’s macro-economic conditions, particularly the long-term apartment rental market and government measures aimed at China’s real estate industry and apartment rental industry.***

We conduct our apartment rental services business in China. Our business depends substantially on conditions of China’s real estate industry, particularly the apartment rental industry. Demand for rental apartments in China has grown steadily in recent years before the outbreak of COVID-19, but the growth is often coupled with volatility and fluctuations in real estate transaction volume and prices as well as the employment rate, and was materially and adversely affected by the COVID-19 pandemic. Fluctuations of supply and demand in China’s real estate industry and apartment rental industry are caused by economic, social, political and other factors outside our control. The Chinese economy has shown slower growth since 2012 compared to the previous decade, and this trend is likely to continue.

We target young people, including recent college graduates, entry level white collar workers and industry workers in cities with strong economic growth, net inflow of people, ambitious urban development plans and favorable policies supporting the development of the apartment rental market. Any severe or prolonged slowdown in China’s economy, and slowdown or discontinuation of urbanization in our target markets may materially and adversely affect our business, financial condition and results of operations. In addition, there may be situations where China’s residential real estate industry becomes over-heated and our platform becomes less appealing to tenants, landlords and our business partners, which could potentially adversely affect our business. Our occupancy levels and rental rates mainly depend on demands from our target tenants in the target markets. We have benefited in recent periods from the growth of the economy, rapid urbanization and geographic concentration affecting the real estate markets and apartment rental markets, including, in particular:

- soaring prices of residential real estates and extremely stringent home-buying requirements in top-tier cities in China that have made it more difficult to purchase apartments, particularly for our target customers;
- favorable rental-related policies and other government support for increased rental options;
- increased number of “non-resident” population in top tier cities in China;
- favorable interest rates for financing and a strong and healthy credit market; and
- mismatch of supply and demand in China’s long-term apartment rental market.

We do not expect these favorable trends in the apartment rental market to continue indefinitely. Lowered apartment purchase prices that make it more accessible to own apartments, unfavorable policies for the apartment rental markets or decrease of “non-resident” population in top tier cities may adversely affect the apartment rental market. A softening of the apartment rental market in our target areas would materially and adversely affect our business, financial condition and results of operations.

In recent years, PRC governmental authorities put forward favorable rental related policies, including but not limited to, increasing rental housing supply, encouraging the development of modern rental companies, and reducing rental income taxes. These policies have in part driven our growth.

Meanwhile, the PRC governmental authorities also enact certain criteria to regulate the apartment rental market. For example, the State Council of the PRC promulgated Several Opinions of the General Office of the State Council on Accelerating the Cultivation and Development of the Home-Rental Market in 2016, which require the local housing authorities to strengthen the administration of the home-rental market participants, including residential tenancy enterprises, intermediary agencies and professionals, in coordination with relevant departments, and keep credit records of relevant market participants. Moreover, the MOHURD published the Measures on Management of Residential Tenancy and Home Sales (Discussion Draft) for public discussion in May 2017, which require the relevant PRC authorities to enhance scrutiny on (i) the terms of duration and rent adjustments in lease agreements, (ii) the filing of lease agreements, and (iii) residential tenancy enterprises. In addition, the Measures on Residential Tenancy (Discussion Draft) published by the MOHURD for public discussion in September 2020, which

has not taken effect as of the date of this annual report, state that (i) residential rental operators are prohibited from inducing tenants to utilize rental installment loans by providing rental discounts or by including any term of rental installment loans in the rental agreement; and (ii) commercial banks may extend a rental installment loan only if the lease agreement has been registered with local housing bureau and the term of the loan does not exceed the duration of the tenancy. Furthermore, the Opinions on Strengthening Regulation on Light-asset Residential Rental Enterprises, published in April 2021, set out regulatory measures on various aspects, including standards of qualification, online registration and filing of business operation, limitation and supervision on utilization of loans and monitoring of rents. If the PRC governmental authorities adopt any prohibitive measures or policies with respect to rental housing, or the interpretation of current laws and regulations relating to the apartment rental market becomes more restrictive and rigorous, they may depress the apartment rental market, dissuade potential tenants from renting apartments, and cause a decline in average rental rates. Frequent changes in government policies may also create uncertainty that could discourage investment in real estate. Our business may be materially and adversely affected as a result of decreased demand of rental apartments that may result from government policies.

***Our expansion into new markets may present increased risk.***

We plan to expand in our existing cities and enter new cities which we believe have strong growth potential, for example, cities with strong economic growth, net inflow of people, ambitious urban development plans and favorable policies supporting the development of the branded long-term apartment rental market. To the extent our predictions or judgment on the market growth turn out to be inaccurate, we may not have sufficient supply or demand in the market to support our growth or achieve profitability. If we cannot maintain or increase occupancy levels and rental rates in our target markets to keep pace with rising costs of rents, renovation and operations, our business, results of operations, and financial condition may be adversely affected. See “—Our business is susceptible to China’s macro-economic conditions, particularly the long-term apartment rental market and government measures aimed at China’s real estate industry and apartment rental industry.”

We followed a disciplined and systematic process to expand our apartment network, involving comprehensive market research, site visit and other preparation work. In addition, as we expand into new geographic areas, it takes time to ramp up the occupancy rate to our target level. During the ramp up period, we may continue to incur upfront renovation costs and other operating costs and expenses without generating corresponding net revenues.

In addition, we may not be able to replicate our success in existing cities to new cities we target in a timely manner or at all, as they may have different regulatory and competitive landscape. This may adversely affect our results of operations and growth prospects.

For example, to replenish and expand our rental units portfolio, in July 2020, one of our subsidiaries entered into agreements with a rental service company and its affiliates to acquire-lease contracts with landlords and tenants and related fixtures, equipment and other assets for approximately 72,000 rental units in various cities across China at a total consideration of US\$130 million, less certain liabilities to be assumed by us. Due to our lack of experience and recourses in regions that are new to us, we may not be able to operate and manage these rental units in an efficient and effective way, or at all. This may adversely affect our results of operations and growth prospects.

***Strategic investments, acquisitions or new business initiatives may disrupt our ability to effectively manage our business and adversely affect our operating results. In addition, to the extent we fund these business initiatives through the issuance of equity or convertible debt securities, the ownership interests of our shareholders could be significantly diluted.***

We may acquire or make investments in other companies, business, products, technologies or other assets along our business value chain to complement and expand our business. We may not be able to find suitable acquisition or investment candidates, and we may not be able to complete acquisition and investment on favorable terms, or at all. If we do not complete acquisition and investment as we expect, we may not ultimately strengthen our competitive position or achieve our goals, and any acquisition and investment we complete could be viewed negatively by investors. In addition, to the extent we fund these business initiatives through the issuance of equity or convertible debt securities, the ownership interests of our shareholders could be significantly diluted. Furthermore, if we fail to successfully integrate such acquisitions or the technologies or other assets associated with such acquisitions into our company, the revenues and operating results of the combined company could be adversely

affected. Acquisitions and investments are inherently risky and may not be successful, and they may disrupt our ongoing operations, divert management from their primary responsibilities, subject us to greater-than-expected liabilities and our expenses, and adversely impact our business, financial condition, operating results, and cash flows.

For example, to replenish and expand our rental units portfolio, in July 2020, one of our subsidiaries entered into agreements with a rental service company and its affiliates to acquire lease contracts with landlords and tenants and related fixtures, equipment and other assets for approximately 72,000 rental units in various cities across China at a total consideration of US\$130 million, less certain liabilities to be assumed by us. To finance this acquisition, in July 2020, we issued series 1 and series 2 convertible notes in the aggregate principal amount of US\$30.050 million at par and warrants to purchase 20,974 ADSs to Key Space (S) Pte Ltd and Veneto Holdings Ltd., and subsequently, from September 2020 to March 2022, we issued additional series 1 and series 2 convertible notes in the aggregate principal amount of US\$21.6 million at par and warrants to purchase 78,237 ADSs to Key Space (S) Pte Ltd, pursuant to the convertible notes and warrant purchase agreements. In May 2021, the remaining consideration for the acquisition consisted of US\$23.2 million in cash and RMB289.7 million worth of our Class A ordinary shares and we entered into supplemental agreements with the rental service company and its affiliates, pursuant to which we settled the remaining consideration by delivering 186,375,850 Class A ordinary shares to them. They are entitled to sell these Class A ordinary shares in the open market, subject to certain lock-up arrangements. Among the 186,375,850 Class A ordinary shares delivered, we are obliged to (i) make up the shortfall if the proceeds they receive from the sale of 57,786,458 Class A ordinary shares are lower than US\$0.4014 per share and (ii) repurchase 20,860,749 Class A ordinary shares at US\$0.4015 per share in installments if they do not trade these shares in the open market, subject to the terms and conditions set forth in the agreements with them. As of September 30, 2022, no such make-up request had been received by the Company. We will also issue in installments, to a third-party contractor that manages the rental units as previously announced, up to 99.6 million Class A ordinary shares, subject to certain performance indicators and other terms and conditions set forth in the agreement.

We would need to integrate the rental units from asset acquisitions into our business, including but not limited to, integration of the systems and personnel to operate the rental units. As we lack experience in the integration and operation of rental units in regions that are new to us, we may not be able to integrate the rental units into our business in a cost-effective and timely manner, or at all. This integration also requires our management to allocate resources and time from rental units we currently operate and manage to these rental units. In addition, in the process of integrating these rental units, we may continue to rely on the information systems provided by the rental service company to operate these rental units before we transfer all required operating information to our own systems. We cannot ensure that the system provided by the rental service company, which may collect and store sensitive data of third parties, is secured and reliable. These may adversely impact our business, financial condition, operating results and cash flows.

***We have started and may continue to expand our business by acquiring lease contracts and related fixtures and equipment of rental units from other rental service companies, and have engaged and may engage more third-party contractors to manage these rental units. We may not be able to control the quality of sourcing, renovation, marketing, maintenance and other rental unit management activities or participate in the tenant screening process. The third-party contractors may not manage the rental units according to the terms of our contracts or otherwise below standard, or do not continue to maintain or expand their relationship with us. These may materially and adversely affect our business, results of operation, financial condition and reputation.***

In July 2020, one of our subsidiaries entered into agreements with a rental service company, Great Alliance Co-living Limited, and its affiliates to acquire lease contracts with landlords and tenants and related fixtures, equipment and other assets for approximately 72,000 rental units in various cities across China to replenish our rental units portfolio. Unlike rental units we directly operate and manage, these rental units had been renovated at the time we acquired the lease contracts. We have carried out due diligence to verify the authenticity and the quality of these rental units, including but not limited to site visits, calls with landlords and tenants of these rental units, and verification of the operating data such as occupancy rate and rental margin of these rental units provided by the rental service company. However, as these rental units are not sourced, renovated or furnished using our system, we did not monitor these processes and therefore we cannot ensure the quality of these rental units.

We have engaged a third-party contractor to manage these rental units, including but not limited to marketing, maintenance, tenant screening, communications with landlords and tenants. We have continued to optimize our asset portfolios and as of September 30, 2022, we had rental units under management spread across China located in Beijing, Chengdu, Fuzhou, Hefei, Kunming, Nanchang, Nanjing, Nanning, Qingdao, Xi'an, and Tianjin. We take measures to supervise and control the quality of the contractor's management, including but not limited to monitoring operating data related to these rental units on a daily basis such as the number of new leases with tenants and amount of rental income, and reviewing the performance of these rental units each month. Even though we take these measures, we cannot assure you that the contractor will provide services that meet our requirements or will not have disputes with landlords, tenants or other third parties. Furthermore, as tenants of these rental units are not sourced using our system, we cannot participate in the selection process and ensure the reliability and effectiveness of other systems, and therefore we may not be able to ensure these tenants' creditworthiness. In addition, if the contractor discontinues its relationship with us, we may not be able to find an equivalent on a timely manner, or at all, or manage these rental units by our own team in an effective and efficient way, as we do not have sufficient experience in management of apartments or resources in locations such as Beijing, Chengdu, Fuzhou, Hefei, Kunming, Nanchang, Nanjing, Nanning, Qingdao, Xi'an and Tianjin. These may materially and adversely affect our business, financial condition and results of operation.

***We have been, and may from time to time be, subject to claims, controversies, lawsuits and other legal and administrative proceedings, which could have a material adverse effect on our business, results of operations, financial condition and reputation.***

In light of the nature of our business, we are susceptible to potential claims or controversies. We have been, and may from time to time in the future be, subject to or involved in various claims, controversies, lawsuits and other legal and administrative proceedings. Lawsuits and litigations may cause us to incur defense costs, utilize a significant portion of our resources and divert management's attention from our day-to-day operations, any of which could harm our business. Claims arising out of actual or alleged violations of law could be asserted against us by apartment owners, landlords, tenants, third-party contractors and service providers, suppliers, competitors, or governmental entities in civil or criminal investigations and proceedings or by other entities. These claims could be asserted under a variety of laws in different jurisdiction, including but not limited to internet information services laws, intellectual property laws, unfair competition laws, data protection and privacy laws, labor and employment laws, securities laws, consumer protection laws, tort laws, contract laws, property laws and employee benefit laws. In addition, as we do not verify the authenticity of the information such as electronic signatures provided by tenants, landlords and other third parties, such information may be misused and not genuine, which may also subject us to claims, lawsuits and other proceedings. We may also receive formal and informal inquiries from government authorities and regulators regarding our compliance with laws and regulations, many of which are evolving and subject to interpretation.

In particular, we may be exposed to various claims and disputes with our tenants, including but not limited to, those related to the terms set forth in the lease agreements. We take various measures to ensure that our tenants are aware of and understand the terms set forth in the lease agreements. These measures include, but are not limited to, requiring tenants to watch a video regarding important terms before entering into lease agreements, and video recording tenants read out important terms in the lease agreement and confirm they understand the lease agreement. However, our tenants may misunderstand the terms in the lease agreements, such as the length of the lease, upfront payment terms and terms related to rental installment loans. These misunderstandings may lead to disputes between our tenants and us. For example, tenants may claim that they are not aware that the length of the contracted lease term is 3 to 12 months, or do not know their deposits may be forfeited when they terminate the lease during the lock-in period or otherwise breach the term of the lease. In addition, some claims and disputes with tenants may involve accidents, injuries or death in our rental apartments such as lawsuits if a tenant is assaulted or becomes victim of theft or other crime during his or her stay in our rental apartment. See "—Accidents, injuries or death in our rental apartments may adversely affect our reputation and subject us to liability." Moreover, we may be exposed to claims and disputes with third party suppliers, including but not limited to, those related to the payment for the goods. Furthermore, we may be exposed to claims and disputes with our landlords, including but not limited to, those related to negotiation and renegotiation of rentals, and amendment and termination of the lease-in contracts. Such claims and disputes may be escalated to lawsuits or other legal proceedings and may distract our management, and materially and adversely affect our business and reputation.



Moreover, as of October 26, 2021, the VIE was involved in eight ongoing legal proceedings, most of which were initiated by suppliers. The amount of the claims arising from these ongoing legal proceedings were RMB33.7 million (US\$5.2 million) in aggregate. Two of these legal proceedings had claims over RMB1.0 million (US\$0.2 million). In particular, one of our suppliers, Shanghai Greenland Construction (Group) Co. Ltd., or Shanghai Greenland, filed a lawsuit against one of the VIE's subsidiaries, alleging that it should pay Shanghai Greenland the construction fee and other related expenses and fees for the construction of the VIE's subsidiary's research and development center in Suzhou pursuant to a construction contract entered into by Shanghai Greenland and the VIE's subsidiary. The amount of the construction fee and other related expenses and fees was approximately RMB58.0 million (US\$8.5 million), which had been accounted for in the consolidated financial statements for FY 2021. We sold buildings under construction in Suzhou through judicial sales for proceeds of RMB100.3 million. The court assisted us to sell the buildings under construction and collected the proceeds on behalf of us. The proceedings had been settled in December 2021. After the Equity Transfer, we are no longer involved in these legal proceedings.

In addition, in 2020, due to the COVID-19 pandemic, the VIE terminated certain leases with landlords before the end of the original lease terms by sending landlords short messages indicating that the leases would be terminated on the specified dates and we would not assume any liability for the early termination of the leases. We had disputes with some of these landlords. Some landlords filed lawsuits against us for compensation aggregating RMB3.9 million (US\$0.6 million), under which we estimated that we are exposed to the compensation of RMB3.9 million (US\$0.6 million) and recorded the contingent liability in our balance sheet as of September 30, 2021. Certain landlords had expressed their objection to our early termination of leases but did not file lawsuits against us. These landlords had rights to file lawsuits against us within three years from the date of our early termination notice, for a maximum compensation of RMB58.0 million (US\$8.9 million). This amount is equivalent to three months' rents of these leases, based on relevant trial guidance issued by the high people's courts in the PRC as advised by our PRC legal counsel, JunHe LLP. The actual compensation amount will be negotiated with each landlord and we did not accrue the contingent liability in our balance sheet as of September 30, 2021. As of October 26, 2021 immediately before the Equity Transfer, a majority of these landlords had expressed their consents to the early termination of leases as set forth in the short messages, or had not raised any objection to the early termination of leases. As advised by our PRC legal counsel, JunHe LLP, pursuant to the PRC laws, the landlords may file lawsuits against the VIE for the early termination of leases with the courts within three months from the date of the early termination notice, otherwise their claims will not be supported by the courts.

Disputes, legal proceedings and potential legal proceedings related to us has materially and adversely affected, and may continue materially and adversely affecting, our financial condition, business and reputation.

There is no guarantee that we will be successful in defending ourselves in legal and administrative actions or in asserting our rights under various laws. Even if we are successful in our attempt to defend ourselves in legal and administrative actions or to assert our rights under various laws, enforcing our rights against the various parties involved may be expensive, time-consuming and ultimately futile. These actions could expose us to negative publicity and to substantial monetary damages and legal defense costs, injunctive relief and criminal and civil fines and penalties, including but not limited to suspension or revocation of licenses to conduct business.

In addition, after the Equity Transfer, people may still associate us with the claims, controversies, lawsuits and other legal and administrative proceedings against the WFOE and the VIE, which may expose us to negative publicity and adversely affect our operations and reputation. After the Equity Transfer, in January 2022, Shanghai Qingke Public Rental Housing Leasing Management Co., Ltd. ("Qingke Public Rental"), one of the subsidiaries of the VIE, filed the voluntary petition for bankruptcy under the Article 2 of the PRC Enterprise Bankruptcy Law with Shanghai Third Intermediary Court (the "Court"). The Court announced the effectiveness of the petition on January 4, 2022. After the Equity Transfer, in July 2021, November 2021, and July 2022, three subsidiaries of the VIE, Shanghai Qingke Equipment Leasing Co., Ltd., Beijing Qingke Property Management Co., Ltd., and Nanjing Qingke Apartment Management Co., Ltd., respectively, were also involved in similar bankruptcy proceedings.

***We face significant competition in the apartment rental market.***

China's long-term apartment rental market is highly competitive. With the influx of new entrants and the expansion of current participants, we expect competition to continue and intensify, which could harm our ability to increase revenue and attain or sustain profitability. Our competitors include other branded apartment operators and

apartment owners who directly rent their apartments to tenants. In addition, in response to increased cooling measures on housing sales, real estate developers may also pivot into standardized rental market. We believe the principal competitive factors in this industry include:

- ability to source suitable and sufficient apartments across multiple regions with favorable terms including contract length, rental free period, rent-in costs, etc.;
- ability to use big data analytics to establish competitive lease terms with both landlords and tenants;
- ability to establish sustainable unit economic model;
- ability to renovate and operate rental apartments in an efficient and cost-effective manner;
- ability to achieve high standardization and manage a complex supply network;
- ability to maintain financial flexibility;
- geographic coverage and customer reach;
- ability to set up IT and internet infrastructure; and
- brand awareness and customer satisfaction, including the availability and range of value-added services to help foster a sense of community and loyalty among tenants.

We face competition for our sourcing of suitable apartments in our target markets. Our competitors may have better access to newer, better located apartments at lower cost. They may also have more rapid access to the information of available apartments, which helps them rent such apartments from owners before we receive such information. Moreover, our competitors may be more resourceful, have a lower cost of funds or better access to funding sources that may not be available to us. In addition, our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of rental apartments. Competition may result in fewer options of apartments available to us, higher rental rates to be paid by us, our acceptance of greater risk, lower yields and a narrower spread of yields over our financing costs. As a result, there can be no assurance that we will be able to identify suitable apartments that are consistent with our tenants' need, and our failure to accomplish the foregoing could have a material adverse effect on our business and results of operation.

We also face competition for our target tenants. Our competitors may successfully attract tenants with cheaper and more convenient rental units, better incentives, amenities and value-added services, which could adversely affect our ability to obtain quality tenants and lease-out our rental apartments on favorable terms. In addition, our competitors may have better access to tenant information, which helps them identify and acquire quality tenants more quickly. Moreover, some competing housing options may qualify for government subsidies that may make such options more accessible and therefore more attractive than our rental apartments. This competition may affect our ability to attract and retain tenants and may reduce the rental rates we are able to charge.

Furthermore, as a result of the competition for suitable apartments and tenants, we may not be able to maintain the spread or margin between lease-in from landlords and lease-out to tenants, which may adversely affect our results of operations.

If we fail to compete effectively in the market, we would lose our market share, fail to gain additional market share, and our business, results of operation and growth prospects may be materially and adversely affected.

***New laws, regulations and policies may be promulgated to strengthen the regulation on the apartment rental industry which may adversely affect our business, results of operations, financial condition and growth prospects.***

PRC laws, regulations and policies concerning the apartment rental industry are developing and evolving. Although we have been taking measures to comply with laws, regulations and policies that are applicable to our business operations, the PRC government authority may promulgate new laws and regulations regulating the apartment rental industry in the future. We cannot assure you that our practice would not be deemed to violate any new PRC laws, regulations or policies relating to the apartment rental industry.

In recent years, some tier 1 cities in China have adopted the restrictions on group oriented leasing. Group oriented leasing refers to the practice of renting a single apartment to multiple tenants under separate leases, resulting in the over-crowding of such apartment. In particular, Beijing and Shanghai have expressly banned the lease of rental apartment providing living space of less than five square meters per capita. We typically convert the living room of our rental apartment to add an additional bedroom, which is known as N+1 model. While some local governments, including Shanghai, Hangzhou, Suzhou, Wuhan and Nanjing, do not consider N+1 model as group oriented leasing, governmental authorities in other existing cities may implement restrictions that affect our N+1 model in the future. In addition, we cannot assure you whether any local governments may change its policies or interpret them in a manner that renders our N+1 model non-compliant. If we are deemed to violate local laws, regulations and policies, we may be subject to penalties and may need to adjust our business model, which may have a material and adverse effect on our business, results of operation, financial condition and growth prospects.

Moreover, the PRC government may institute a licensing regime covering our industry at some point in the future. For example, we cannot rule out the possibility that future laws or regulations will require us to register as real estate brokerage enterprise. Under the current PRC laws and regulations, enterprises operating real estate brokerage related business are required to register as real estate brokerage enterprise at local housing authorities. Pursuant to the Real Estate Brokerage Management Methods promulgated by MOHURD, only enterprises providing intermediary and agency services to the landlords in order to facilitate real estate transactions in return for commissions are deemed as a real estate brokerage enterprise, which is different from our business model, as advised by our PRC legal counsel, JunHe LLP. Therefore, we do not believe that our current business constitutes real estate brokerage under PRC laws and regulations and as a result our company shall not be subject to registration as a real estate brokerage enterprise. However, the Measures on Residential Tenancy (Discussion Draft), or the Draft, published by the MOHURD for public discussion in September 2020, if enacted, empowers MOHURD to further set up standards of qualification for residential rental operators on financial position, expertise and managing abilities. The Draft has not taken effect as of the date of this annual report. Furthermore, the Opinions on Strengthening Regulation on Light-asset Residential Rental Enterprises, published in April 2021, set out regulatory measures on various aspects, including standards of qualification, online registration and filing of business operation, limitation and supervision on utilization of loans and monitoring of rents. If any future laws and regulations deem our business as real estate brokerage or any other licensing regime or qualification requirement is introduced, we cannot assure you that we would be able to complete any newly required registration, obtain any newly required license or meet any qualification requirement in a timely manner, or at all, which could materially and adversely affect our business and impede our ability to continue our operations.

In addition, under the current PRC legal regime, there is no laws or regulations specifically controlling the rents. The Administrative Measures for Commodity Housing Leasing, promulgated by the MOHURD on December 1, 2010, provides a principle rule that landlords shall not raise the rent unilaterally and randomly during the term of the lease agreements. In addition, on May 19, 2017, the MOHURD published the Measures on Management of Residential tenancy and Home Sales (Discussion Draft), or the Discussion Draft, for public discussion, which was closed on June 19, 2017. The Discussion Draft stipulates that landlords must not unilaterally raise rent if they have not reached a consensus with the tenant on the frequency and range of rent adjustments in the lease agreement. This Discussion Draft also stipulates that the local governments shall establish a system to publicize information on rents in the local markets. The Discussion Draft also stipulates that landlords shall not evict the tenants through violence, threats or other coercive measures. In addition, the Opinions on Strengthening Regulation on Light-asset Residential Rental Enterprises, published in April 2021, set out a principle rule that local governments shall establish a rental monitoring system to gather rental information in large cities where the rental market is in strong demand. Although the final provisions, interpretation, adoption timeline and effective date of the Discussion Draft remain substantially uncertain, our business practices may be subject to stricter governmental supervision in the future, which may adversely affect our business, results of operations, financial condition and growth prospects.

***Our business growth depends on our ability to attract and retain tenants. If we are not able to attract or retain sufficient tenants in a timely manner and at a low-cost, our business, financial condition and results of operation may be materially and adversely affected.***

We depend on rental income from tenants for substantially all of our revenues. As a result, our success depends upon our ability to attract quality tenants for our rental apartments in a timely manner and at a low-cost. We may not be successful in locating quality tenants to lease the rental apartments as quickly as we have expected or at

all due to competition, market condition, delay in renovation or other factors. We incurred loss of tenants and decrease in occupancy rate due to the COVID-19 pandemic during FY 2022. If vacancies continue for a longer period of time than we expect or indefinitely, or another wave of the COVID-19 pandemic or epidemic of other diseases occur, we may suffer reduced revenues, which may have a material adverse effect on us.

In July 2020, to replenish and expand our rental units portfolio, one of our subsidiaries entered into agreements with a rental service company and its affiliates to acquire-lease contracts with landlords and tenants and related fixtures, equipment and other assets for approximately 72,000 rental units in various cities across China at a total consideration of US\$130 million, less certain liabilities to be assumed by us. We started to operate these rental units from July 2020. In FY 2022, we have continued to optimize our asset portfolios and reduced the number of rental units under management. As of September 30, 2022, we had 38,253 available rental units under management spread across China located in Beijing, Chengdu, Fuzhou, Hefei, Kunming, Nanchang, Nanjing, Nanning, Qingdao, Xi'an, and Tianjin. We cannot ensure that, after the original lease terms expire, the existing tenants will enter into new lease contracts with us, or we can acquire new tenants in a timely manner, or at all, which may adversely impact our business, financial condition and operating results.

***Our results of operation, financial condition, and reputation would be adversely affected if a significant number of our tenants fail to meet their obligations in connection with the lease.***

Our results of operation, financial condition, and reputation would be adversely affected if a significant number of our tenants fail to meet their obligations in connection with the lease. For instance, tenants may default on rental payments or repayment of rental installment loans. If a tenant defaults on his/her payment obligations after the applicable grace period, we may terminate the lease and re possess the apartment pursuant to the lease agreement and the PRC laws and lease the apartment to a new tenant. However, we may not be able to find a new tenant in a timely manner or at all, and the security deposit of the defaulting tenant may not be sufficient to cover our lost rentals for the period in between the leases.

In addition, tenants may use our rental apartments for illegal purposes, damage or make unauthorized structural changes to our rental apartments, refuse to leave the apartment upon termination of the lease, engage in domestic violence or similar disturbances, disturb nearby residents with noise, trash, odors or eyesores, sublet our apartments in violation of our lease or permit unauthorized persons to live in our rental apartments. Damage to our rental apartments may delay re-leasing, necessitate expensive repairs or impair the rental income of the rental apartment resulting in a lower than expected rate of return.

***We may not be able to successfully identify, secure and develop additional apartments in a timely fashion.***

We plan to operate more rental apartments to further grow our business. We select locations which we believe would provide tenants with convenient access to core districts, major business development zones, and commercial centers, as well as affordability. However, we may not be successful in identifying and leasing additional apartments at the locations as desirable as we anticipated, for example, due to delays in the completion of infrastructure or other facilities surrounding such location, such as subway stations and business centers, and on commercially reasonable terms or at all. We may also incur costs in connection with evaluating apartments and negotiating with their owners, including apartments that we are subsequently unable to lease. We may also lease furnished apartments that we expect to be in good condition from landlords only to discover unforeseen defects and problems afterwards that prevent us from leasing them out to our tenants in a timely manner, or at all. In addition, we may not be able to develop additional rental apartments on a timely basis due to renovation delays. If we fail to successfully identify, secure or develop in a timely fashion additional apartments, our ability to execute our growth strategy could be impaired and our business and prospects may be materially and adversely affected.

***We may not be able to renew our existing leases with landlords on commercially reasonable terms, and the rents we pay to landlords could increase substantially in the future, which could materially and adversely affect our operations.***

We plan to renew our existing leases with landlords upon expiration. We cannot assure you, however, that we will be able to renew our leases with landlords on satisfactory terms, or at all. In particular, as the lease-in contract lock-in period of 30.8% of our lease-in contracts as of September 30, 2022 would expire by the end of FY 2023 and

rents may be re-negotiated, we may incur significant increases in rents. In FY 2022, 44.5% of our leases with landlords, or leases of 8,451 rental apartments, were terminated as we strategically reduced the number of leases with landlords to reduce the rentals we need to pay to the landlords, in response to the lower tenant demand and thus, lower occupancy rate and revenues from tenants which were not sufficient to cover the rentals we need to pay to the landlords due to the impact of the COVID-19 pandemic in China. This helped us to mitigate the adverse effect of the COVID-19 pandemic on our business, cash flow and financial conditions. If we fail to renew our leases with landlords or a significant number of our existing leases with landlords are not renewed on satisfactory terms upon expiration, our expansion may be impeded and our costs may increase. If we are unable to pass the increased costs on to our tenants through rental rate increases, our operating margins and earnings could decrease and our results of operations could be materially and adversely affected.

In July 2020, to replenish our rental units portfolio, one of our subsidiaries entered into agreements with a rental service company and its affiliates to acquire-lease contracts with landlords and tenants and related fixtures, equipment and other assets for approximately 72,000 rental units in various cities across China at a total consideration of US\$130 million, less certain liabilities to be assumed by us. We started to operate these rental units from July 1, 2020. The existing landlords may not be willing to enter into new lease contracts with us on terms favorable to us and in a timely manner, or at all, upon expiry of the lease. In addition, we cannot assure you that all the landlords have the legal rights to lease the rental units to us, or the rental service company has the legal rights to transfer the related fixtures and equipment to us. These may adversely impact our business, financial condition and operating results.

***Early termination of the leases or breach of leasing agreements by landlords may materially and adversely affect our operations.***

Our leases with landlords typically provide for a minimum term of five to six years, or lease-in contract lock-in period, some of which may be extended for up to two to three years at the discretion of landlords, with locked in rents for the first two or three years. Landlords may terminate the leasing agreements before the end of their term for various reasons. If the lease with a landlord is terminated before expiration or breached the leasing agreements, making the apartments no longer available, we would have to terminate our lease agreements with our tenants who resided in such apartments and return the residue of pre-paid rents to such tenants or financial institutions in the scenario of rental installment loans. Alternatively, we would facilitate tenants to relocate to another apartments of ours and subsidize their relocation related expenses. In either way, we may incur additional costs and expenses. In addition, although our lease agreements generally provide that landlords shall pay a penalty equal to the rents of the remaining period for early termination, the penalty may be lowered if the court deems the penalty prescribed under our lease agreements to be excessively unfair, i.e., 30% higher than the actual losses we incurred. There can be no assurance that we are able to receive fair compensation for our losses, and our business, results of operations and financial condition could be materially and adversely affected by landlords' early terminations.

***Our estimation of potential rents involves a number of assumptions that may prove inaccurate, which could result in us paying too much rents for apartments we lease-in or overestimating the rents to be paid by our tenants.***

In determining whether a particular apartment meets our criteria, we make a number of assumptions, including, among other things, assumptions related to estimated time of negotiation with landlord, estimated renovation costs and time frames, annual operating costs, market rental rates, potential rent amounts, time from lease to sublease and tenant default rates. These assumptions may prove inaccurate, particularly since the apartments we rent from landlords vary materially in terms of renovation, quality and type of construction, geographic location. For example, we utilize our proprietary smart pricing system, or the Smart Pricing System, to collect and analyze the average market rental rates of apartments similar to our rental apartments in the surrounding area and gauge the potential rent amounts of our rental apartments, which partially relies on the publicly available information from the internet and may be inaccurate. See “—We are highly dependent on information systems, and if our information systems contain undetected errors and ineffective algorithm, or we fail to properly maintain or promptly upgrade our technology, our results of operations and financial condition may be materially and adversely affected.” As a result, we may pay too much for apartments we lease-in and/or overestimate the rents we may charge our tenants, or our rental apartments may fail to perform as anticipated. See “—We may not be able to successfully identify, secure and develop additional apartments in a timely fashion.”

We assess the financial impact of our underperformed apartments that do not meet the projected operating targets by recognizing impairment loss. We perform an assessment of the carrying value of trademark, leasehold improvements and furniture, fixtures and equipment used in each rental apartment at least on a quarterly basis. If the carrying amount of the assets exceeds its expected undiscounted cash flows, we will recognize an impairment loss equal to the difference between the carrying amount and the fair value. In FY 2020, FY 2021 and FY 2022, we incurred impairment loss on long-lived assets of RMB846.8 million, RMB199.6 million and RMB100.2 million (US\$14.1 million), respectively. If a larger number of our apartments underperform, our impairment loss would increase, and our results of operations and financial condition would be materially and adversely affected.

***Our legal right to lease certain rental apartments could be challenged by apartment owners or other third parties or subject to government regulation, which may adversely affect our business, results of operations, financial condition and growth prospects.***

As we lease our rental apartments from the landlords, we do not hold any land use rights with respect to the land on which our rental apartments are located nor do we own any of the rental apartments we sublease to tenants. Instead, our business model relies on leases with third parties who either own or lease the apartments from the ultimate owners. We may not receive all of our rental apartments due to various reasons, including but not limited to landlords' inability to obtain ownership certificates when the lease agreements were executed. As a result, to the extent the person with whom we enter into a lease-in contract with fails to provide us with the ownership certificate of the rental apartment, we cannot ensure that he or she has the rights with respect to such apartment, including but not limited to leasing such apartment to us and allowing us to lease such apartment to our tenants. While we have performed our due diligence to verify the rights of our landlords to lease such apartments, we cannot assure you that our rights under those leases will not be challenged by other parties including government authorities.

Under the PRC Civil Code, which has taken effect since January 1, 2021, only the owner can have the right, at its full discretion, to possess, use, benefit and dispose of its immovable or movable property pursuant to law. The creation, variation, transfer and extinguishment of immovable real right pursuant to law shall be effective upon registration, unless the law provides the contrary. Accordingly, the local registration authority will issue to the real property owner a property title certificate which clearly indicates the ownership of the property. If the lessee intends to sublease the leased property to a third party, it shall obtain the prior consent regarding such sublease from the owner, otherwise any unauthorized sublease may be unwound by the owner. Therefore, we require the landlords to provide the photocopies of their property title certificates when entering into the lease agreement, to ensure that we will be legitimately entitled to rent out the apartment to our tenants. However, the landlords of the properties offered by the governments to the landlords whose original properties are expropriated or demolished due to public interests may have not obtained the property title certificates in a timely manner due to certain local regulations and practices. In the event that landlords intend to lease their apartments to us before obtaining the property title certificates, as part of our due diligence for verification, we require the landlord to provide evidencing documents that can prove their ownership over the leased properties, including, among other things, (i) housing pre-sale contract, housing purchase agreement and housing purchase invoice, (ii) demolition compensation agreement and demolition settlement agreement, or (iii) the confirmation letter of random draw for demolition settlement properties, confirmation of housing selection, invoice of property management and utilities bills. However, these substitutive documents do not have the same legal force as the property title certificates, and thus it is possible that the party who signs the lease agreement is not the legal and beneficiary owner registered in the title certificate and the lease agreement may be invalidated, which may adversely affect our business, results of operations, financial condition and growth prospects.

In addition, our leased-in apartments may have defects on the land use rights. Under the PRC legal regime regarding the land use right, land shall be used strictly in line with the approved usage of the land. Any change as contemplated to the usages of land shall go through relevant land alteration registration procedures. If any state-owned land is illegally used beyond the approved usage, the land administrative departments of the PRC governments at and above the county level may retrieve the land and impose a fine ranging from RMB10 to RMB30 per square meter of such land. Although we are not the direct subject of such administrative sanction, our business and operation may be adversely affected by such retrieval of land thus incurred.

In the circumstance where our landlords are not the ultimate owners of apartments, no consents or permits were obtained from the owners, the primary lease holders or competent government authorities, as applicable, for

the subleases of the apartments to us, which could potentially invalidate our leases or result in the renegotiation of such leases that leads to terms less favorable to us. Some of the apartments we lease from third parties were also subject to mortgages at the time the leases were signed. Where consent to the lease was not obtained from the mortgage holder in such circumstances, the lease may not be binding on the transferee of the apartment if the mortgage holder forecloses on the mortgage and transfers the apartment.

Moreover, under PRC laws, all lease agreements are required to be registered with the local housing bureau. Although failure to do so does not in itself invalidate the leases, lessees may not be able to defend these leases against bona fide third parties and may also be exposed to potential fines if they fail to rectify such non-compliance within the prescribed timeframe after receiving a notice from the relevant PRC government authorities. While the majority of our standard lease agreements require our landlords to make such registration, most of our leases have not been registered, which may expose both our landlords and us to potential monetary fines ranging from RMB1,000 to RMB10,000 for each unregistered lease, at the discretion of the relevant authority. We are in the process of registering more-lease agreements. In the event that any fine is imposed on us for our failure to register our lease agreements, we may not be able to recover such losses from the contract counterparties. Some of our rights under the unregistered leases may also be subordinated to the rights of other interested third parties.

Any challenge to our legal rights to the apartments we rented to the tenants, if successful, could impair the development or operations of such apartments. We are also subject to the risk of potential disputes with apartment owners or third parties who otherwise have rights to or interests in our rental apartments. Such disputes, whether resolved in our favor or not, may divert management's attention, harm our reputation or otherwise disrupt our business.

***We may not be able to effectively control the timing, quality and costs relating to the renovation and maintenance of apartments, which may adversely affect our business, results of operations, financial condition, and growth prospects.***

Our success depends on our ability to lease apartments that can be quickly renovated, repaired and leased out with minimal expense and maintained in quality condition. Nearly all of our rental apartments require some level of renovation when we rent them from landlords or following departure of a previous tenant or otherwise. The majority of the apartments we source are in bare-bones condition with cement walls and floors and utility pipes only, which needs decoration and furnishing in a short period of time with heavy work. We may also source apartments that we expect to be in good condition only to discover unforeseen defects and problems that require extensive renovation and costs. Since February 2019, we have started to source decorated and furnished apartments from landlords. Under this model, depending on the decoration quality, we generally only need to add a wall to separate out an additional bedroom from the living room, furnish the additional bedroom, and install smart door locks to the apartment and each bedroom therein, thus substantially reducing our cost for renovation, compared to sourcing bare-bones apartments. Rental cost for furnished apartments, on the other hand, tend to be higher than bare-bones apartments. In addition, from time to time, we may perform ongoing maintenance to our rental apartments. Although we have developed a technology-driven, innovative project management system to centrally manage suppliers and contractors, monitor the renovation process, track delivery schedules, and exert quality control throughout the entire apartment renovation process to control the timing, quality and costs, our system may not work effectively. See “—We are highly dependent on information systems, and if our information systems contain undetected errors and ineffective algorithm, or we fail to properly maintain or promptly upgrade our technology, our results of operations and financial condition may be materially and adversely affected.” As a result, our ability to adequately monitor or manage any such renovations or maintenance may be adversely affected if our system does not work properly.

We retain independent contractors and other third parties to perform renovation and maintenance work and are exposed to all of the risks inherent in apartment renovation and maintenance, including but not limited to, potential cost overruns, increases in labor and materials costs, delays by contractors in completing work and poor workmanship. If our assumptions regarding the costs or timing of renovation and maintenance across our rental apartments prove to be materially inaccurate, our results of operations, financial condition, and growth prospects may be adversely affected. In addition, if we fail to control the quality of renovation and lead to any potential complaints from, or damages to, tenants, we could be exposed to material liability and be held responsible for damages, fines or penalties and our reputation may suffer. See “—We depend on third parties for different aspects of

our business and the services that we offer. Our business, results of operation, financial condition and reputation may be materially and adversely affected if the third parties do not continue to maintain or expand their relationship with us, or fail to provide services or products according to the terms of our contracts or otherwise below standard, or by the third parties operational failure.” and “—Environmental and fire hazards may adversely affect us.”

***Accidents, injuries or death in our rental apartments may adversely affect our reputation and subject us to liability.***

There are inherent risks of accidents or injuries in our rental apartments. One or more accidents or injuries such as fire accident, damage or loss of properties injury or death due to any criminal behavior or other misconducts or acts or omission of our tenants or others, slip and fall, other accidents or suicide, or spread of diseases such as the COVID-19, in any of our rental apartments could adversely affect our reputation among tenants and potential tenants, decrease our overall occupancy rates and increase our costs by requiring us to take additional measures to vet our tenants and make our safety precautions even more visible and effective. If accidents, injuries or death occur at any of our rental apartments, we may be held liable for costs related to the injuries. Please also refer to “—We do not maintain any insurance for our business, which could expose us to significant costs and business disruption.”

In addition, if any incidents, particularly fire accidents, occur in any of our rental apartments that do not possess the relevant licenses, permits, title certificate or fire safety inspection certificate, or is located on properties where the actual use and the designated land or property use are inconsistent, there could be substantial negative publicity, thereby triggering large scale government actions that impact all of our rental apartments, which in turn will have a material adverse impact on our business, results of operations and financial condition.

***Environmental and fire hazards may adversely affect us.***

Compliance with new or more stringent environmental laws or regulations or stricter interpretation of existing laws may require material expenditures by us. We may be subject to environmental laws or regulations or technical standards relating to the renovation of our rental apartments, such as those concerning poisonous volatile organic compounds or other issues. For example, under the relevant PRC laws, regulations and technical standards, we shall ensure that our rental apartments meet certain environmental standards, including the air quality and environmental protection standards for preventing the indoor environmental hazards generated by construction materials and decorative building materials. We may be subject to civil liabilities or administrative fines for our failure in compliance with all the environmental laws or regulations or technical standards relating to renovation of our rental apartments. Under the PRC laws, if the leased apartment imposes a threat to the safety or health of the tenant, then once the tenant is fully aware that the apartment is not of a satisfactory quality, the tenant is entitled to dissolve the lease agreement at any time. Therefore, we take measures to avoid environmental and fire hazards, including air quality monitoring after renovation and fire precaution measures. However, we cannot assure you that future laws, ordinances or regulations will not impose any material environmental or fire safety liability or that the current environmental condition of our rental apartments will not be affected by the activities of residents, existing conditions of the land, operations in the vicinity of the apartments or the activities of unrelated third parties. In addition, we may be required to comply with various fire, health, life-safety and similar laws and regulations. Failure to comply with applicable laws and regulations could result in fines and/or damages, suspension of the construction project, civil liability or other sanctions.

***A significant portion of our costs and expenses are fixed, and we may not be able to optimize our cost structure to offset declines in our revenue, which would adversely affect our financial condition and results of operations.***

A significant portion of our operating costs and expenses, including but not limited to, overhead costs associated with the hiring of agents for apartment sourcing and apartment managers for apartment leasing out and management, employee base salaries, and rents we pay to our landlords, is fixed. Accordingly, a decrease in revenues could result in a disproportionately higher decrease in our earnings because our operating costs and expenses are unlikely to decrease proportionately. For example, the Chinese New Year holidays generally account for a lower portion of our annual revenues than other periods as people are less likely to move into new apartments or stay in rented apartments during that period, but our expenses do not vary as significantly with changes in occupancy and revenues as we need to continue to pay rents and salary and make regular repairs, maintenance and renovations throughout the year to maintain the attractiveness of our rental apartments. Furthermore, our apartment



development and renovation costs may increase as a result of an increase in the cost of materials. However, we have limited ability to pass increased costs to tenants through rental rate increases as our rental in lease with our tenants are fixed during the lease term. Therefore, our costs and expenses may remain constant or increase even if our revenues decline, which would adversely affect our net margins and results of operations.

***Our outstanding and future indebtedness and capital lease and other financing arrangement payable may adversely affect our available cash flow and our ability to operate our business. In addition, we may not be able to obtain additional capital when desired, on favorable terms or at all.***

As of September 30, 2022, we had RMB110.1 million (US\$ 15.5 million) short-term debts, RMB15.8 million (US\$2.2 million) rental installment loans from certain financial institutions, and RMB81.6 million (US\$11.5 million) accrued expenses and other current liabilities. In August 2018, we started to cooperate with a rental service company owned by a bank to source and renovate apartments in Shanghai, Hangzhou and Wuhan, and we account for the arrangement as a capital lease and other financing arrangement. In FY 2021, we terminated the cooperation with the rental service company owned by a state-owned bank. For further information, see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources.” Recent interest rates in China have been at historically low levels, and any increase in these rates would increase our interest expense and reduce our funds available for renovation, operations and other purposes. Our current level of indebtedness increases the possibility that we may be unable to pay the principal amount of our indebtedness and other obligations when due. Our outstanding and future loans, combined with our other financial obligations and contractual commitments, could have negative consequences on our business and financial condition.

We believe that our cash, cash equivalents and restricted cash on hand will be sufficient to meet our current and anticipated needs for general corporate purposes for at least the next 12 months. However, we need to make continued investment for our expansion and in facilities, hardware, software, technological systems and to retain talents to remain competitive. Due to the unpredictable nature of the capital markets and our industry, such as tenants’ unwillingness to prepay rental or utilize the rental installment loans, there can be no assurance that we will be able to raise additional capital on terms favorable to us, or at all, if and when required, especially if we experience disappointing operating results. If adequate capital is not available to us as required, our ability to fund our operations, take advantage of unanticipated opportunities, develop or enhance our infrastructure or respond to competitive pressures could be significantly limited. If we raise additional funds or otherwise fund our operation or investment through the issuance of equity or convertible debt securities, the ownership interests of our shareholders could be significantly diluted. These newly issued securities may have rights, preferences or privileges senior to those of existing shareholders.

***If we fail to maintain an effective system of internal controls over financial reporting, we may not be able to accurately and timely report our financial results or prevent fraud, and investor confidence and the market price of our ADSs may be materially and adversely affected.***

We are a public company listed in the United States subject to the Sarbanes-Oxley Act of 2002. Section 404 of the Sarbanes-Oxley Act of 2002 requires us to include a report of management on our internal control over financial reporting in our annual report on Form 20-F beginning with our annual report for the second fiscal year after the completion of the IPO. In addition, once we cease to be an “emerging growth company” as such term is defined under the JOBS Act, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. In the course of preparing and auditing our consolidated financial statements included in this annual report, we and our independent registered public accounting firm identified one material weakness in our internal control over financial reporting. As defined in the standards established by the U.S. Public Company Accounting Oversight Board, a “material weakness” is a deficiency or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness identified relates to lack of sufficient accounting and financial reporting personnel with appropriate knowledge of U.S. GAAP and SEC reporting requirements to (a) formalize and carry out key controls over financial reporting, (b) properly address complex accounting issues and (c) prepare and review consolidated financial statements and related disclosures in accordance with U.S. GAAP and SEC reporting requirements, and lack of a comprehensive accounting policy manual and closing procedure manual for its finance department to

convert its primary financial information prepared under accounting principles generally accepted in the PRC into U.S. GAAP. We established an audit committee in November 2019. We have also engaged an internal control consultant to help us establish and improve our internal controls, hired additional accounting staff with appropriate understanding of U.S. GAAP and SEC reporting requirements, trained the existing financial reporting personnel and engaged an independent third party consultant to assist in establishing processes and oversight measures to comply with the requirements of Sarbanes-Oxley Act. We are in the process of implementing a number of measures to address the material weakness that has been identified, including formalizing a set of comprehensive U.S. GAAP accounting manuals, hiring more qualified internal auditors to strengthen our overall governance, providing relevant training to our accounting personnel and upgrading our financial reporting system to streamline monthly and year-end closings and integrate financial and operating reporting systems. We also plan to take other steps to strengthen our internal control over financial reporting, including enhancing our internal audit function independently led by audit committee. Although we plan to implement these measures to address the material weakness, implementation of these measures may not fully remediate the material weakness in a timely manner.

Our management concluded that our internal control over financial reporting is not effective as of September 30, 2022. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm, after conducting its own independent testing, may issue a report that is qualified if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. In addition, as we are a public company, our reporting obligations may place a significant strain on our management, operational and financial resources and systems for the foreseeable future. We may be unable to timely complete our evaluation testing and any required remediation.

During the course of documenting and testing our internal control procedures, in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, we may identify other weaknesses and deficiencies in our internal control over financial reporting. In addition, if we fail to maintain the adequacy of our internal control over financial reporting, as these standards are modified, supplemented or amended from time to time, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Moreover, our internal control over financial reporting may not prevent or detect all errors and fraud. A control system, no matter how well it is designed and operated, it cannot provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected. If we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could in turn limit our access to capital markets, harm our results of operations, and lead to a decline in the trading price of the ADSs. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations and civil or criminal sanctions.

***We are highly dependent on information systems, and if our information systems contain undetected errors and ineffective algorithm, or we fail to properly maintain or promptly upgrade our technology, our results of operations and financial condition may be materially and adversely affected.***

Our business relies heavily on our technology-driven, end-to-end systems that are highly technical and complex. Our website, mobile app and internal systems highly depend on the ability of such information systems to store, retrieve, process and manage immense amounts of data throughout each step of our operational process, including, but not limited to, apartment sourcing, price evaluation, room decoration, room display, contract signing and tenant services. For example, tenants need to use our proprietary mobile apps to sign agreements with us, pay rents, open the doors of the rental apartments and their bedrooms, reserve house-keeping services, etc. We also utilize our Smart Pricing System to evaluate the rents of our apartments. In addition, in July 2020, to replenish and expand our rental units portfolio, one of our subsidiaries entered into agreements with a rental service company and its affiliates to acquire lease contracts with landlords and tenants and related fixtures, equipment and other assets for approximately 72,000 rental units in various cities across China. In FY 2022, we have continued to optimize our asset portfolios and reduced the number of rental units under management. As of September 30, 2022, we had 38,253 available rental units under management spread across China located in Beijing, Chengdu, Fuzhou, Hefei, Kunming, Nanchang, Nanjing, Nanning, Qingdao, Xi'an, and Tianjin. In the process of integrating these rental units

into our business, we may continue to rely on the information systems provided by the rental service company to operate these rental units before we transfer all required operating information to our own systems. Although we have taken measures such as manually verifying and reconciling data in the information systems provided by the rental service company with the journal accounts, we cannot ensure that these information systems are effective, reliable and efficient as they have not been fully controlled and monitored by us. The information systems on which we rely has contained, and may now or in the future contain, undetected errors or bugs. Errors, ineffective algorithm or other design defects within the information systems on which we rely may result in a negative experience for our tenants, landlords, third-party service providers, third-party contractors and our employees, delay introductions of new features or enhancements, result in errors or compromise our ability to protect user data or our intellectual property. Any errors, bugs or defects discovered in the information systems on which we rely could result in harm to our reputation, loss of tenants or landlords or liability for damages, any of which could adversely affect our business, results of operations and financial condition.

***Security breaches, failure to maintain the integrity of internal or third-party data, cyber-attacks and other disruptions could compromise our information systems and expose us to costs, liabilities, fines or lawsuits, which would cause our business and reputation to suffer. In addition, actual or alleged failure to comply with data privacy and protection laws and regulations could have a serious adverse effect on our reputation.***

Information security risks have generally increased in recent years due to the rise in new technologies and the increased sophistication and activities of perpetrators of cyberattacks. In the ordinary course of our business we acquire and store sensitive data, including our intellectual properties, our proprietary business information and personally identifiable information, such as names, identification card numbers, contacts and electronic signatures, of landlords, tenants, employees and third-party contractors and service providers. The secure processing and maintenance of such information is critical to our operations and business strategy. Our landlords, tenants, employees and third-party contractors and service providers expect that we will adequately protect their personal information. We are required by applicable laws to keep strictly confidential the personal information that we collect and to take adequate security measures to safeguard such information. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by computer hackers, foreign governments or cyber terrorists or breached due to employee error, malfeasance or other unauthorized access or disruptions. Any such breach could compromise our networks and the information stored therein could be accessed, publicly disclosed, misused, lost or stolen. Because the techniques used by computer programmers who may attempt to penetrate and sabotage our proprietary internal and third-party data change frequently and may not be recognized until launched against a target, we may be unable to anticipate these techniques.

The laws and regulations applicable to security and privacy are becoming increasingly important in China. Any unauthorized access, disclosure, misuse or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disruption to our operations and the services we provide to customers or damage our reputation, any of which could adversely affect our results of operations, reputation and competitive position.

Cybersecurity and data privacy and security issues are subject to increasing legislative and regulatory focus in China. The Data Security Law of the People's Republic of China, which took effect on September 1, 2021, requires that data collection must be conducted in a legitimate and proper manner, and in order to safeguard data, data processing activities must be conducted to comply with respective graded protection systems for cybersecurity. On August 20, 2021, the SCNPC promulgated the Personal Information Protection Law (the "PIPL"), which will take effect on November 1, 2021. The PIPL further emphasizes processors' obligations and responsibilities for personal information protection and sets out the basic rules for processing personal information and the rules for cross-border transfer of personal information. In December 2021, the CAC promulgated the amended Measures of Cybersecurity Review, which will take effect on February 15, 2022. The amended Measures of Cybersecurity Review expands the scope of cybersecurity review to include (i) critical information infrastructure operators (the "CIIOs") who purchase network products and services, which affects or may affect national security; (ii) operators who engage in data processing activities, which affects or may affect national security; and (iii) operators that are in possession of more than 1 million users' personal information seeking a listing in a foreign country. On July 30, 2021, the State Council of the PRC promulgated the Regulations on the Protection of the Security of Critical Information Infrastructure, which took effect on September 1, 2021. The regulations require, among others, that certain competent authorities shall identify critical information infrastructures. If any critical information infrastructure is identified, they shall

promptly notify the relevant operators and the Ministry of Public Security. The new cybersecurity regime in the legislative process may increase compliance standards on our business operation, and thus have a substantial impact on our business.

***We leverage a wide array of internet technologies to achieve management and operation efficiency and effectiveness, which depend upon the performance and reliability of the internet infrastructure and telecommunications networks in China.***

Our business depends on the performance and reliability of the internet infrastructure in China. Substantially all access to the internet is maintained through state-controlled telecommunication operators under the administrative control and regulatory supervision of the Ministry of Industry and Information Technology, or the MIIT. In addition, the national networks in China are connected to the internet through international gateways controlled by the PRC government. These international gateways are generally the only websites through which a domestic user can connect to the internet. We cannot assure you that a more sophisticated internet infrastructure will be developed in China. We may not have access to alternative networks in the event of disruptions, failures or other problems with China's internet infrastructure. In addition, the internet infrastructure in China may not support the demands associated with continued growth in internet usage.

We also rely on third party providers to provide us with data communications capacity primarily through local telecommunications lines and internet data centers to host our servers. We do not have access to alternative services in the event of disruptions, failures or other problems with the fixed telecommunications networks of the third-party providers, or if the third-party providers otherwise fail to provide such services. Any unscheduled service interruption could disrupt our operations, damage our reputation and result in a decrease in our revenues. Furthermore, we have no control over the costs of the services provided by third party providers. If the prices that we pay for telecommunications and internet services rise significantly, our gross margins could be significantly reduced. In addition, if internet access fees or other charges to internet users increase, our user traffic may decrease, which in turn may cause our revenues to decline.

***We depend significantly on the strength of our brands and reputation. If we, our employees, agents, third-party contractors, suppliers, financial institutions or other third parties that we cooperate with engage, or are perceived to engage, in misconduct, fraudulent acts or wrongdoing, our business or reputation could be harmed and we could be exposed to regulatory investigations, costs and liabilities.***

Our continued success in maintaining and enhancing our brands and image depends to a large extent on our ability to satisfy the needs of agents, real estate buyers and other market participants by further developing and maintaining quality of services across our operations, as well as our ability to respond to competitive pressure.

We have a team of agents for apartment sourcing and apartment managers to manage our apartments and tenants. In addition, we have engaged a third-party contractor to manage rental units in Beijing, Chengdu, Changsha, Fuzhou, Hefei, Jinan, Kunming, Ningbo, Nanchang, Nanjing, Nanning, Qingdao, Suzhou, Xi'an, Tianjin, Shijiazhuang and Chongqing after acquiring lease contracts with landlords and tenants and related fixtures and equipment for these rental units from another rental service company. As of September 30, 2022, we had rental units under management spread across China located in Beijing, Chengdu, Fuzhou, Hefei, Kunming, Nanchang, Nanjing, Nanning, Qingdao, Xi'an, and Tianjin. Our agents for apartment sourcing and the contractors may directly reach to landlords, including but not limited to, negotiating the lease agreements with landlords, and our apartment managers and the contractor may directly reach out to tenants, including but not limited to, negotiating the lease agreements with tenants, regular communication with our tenants and inspecting the apartments. As a result, our success of business largely rely on their professionalism. If our agents for apartment sourcing and apartment managers and contractors have any misconduct, such as misrepresentation of the terms and conditions in the agreements when engaging landlords or tenants, our business or reputation could be harmed and we could be exposed to legal proceedings, costs and liabilities.

In addition, third parties that we cooperate with may be subject of various allegations. For example, there have been media reports where our tenant alleged that we and our financial institution partner failed to properly inform him when he entered into a rental installment loan agreement, even though we were not a party to the rental installment loan agreement and there were records showing that the tenant entered into the rental installment loan

agreement knowingly. Although we and our financial institution partners have taken measures to avoid similar allegations, including requiring tenants to confirm that they fully understand they are entering into the rental installment loan agreement with a financial institution, we cannot assure you that incidences like this will not happen in the future. Moreover, the contractor we have engaged to manage rental units may have disputes with us, landlords, tenants or other third parties which may lead to negative media reports and litigations and harm our brand and reputation. Media reports of allegations against us or our partners, whether or not proven or with basis, could harm our reputation and impair our ability to attract and retain landlords and tenants. If we are unable to maintain a good reputation, further enhance our brand recognition, continue to cultivate user trust and increase the positive awareness of our website, mobile app and WeChat public accounts, our reputation, brand, financial condition and results of operations may be materially and adversely affected.

***Any negative publicity with respect to us, our employees, business partners, contractors, the VIE and its subsidiaries, the apartment rental industry in general, the rental installment loans, or our cooperation with other parties may materially and adversely affect our business and results of operations.***

The reputation of our brand is critical to our business and competitiveness. Factors that are vital to our reputation include, but are not limited to, our ability to:

- maintain the reliability of our system;
- provide well maintained apartments to tenants;
- provide appropriate and explicit terms, including rental, to landlords and tenants;
- timely and effectively manage and resolve tenants and landlords inquiries, requests and complaints, such as returning the deposit and unused rental in a timely manner after the lease with tenant is terminated; and
- effectively protect personal information and privacy of our tenants, landlords, employees and third-party contractors and service providers.

Any malicious or negative allegation made by the media, tenants, landlords or other parties about the foregoing or other aspects of our company, including but not limited to, our management, employees, business partners, contractors, business, compliance with law, financial condition and prospects, whether with merit or not, could severely compromise our reputation and harm our business and operating results.

In addition, negative publicity about the long-term rental market, such as negative publicity about entering into rental installment loan agreements without tenants' acknowledgement, could harm our reputation and materially and adversely affect our business and results of operations.

***If we fail to comply with governmental laws and regulations, or obtain or keep licenses, permits or approvals applicable to our business, our business and operations may be restricted and we may incur liabilities, financial penalties and other governmental sanctions.***

Our business is subject to various compliance and operational requirements under PRC laws. For example, we are required to file the lease contract with the local real estate administration department. See "Item.—4 B. Business overview—Regulations—Regulations Relating to Leasing." Furthermore, new regulations may be adopted in the future to increase our compliance efforts at significant costs. For example, national or local regulations requiring companies engaged in apartment rental to register as "apartment rental enterprise" are likely to be promulgated in our existing cities. As of the date of this annual report, all of our PRC subsidiaries that engaged in apartment rental have registered as apartment rental enterprises. We may not be in full compliance with all of the applicable requirements if they are adopted and become effective. Such failure to comply with applicable environmental, health and safety laws and regulations related to our business and apartment rental operation or obtain required permits may subject us to potential monetary damages and fines or the suspension of operations of our company.

In addition, pursuant to PRC regulations, the registered address of a PRC company should be the place where it mainly operates its business, and a PRC company is required to establish branch offices where it operates its business. We seek to register branch offices where we have business operations. However, we have not been able to

establish branch offices in some of our existing locations, such as some districts in Beijing, Wuhan and Nanjing, and no penalties had been imposed by the relevant PRC regulatory authorities, as of the date of this annual report. If the PRC regulatory authorities determine that we are in violation of the relevant laws and regulations, we may be subject to penalties, including fines, and our business operations may be adversely affected.

Moreover, under PRC advertising laws and regulations, we shall ensure that our advertising content is true and accurate and in compliance with applicable laws and regulations. See “Item. 4—B. Business overview—Regulations—Regulations on Consumer Protection.” In addition, where a special government review is required for specific types of advertisements prior to internet posting, we are obligated to confirm that such review has been performed and approval has been obtained. Violation of these laws and regulations may subject us to penalties, including imposition of fines, orders to cease dissemination of the advertisements and orders to publish an announcement correcting the misleading information. While we have made significant efforts to ensure that our advertisements are in full compliance with applicable PRC laws and regulations, we cannot assure you that all the content contained in such advertisements is true and accurate and in compliance with laws and regulations, especially given the uncertainty in the interpretation of these PRC laws and regulations. If we are found to be in violation of applicable PRC advertising laws and regulations, we may be subject to penalties and our reputation may be harmed, which may have a material and adverse effect on our business, financial condition, and results of operations.

***Failure to diversify our revenue streams and expand the market acceptance of our products and services may adversely affect our growth.***

Most of our revenue in FY 2020, FY 2021 and FY 2022 was generated from rental income collected from our tenants. However, we cannot assure you that our efforts to derive non rental revenue may be successful. Our success depends on our cooperation with third parties and effectiveness of algorithm. See “—We depend on third parties for different aspects of our business and the services that we offer. Our business, results of operation, financial condition and reputation may be materially and adversely affected if the third parties do not continue to maintain or expand their relationship with us, or fail to provide services or products according to the terms of our contracts or otherwise below standard, or by the third parties operational failure.” and “—We are highly dependent on information systems, and if our information systems contain undetected errors and ineffective algorithm, or we fail to properly maintain or promptly upgrade our technology, our results of operations and financial condition may be materially and adversely affected.” Failure to diversify our business may expose our business to concentration risks and harm our operations. Furthermore, we may have limited or no experience in the development, provision, or marketing of non-rental services. As a result of the foregoing, our business may be placed at a disadvantaged position, and our business, financial condition, and results of operations may be adversely affected.

***We use internet search engines, online marketplaces, WeChat and other social media to promote our brand, list our rental apartments and direct traffic to our website, mobile app and WeChat public accounts. If we fail to successfully implement these initiatives, we would not be able to attract sufficient tenants and our business would be adversely affected.***

We have relied on internet search engines, online marketplaces, WeChat and other social media to promote our brand, list our rental apartments and direct traffic to our website, mobile app and WeChat public account and intend to further increase our usage on such channels in the future to attract more tenants. For example, we use search engine advertising services to promote our brand and rental apartments. We also list our available rental apartments on third-party online marketplaces and the potential tenant may make an appointment to visit and reserve such apartment by calling the number we post on such online marketplace. However, the search result rankings of our rental apartments’ information through online marketplaces are beyond our control. Our competitors may cause their apartments’ information to receive a higher search result ranking than ours in online marketplaces, or online marketplaces could revise their methodologies in a way that would adversely affect search result rankings of our rental apartments’ information, which may adversely affect our results of operation. In addition, internet search engine providers could provide listings and other apartment rental information directly in search results or choose to align with our competitors. Our website has experienced fluctuations in search result rankings in the past, and we anticipate similar fluctuations in the future.

We plan to integrate our business with our WeChat public accounts and other social media applications to promote our brand and products. WeChat and other social media may make changes to their policies, which could hinder or impede potential tenants from being directed to our website or information of our rental apartments. Any reduction in the number of visitors directed to our website and mobile apps through our WeChat public accounts and other social media could also harm our business and operating results.

***Any failure to protect our patents, trademarks, computer software copyright and other intellectual property rights could have a negative impact on our business.***

Our business heavily relies on our intellectual properties and information systems throughout each step of our business. Our protection for our intellectual property and proprietary rights may not be adequate, and our business may suffer if third parties infringe on our intellectual property and proprietary rights.

We may not have sufficient intellectual property rights in all countries and regions where unauthorized third-party copying or use of our proprietary technology may occur and the scope of our intellectual property might be more limited in certain countries and regions. As of the date of this annual report, we had four computer software copyrights registered with the Copyright Protection Center of China. However, our existing and future computer software copyrights and/or patents may not be sufficient to protect our products, services, technologies or designs and/or may not prevent others from developing competing products, services, technologies or designs. We cannot predict the validity and enforceability of our copyrights and other intellectual property with certainty. Litigation or other proceedings may be necessary to enforce our intellectual property rights. Initiating infringement proceedings against third parties can be expensive and time-consuming, and divert management's attention from other business concerns. We may not prevail in litigation to enforce our intellectual property against unauthorized use.

***We may be subject to intellectual property infringement or misappropriation claims by third parties, which may force us to incur substantial legal expenses and, if determined adversely against us, could materially disrupt our business.***

We cannot be certain that our services, information systems, information provided on our website, WeChat public accounts and mobile apps, as well as third-party systems and apps we use do not or will not infringe patents, copyrights or other intellectual property rights held by third parties. From time to time, we may be subject to legal proceedings and claims alleging infringement of patents, trademarks or copyrights, or misappropriation of creative ideas or formats, or other infringement of proprietary intellectual property rights.

The validity, enforceability and scope of intellectual property rights protection in internet-related industries, particularly in China, are uncertain and still evolving. For example, as we face increasing competition and litigation is frequently used to resolve disputes in China, we face a higher risk of being the subject of intellectual property infringement claims. Pursuant to relevant laws and regulations, internet service providers may be held liable for damages if such providers have reasons to know that the works uploaded or linked infringe the copyrights of others. In cases involving the unauthorized posting of copyrighted content by users on websites in China, there have been court proceedings but no settled court practice as to when and how hosting providers and administrators of a website can be held liable for the unauthorized posting by third parties of copyrighted material. Any such proceeding could result in significant costs to us and divert our management's time and attention from the operation of our business, as well as potentially adversely impact our reputation, even if we are ultimately absolved of all liability.

***Our inability to use software licensed from third parties, including open source software, could negatively affect our ability to offer our services and subject us to possible litigation.***

A portion of the technologies we use incorporates open source software, and we may incorporate open source software in the future. Such open source software is generally licensed by its authors or other third parties under open source licenses. These licenses may subject us to certain unfavorable conditions, including requirements that we offer our services that incorporate the open source software for no cost, that we make publicly available source code for modifications or derivative works we create based upon, incorporating, or using the open source software, or that we license such modifications or derivative works under the terms of the particular open source license.

Additionally, if a third-party software provider has incorporated open source software into software that we license from such provider, we could be required to disclose or provide at no cost any of our source code that incorporates or is a modification of such licensed software. If an author or any third party that distributes open source software that we use or license were to allege that we had not complied with the conditions of the applicable license, we may need to incur significant legal expenses defending against such allegations and could be subject to significant damages and enjoined from providing services that contained the open source software. Any of the foregoing could result in disruptions to our business, or delays in the development of future enhancements of our existing platform, which could materially and adversely affect our business and results of operations.

***Failure to attract, motivate and retain quality personnel at a reasonable cost could jeopardize our competitive position. We also depend on the continued efforts of our senior management. We have experienced a leadership transition and this transition, along with the possibility that we may in the future be unable to retain and recruit qualified senior management team members and directors, may delay our development efforts or otherwise harm our business.***

We have, from time to time in the past, experienced, and we expect in the future to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications. There may be a limited supply of qualified individuals in some of the cities in China where we have operations and other cities into which we intend to expand. As a result, we may need to offer higher compensation and other benefits in order to attract and retain quality personnel in the future, which may increase our labor costs and adversely affect our business.

We must hire and train qualified managerial and other employees on a timely basis to keep pace with our growth while maintaining consistent quality of services across our operations in various geographic locations. We offer structured training programs to our managerial and other employees so that they are equipped with up-to-date knowledge of various aspects of our operations and can meet our demand for high-quality services. If we fail to do so, the quality of our services may decline in one or more of our existing markets, which in turn may cause a negative perception of our brand and adversely affect our business.

We have experienced a leadership transition. Mr. Lin Lin resigned as our director, effective March 1, 2022. Mr. Chen Chen, our independent director, was appointed as our member of the nominating and corporate governance committee of the board of directors, effective February 28, 2022. Mr. Jiamin Chen, our general manager of the investment and financing department, was appointed as our director and vice president, effective February 28, 2022 and was appointed as our member of the compensation committee of the board of directors, effective November 18, 2022. Mr. Zongquan Yang, our head of product management department and senior manager of IT center, was appointed as our director, effective February 28, 2022.

We place substantial reliance on the experience and the institutional knowledge of members of our management team and directors. Our members of the management team are particularly important to our future success due to their substantial experiences in real estate, apartment rental and other related industries. Finding suitable replacements for our members of our management team could be difficult, and competition for such personnel of similar experience is intense. The loss of the services of one or more members of our management team due to their departures or otherwise could hinder our ability to effectively manage our business and implement our growth strategies. In addition, in the event that any dispute arises between us, on one hand, and any of our senior management, directors and qualified key personnel, on the other hand, our business, results of operation, financial condition and reputation may be materially and adversely affected.

***We have granted, and may continue to grant, options, restricted share units and other types of awards, which may result in increased share-based compensation expenses.***

We have granted, and may continue to grant, options, restricted share units and other types of awards to our employees and other persons who contributed to the success of our operations. We account for the compensation costs for our share-based incentives using a fair value-based method and recognize expenses in our consolidated statements of comprehensive (loss) income in accordance with U.S. GAAP. As of June 24, 2022, Yijia Inc. held 75.2 million Class B ordinary shares, which were reserved for share-based awards. Yijia Inc. was a company controlled by the Founder as a vehicle to hold shares that will be used to provide incentives and rewards to employees and executives who contribute to the success of the Group's operations. On June 24, 2022, Yijia Inc.



transferred all of the reserved Class B ordinary shares to Golden Stream Limited, a company controlled by Mr. Qu Chengcai, the Chief Executive Officer of the Group. Upon transfer to Golden Stream Limited, the Class B ordinary shares previously held by Yijia Inc. were automatically converted to Class A ordinary shares. Since then, Golden Stream Limited became a vehicle to hold shares that will be used to provide incentives and rewards to employees and executives who contribute to the success of the Group's operations. The board resolutions allow the grantees to hold options to purchase from the Golden Stream Limited the equity shares of the Group.

As of the date of this annual report, we had granted an aggregate number of 192.4 million share options to certain management, employees and non-employees, 35.9 million of which had been forfeited as of the date of this annual report. As of the date of this annual report, the remaining 41.3 million shares options are outstanding. The expense we had recognized for these outstanding share options is US\$4.1 million as of the date of this annual report. As of the date of this annual report, no RSU is outstanding. In addition, in September 2019, our board of directors approved our 2019 share incentive plan, or the 2019 Plan, to provide incentives to employees, officers, directors and consultants and promote the success of our business. The 2019 Plan became effective immediately upon the completion of our initial public offering. The maximum number of shares that may be issued under the 2019 Plan is 10% of the total outstanding shares as of the date of the consummation of our initial public offering. As of the date of this annual report, we have issued 25,000,000 RSUs and 122,360,108 options under the 2019 Plan, of which 25,000,000 RSUs and 115,180,054 options have been exercised. Further, in November 2022, our board of directors approved and adopted a new share incentive plan (the "2022 Plan"). The maximum number of shares available for issuance under the 2022 Plan is 2,500,000,000 Class B ordinary shares of the Company (the "Shares"). The board of directors has also approved the issuance of the Shares to Golden Stream Limited, which is holding these Shares (representing 8.8% of the total outstanding share capital and 49.1% of the voting power of the Company) and will act upon the instructions from a senior management committee of the Company determined on a unanimous basis in relation to the voting and, prior to the vesting of the Shares to the relevant grantee of the share-based awards under the 2022 Plan, the disposition of the Shares. The Shares held by Golden Stream Limited are reserved for share-based awards that the Company may grant in the future under the 2022 Plan. As of the date of annual report, no share-based awards have been granted under the 2022 Plan.

We believe the granting of share-based compensation is of significant importance to our ability to attract and retain key personnel and employees, and we will continue to grant share-based compensation to them in the future. As a result, our expenses associated with share-based compensation may increase, which may have an adverse effect on our results of operations. In addition, the ownership interests of our shareholders could be significantly diluted if we issue ordinary shares for share-based compensation.

***Increases in labor costs and raw materials and enforcement of stricter labor laws and regulations in the PRC may adversely affect our business and financial condition.***

Labor costs in China have risen in recent years as a result of the enactment of new labor laws and social development. Given that substantially all of our employees are currently located in China, rising labor costs in China will increase our personnel expenses. In addition, we have witnessed growing inflation rates in many areas of the world, and particularly in China, where we procure our raw materials for renovation of apartments, which adversely affects our costs of raw materials. We may not be able to pass on rising costs as a result of higher labor costs and increasing raw material prices to our tenants in the form of higher rents. Accordingly, our financial condition may be adversely affected if labor costs and raw material prices continue to rise in the future.

Companies operating in China are required to participate in various government sponsored employee benefit plans, including certain social insurance, housing funds and other welfare oriented payment obligations, and contribute to the plans in amounts equal to certain percentages of salaries, including bonuses and allowances, of our employees up to a maximum amount specified by the local government from time to time at our existing locations. The requirement of employee benefit plans has not been implemented consistently by the local governments in China given the different levels of economic development in different locations. Companies operating in China are also required to withhold individual income tax on employees' salaries based on the actual salary of each employee upon payment.

In addition, we have been subject to stricter regulatory requirements in terms of entering labor contracts with our employees and paying various statutory employee benefits, including pensions, housing funds, medical

insurance, work-related injury insurance, unemployment insurance and childbearing insurance to designated government agencies for the benefit of our employees. Pursuant to the PRC Labor Contract Law, as amended, or the Labor Contract Law, and its implementation rules, employers are subject to various requirements in terms of signing labor contracts, minimum wages, paying remuneration, determining the term of employees' probation and unilaterally terminating labor contracts. In the event that we decide to terminate some of our employees or otherwise change our employment or labor practices, the Labor Contract Law and its implementation rules may limit our ability to effect those changes in a desirable or cost-effective manner, which could adversely affect our business and results of operations.

Under the PRC Social Insurance Law and the Administrative Measures on Housing Fund, employees are required to participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance, maternity insurance, and housing funds, and employers are required, together with their employees or separately, to pay the social insurance premiums and housing funds for their employees. Employers that fail to make adequate social insurance and housing fund contributions may be subject to fines and legal sanctions. We could be deemed to have failed to pay certain social insurance and housing fund contributions under the relevant PRC laws and regulation. If the relevant PRC authorities determine that we shall make supplemental contributions, that we are not in compliance with labor laws and regulations, or that we are subject to fines or other legal sanctions, such as order of timely rectification, and our business, financial condition and results of operations may be adversely affected.

Furthermore, as the interpretation and implementation of labor-related laws and regulations are still evolving, we cannot assure you that our employment practice do not and will not violate labor-related laws and regulations in China, which may subject us to labor disputes or government investigations. If we are deemed to have violated relevant labor laws and regulations, we could be required to provide additional compensation to our employees and our business, financial condition and results of operations could be materially and adversely affected.

***Our financial condition and results of operations may fluctuate due to seasonal variations in the demand of rental apartments.***

Our revenues were generally higher during the three months ended September 30 of each year, as many students search for apartments in the cities where they are employed after graduation from universities. In addition, during and around the Chinese New Year holidays, which usually fall in January or February, our revenues were generally lower than the other period of the year as people are less likely to move into new apartments or stay in rented apartments during and around Chinese New Year holidays. As a result, even though our revenues rebound in March due to higher demand as labor forces come back to cities in search of jobs after the Chinese New Year holidays, our revenues were generally lower during the three months ended March 31 of each year. Additionally, the COVID-19 pandemic has adversely affected our seasonality pattern. For these reasons, our results of operations may not be comparable from quarter to quarter and have been and may continue to be subject to seasonality.

***We do not maintain any insurance for our business, which could expose us to significant costs and business disruption.***

We do not have any business disruption insurance, litigation insurance coverage, insurance policies covering damages to our IT infrastructure or information system, insurance on properties or tenant safety insurance, or insurance for the contractors. Any disruption to our IT infrastructures or systems, business disruption, litigation or natural disaster could result in substantial cost to us and diversion of our resources, as well as significantly disrupt our operations, and have a material adverse effect on our business, financial position and results of operations.

Moreover, to improve our performance and to prevent disruption of our business, we may have to make substantial investments to deploy additional servers and backup our databases, which could increase our expenses.

## Risks Related to Doing Business in China

***Recent regulatory developments in China may subject us to additional regulatory review and disclosure requirements, expose us to government interference, or otherwise restrict or completely hinder our ability to offer securities and raise capitals outside China, all of which could materially and adversely affect our business, and cause the value of our securities to significantly decline or become worthless.***

As we mainly conduct our business in China, we may be subject to PRC laws relating to, among others, data security and restrictions over foreign investments in value-added telecommunications services and other industry sectors set out in the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2020 Edition). Specifically, we may be subject to PRC laws relating to the collection, use, sharing, retention security, and transfer of confidential and private information, such as personal information and other data. These PRC laws apply not only to third-party transactions, but also to transfers of information between us and our wholly foreign-owned enterprises in China, and other parties with which we have commercial relations. These PRC laws and their interpretations and enforcement continue to develop and are subject to change, and the PRC government may adopt other rules and restrictions in the future.

We are exposed to legal and operational risks associated with our operations in China. The PRC government has significant authority to exert influence on the ability of a company with operations in China, including us, to conduct its business. Changes in China's economic, political or social conditions or government policies could materially and adversely affect our business and results of operations. We are subject to risks due to the uncertainty of the interpretation and the application of the PRC laws and regulations, including but not limited to the risks of uncertainty about any future actions of the PRC government on U.S. listed companies. We may also be subject to sanctions imposed by PRC regulatory agencies, including CSRC, if we fail to comply with their rules and regulations. Any actions by the PRC government to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in companies having operations in China, including us, could significantly limit or completely hinder our ability to offer or continue to offer securities to investors, and cause the value of our securities to significantly decline or become worthless. These China-related risks could result in a material change in our operations and/or the value of our securities, or could significantly limit or completely hinder our ability to offer securities to investors in the future and cause the value of such securities to significantly decline or become worthless.

The PRC government may exert, at any time, substantial intervention and influence over the manner our operations. Recently, the PRC government initiated a series of regulatory actions and statements to regulate business operations in China with little advance notice, including cracking down on illegal activities in the securities market, enhancing supervision over China-based companies listed overseas, adopting new measures to extend the scope of cybersecurity reviews and new laws and regulations related to data security, and expanding the efforts in anti-monopoly enforcement. In December 2021, the CAC promulgated the amended Measures of Cybersecurity Review which require cyberspace operators with personal information of more than one million users to file for cybersecurity review with the CRO, in the event such operators plan for an overseas listing. The amended Measures of Cybersecurity Review provide that, among others, an application for cybersecurity review must be made by an issuer that is a "critical information infrastructure operator" or a "data processing operator" as defined therein before such issuer's securities become listed in a foreign country, if the issuer possesses personal information of more than one million users, and that the relevant governmental authorities in the PRC may initiate cybersecurity review if such governmental authorities determine an operator's cyber products or services, data processing or potential listing in a foreign country affect or may affect China's national security. The amended Measures of Cybersecurity Review will take effect on February 15, 2022.

Under the current PRC cybersecurity laws in China, critical information infrastructure operators that intend to purchase internet products and services that may affect national security must be subject to the cybersecurity review. On July 30, 2021, the State Council of the PRC promulgated the Regulations on the Protection of the Security of Critical Information Infrastructure, which took effect on September 1, 2021. The regulations require, among others, that certain competent authorities shall identify critical information infrastructures. If any critical information infrastructure is identified, they shall promptly notify the relevant operators and the Ministry of Public Security.

Currently, the cybersecurity laws and regulations have not directly affected our business and operations, but in anticipation of the strengthened implementation of cybersecurity laws and regulations and the expansion of our business, we face potential risks if we are deemed as a critical information infrastructure operator under the Cybersecurity Law. In such case, we must fulfill certain obligations as required under the Cybersecurity Law and other applicable laws, including, among others, storing personal information and important data collected and produced within the PRC territory during our operations in China, which we are already doing in our business, and we may be subject to review when purchasing internet products and services. When the amended Measures of Cybersecurity Review take effect in February 2022, we may be subject to review when conducting data processing activities, and may face challenges in addressing its requirements and make necessary changes to our internal policies and practices in data processing. As of the date of this annual report, we have not been involved in any investigations on cybersecurity review made by the CAC on such basis, and we have not received any inquiry, notice, warning, or sanctions in such respect. Based on the foregoing, we and our PRC legal counsel, JunHe LLP, do not expect that, as of the date of this annual report, the current applicable PRC laws on cybersecurity would have a material adverse impact on our business.

On September 1, 2021, the PRC Data Security Law became effective, which imposes data security and privacy obligations on entities and individuals conducting data-related activities, and introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, as well as the degree of harm it will cause to national security, public interests, or legitimate rights and interests of individuals or organizations when such data is tampered with, destroyed, leaked, or illegally acquired or used. As of the date of this annual report, we have not been involved in any investigations on data security compliance made in connection with the PRC Data Security Law, and we have not received any inquiry, notice, warning, or sanctions in such respect. Based on the foregoing, we do not expect that, as of the date of this annual report, the PRC Data Security Law would have a material adverse impact on our business.

On July 6, 2021, the relevant PRC governmental authorities published the Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. As these opinions were recently issued, official guidance and related implementation rules have not been issued yet and the interpretation of these opinions remains unclear at this stage. As of the date of this annual report, we have not received any inquiry, notice, warning, or sanctions from the CSRC or any other PRC government authorities. Based on the foregoing and the currently effective PRC laws, we and our PRC legal counsel, JunHe LLP, are of the view that, as of the date of this annual report, these opinions do not have a material adverse impact on our business.

On December 24, 2021, the CSRC published the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments), and Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments), or, collectively, the Draft Overseas Listing Regulations, which set out the new regulatory requirements and filing procedures for Chinese companies seeking direct or indirect listing in overseas markets. The Draft Overseas Listing Regulations, among others, stipulate that Chinese companies that seek to offer and list securities in overseas markets shall fulfill the filing procedures with and report relevant information to the CSRC, and that an initial filing shall be submitted within three working days after the application for an initial public offering is submitted, and a second filing shall be submitted within three working days after the listing is completed. Moreover, an overseas offering and listing is prohibited under circumstances if (i) it is prohibited by PRC laws, (ii) it may constitute a threat to or endanger national security as reviewed and determined by competent PRC authorities, (iii) it has material ownership disputes over equity, major assets, and core technology, (iv) in recent three years, the Chinese operating entities and their controlling shareholders and actual controllers have committed relevant prescribed criminal offenses or are currently under investigations for suspicion of criminal offenses or major violations, (v) the directors, supervisors, or senior executives have been subject to administrative punishment for severe violations, or are currently under investigations for suspicion of criminal offenses or major violations, or (vi) it has other circumstances as prescribed by the State Council. The Draft Overseas Listing Regulations, among others, stipulate that when determining whether an offering and listing shall be deemed as “an indirect overseas offering and listing by a Chinese company”, the principle of “substance over form” shall be followed, and if the issuer meets the following conditions, its offering and listing shall be determined as an “indirect overseas offering and listing by a Chinese company” and is

therefore subject to the filing requirement: (i) the revenues, profits, total assets or net assets of the Chinese operating entities in the most recent financial year accounts for more than 50% of the corresponding data in the issuer's audited consolidated financial statements for the same period; and (ii) the majority of senior management in charge of business operation are Chinese citizens or have domicile in PRC, and its principal place of business is located in PRC or main business activities are conducted in PRC. As advised by our PRC legal counsel, the Draft Overseas Listing Regulations were released only for soliciting public comment at this stage and their provisions and anticipated adoption or effective date are subject to changes, and thus their interpretation and implementation remain substantially uncertain. It is uncertain whether the Draft Overseas Listing Regulations apply to the follow-on offerings or other offerings of the Chinese companies that have been listed overseas. We cannot predict the impact of the Draft Overseas Listing Regulations on us at this stage.

On April 2, 2022, the CSRC published the Provisions on Strengthening the Confidentiality and Archives Administration Related to the Overseas Securities Offering and Listing by Domestic Enterprises (Draft for Comments), or the Draft Provisions on Confidentiality and Archives Administration, which was open for public comments until April 17, 2022. The Draft Provisions on Confidentiality and Archives Administration requires that, in the process of overseas issuance and listing of securities by domestic entities, the domestic entities, and securities companies and securities service institutions that provide relevant securities service shall strictly implement the provisions of relevant laws and regulations and the requirements of these provisions, establish and improve rules on confidentiality and archives administration. Where the domestic entities provide with or publicly disclose documents, materials or other items related to the state secrets and government work secrets to the relevant securities companies, securities service institutions, overseas regulatory authorities, or other entities or individuals, the companies shall apply for approval of competent departments with the authority of examination and approval in accordance with law and report the matter to the secrecy administrative departments at the same level for record filing. Where there is unclear or controversial whether or not the concerned materials are related to state secrets, the materials shall be reported to the relevant secrecy administrative departments for determination. However, the Draft Provisions on Confidentiality and Archives Administration have not yet been settled or become effective, and there remain uncertainties regarding the further interpretation and implementation of the Draft Provisions on Confidentiality and Archives Administration.

Further, the CAC issued the Measures for the Security Assessment of Outbound Data Transfer (the "Measures") on July 7, 2022, which took effect on September 1, 2022. The Measures shall apply to the security assessment of data processors' provision of important data and personal information collected and generated in their operations within the territory of the PRC to overseas recipients. The Measures require relevant data processors to submit a data security assessment to the CAC for review prior to the outbound data transfer activities in order to prevent illegal data transfer activities.

As there are still uncertainties regarding these new laws and regulations as well as the amendment, interpretation and implementation of the existing laws and regulations related to cybersecurity and data protection, We cannot assure you that we will be able to comply with these laws and regulations in all respects. The regulatory authorities may deem our activities or services non-compliant and therefore require us to suspend or terminate its business. We may also be subject to fines, legal or administrative sanctions and other adverse consequences, and may not be able to become in compliance with relevant laws and regulations in a timely manner, or at all. These may materially and adversely affect its business, financial condition, results of operations and reputation.

Since these statements and regulatory actions are new, it is highly uncertain how soon legislative or administrative regulation making bodies will respond and what existing or new laws or regulations or detailed implementations and interpretations will be modified or promulgated, if any, and the potential impact such modified or new laws and regulations will have on our daily business operation, our ability to accept foreign investments and conduct follow-on offerings, and listing or continuing listing on a U.S. or other foreign exchanges. In addition, the PRC government has recently published new policies that significantly affected certain industries such as the education and internet industries, and we cannot rule out the possibility that it will in the future release regulations or policies regarding any other industry including the industry in which we operate, which could adversely affect our business, financial condition and results of operations.

***Changes in China's economic, political or social conditions or government policies could have a material adverse effect on our business and results of operations.***

Substantially all of our operations are located in China and all of our revenue is sourced from China. Accordingly, our business, prospects, financial condition and results of operations may be influenced to a significant degree by political, economic and social conditions in China generally 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 Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

While the Chinese economy has generally experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. The Chinese 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 us. For example, our financial condition and results of operations may be adversely affected by government control on the apartment rental industry. In addition, in the past the Chinese government has implemented certain measures, including interest rate increases, to control the pace of economic growth. These measures may cause decreased economic activity in China, and since 2012, the Chinese economy has slowed down. Any prolonged slowdown in the Chinese economy may reduce the demand for our products and services and materially and adversely affect our business and results of operations.

***The PRC government may exert, at any time, substantial intervention and influence over the manner of our operations, and the rules and regulations to which we are subject, including the ways they are enforced, may change rapidly and with little advance notice to us or our shareholders. Any such actions by the Chinese government, including any decision to intervene or influence the operations of our subsidiaries in China or to exert control over any offering of securities conducted overseas and/or foreign investment in China-based issuers, may cause us to make material changes to our operations in China, may limit or completely hinder our ability to offer or continue to offer securities to investors, and may cause the value of such securities to significantly decline or be worthless.***

We are exposed to legal and operational risks associated with our operations in China. The PRC government has significant authority to exert influence on the ability of a company with operations in China, including us, to conduct its business. Changes in China's economic, political or social conditions or government policies could materially and adversely affect our business and results of operations. We are subject to risks due to the uncertainty of the interpretation and the application of the PRC laws and regulations, including but not limited to the risks of uncertainty about any future actions of the PRC government on U.S. listed companies. We may also be subject to sanctions imposed by PRC regulatory agencies, including CSRC, if we fail to comply with their rules and regulations. Any actions by the PRC government to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in companies having operations in China, including us, could significantly limit or completely hinder our ability to offer or continue to offer securities to investors, and cause the value of our securities to significantly decline or become worthless. These China-related risks could result in a material change in our operations and/or the value of our securities, or could significantly limit or completely hinder our ability to offer securities to investors in the future and cause the value of such securities to significantly decline or become worthless.

The PRC government may exert, at any time, substantial intervention and influence over the manner of our operations. Recently, the PRC government initiated a series of regulatory actions and statements to regulate business operations in China with little advance notice, including cracking down on illegal activities in the securities market,

enhancing supervision over China-based companies listed overseas, adopting new measures to extend the scope of cybersecurity reviews and new laws and regulations related to data security, and expanding the efforts in anti-monopoly enforcement.

The regulatory framework for the collection, use, safeguarding, sharing, transfer and other processing of personal information and important data worldwide is rapidly evolving in PRC and is likely to remain uncertain for the foreseeable future. Regulatory authorities in China have implemented and are considering a number of legislative and regulatory proposals concerning data protection. For example, the PRC Cybersecurity Law, which became effective in June 2017, established China's first national-level data protection for "network operators," which may include all organizations in China that connect to or provide services over the internet or other information network. The PRC Data Security Law, which was promulgated by the Standing Committee of PRC National People's Congress, or the SCNPC, on June 10, 2021 and became effective on September 1, 2021, outlines the main system framework of data security protection.

In December 2021, the Cyberspace Administration of China (the "CAC") promulgated the amended Measures of Cybersecurity Review which require cyberspace operators with personal information of more than one million users to file for cybersecurity review with the Cybersecurity Review Office ("CRO"), in the event such operators plan for an overseas listing. The amended Measures of Cybersecurity Review provide that, among others, an application for cybersecurity review must be made by an issuer that is a "critical information infrastructure operator" or a "data processing operator" as defined therein before such issuer's securities become listed in a foreign country, if the issuer possesses personal information of more than one million users, and that the relevant governmental authorities in the PRC may initiate cybersecurity review if such governmental authorities determine an operator's cyber products or services, data processing or potential listing in a foreign country affect or may affect China's national security. The amended Measures of Cybersecurity Review took effect on February 15, 2022. In August 2021, the Standing Committee of the National People's Congress of China promulgated the Personal Information Protection Law which became effective on November 1, 2021. The Personal Information Protection Law provides a comprehensive set of data privacy and protection requirements that apply to the processing of personal information and expands data protection compliance obligations to cover the processing of personal information of persons by organizations and individuals in China, and the processing of personal information of persons outside of China if such processing is for purposes of providing products and services to, or analyzing and evaluating the behavior of, persons in China. The Personal Information Protection Law also provides that critical information infrastructure operators and personal information processing entities who process personal information meeting a volume threshold to be set by Chinese cyberspace regulators are also required to store in China the personal information generated or collected in China, and to pass a security assessment administered by Chinese cyberspace regulators for any export of such personal information. Moreover, pursuant to the Personal Information Protection Law, persons who seriously violate this law may be fined for up to RMB50 million or 5% of annual revenues generated in the prior year and may also be ordered to suspend any related activity by competent authorities.

In November 2021, the CAC released the Regulations on Network Data Security (draft for public comments) and accepted public comments until December 13, 2021. The draft Regulations on Network Data Security provide more detailed guidance on how to implement the general legal requirements under laws such as the Cybersecurity Law, Data Security Law and the Personal Information Protection Law. The draft Regulations on Network Data Security follow the principle that the state will regulate based on a data classification and multi-level protection scheme, under which data is largely classified into three categories: general data, important data and core data. Under the current PRC cybersecurity laws in China, critical information infrastructure operators that intend to purchase internet products and services that may affect national security must be subject to the cybersecurity review. On July 30, 2021, the State Council of the PRC promulgated the Regulations on the Protection of the Security of Critical Information Infrastructure, which took effect on September 1, 2021. The regulations require, among others, that certain competent authorities shall identify critical information infrastructures. If any critical information infrastructure is identified, they shall promptly notify the relevant operators and the Ministry of Public Security.

Currently, the cybersecurity laws and regulations have not directly affected our business and operations, but in anticipation of the strengthened implementation of cybersecurity laws and regulations and the expansion of our business, we face potential risks if we are deemed as a critical information infrastructure operator under the Cybersecurity Law. In such case, we must fulfill certain obligations as required under the Cybersecurity Law and other applicable laws, including, among others, storing personal information and important data collected and

produced within the PRC territory during our operations in China, which we are already doing in our business, and we may be subject to review when purchasing internet products and services. When the amended Measures of Cybersecurity Review take effect in February 2022, we may be subject to review when conducting data processing activities, and may face challenges in addressing its requirements and make necessary changes to our internal policies and practices in data processing. As of the date of this annual report, we have not been involved in any investigations on cybersecurity review made by the CAC on such basis, and we have not received any inquiry, notice, warning, or sanctions in such respect. Based on the foregoing, we and our PRC legal counsel, JunHe LLP, do not expect that, as of the date of this annual report, the current applicable PRC laws on cybersecurity would have a material adverse impact on our business.

On September 1, 2021, the PRC Data Security Law became effective, which imposes data security and privacy obligations on entities and individuals conducting data-related activities, and introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, as well as the degree of harm it will cause to national security, public interests, or legitimate rights and interests of individuals or organizations when such data is tampered with, destroyed, leaked, or illegally acquired or used. As of the date of this annual report, we have not been involved in any investigations on data security compliance made in connection with the PRC Data Security Law, and we have not received any inquiry, notice, warning, or sanctions in such respect. Based on the foregoing, we do not expect that, as of the date of this annual report, the PRC Data Security Law would have a material adverse impact on our business.

On July 6, 2021, the relevant PRC governmental authorities publicated the Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law. These opinions require the relevant regulators to coordinate and accelerate amendments of legislation on the confidentiality and archive management related to overseas issuance and listing of securities, and to improve the legislation on data security, cross-border data flow and management of confidential information. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. As these opinions were recently issued, official guidance and related implementation rules have not been issued yet and the interpretation of these opinions remains unclear at this stage. As of the date of this annual report, we have not received any inquiry, notice, warning, or sanctions from the CSRC or any other PRC government authorities. Based on the foregoing and the currently effective PRC laws, we and our PRC legal counsel, JunHe LLP, are of the view that, as of the date of this annual report, these opinions do not have a material adverse impact on our business.

On December 24, 2021, the CSRC published the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments), and Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments), or, collectively, the Draft Overseas Listing Regulations, which set out the new regulatory requirements and filing procedures for Chinese companies seeking direct or indirect listing in overseas markets. The Draft Overseas Listing Regulations, among others, stipulate that Chinese companies that seek to offer and list securities in overseas markets shall fulfill the filing procedures with and report relevant information to the CSRC, and that an initial filing shall be submitted within three working days after the application for an initial public offering is submitted, and a second filing shall be submitted within three working days after the listing is completed. Moreover, an overseas offering and listing is prohibited under circumstances if (i) it is prohibited by PRC laws, (ii) it may constitute a threat to or endanger national security as reviewed and determined by competent PRC authorities, (iii) it has material ownership disputes over equity, major assets, and core technology, (iv) in recent three years, the Chinese operating entities and their controlling shareholders and actual controllers have committed relevant prescribed criminal offenses or are currently under investigations for suspicion of criminal offenses or major violations, (v) the directors, supervisors, or senior executives have been subject to administrative punishment for severe violations, or are currently under investigations for suspicion of criminal offenses or major violations, or (vi) it has other circumstances as prescribed by the State Council. The Draft Overseas Listing Regulations, among others, stipulate that when determining whether an offering and listing shall be deemed as “an indirect overseas offering and listing by a Chinese company”, the principle of “substance over form” shall be followed, and if the issuer meets the following conditions, its offering and listing shall be determined as an “indirect overseas offering and listing by a Chinese company” and is therefore subject to the filing requirement: (i) the revenues, profits, total assets or net assets of the Chinese operating entities in the most recent financial year accounts for more than 50% of the corresponding data in the issuer’s



audited consolidated financial statements for the same period; and (ii) the majority of senior management in charge of business operation are Chinese citizens or have domicile in PRC, and its principal place of business is located in PRC or main business activities are conducted in PRC. As advised by our PRC legal counsel, the Draft Overseas Listing Regulations were released only for soliciting public comment at this stage and their provisions and anticipated adoption or effective date are subject to changes, and thus their interpretation and implementation remain substantially uncertain. It is uncertain whether the Draft Overseas Listing Regulations apply to the follow-on offerings or other offerings of the Chinese companies that have been listed overseas. We cannot predict the impact of the Draft Overseas Listing Regulations on us at this stage.

On April 2, 2022, the CSRC published the Provisions on Strengthening the Confidentiality and Archives Administration Related to the Overseas Securities Offering and Listing by Domestic Enterprises (Draft for Comments), or the Draft Provisions on Confidentiality and Archives Administration, which was open for public comments until April 17, 2022. The Draft Provisions on Confidentiality and Archives Administration requires that, in the process of overseas issuance and listing of securities by domestic entities, the domestic entities, and securities companies and securities service institutions that provide relevant securities service shall strictly implement the provisions of relevant laws and regulations and the requirements of these provisions, establish and improve rules on confidentiality and archives administration. Where the domestic entities provide with or publicly disclose documents, materials or other items related to the state secrets and government work secrets to the relevant securities companies, securities service institutions, overseas regulatory authorities, or other entities or individuals, the companies shall apply for approval of competent departments with the authority of examination and approval in accordance with law and report the matter to the secrecy administrative departments at the same level for record filing. Where there is unclear or controversial whether or not the concerned materials are related to state secrets, the materials shall be reported to the relevant secrecy administrative departments for determination. However, the Draft Provisions on Confidentiality and Archives Administration have not yet been settled or become effective, and there remain uncertainties regarding the further interpretation and implementation of the Draft Provisions on Confidentiality and Archives Administration.

Further, the CAC issued the Measures for the Security Assessment of Outbound Data Transfer (the “Measures”) on July 7, 2022, which took effect on September 1, 2022. The Measures shall apply to the security assessment of data processors’ provision of important data and personal information collected and generated in their operations within the territory of the PRC to overseas recipients. The Measures require relevant data processors to submit a data security assessment to the CAC for review prior to the outbound data transfer activities in order to prevent illegal data transfer activities.

As there are still uncertainties regarding these new laws and regulations as well as the amendment, interpretation and implementation of the existing laws and regulations related to cybersecurity and data protection, We cannot assure you that we will be able to comply with these laws and regulations in all respects. The regulatory authorities may deem our activities or services non-compliant and therefore require us to suspend or terminate its business. We may also be subject to fines, legal or administrative sanctions and other adverse consequences, and may not be able to become in compliance with relevant laws and regulations in a timely manner, or at all. These may materially and adversely affect its business, financial condition, results of operations and reputation.

Since these statements and regulatory actions are new, it is highly uncertain how soon legislative or administrative regulation making bodies will respond and what existing or new laws or regulations or detailed implementations and interpretations will be modified or promulgated, if any, and the potential impact such modified or new laws and regulations will have on our daily business operation, our ability to accept foreign investments and conduct follow-on offerings, and listing or continuing listing on a U.S. or other foreign exchanges. In addition, the PRC government has recently published new policies that significantly affected certain industries such as the education and internet industries, and we cannot rule out the possibility that it will in the future release regulations or policies regarding any other industry including the industry in which we operate, which could adversely affect our business, financial condition and results of operations.

***Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to us.***

The PRC legal system is based on written statutes and prior court decisions or legal cases have limited value as precedents. Since these laws, regulations and rules are relatively new and the PRC legal system continues to rapidly evolve, the application and interpretations of these laws, regulations and rules are not always uniform, are ambiguous and may be interpreted and applied inconsistently between different government authorities, and enforcement of these laws, regulations and rules involves uncertainties.

Developments in the apartment rental industry may lead to changes in PRC laws, regulations and policies or in the interpretation and application of existing laws, regulations and policies that may limit or restrict us, which could materially and adversely affect our business and operations. See “—New laws, regulations and policies may be promulgated to strengthen the regulation on the apartment rental industry which may adversely affect our business, results of operations, financial condition and growth prospects.”

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 we enjoy than in more developed legal systems. Furthermore, the PRC legal system is based in part on government policies and internal rules (some of which are not published in a timely manner or at all) that may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules in a timely manner until sometime after the violation.

Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, could materially and adversely affect our business and impede our ability to continue our operations.

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

The Foreign Investment Law was enacted by the second session of the thirteenth National People’s Congress of the PRC on March 15, 2019. On December 12, 2019, the Implementation Regulations of Foreign Investment Law was promulgated by the State Council, which simultaneously came into force with the Foreign Investment Law on January 1, 2020. The Foreign Investment Law, together with the Implementation Regulations of Foreign Investment Law, replaced, in their entirety, the trio of 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, together with their implementation rules and ancillary regulations. This law is the legal foundation for foreign investment in the PRC. The 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. The Implementation Regulations of Foreign Investment Law provide detailed rules for the principles of investment protection, promotion and management set forth in the Foreign Investment Law.

However, uncertainties still exist in relation to interpretation and implementation of the Foreign Investment Law, especially in regard to, including, among other things, the nature of “variable interest entity” structure, the promulgation schedule of both the “negative list”, or the Negative List, under the Foreign Investment Law and specific rules regulating the organization form of foreign-invested enterprises within the five-year transition period. As a result, the Foreign Investment Law may materially impact the viability of our current corporate structure, corporate governance and business operations in many aspects.

The Foreign Investment Law, may also adversely impact our corporate governance practice and increase our compliance costs. For instance, the Foreign Investment Law imposes stringent ad hoc and periodic information reporting requirements on foreign investors and the applicable FIEs. Aside from an investment information report required at each investment, and investment amendment reports, which shall be submitted upon alteration of investment specifics, it is mandatory for entities established by foreign investors to submit an annual report, and

large foreign investors meeting certain criteria are required to report on a quarterly basis. Any company found to be non-compliant with these reporting obligations may potentially be subject to fines and/or administrative or criminal liabilities, and the persons directly responsible may be subject to criminal liabilities. In addition, the Foreign Investment Law allows foreign-invested enterprises established according to the existing laws regulating foreign investment to maintain their current structure and corporate governance during the five-year transition period. This infers that we may be required to adjust the structure and corporate governance of certain of our PRC subsidiaries in the transition period. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance requirements may lead to regulatory non-compliance and hence materially and adversely affect our current corporate structure, corporate governance and business operations.

***We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of internet-related businesses and companies, and any lack of requisite approvals, licenses or permits applicable to our business may have a material adverse effect on our business and results of operations.***

The PRC government extensively regulates the internet industry, including foreign ownership of, and the licensing and permit requirements pertaining to, companies in the internet industry. These internet-related laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainties. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be in violation of applicable laws and regulations.

We only have contractual control over the entities which own the domain name of our website or are registered as the owner of the mobile apps. We do not directly own the website or mobile apps due to the restriction of foreign investment in businesses providing value-added telecommunication services in China, including internet information provision services. This may significantly disrupt our business, subject us to sanctions, or have other harmful effects on us.

The evolving PRC regulatory system for the internet industry may lead to the establishment of new regulatory agencies. For example, in May 2011, the State Council announced the establishment of a new department, the State Internet Information Office (with the involvement of the State Council Information Office, the MIIT, and the Ministry of Public Security). The primary role of this new agency is to facilitate the policy making and legislative development in this field, to direct and coordinate with the relevant departments in connection with online content administration and to deal with cross ministry regulatory matters in relation to the internet industry.

The interpretation and application of existing PRC laws, regulations and policies and possible new laws, regulations or policies including but not limited to those relating to the internet industry have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of our business. We cannot assure you that we have obtained all the permits or licenses required for conducting our business in China or will be able to maintain our existing licenses or obtain new ones. If the PRC government considers that we were operating without the proper approvals, licenses or permits or promulgates new laws and regulations that require additional approvals or licenses or imposes additional restrictions on the operation of any part of our business, it has the power, among other things, to levy fines, confiscate our income, revoke our business licenses, and require us to discontinue our relevant business or impose restrictions on the affected portion of our business. Any of these actions by the PRC government may have a material adverse effect on our business and results of operations.

***We rely on dividends and other distributions on equity paid by our PRC subsidiary to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiary to make payments to us could have a material adverse effect on our ability to conduct our business.***

We are a holding company, and we rely on dividends and other distributions on equity paid by our PRC subsidiary for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. If our PRC subsidiary incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us.

Under PRC laws and regulations, our PRC subsidiary, as a wholly foreign-owned enterprise in China, may pay dividends only out of its accumulated after tax profits as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its accumulated after tax profits each year, if any, to fund certain statutory reserve funds, until the aggregate amount of such funds reaches 50% of its registered capital. At its discretion, a wholly foreign-owned enterprise may allocate a portion of its after tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends.

Our PRC subsidiaries generate primarily all of their revenue in Renminbi, which is not freely convertible into other currencies. As a result, any restriction on currency exchange may limit the ability of our PRC subsidiaries to use their Renminbi revenues to pay dividends to us.

In response to the persistent capital outflow and the Renminbi's depreciation against the U.S. dollar in the fourth quarter of 2016, the PBOC and the State Administration of Foreign Exchange, or SAFE, have implemented a series of capital control measures over recent months, including stricter vetting procedures for China-based companies to remit foreign currency for overseas acquisitions, dividend payments and shareholder loan repayments. The PRC government may continue to strengthen its capital controls and our PRC subsidiary's dividends and other distributions may be subjected to tighter scrutiny in the future. Any limitation on the ability of our PRC subsidiary to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business. See also "—If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders."

In addition, the Enterprise Income Tax Law and its implementation rules provide that a withholding tax rate of up to 10% will be applicable to dividends payable by Chinese companies to non-PRC resident enterprises unless otherwise exempted or reduced according to treaties or arrangements between the PRC central government and governments of other countries or regions where the non-PRC resident enterprises are incorporated.

***PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the proceeds we receive from our offshore financing activities to make loans to or make additional capital contributions to our PRC subsidiary, which could materially and adversely affect our liquidity and our ability to fund and expand our business.***

Any funds we transfer to our PRC subsidiary, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration with relevant governmental authorities in China. According to the relevant PRC regulations on foreign-invested enterprises in China, capital contributions to our PRC subsidiary are subject to the requirement of making necessary filings and registration with other governmental authorities in China. In addition, (a) any foreign loan procured by our PRC subsidiary is required to be registered with the SAFE, or its local branches, and (b) our PRC subsidiary may not procure loans which exceed the statutory limitation. Any medium or long-term loan to be provided by us to the VIE must be recorded and registered by the National Development and Reform Committee and the SAFE or its local branches. We may not complete such recording or registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us to our PRC subsidiary. If we fail to complete such recording or registration, our ability to use the proceeds we receive from our initial public offering and other offshore financing activities 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.

In 2008, the SAFE promulgated the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises, or SAFE Circular 142, which used to regulate the conversion by foreign-invested enterprises of foreign currency into Renminbi by restricting the usage of converted Renminbi. 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 and superseded SAFE Circular 142 on the same date. 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 Renminbi fund converted from their foreign exchange capitals for expenditures beyond their business

scopes. On June 9, 2016, the SAFE promulgated the Circular on Reforming and Standardizing the Administrative Provisions on 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 RMB fund converted from its foreign exchange capitals for expenditure beyond its business scope, investment and financing (except for security investment or guarantee products issued by bank), providing loans to non-affiliated enterprises or constructing or purchasing real estate not for self-use. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer to and use in China the proceeds we receive from our offshore financing activities, which may adversely affect our business, financial condition and results of operations.

***Fluctuations in exchange rates could have a material adverse effect on our results of operations and the price of the ADSs.***

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions in China and by China's foreign exchange policies. On July 21, 2005, the PRC government changed its decade old policy of pegging the value of the Renminbi to the U.S. dollar, and the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. On November 30, 2015, the Executive Board of the International Monetary Fund (IMF) completed the regular five-year review of the basket of currencies that make up the Special Drawing Right, or the SDR, and decided that with effect from October 1, 2016, Renminbi is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollar, the Euro, the Japanese yen and the British pound. In the fourth quarter of 2016, the RMB has depreciated significantly in the backdrop of a surging U.S. dollar and persistent capital outflows of China. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system and we cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future.

Substantially all of our revenue and costs are denominated in Renminbi. We are a holding company and we rely on dividends paid by our operating subsidiaries in China for our cash needs. Any significant revaluation of the Renminbi may have a material and adverse effect on your investment. For example, to the extent that we need to convert U.S. dollars we receive from our initial public offering into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us.

***Governmental control of currency conversion may limit our ability to utilize our net revenues effectively and affect the price of the ADSs.***

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our net revenues in RMB. Under our current corporate structure, our company in the Cayman Islands relies on dividend payments from our PRC subsidiary to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service related foreign exchange transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. Therefore, our PRC subsidiary is able to pay dividends in foreign currencies to us without prior approval from the SAFE, subject to the condition that the remittance of such dividends outside of the PRC complies with certain procedures under PRC foreign exchange regulation, such as the overseas investment registrations by the beneficial owners of our company who are PRC residents. But approval from or registration with appropriate government authorities is required where RMB 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 RMB, 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 are 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 in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

Furthermore, as these foreign exchange regulations are still relatively new and their interpretation and implementation has been constantly evolving, 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 government authorities. 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 financial condition and results of operations. 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.

***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 M&A Rules discussed in the preceding risk factor and some 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 MOC be notified in advance of any change of control transaction in which a foreign investor takes control of a PRC domestic enterprise. For example, the M&A rules require that the MOC be notified in advance of any change of control transaction in which a foreign investor takes control of a PRC domestic enterprise if (i) any important industry is concerned, (ii) such transaction involves factors that have or may have impact on the national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time honored brand. The approval from the MOC shall be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. Mergers, acquisitions or contractual arrangements that allow one market player to take control of or to exert decisive impact on another market player must also be notified in advance to the MOC when the threshold under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings, or the Prior Notification Rules, issued by the State Council in August 2008 is triggered. In addition, the security review rules issued by the MOC 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 MOC, 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 MOC 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 regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiary’s ability to increase their registered capital or distribute profits to us or otherwise expose us or our PRC resident beneficial owners to liability and penalties under PRC law.***

The SAFE promulgated the Circular on Relevant Issues Relating to PRC Resident’s Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, in July 2014 that requires PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events

relating to any change of basic information (including change of such PRC residents or entities, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions.

SAFE Circular 37 is issued to replace the Circular on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments through Overseas Special Purpose Vehicles, or SAFE Circular 75.

If our shareholders who are PRC residents or entities do not complete their registration with the local SAFE branches, our PRC subsidiary may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to us, and we may be restricted in our ability to contribute additional capital to our PRC subsidiary. Moreover, failure to comply with the SAFE registration described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

However, we may not be informed of the identities of all the PRC residents or entities holding direct or indirect interest in our company, nor can we compel our beneficial owners to comply with the requirements of SAFE Circular 37 or other applicable laws and regulations. As a result, we cannot assure you that all of our shareholders or beneficial owners who are PRC residents or entities have complied with, and will in the future make or obtain any applicable registrations or approvals required by, SAFE Circular 37 or other applicable laws and regulations. Failure by such shareholders or beneficial owners to comply with SAFE Circular 37, other related regulations or failure by us to amend the foreign exchange registrations of our PRC subsidiary, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our PRC subsidiary's ability to make distributions or pay dividends to us or affect our ownership structure, which could adversely affect our business and prospects.

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

Pursuant to SAFE Circular 37, PRC residents who participate in share incentive plans in overseas non publicly-listed companies may submit applications to SAFE or its local branches for the foreign exchange registration with respect to offshore special purpose vehicles. In the meantime, our directors, executive officers and other employees who are PRC citizens, subject to limited exceptions, and who have been granted share incentive awards by us, may follow the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Share Incentive Plan of Companies Listed Overseas, promulgated by the SAFE in 2012, or the 2012 SAFE Notice. Pursuant to the 2012 SAFE Notice, PRC citizens and non-PRC citizens who reside in China for a continuous period of not less than one year who participate in any share incentive plan of an overseas publicly-listed company, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which could be the PRC subsidiaries of such overseas listed company, and complete certain other procedures. In addition, an overseas entrusted institution must be retained to handle matters in connection with the exercise or sale of share incentive awards and the purchase or sale of shares and interests. As a public company listed on NASDAQ, we and grantees of our share incentive awards who are PRC citizens or who reside in the PRC for a continuous period of no less than one year will be subject to these regulations. Failure to complete the SAFE registrations may subject the grantees of share incentive awards to fines and legal sanctions, and may also limit our ability to contribute additional capital into our PRC subsidiaries and limit our PRC subsidiaries' ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional share incentive plans for our directors, executive officers and employees under PRC law.

***If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders.***

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with a "de facto management body" within the PRC is considered a resident enterprise and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term "de facto management body" as the body that exercises full and substantial control over and overall management of the business, productions, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation, or 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 us, 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 seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

We believe none of our entities outside of China is a PRC resident enterprise for PRC tax purposes. See "Item 10. Additional Information—E. Taxation—People's Republic of China Taxation" for more details. 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 FLJ Group Limited or any of our subsidiaries outside of China is a PRC resident enterprise for PRC enterprise income tax purposes, then FLJ Group Limited 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, as described in the risk factor immediately below, if the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, dividends we pay with respect to the ADSs or ordinary shares and gains realized on the sale or other disposition of our ADSs or ordinary shares may be subject to PRC tax, and 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 the investment in the ADSs or ordinary shares.

***Dividends payable to our foreign investors and gains on the sale of ADSs or ordinary shares by our foreign investors may become subject to PRC tax.***

Under the PRC Enterprise Income Tax Law and its implementation regulations issued by the State Council, a 10% PRC withholding tax is applicable to dividends payable to investors that are Non-Resident Enterprises, which do not have an establishment or place of business in the PRC or which have such establishment or place of business but the dividends are not effectively connected with such establishment or place of business, subject to any reduction or exemption set forth in applicable tax treaties or under applicable tax arrangements between jurisdictions, to the extent such dividends are derived from sources within the PRC. Similarly, any gain realized on the transfer of ADSs or ordinary shares by such investors is also subject to PRC tax at a current rate of 10%, subject to any reduction or exemption set forth in applicable tax treaties or under applicable tax arrangements between jurisdictions, if such gain is regarded as income derived from sources within the PRC. If we are deemed a PRC resident enterprise, dividends paid on our ordinary shares or the ADSs, and any gain realized from the transfer of our ordinary shares or the ADSs, may be treated as income derived from sources within the PRC and may as a result be subject to PRC taxation. Furthermore, if we are deemed a PRC resident enterprise, dividends payable to individual investors who are non-PRC residents and any gain realized on the transfer of ADSs or ordinary shares by such investors may be subject to PRC tax at a current rate of 20%, subject to any reduction or exemption set forth in applicable tax treaties or under applicable tax arrangements between jurisdictions, if such dividends or gains are deemed to be from PRC sources. If we or any of our subsidiaries established outside China are considered a PRC resident enterprise, it is unclear whether holders of the ADSs or ordinary shares would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas. If dividends payable to our non-PRC investors, or gains from the transfer of the ADSs or ordinary shares by such investors, are deemed as income derived from sources within the PRC and thus are subject to PRC tax, the value of your investment in the ADSs or ordinary shares may decline significantly.



***We and our shareholders face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises or other assets attributed to a Chinese establishment of a non-Chinese company, or immovable properties located in China owned by non-Chinese companies.***

On February 3, 2015, the SAT issued the Circular on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises, or Circular 7, which partially replaced and supplemented previous rules under the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, or SAT Circular 698, issued by the SAT on December 10, 2009. Pursuant to this Circular 7, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re characterized and treated as a direct transfer of PRC taxable 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 Circular 7, “PRC taxable assets” include assets attributed to an establishment in China, immovable properties located in China, and equity investments in PRC resident enterprises, in respect of which gains from their transfer by a direct holder, being 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 consists 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 holding PRC taxable assets have real commercial nature which is evidenced by their actual function and risk exposure; the duration of existence of the business model and organizational structure; the replicability 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 respect 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 would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to the 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 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. Where the payor fails to withhold any or sufficient tax, the transferor is required to declare and pay such tax to the tax authority by itself within the statutory time limit. Late payment of applicable tax will subject the transferor to default interest. Circular 7 does not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired from a transaction through a public stock exchange. On October 17, 2017, the SAT promulgated the Bulletin of SAT on Issues Concerning the Withholding of Non-Resident Enterprise Income Tax at Source, or Bulletin 37, which became effective on December 1, 2017, and SAT Circular 698 then was repealed with effect from December 1, 2017. Bulletin 37, among other things, simplified procedures of withholding and payment of income tax levied on Non-Resident Enterprises.

There is uncertainty as to the application of Circular 7 and Bulletin 37. 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, sale of the shares in our offshore subsidiaries or investments. Our company may be subject to filing obligations or taxed if our company is transferor in such transactions, and may be subject to withholding obligations if our company is transferee in such transactions under Circular 7 or Bulletin 37. For transfer of shares in our company by investors that are non-PRC resident enterprises, our PRC subsidiary may be requested to assist in the filing under Circular 7 or Bulletin 37. As a result, we may be required to expend valuable resources to comply with Circular 7 or Bulletin 37 or to request the relevant transferors from whom we purchase taxable assets to comply with Circular 7 and Bulletin 37, or to establish that our company should not be taxed under Circular 7 and Bulletin 37, which may have a material adverse effect on our financial condition and results of operations.

***You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing actions in China against us or our management named in the annual report based on foreign laws.***

We are a company incorporated under the laws of the Cayman Islands, and we conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, most of our senior executive officers reside in China for a significant portion of the time and most of them are PRC nationals. As a result, it may

be difficult for you to effect service of process upon us or those persons inside mainland China. It may also be difficult for you to enforce in the United States courts judgments obtained in the United States courts based on the civil liability provisions of the United States federal securities laws against us and our officers and directors who reside and whose assets are located outside the United States. In addition, there is uncertainty as to whether the courts of the Cayman Islands or the PRC would recognize or enforce judgments of the United States courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state.

The recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. China does not have any treaties or other forms of reciprocity with the United States that provide for the reciprocal recognition and enforcement of foreign judgments. In addition, according to the PRC Civil Procedures Law, the PRC courts will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates the basic principles of PRC laws or national sovereignty, security or public interest. As a result, it is uncertain whether and on what basis a PRC court would enforce a judgment rendered by a court in the United States.

***If the U.S. Public Company Accounting Oversight Board, or the PCAOB, is unable to inspect our auditors as required under the Holding Foreign Companies Accountable Act, the SEC will prohibit the trading of our ADSs. A trading prohibition for our ADSs, or the threat of a trading prohibition, may materially and adversely affect the value of your investment. Additionally, the inability of the PCAOB to conduct inspections of our auditors would deprive our investors of the benefits of such inspections.***

Pursuant to the Holding Foreign Companies Accountable Act (the “HFCA Act”), if the Public Company Accounting Oversight Board (the “PCAOB”), is unable to inspect an issuer’s auditors for three consecutive years, the issuer’s securities are prohibited to trade on a U.S. stock exchange. The PCAOB issued a Determination Report on December 16, 2021 (the “Determination Report”) which found that the PCAOB is unable to inspect or investigate completely registered public accounting firms headquartered in: (1) mainland China of the People’s Republic of China because of a position taken by one or more authorities in mainland China; and (2) Hong Kong, a Special Administrative Region and dependency of the PRC, because of a position taken by one or more authorities in Hong Kong. Furthermore, the Determination Report identified the specific registered public accounting firms which are subject to these determinations (“PCAOB Identified Firms”).

The Company’s current auditor, Marcum Asia CPAs LLP, the independent registered public accounting firm that issues the audit report included elsewhere in this annual report, as an auditor of companies that are traded publicly in the United States and a firm registered with the PCAOB, is subject to laws in the U.S. pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. Marcum Asia, whose audit report is included in this annual report, is headquartered in New York, New York, and, as of the date of this annual report, was not included in the list of PCAOB Identified Firms in the Determination Report.

On August 26, 2022, the PCAOB announced that it had signed a Statement of Protocol (the “Protocol”) with the China Securities Regulatory Commission (the “CSRC”) and the Ministry of Finance (“MOF”) of the People’s Republic of China, governing inspections and investigations of audit firms based in mainland China and Hong Kong. Pursuant to the Protocol, the PCAOB conducted inspections on select registered public accounting firms subject to the Determination Report in Hong Kong between September and November 2022.

On December 15, 2022, the PCAOB board announced that it has completed the inspections, determined that it had complete access to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong, and voted to vacate the Determination Report.

Notwithstanding the foregoing, the Company’s ability to retain an auditor subject to the PCAOB inspection and investigation, including but not limited to inspection of the audit working papers related to us, may depend on the relevant positions of U.S. and Chinese regulators. Marcum Asia CPAs LLP’s audit working papers related to us are located in China. With respect to audits of companies with operations in China, such as the Company, there are

uncertainties about the ability of its auditor to fully cooperate with a request by the PCAOB for audit working papers in China without the approval of Chinese authorities. If the PCAOB is unable to inspect or investigate completely the Company's auditor because of a position taken by an authority in a foreign jurisdiction, or the PCAOB re-evaluates its determination as a result of any obstruction with the implementation of the Statement of Protocol, then such lack of inspection or re-evaluation could cause trading in the Company's securities to be prohibited under the HFCA Act, and ultimately result in a determination by a securities exchange to delist the Company's securities. Accordingly, the HFCA Act calls for additional and more stringent criteria to be applied to emerging market companies upon assessing the qualification of their auditors, especially the non-U.S. auditors who are not inspected by the PCAOB. These developments could add uncertainties to our offering.

On December 29, 2022, the Accelerating Holding Foreign Companies Accountable Act, or the AHFCA Act, was signed into law, which reduced the number of consecutive non-inspection years required for triggering the prohibitions under the HFCA Act from three years to two. As a result, the risks mentioned above have been heightened.

If our ADSs are subject to a trading prohibition under the HFCA Act or the AHFCA Act, the price of our ADSs may be adversely affected, and the threat of such a trading prohibition would also adversely affect their price. If we are unable to be listed on another securities exchange that provides sufficient liquidity, such a trading prohibition may substantially impair your ability to sell or purchase our ADSs when you wish to do so. Furthermore, if we are able to maintain a listing of our ordinary shares on a non-U.S. exchange, investors owning our ADSs may have to take additional steps to engage in transactions on that exchange, including converting ADSs into ordinary shares and establishing non-U.S. brokerage accounts.

The HFCA Act also imposes additional certification and disclosure requirements for Commission Identified Issuers, and these requirements apply to issuers in the year following their listing as Commission Identified Issuers. The additional requirements include a certification that the issuer is not owned or controlled by a governmental entity in the Relevant Jurisdiction, and the additional requirements for annual reports include disclosure that the issuer's financials were audited by a firm not subject to PCAOB inspection, disclosure on governmental entities in the Relevant Jurisdiction's ownership in and controlling financial interest in the issuer, the names of Chinese Communist Party, or CCP, members on the board of the issuer or its operating entities, and whether the issuer's articles include a charter of the CCP, including the text of such charter.

### **Risks Related to the American Depositary Shares**

#### **The market price for the ADSs may be volatile.**

Since the ADSs became listed on NASDAQ on November 5, 2019 to the date of this annual report, the trading price of our ADSs has ranged from US\$0.268 to US\$20.44 per ADS. The trading prices of the ADSs are likely to be volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, like the performance and fluctuation in the market prices or the underperformance or deteriorating financial results of other listed internet or other companies based in China that have listed their securities in the United States in recent years. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in their trading prices. The trading performances of other Chinese companies' securities after their offerings, including internet and e-commerce companies, may affect the attitudes of investors toward Chinese companies listed in the United States, which consequently may impact the trading performance of the ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or other matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have conducted any inappropriate activities. In addition, securities markets may from time to time experience significant price and volume fluctuations that are not related to our operating performance, which may have a material adverse effect on the market price of the ADSs.

In addition to the above factors, the price and trading volume of the ADSs may be highly volatile due to multiple factors, including, among others, (i) regulatory developments affecting us, our tenants, our landlords, third-party service providers, financial institutions, or our industry, (ii) market conditions in the apartment rental industry,

(iii) changes in the performance or market valuations of other apartment rental platforms, (iv) announcements by us or our competitors of new product and service offerings, acquisitions, strategic relationships, joint ventures or capital commitments, (v) actual or anticipated fluctuations in our quarterly results of operations and changes or revisions of our expected results, or changes in financial estimates by securities research analysts, (vi) negative publicity about us, our management or our industry, (vii) additions to or departures of our directors and senior management, and (viii) sales or perceived potential sales of additional ordinary shares or ADSs. Furthermore, as a result of the narrow band of our ADSs publicly available for trading, small trades can cause significant percentage changes in valuation in a short time period. Such volatility may affect the attitude of investors towards our securities, which consequently may impact the trading performance of our ADSs, regardless of our actual operating performance.

***If we fail to meet the applicable listing requirements, NASDAQ may delist our ADSs from trading on its exchange in which case the liquidity and market price of our ADSs could decline and our ability to raise additional capital would be adversely affected.***

Our ADSs are currently listed for trading on the NASDAQ Global Market. There are a number of requirements that must be met in order for our ADSs to remain listed on the NASDAQ Global Market, including but not limited to the minimum bid price of at least US\$1.00 per ADS, and the failure to meet any of these listing standards could result in the delisting of our ADSs from NASDAQ. On September 28, 2021, NASDAQ notified us that our company did not maintain a minimum bid price of US\$1 per ADS and provided our company a compliance period of 180 calendar days in which to regain compliance. We cannot assure you that we will be able to regain compliance within the 180-day period or comply with all Nasdaq Listing Rules at all times in the future, or regain compliance in a timely manner in case of a default and avoid any subsequent adverse action taken by NASDAQ, including but not limited to delisting.

***Any potential delisting of our ADSs from the NASDAQ would make it impossible for our shareholders to sell our ADSs in the public market and will result in decreased liquidity, limited availability of market quotations for our ADSs, limited availability of news and analyst coverage on us and decrease in our ability to issue additional securities.***

***An active market for the ADSs may not be maintained.***

The ADSs began trading on NASDAQ in November 2019, and we can provide no assurance that we will be able to maintain an active trading market on NASDAQ or any other exchange in the future. If an active market for the ADSs is not maintained, it may be difficult for the ADS holders to sell the ADSs without depressing the market price for the ADSs, or at all. An inactive market may also impair our ability to raise capital by selling ADSs and may impair our ability to acquire other businesses or property using our ADSs as consideration.

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

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

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

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

Our board of directors has discretion as to whether to distribute dividends, subject to certain restrictions under Cayman Islands law, namely that our company may only pay dividends out of profits or share premium, and provided always that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts at they fall due in the ordinary course of business. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiary, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in ADSs will likely depend entirely upon any future price appreciation of the ADSs. There is no guarantee that our ADSs will appreciate in value or even maintain the price at which the ADS holders purchased the ADSs. You may not realize a return on your investment in the ADSs and you may even lose your entire investment in the ADSs.

***Conversion of the convertible notes and exercise of the warrants we issued may dilute the ownership interest of existing shareholders, including holders who had previously converted their convertible notes.***

The conversion of some or all of the convertible notes and the exercise of some or all of the warrants will dilute the ownership interests of existing shareholders and existing holders of our ADSs. Any sales in the public market of the ADSs issuable upon such conversion of the notes and exercise of the warrants could adversely affect prevailing market prices of our ADSs. In addition, the existence of the convertible notes and warrants may encourage short selling by market participants because the conversion of the convertible notes and the exercise of the warrants could depress the price of our ADSs.

***Provisions of the convertible notes we offered could also discourage an acquisition of us by a third party.***

Certain provisions of the convertible notes could make it more difficult or more expensive for a third party to acquire us, or may even prevent a third party from acquiring us. For example, in terms of the convertible notes we initially offered in July 2020, upon the occurrence of a fundamental change, holders of the convertible notes may require us to redeem their convertible notes at the specified fundamental change repurchase price, which includes a premium. By discouraging an acquisition of us by a third party, these provisions could have the effect of depriving the holders of our ordinary shares and holders of our ADSs of an opportunity to sell their ordinary shares and ADSs, as applicable, at a premium over prevailing market prices.

***Substantial future sales or perceived potential sales of ADSs in the public market could cause the price of the ADSs to decline.***

Sales of the ADSs in the public market, or the perception that these sales could occur, could cause the market price of the ADSs to decline. As of the date of this annual report, we had 28,378,920,464 ordinary shares outstanding, consisting of 25,878,920,464 Class A ordinary shares represented by ADSs and 2,500,000,000 Class B ordinary shares. We have charged 77,100,000 Class A ordinary shares, which are our treasury shares, to a third party. See “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Credit Facilities” for more details. All our ADSs are freely transferable without restriction or additional registration under the Securities Act. The remaining ordinary shares outstanding are subject to volume and other restrictions as applicable under Rules 144 and 701 under the Securities Act. To the extent shares are released before the expiration of the lock-up period and sold into the market, the market price of the ADSs could decline.

Certain holders of our ordinary shares may cause us to register under the Securities Act the sale of their shares. Registration of these shares under the Securities Act would result in ADSs representing these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of ADSs representing these registered shares in the public market could cause the price of the ADSs to decline.

We have granted equity-based awards to certain management, employees and non-employees. In addition, we adopted a share incentive plan in 2019, or the 2019 Plan, under which we may have the discretion to grant a range of equity-based awards to eligible participants. We intend to register all Class A ordinary shares that we have issued or that we may issue in connection with any employee share-based awards. Once we register these ordinary shares,

ADSs representing them can be freely sold in the public market upon issuance, subject to volume limitations applicable to affiliates and the lock up agreements described in the “Underwriting” section of the final prospectus dated November 4, 2019 for our initial public offering. If ADSs representing a large number of our ordinary shares or securities convertible into our ordinary shares are sold in the public market after they become eligible for sale, the sales could reduce the trading price of the ADSs and impede our ability to raise future capital. In addition, any ordinary shares that we issue under our share incentive plan would dilute the percentage ownership held by investors who purchase the ADSs.

***The voting rights of holders of ADSs are limited by the terms of the deposit agreement, and you may not be able to exercise your right to direct the voting of the underlying ordinary shares which are represented by your ADSs.***

As a holder of our ADSs, you will not have any direct right to attend general meetings of our shareholders or to cast any votes at such meetings. You will only be able to exercise the voting rights which attach to the underlying ordinary shares which are represented by your ADSs indirectly by giving voting instructions to the depositary in accordance with the provisions of the deposit agreement. Under the deposit agreement, you may vote only by giving voting instructions to the depositary, as the holder of the underlying ordinary shares which are represented by your ADSs. If we ask for your instructions, upon receipt of your voting instructions, the depositary will endeavor to vote the underlying ordinary shares in accordance with your instructions. You will not be able to directly exercise any right to vote with respect to the underlying ordinary shares unless you withdraw the shares and become the registered holder of such shares prior to the record date for the general meeting. Under our amended and restated memorandum and articles of association, the minimum notice period required to be given by our company to our registered shareholders for convening a general meeting is ten (10) days. When a general meeting is convened, you may not receive sufficient advance notice to enable you to withdraw the underlying shares which are represented by your ADSs and become the registered holder of such shares prior to the record date for the general meeting to allow you to attend the general meeting or to vote directly with respect to any specific matter or resolution which is to be considered and voted upon at the general meeting. In addition, under amended and restated memorandum and articles of association, for the purposes of determining those shareholders who are entitled to attend and vote at any general meeting, our directors may close our register of members and/or fix in advance a record date for such meeting, and such closure of our register of members or the setting of such a record date may prevent you from withdrawing the underlying shares represented by your ADSs and becoming the registered holder of such shares prior to the record date, so that you would not be able to attend the general meeting or to vote directly. Where any matter is to be put to a vote at a general meeting, the depositary will, if we request, and subject to the terms of the deposit agreement, endeavor to notify you of the upcoming vote and to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote the underlying shares which are represented by your ADSs. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out your voting instructions. This means that you may not be able to exercise your right to direct the voting of the underlying shares which are represented by your ADSs, and you may have no legal remedy if the underlying shares are not voted as you requested.

***The deposit agreement may be amended or terminated without your consent.***

Under the deposit agreement, we may amend or terminate the deposit agreement without your consent. If you continue to hold your ADSs after an amendment to the deposit agreement, you agree to be bound by the deposit agreement as amended. See “Item 12. Description of Securities Other Than Equity Securities—D. American Depositary Shares” for more details.

***Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.***

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make such rights available to you in the United States unless we register both the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Under the deposit agreement, the depositary will not make rights available to you unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with

respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective and we may not be able to establish a necessary exemption from registration under the Securities Act.

Accordingly, you may be unable to participate in our rights offerings in the future and may experience dilution in your holdings.

***You may not receive dividends or other distributions on our ordinary shares and you may not receive any value for them, if it is illegal or impractical to make them available to you.***

The depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our ordinary shares or other deposited securities underlying your ADSs, after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act but that are not properly registered or distributed under an applicable exemption from registration. The depositary may also determine that it is not feasible to distribute certain property through the mail. Additionally, the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may determine not to distribute such property. We have no obligation to register under U.S. securities laws any ADSs, ordinary shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to holders of ADSs. This means that you may not receive distributions we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may cause a material decline in the value of the ADSs.

***ADSs holders may not be entitled to a jury trial with respect to claims arising out of or relating to our shares, the ADSs or the deposit agreement, which could result in less favorable outcomes to the plaintiffs in any such action.***

The deposit agreement governing the ADSs representing our Class A ordinary shares provides that, to the fullest extent permitted by law, ADS holders waive the right to a jury trial of any claim they may have against us or the depositary arising out of or relating to our shares, the ADSs or the deposit agreement, including any claim under the U.S. federal securities laws.

If we or the depositary opposed a jury trial demand based on the waiver, the court would determine whether the waiver was enforceable based on the facts and circumstances of that case in accordance with the applicable state and federal law. To our knowledge, the enforceability of a contractual pre-dispute jury trial waiver in connection with claims arising under the federal securities laws has not been finally adjudicated by the United States Supreme Court. However, we believe that a contractual pre-dispute jury trial waiver provision is generally enforceable, including under the laws of the State of New York, which govern the deposit agreement, by a federal or state court in the City of New York, which has non-exclusive jurisdiction over matters arising under the deposit agreement. In determining whether to enforce a contractual pre-dispute jury trial waiver provision, courts will generally consider whether a party knowingly, intelligently and voluntarily waived the right to a jury trial. We believe that this is the case with respect to the deposit agreement and the ADSs. It is advisable that you consult legal counsel regarding the jury waiver provision before entering into the deposit agreement.

If you or any other holders or beneficial owners of ADSs bring a claim against us or the depositary in connection with matters arising under the deposit agreement or the ADSs, including claims under federal securities laws, you or such other holder or beneficial owner may not be entitled to a jury trial with respect to such claims, which may have the effect of limiting and discouraging lawsuits against us and the depositary. If a lawsuit is brought against either or both of us and the depositary under the deposit agreement, it may be heard only by a judge or justice of the applicable trial court, which would be conducted according to different civil procedures and may result in different outcomes than a trial by jury would have, including results that could be less favorable to the plaintiffs in any such action.

Nevertheless, if this jury trial waiver provision is not permitted by applicable law, an action could proceed under the terms of the deposit agreement with a jury trial. No condition, stipulation or provision of the deposit agreement or ADSs serves as a waiver by any holder or beneficial owner of ADSs or by us or the depository of compliance with any substantive provision of the U.S. federal securities laws and the rules and regulations promulgated thereunder.

***You may be subject to limitations on transfer of your ADSs.***

Your ADSs are transferable on the books of the depository. However, the depository may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depository may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository deems it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

***Certain judgments obtained against us may not be enforceable.***

We are an exempted company limited by shares incorporated under the laws of the Cayman Islands. We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, a majority of our directors and executive officers reside within China, and most of the assets of these persons are located within China. As a result, it may be difficult or impossible for you to effect service of process within the United States upon these individuals, or to bring an action against us or against these individuals in the United States in the event that you believe your rights have been infringed under the U.S. federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of the PRC may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

There is uncertainty as to whether the courts of the Cayman Islands would (i) recognize or enforce judgments of U.S. courts obtained against us or our directors or officers that are predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States, or (ii) entertain original actions brought in the Cayman Islands against us or our directors or officers that are predicated upon the securities laws of the United States or any state in the United States. Although there is no statutory enforcement in the Cayman Islands of judgments obtained in the federal or state courts of the United States, the courts of the Cayman Islands would recognize as a valid judgment, a final and conclusive judgment in personam obtained in the foreign courts against our company under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) or, in certain circumstances, an in personam judgment for non-monetary relief, and would give a judgment based thereon provided that (a) such courts had proper jurisdiction over the parties subject to such judgment, (b) such courts did not contravene the rules of natural justice of the Cayman Islands, (c) such judgment was not obtained by fraud, (d) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands, (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands, and (f) there is due compliance with the correct procedures under the laws of the Cayman Islands. However, the Cayman Islands courts are unlikely to enforce a judgment obtained from United States courts under civil liability provisions of the U.S. federal securities law if such judgment is determined by the courts of the Cayman Islands to give rise to obligations to make payments that are penal or punitive in nature. Because such a determination has not yet been made by a court of the Cayman Islands, it is uncertain whether such civil liability judgments from U.S. courts would be enforceable in the Cayman Islands. A Cayman Islands court may stay enforcement proceedings if concurrent proceedings are being brought elsewhere. The recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. China does not have any treaties or other forms of reciprocity with the United States that provide for the reciprocal recognition and enforcement of foreign judgments. In addition, according to the PRC Civil Procedures Law, the PRC courts will not enforce a foreign judgment against us or our director and officers if they decide that the judgment violates the basic principles of PRC laws or national sovereignty, security or public interest. As a result, it is uncertain whether and on what basis a PRC court would enforce a judgment rendered by a court in the United States.



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

We are an exempted company limited by shares incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our amended and restated memorandum and articles of association, the Companies Law (2018 Revision) of the Cayman Islands (the “Company Law”) and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary duties of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary duties of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

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

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as public shareholders of a company incorporated in the United States.

***Our dual class share structure with different voting rights limits your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and the ADSs may view as beneficial.***

We have a dual class share structure. As of the date of this annual report, Golden Stream Ltd., a company controlled by Mr. Qu Chengcai, the Chief Executive Officer of the Group, beneficially owns all of our issued Class B ordinary shares. In respect of matters requiring the votes of shareholders, holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share based on our dual class share structure. Each Class B ordinary share is convertible into one (1) Class A ordinary share at any time by the holder thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any transfer of Class B ordinary shares by a holder thereof to any person or entity which is not an affiliate of such holder, such Class B ordinary shares shall be automatically and immediately converted into the equal number of Class A ordinary shares.

Our board of directors has approved and adopted a new share incentive plan (the “2022 Plan”). The maximum number of shares available for issuance under the 2022 Plan is 2,500,000,000 Class B ordinary shares of the Company (the “Shares”). The board of directors has also approved the issuance of the Shares to Golden Stream Ltd. (the “ESOP Platform”), which is holding these Shares (representing 8.8% of the total outstanding share capital and 49.1% of the voting power of the Company) and will act upon the instructions from a senior management committee of the Company determined on a unanimous basis in relation to the voting and, prior to the vesting of the Shares to the relevant grantee of the share-based awards under the 2022 Plan, the disposition of the Shares. The Shares held by the ESOP Platform are reserved for share-based awards that the Company may grant in the future under the 2022 Plan. As of the date of this annual report, no share-based awards have been granted under the 2022 Plan.

As of the date of this annual report, Golden Stream Ltd. beneficially owns 2,500,000,000 Class B ordinary shares representing 49.1% of the aggregate voting power of our company due to the disparate voting powers associated with our dual class share structure. See “Item 6. Directors, Senior Management and Employees—E.

Share Ownership.” Golden Stream Ltd. is holding these shares issued under the Company’s share incentive plan adopted in November 2022 (the “2022 Plan”) and will act upon the instructions from a senior management committee of the Company determined on a unanimous basis in relation to the voting and, prior to the vesting of the shares to the relevant grantee of the share-based awards under the 2022 Plan, the disposition of the shares. As a result of the dual class share structure and the concentration of ownership, Golden Stream Ltd. has considerable influence over matters such as decisions regarding change of directors, mergers, change of control transactions and other significant corporate actions. It may take actions that are not in the best interest of us or our other shareholders. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could have the effect of depriving our other shareholders of the opportunity to receive a premium for their shares as part of a sale of our company and may reduce the price of the ADSs. This concentrated control limits your ability to influence corporate matters and could discourage others from pursuing any potential merger, takeover or other change of control transactions that holders of Class A ordinary shares and ADSs may view as beneficial. In addition, the significant concentration of share ownership may adversely affect the trading price of the ADSs due to investors’ perception that conflicts of interest may exist or arise. For more information regarding our principal shareholders and their affiliated entities, see “Item 6. Directors, Senior Management and Employees—E. Share Ownership.”

***Our memorandum and articles of association contain anti-takeover provisions that could discourage a third party from acquiring us and adversely affect the rights of holders of our ordinary shares and the ADSs.***

Our third amended and restated memorandum and articles of association contain certain provisions that could limit the ability of others to acquire control of our company, including a provision that grants authority to our board of directors to establish and issue from time to time one or more series of preferred shares without action by our shareholders and to determine, with respect to any series of preferred shares, the terms and rights of that series. These provisions could have the effect of depriving our shareholders and ADS holders of the opportunity to sell their shares or ADSs at a premium over the prevailing market price by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transactions.

***We are an emerging growth company and may take advantage of certain reduced reporting requirements.***

We are an “emerging growth company” as defined in the JOBS Act, and we may take advantage of certain exemptions from various requirements applicable to other public companies that are not emerging growth companies including, most significantly, not being required to comply with the auditor attestation requirements of Section 404 of Sarbanes-Oxley Act of 2002 for so long as we are an emerging growth company. As a result, if we elect not to comply with such auditor attestation requirements, our investors may not have access to certain information they may deem important.

The JOBS Act also provides that an emerging growth company does not need to comply with any new or revised financial accounting standards until such date that a private company is otherwise required to comply with such new or revised accounting standards. In other words, an “emerging growth company” can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of the extended transition period. As a result of this election, our future financial statements may not be comparable to other public companies that comply with the public company effective dates for these new or revised accounting standards.

***We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to U.S. domestic public companies.***

- Because we qualify as a foreign private issuer under the Exchange Act, we are exempt from certain provisions of the securities rules and regulations in the United States that are applicable to U.S. domestic issuers, including:
- the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q or current reports on Form 8-K;
- the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act;

- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and
- the selective disclosure rules by issuers of material nonpublic information under Regulation FD.

We are required to file an annual report on Form 20-F within four months of the end of each financial year. In addition, we intend to publish our results on a quarterly basis as press releases, distributed pursuant to the rules and regulations of the NASDAQ Global Market. Press releases relating to financial results and material events will also be furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC will be less extensive and less timely compared to that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information that would be made available to you were you investing in a U.S. domestic issuer.

***As a company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the NASDAQ Global Market corporate governance listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with the NASDAQ Global Market corporate governance listing standards.***

As a Cayman Islands company listed on the NASDAQ Global Market, we are subject to the NASDAQ Global Market corporate governance listing standards. However, NASDAQ Global Market rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the NASDAQ Global Market corporate governance listing standards. Currently, we follow our home country practices and rely on certain exemptions provided by the NASDAQ Global Market corporate governance listing standards to a foreign private issuer, including exemptions from the requirements to have:

- majority of independent directors on our board of directors;
- a minimum of three members in our audit committee;
- only independent directors being involved in the selection of director nominees and determination of executive officer compensation;
- regularly scheduled executive sessions of independent directors;
- a quorum of annual general meeting which is no less than 33 1/3% of our outstanding shares; and
- shareholder approval prior to an issuance of securities in connection with (i) acquisition of the stock or assets of another company, (ii) change of control, (iii) equity compensation, and (iv) transactions other than public offerings.

As a result of our reliance on the corporate governance exemptions available to foreign private issuers, you do not have the same protection afforded to shareholders of companies that are subject to all of NASDAQ Global Market corporate governance listing standards.

***There is a significant risk that we may be classified as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes, which could subject U.S. investors in ADSs or Class A ordinary shares to significant adverse U.S. federal income tax consequences.***

A non-U.S. corporation will be a passive foreign investment company, or PFIC, if, in any particular taxable year, either (a) 75% or more of its gross income for such year consists of certain types of “passive” income or (b) 50% or more of the value of its assets (generally determined on the basis of a quarterly average) is attributable to assets that produce or are held for the production of passive income. For this purpose, passive income generally includes dividends, interest, gains from certain commodities transactions, rents, royalties and the excess of gains over losses from the disposition of assets that produce passive income. However, rents derived in the active conduct of a trade or business and received from an unrelated party are considered active income for these purposes. Goodwill is treated as an active asset under the PFIC rules to the extent attributable to activities that produce active income. Cash generally is a passive asset for these purposes.

Based on the composition of our income and assets and the trading price of our ADSs or Class A ordinary shares, we believe there is a significant risk that we were a PFIC for U.S. federal income tax purposes for our 2022 taxable year. Additionally, there is a significant risk that we will be a PFIC for our 2023 taxable year and in the reasonably foreseeable future. In particular, whether our rental income and any gain from the sale or other disposition of rental property is considered active for purposes of these tests depends upon whether our employees conduct sufficient marketing or other activities with respect to the rented properties in each taxable year to meet the requirements for an active rental business under applicable Treasury regulations. The determination of whether we are a PFIC must be made annually based on the facts and circumstances at that time.

If it is determined we are a PFIC for any portion of our taxable year that is included in the holding period of a U.S. Holder (as defined in “Item 10. Additional Information—E. Taxation—United States Federal Income Tax Considerations”) of our ADSs or Class A ordinary shares, the U.S. Holder may be subject to increased U.S. federal income tax liability upon a sale or other disposition of our ADSs or Class A ordinary shares or the receipt of certain excess distributions from us and may be subject to additional reporting requirements.

If we are a PFIC in any taxable year, a U.S. Holder may incur significantly increased U.S. federal income tax on gain recognized on the sale or other disposition of the ADSs or Class A ordinary shares and on the receipt of distributions on the ADSs or Class A ordinary shares to the extent such gain or distribution is treated as an “excess distribution” under the federal income tax rules, and such U.S. Holder may be subject to burdensome reporting requirements. Further, if we are a PFIC for any year during which a U.S. Holder holds ADSs or Class A ordinary shares, we generally will continue to be treated as a PFIC for all subsequent years during which such U.S. Holder holds our ADSs or Class A ordinary shares unless we cease to be a PFIC and the U.S. Holder makes a special “purging” election on U.S. Internal Revenue Service (“IRS”) Form 8621. See “Item 10. Additional Information—E. Taxation—United States Federal Income Tax Considerations—Passive Foreign Investment Company Rules” for more details.

***We will incur increased costs as a result of being a public company, particularly after we cease to qualify as an “emerging growth company.”***

As a public company, we expect to incur significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and the NASDAQ Global Market, impose various requirements on the corporate governance practices of public companies. As a company with less than US\$1.07 billion in net revenues for our last financial year, we qualify as an “emerging growth company” pursuant to the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 of the Sarbanes-Oxley Act of 2002 in the assessment of the emerging growth company’s internal control over financial reporting and permission to delay adopting new or revised accounting standards until such time as those standards apply to private companies.

We expect these rules and regulations to increase our legal and financial compliance costs and to make some corporate activities more time-consuming and costly. After we are no longer an “emerging growth company,” we expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and the other rules and regulations of the SEC. For example, as a result of becoming a public company, we will need to increase the number of independent directors and adopt policies regarding internal controls and disclosure controls and procedures. We also expect that operating as a public company will make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. In addition, we will incur additional costs associated with our public company reporting requirements. It may also be more difficult for us to find qualified persons to serve on our board of directors or as executive officers. We are currently evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate with any degree of certainty the amount of additional costs we may incur or the timing of such costs.

In the past, shareholders of a public company often brought securities class action suits against the company following periods of instability in the market price of that company’s securities. If we were involved in a class

action suit, it could divert a significant amount of our management’s attention and other resources from our business and operations, which could harm our results of operations and require us to incur significant expenses to defend the suit. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

## ITEM 4. INFORMATION ON THE COMPANY

### A. History and Development of the Company

We began our operation through Qingke Fashion Life Service Co., Ltd., or Q&K Fashion, which was established on November 8, 2007 by certain individuals related to our founder and former chief executive officer, Mr. Guangjie Jin, who transferred all voting rights to Mr. Guangjie Jin by proxy agreements. We substantially commenced our apartment rental business in 2012. During the period from 2007 to 2014, Q&K Fashion undertook several rounds of equity financing in the PRC. Mr. Guangjie Jin held more than 50% controlling interests over Q&K Fashion since the date of its incorporation.

On August 2, 2013, Q&K Fashion incorporated Shanghai Qingke E commerce Co., Ltd, or Q&K E-commerce. On March 17, 2015, Q&K E-commerce incorporated Shanghai Qingke Equipment Rental Co., Ltd., or Q&K Equipment Rental. From 2013 to 2015, Q&K Fashion transferred all of its shareholding over Q&K E-commerce to several investors and our founder and former chief executive officer, Mr. Guangjie Jin, allowing the latter to obtain control through majority equity ownership.

To facilitate financing and offshore listing, we underwent a series of reorganization, or the Reorganization as follows. We incorporated FLJ Group Limited in the Cayman Islands as our offshore holding company in August 2014. In April 2015, Shanghai Qingke Investment Consulting Co., Ltd., or Q&K Investment Consulting, was incorporated as FLJ Group Limited's wholly owned subsidiary in the PRC. Shortly thereafter, FLJ Group Limited issued ordinary shares to the offshore entities designated by then shareholders of Q&K Fashion in proportion to these shareholders' then shareholding percentage in Q&K Fashion. In April 2015, Q&K Investment Consulting entered into a series of contractual arrangements with the VIE, Guangjie Jin, Bing Xiao, and Xiamen Siyuan Investment Management Co., Ltd. The contract arrangements enable us to obtain control over the VIE and its subsidiaries. The contractual arrangements consist of shareholder voting proxy agreements and powers of attorney, exclusive technology service agreement, exclusive option agreement, equity interest pledge agreement and spousal consent letter. In the meantime, Q&K Fashion transferred all its net assets to Q&K Equipment Rental, a subsidiary of our VIE. Both FLJ Group Limited and Q&K Fashion were controlled by Mr. Guangjie Jin before and after the Reorganization, and therefore we consider the Reorganization as a reorganization of entities under common control.

In November 2015, we effected a one-for-ten share split of our ordinary shares and preferred shares.

On November 5, 2019, our ADSs commenced trading on the Nasdaq under the symbol "QK." We raised from our initial public offering, after underwriters exercised their over-allotment option in full, approximately US\$44.5 million in net proceeds after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

To fund our acquisition of certain lease contracts and other related assets, in July 2020, we issued series 1 and series 2 convertible notes in the aggregate principal amount of US\$30.050 million at par and warrants to purchase 20,974 ADSs to Key Space (S) Pte Ltd and Veneto Holdings Ltd., and subsequently, from September 2020 to March 2022, we issued additional series 1 and series 2 convertible notes in the aggregate principal amount of US\$21.6 million at par and warrants to purchase 78,237 ADSs to Key Space (S) Pte Ltd, pursuant to the convertible notes and warrant purchase agreements.

We changed our company name from "Q&K International Group Limited" to "FLJ Group Limited", effective on September 13, 2022. In addition, our ADSs began trading under the new ticker symbol "FLJ" on the NASDAQ effective on September 26, 2022.

Our principal executive offices are located at 2F, Building 5, No.18, Gongping Road, Hongkou District, Shanghai, 200082, People's Republic of China . Our telephone number at this address is +86-21-6417-9625. Our registered office in the Cayman Islands is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1 1111, Cayman Islands.

Investors should submit any inquiries to the address and telephone number of our principal executive offices. Our main website is [www.qk365.com](http://www.qk365.com). The information contained on our website is not a part of this annual report.

SEC maintains an internet site (<http://www.sec.gov>), which contains reports, proxy and information statements, and other information regarding us that file electronically with the SEC.

## **B. Business Overview**

We are a leading technology-driven long-term apartment rental platform in China, offering young, emerging urban residents conveniently located, ready to move in, and affordable branded apartments as well as facilitating a variety of value-added services. We are one of the pioneers in providing branded rental apartments in China. Under our dispersed lease-and-operate model, we lease apartments from landlords and transform these apartments, mostly from bare-bones condition, into standardized furnished rooms to lease to people seeking affordable residence in cities, following an efficient, technology-driven business process. Our period-average occupancy rates was 89.9% and 89.7% in FY 2021 and FY 2022, respectively.

Driven by the rapid urbanization, rising housing prices, millennial mindsets of sharing economy, and supportive government policies, branded long-term rental apartment service is an underpenetrated, fast-growing industry in China. An increasing number of young people in China move to cities for education or work and seek affordable long-term rental apartments. Traditionally, tenants rely on rental agencies or deal with individual landlords to rent apartments and have to contact individual landlords, who at times may not be responsive, for maintenance and repair during the lease. In the meantime, landlords need to handle apartment maintenance and repair and collect rentals all by themselves. In recent years, branded apartment operators have emerged to provide a one-stop, more efficient and hassle-free rental experience for tenants as well as landlords. In addition, central and local governments in China have adopted policies to incentivize and support the growth of the apartment rental sector, including offering equal access to public services and schools to both renters and homeowners, reducing income tax, and medical insurance and social security payment ratio for individuals with monthly income below RMB10,000.0 (US\$1,405.8) our target customer group.

Branded long-term apartment rental platforms operate under either a centralized or dispersed model. Under the centralized model, an operator sources and operates a whole building or a few floors therein through purchasing or leasing from, or cooperating with, property owners. Under the dispersed model, an operator sources apartments from individual landlords in different locations and manage them centrally, leveraging advanced IT and mobile technologies. Compared to the centralized model, the dispersed model enjoys certain advantages, including a more abundant and flexible supply of apartments and less initial capital outlay, and is easier to achieve a nation-wide brand awareness. As a result, the dispersed model is more scalable.

We strategically focus on sourcing apartments under the dispersed model in relatively inexpensive yet convenient locations, typically near subway stations, to provide our tenants value for money. We do not own our rental apartments but lease them from our landlords under long-term leases. Our leases with landlords usually provide for a minimum term of five to six years, or lease-in contract lock-in period, and can be extended for up to two to three years. During the lease-in contract lock-in period, neither landlords nor us may terminate the lease without paying a penalty equal to the rentals for the remaining lease-in contract lock-in period. For leases with landlords entered into in April 2019 or after, if the monthly rentals (after discount for rental prepayment) that we receive from tenants are lower than our monthly rental to landlords for six consecutive months, we have the right to renegotiate for a lower monthly rental to landlords or terminate the relevant leases with landlords. We typically convert a leased-in apartment to add additional bedroom, or the N+1 model, and rent each bedroom separately to individual tenants after standardized decoration and furnishing. The N+1 model further increases affordability and provides flexibilities and co rental efficiency for tenants. Each of our rental apartments typically has three rental units. Our leases with tenants typically have a contracted lease term of 3 to 12 months. In FY 2022, the average contracted lease term of our terminated leases with tenants was 3 to 12 months. In the same period, tenants of 34.3% of our leases remained in their rental units through the end of the contracted lease term. If a tenant chooses to terminate the lease during the lock-in period, except for termination during the first week of the lease, the tenant's security deposit will be forfeited. After the lock-in period, the tenant may terminate the lease anytime without penalty. In FY 2022, tenants on average stayed in our rental units for 8.3 months.

Technology is at the core of our business. We apply technology in every step of our operational process from apartment sourcing, renovation, and tenant acquisition, to property management. This enables us to operate a large, dispersed and fast-growing portfolio of apartments with high operational efficiency, delivering superior user

experience. For example, we utilize big data analytics to establish a fair and efficient pricing mechanism. This mechanism also provides clear guidance to our apartment sourcing staff and ensures certain rental spread can be achieved during the lease term. We have also developed a technology-driven, innovative project management system to centrally manage our suppliers and contractors for apartment renovation, cleaning and maintenance, monitor the work process, track the work schedules, and exert quality control. Moreover, our intuitive mobile applications allow our tenants, landlords, and third-party service providers to execute transactions or provide services in a streamlined paperless environment. Our focus on technologies has enabled us to operate efficiently and grow rapidly while maintaining quality control.

We cooperate with third parties, including professional home service providers, e-commerce companies, and other service providers to manage the rental units as well as facilitate a wide array of value-added services for our tenants, such as broadband internet. These initiatives cater to tenants' lifestyle demand and help them live more conveniently and comfortably. This, in turn, helps improve our brand loyalty and increase revenue per tenant. Revenue from value-added services and others as a percentage of our net revenues increased from 8.5% in FY 2020 to 9.4% in FY 2021 and then to 13.3% in FY 2022.

In early 2020, we started to expand our business to Sichuan and Chongqing by acquiring lease contracts with landlords and tenants and related fixtures and equipment for approximately 47,000 rental units in Sichuan and Chongqing from another rental service company. Pursuant to the agreement with this rental service company, we were required to pay a consideration of RMB580.0 million, consisting of cash and our Class A ordinary shares, subject to adjustments based on the quality of the assets according to the agreements, to this rental service company by the end of 2020. However, given the closing conditions were not fulfilled by September 30, 2020, this acquisition has been terminated in substance pursuant to the agreement. We did not pay any consideration, and the deposit of RMB200.0 million we paid in January 2020 was fully returned to us. We have agreed to pay back the RMB8.0 million that this rental service company paid us before the termination of this acquisition.

In July 2020, to replenish and expand our rental units portfolio, one of our subsidiaries entered into agreements with a rental service company and its affiliates to acquire-lease contracts with landlords and tenants and related fixtures, equipment and other assets for approximately 72,000 rental units in various cities across China at a total consideration of US\$130 million, less certain liabilities to be assumed by us. In FY 2022, we have continued to optimize our asset portfolios and reduced the number of rental units under management. As of September 30, 2022, we had 38,253 available rental units under management spread across China located in Beijing, Chengdu, Fuzhou, Hefei, Kunming, Nanchang, Nanjing, Nanning, Qingdao, Xi'an, and Tianjin. Unlike rental units we directly operate and manage, these rental units had been renovated at the time we acquired the lease contracts. We have carried out due diligence to verify the authenticity and the quality of these rental units, including but not limited to site visits, calls with landlords and tenants of these rental units, and verification of the operating data such as occupancy rate and rental margin of these rental units provided by the rental service company. We have engaged a third-party contractor to manage these rental units, including but not limited to marketing, maintenance, tenant screening, communications with landlords and tenants. We take measures to supervise and control the quality of the contractor's management, including but not limited to monitoring operating data related to these rental units on a daily basis such as the number of new leases with tenants and amount of rental income, and reviewing the performance of these rental units each month. As of the date hereof, these rental units have been fully integrated into our system.

On October 26, 2021 and December 17, 2021, we transferred all of our equity interest in the Shanghai Qingke Investment Consulting Co., Ltd., or the WFOE and Qingke (China) Limited ("Q&K HK"), respectively, to Wangxiancai Limited, which is beneficially owned by the legal representative and executive director of one of our subsidiaries, a related party, for nominal consideration (the "Equity Transfer"). The WFOE is a wholly owned subsidiary of Q&K HK, and has a series of contractual arrangements with the VIE. Through the VIE entities, we carried out certain rental apartment operation business prior to the Equity Transfer. As of the date of this annual report, we no longer conduct any business operation through a variable interest entity. However, we did not account for the Equity Transfer as a discontinued operation and the financials of the WFOE and VIE entities were consolidated into our consolidated financial statements as of and for the year ended September 30, 2021 as we have been involved in the settlement of liabilities of the WFOE and still have the control over the allocation of remaining assets in the liquidation of the VIE entities. The WFOE and VIE entities contributed 16.7% of our consolidated revenues for the year ended September 30, 2021.



As of September 30, 2022, four of the subsidiaries of the VIE filed the voluntary petition for bankruptcy under the Article 2 of the PRC Enterprise Bankruptcy Law with Shanghai Third Intermediary Court (“Court”), and the Court announced the effectiveness of the petition and the administrator of bankruptcy was assigned on board. As a result, the Company had no control over the allocation of remaining assets in liquidation of these subsidiaries and therefore deconsolidated the subsidiaries of the VIE. The WFOE and VIE entities contributed 0.2% of our consolidated revenues for the year ended September 30, 2022.

For the risks associated with being based in or having the majority of our operations in China, see “Part I—Risks Associated with Being Based in or Having the Majority of the Operations in China.” For the risks associated with the HFCA Act, see “Part I—Risks Associated with the Holding Foreign Companies Accountable Act.”

### **Our Apartment Network**

We started the apartment rental business in 2012 in Shanghai, one of the most prosperous cities in China with the largest migrant population. Leveraging the experience and knowledge accrued in managing rental apartments in Shanghai, we have expanded to other top-tier cities, including Shanghai’s adjacent Suzhou market in 2013 and Hangzhou in 2016, and subsequently Nanjing, Wuhan and Beijing in late 2017. In December 2019, we started to expand our apartment network to Tianjin. In FY 2022, 44.5% of our leases with landlords, or leases of 8,451 rental apartments, were terminated as we strategically reduced the number of leases with landlords to reduce the rentals we need to pay to the landlords, in response to the lower tenant demand and thus, lower occupancy rate and revenues from tenants which were not sufficient to cover the rentals we need to pay to the landlords due to the COVID-19 pandemic in China. This helped us to optimize our portfolio and mitigate the adverse effect of the COVID-19 pandemic on our business, cash flow and financial conditions. We had also actively seeking high quality apartments in FY 2022. In July 2020, we expanded our apartment network by acquiring lease contracts with landlords and tenants and related fixtures, equipment and other assets from a rental service company for approximately 72,000 rental units in various cities across China. As of September 30, 2022, we had 38,253 available rental units under management spread across China located in Beijing, Chengdu, Fuzhou, Hefei, Kunming, Nanchang, Nanjing, Nanning, Qingdao, Xi’an, and Tianjin.

We have been focused on, and will continue to target, markets with multiple demand generators, such as proximity to transportation corridors (e.g., locations along the coastal lines or the Yangtze River, or in the intersection of multiple high-speed railways), strong economic prospects (e.g., top 50 in China in terms of GDP), abundant job opportunities, high home ownership costs, large and increasing inflow of migrants (e.g., with population over 8 million), solid suburban development plans, and favorable government policy on apartment rental, etc.

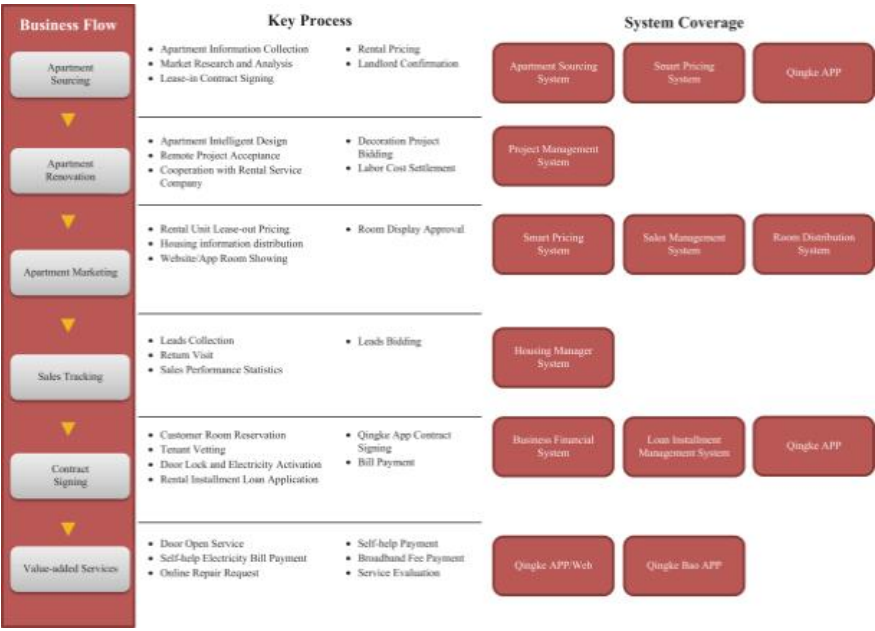
Within our target markets, our apartments are strategically located in neighborhoods near subway stations in the metropolitan areas. These locations provide tenants with convenient access to an entire city, including major business districts and commercial centers, and hence strong demand potential and ample space for rental increase (driven, for example, by opening of a new subway line or extension of an existing subway line, a new commercial center etc.).

### **Our Technology-Driven Business Model**

We utilize an efficient and scalable lease-and-operate model, under which we lease individual apartments from apartment owners and rent out to individual tenants after necessary renovation. Our highly efficient business process and centralized management of a large dispersed portfolio of rental apartments are built on, and enabled by, our technology-driven, end-to-end, and extensible systems.

We apply technology in every step of our operation from apartment sourcing, renovation, and tenant acquisition, to property management. These include our dynamic pricing system for fair, transparent, and efficient rental pricing, innovative project management system to centrally manage, monitor, and control renovation process, and intuitive mobile applications to reduce customer acquisition and property management cost. Our focus on technology has enabled us to operate efficiently and grow rapidly while maintaining quality control and optimizing user experience.

The following diagram illustrates the key modules of our technology-driven, end-to-end systems. All of these modules are web-based or mobile-based information systems, and developed in-house.



Apartment Sourcing

Overview

We have followed a disciplined and systematic process to expand our apartment network. This involves comprehensive market research of macro factors and local government policies on apartment rental, in depth analysis of local market supply and demand dynamics through collecting and analyzing relevant data, including housing sales transaction information, residential building vacancy rate, rental demand, and rental price development. We conduct in-person visits to relevant neighborhoods and real estate agencies nearby to get first-hand experience of traffic flow, e.g., proximity to a subway station or other local traffic or commercial hub; competitive landscape, including the presence of any other branded long-term apartment operators or individual landlords; and abundance of available-for-rent apartments with ample room for revitalization and optimization, such as existence of a newly developed property complex for people re locating from previously owned properties in urban planning.

We gather information of available for rent apartments from both online and offline channels. Online channels include our mobile APP, which can be used by property owners to submit information of their available for rent apartments, and third-party channels including classified ads websites. Our sourcing staff also gather leads of available for rent apartments from local neighborhood committees and property managers, and real estate agencies nearby during their field visits to the relevant neighborhoods.

We use a mobile-based apartment sourcing system to manage the sourcing process, and a technology-driven Smart Pricing System for efficient and fair rental pricing. Through these systems, our sourcing staff submit detailed information of potential apartments for our centralized approval, as well as signing lease contracts and managing relationships with landlords, etc.

We have a dedicated sourcing team which is incentivized to achieve not only the targeted number of apartments to be sourced, but also the quality of the apartments they source, aligning their interests with our long-term goals.

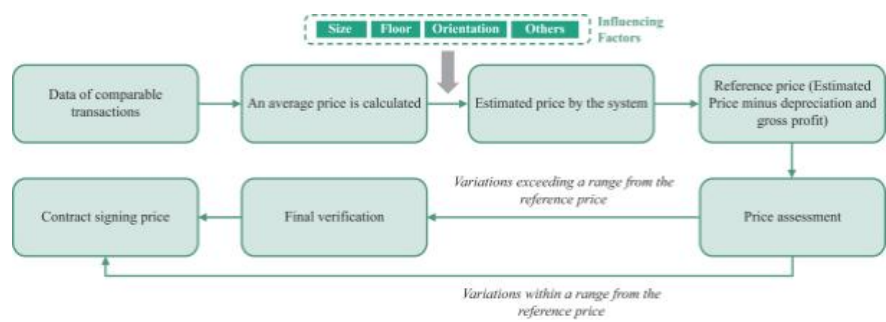
In July 2020, to replenish and expand our rental units portfolio, one of our subsidiaries entered into agreements with a rental service company, Great Alliance Co-living Limited, and its affiliates to acquire lease contracts with landlords and tenants and related fixtures, equipment and other assets for approximately 72,000 rental units in various cities across China. In FY 2022, we have continued to optimize our asset portfolios and reduced the number of rental units under management. As of September 30, 2022, we had 38,253 available rental units under management spread across China located in Beijing, Chengdu, Fuzhou, Hefei, Kunming, Nanchang, Nanjing, Nanning, Qingdao, Xi'an, and Tianjin. We have carried out due diligence to verify the authenticity and the quality of these rental units, including but not limited to site visits, calls with landlords and tenants of these rental units, and verification of the operating data such as occupancy rate and rental margin of these rental units provided by the rental service company.

**Rental Pricing**

A key element for our apartment sourcing is establishing the right rental pricing to expand our apartment portfolio and gain greater market share, while at the same time meeting our strategic and financial return criteria.

We use big data to establish a fair and efficient rental pricing mechanism, our proprietary technology-driven Smart Pricing System, to provide clear guidance to our apartment sourcing staff to ensure satisfactory financial return during the lease term. Our sourcing staff input the basic information including location, residential compound name, floor, size, and number of bedrooms etc., into our Smart Pricing System. Our Smart Pricing System estimates appropriate rental cost and price by selecting and parsing rentals from recent comparable transactions in adjacent area from our own transaction data and public market data, and automatically adjusts the level of the rentals based on multiple influencing factors, including size, orientation, and floor. Our Smart Pricing System helps mitigate losses arising from inaccurate manual pricing techniques and reduces reliance on sourcing staff's personal judgment, as well as streamlining the pricing process. When we expand into a new city, the Smart Pricing system is replicable with some adjustments in parameters, enabling faster expansion at a lower cost.

The diagram below illustrates our dynamic, smart pricing process.



**Our Lease-in Contracts**

The transparent pricing mechanism enabled by our Smart Pricing System has helped us in our sales pitches to landlords and tenants to negotiate favorable rents and lease terms. In July 2020, to replenish and expand our rental units portfolio, we acquired lease contracts with landlords and tenants and related fixtures, equipment and other assets for approximately 72,000 rental units in various cities across China from another rental service company. In FY 2022, we have continued to optimize our asset portfolios and reduced the number of rental units under management. As of September 30, 2022, we had 38,253 available rental units under management spread across China located in Beijing, Chengdu, Fuzhou, Hefei, Kunming, Nanchang, Nanjing, Nanning, Qingdao, Xi'an, and Tianjin.

Since July 2020, the term of our leases with landlords has been typically five years, or the lease-in contract lock-in period. Before July 2020 and from 2017, we typically entered into a lease with a landlord with a minimum term of six-year period, or lease-in contract lock-in period, which shall be extended for up to two years, at the

landlord's discretion. Before 2017, we typically entered into a lease with a landlord with a minimum term of five-year lease-in contract lock-in period, which shall be extended for up to three years, at the landlord's discretion. During the lease-in contract lock-in period, neither landlords nor us may terminate the lease without paying a penalty equal to the rentals for the remaining lease-in contract lock-in period. As of September 30, 2022, our average lease-in contract lock-in period was 28.7 months and a majority of our apartments contracted were less than two years into leases with landlords. We typically manage to obtain a rental free period of 30 to 90 days from our landlords. Additionally, we generally lock in the lease-in cost for the first two years. Below is the expiration table of our leases with landlords as of September 30, 2022 assuming all landlords terminate the lease upon the expiry of the lease-in contract lock-in period.

	Total leases with landlords	Leases expiring by the end of									
		FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032 and after
Number of rental apartments with	10,448	3,224	3,572	2,248	730	215	228	157	25	15	34
Average annual straight-lined rental cost represented by (RMB in million)	70.9	337.5	196.3	80.7	34.2	21.0	15.1	7.5	4.9	4.2	7.3
Percentage of total annual straight-lined rental cost (%)	100 %	47.6 %	27.7 %	11.4 %	4.8 %	3.0 %	2.1 %	1.1 %	0.7 %	0.6 %	1.0 %

We usually do not need to prepay security deposits to landlords. After the rent free period, we usually prepay rentals on a quarterly basis. As we expand and our reputation grows, an increasing number of landlords no longer require us to pay security deposits. If a landlord terminates the lease during the lease-in contract lock-in period, he or she is required to compensate us for the amount equivalent to the rental income of the remaining period of the lease. At the end of the lease term, we may take all non-fixtures such as electric appliances that we have installed in the apartment. Landlords generally give representations on the authority to rent out the apartment and apartment condition. For leases with landlords entered into in April 2019 or after, if the monthly rentals (after discount for rental prepayment) that we received from tenants are lower than our monthly rental to landlords for six consecutive months, we have the right to renegotiate for a lower monthly rental to landlords or terminate the relevant leases with landlords.

Since February 2019, we have started to source decorated and furnished apartments from landlords. Under this model, depending on the decoration quality, we generally only need to add a wall to separate out an additional bedroom from the living room, furnish the additional bedroom, and install smart door locks to the apartment and each bedroom therein, thus substantially reducing our cost for renovation, compared to sourcing bare-bones apartments. In addition, we are exploring a model under which our landlords would fund the upfront costs for apartment outfitting. These initiatives help reduce our upfront capital outlay so that we can scale up more rapidly.

## Apartment Renovation

Our apartment renovation process typically involves converting the living room in a leased-in apartment to add an additional bedroom, or the N+1 model, following the guidance in the applicable local regulations; and decorating and furnishing the leased-in apartments, which are often kept in bare-bones condition (cement walls and floors and utility pipes only) and unfurnished. In addition, depending on the condition of the apartment after a tenant moves out, we may conduct light renovation to ensure consistent standard and quality across our lease-out apartments. We have developed a standardized process to renovate the apartments, which includes measuring, designing, reviewing and budgeting, reconstruction, installation, and inspection and review, and further break down the key steps into pre-set modules, such as design packages and distinctive construction orders to improve efficiency.

We have independently developed a technology-driven, innovative project management system to centrally dispatch job requests, manage suppliers and contractors, monitor the renovation process, track delivery schedules, and exert quality control throughout the entire apartment renovation process. Our project management system

enables modularization, standardization and digitization of the renovation process. This has allowed us to efficiently manage a fast-growing number of suppliers and contractors to sustain our business growth while ensuring consistency in quality.

We perform centralized purchasing for construction materials (except low-cost and heavy materials such as cement, and materials that need to be customized, such as doors, which need to be tailored based on the relevant floor-to-ceiling height), sanitary ware, furniture, electronic appliances etc. We are able to bulk purchase directly from manufacturers at competitive prices as we scale up. We exert stringent control on the materials used in the renovation process to ensure that our rental apartments comply with the relevant safety and environmental standards such as residual levels of formaldehyde and other chemicals.

The following are the key steps in our apartment renovation process. We outsource the renovation process, such as designing, reconstruction, installation, and inspection to qualified third-party contractors, who bid for blueprint drawing, construction, installation, and inspection orders. Contractors are selected and constantly evaluated based on multiple factors, including their qualifications, quality of work, and capability to meet our deadlines, for optimal allocation of the job requests.

*Measuring.* Measuring involves onsite measuring of the property. We have developed our proprietary measurement robot based on advanced technology. The robot can be operated by our staff onsite to measure the room size and structure of our apartments and generate a floorplan and an elevation in about 40 minutes. Our onsite professionals then upload the full room scan to our cloud server. This enhances measurement accuracy, reduces time needed and saves labor costs.

*Designing.* Designing involves readjusting and construction drawing. We have developed a unique blueprint drawing process to break down one comprehensive set of blueprints into more than 20 distinctive renovation processes or steps under six design packages. This shortens the drawing process to 24 hours, and eliminates potential capacity bottlenecks.

*Reviewing and Budgeting.* Once the drawings are done, our system produces a detailed budget and work plan with the list of materials and products needed, the delivery schedule and construction work schedule, against which we track actual progress to avoid delays.

*Reconstruction.* Reconstruction involves demolition and renovation, reconstruction of water and electricity installation, plastering, wood-working and painting. We separate the reconstruction processes into distinctive construction orders, and contractors bid for each construction order through our project management system.

*Installation.* Installation involves installation of furniture and electric appliance. Contractors bid for installation orders, and to ensure the quality and timely completion of installation work, contractors are required to take pictures and record videos of the working sites at the end of every working day and upload them to the system for our remote approval.

*Inspection and Review.* To ensure the quality and timely completion of construction work, contractors are required to take pictures and record videos of the working sites upon completion of each step and upload them to our system for our remote approval. Our staff from our engineering department may also conduct onsite inspection on a selective basis. In addition, following the completion of the construction and installation, our staff from our engineering department will conduct an onsite check of air quality, and if formaldehyde tested exceeds the national permitted level in the PRC, we would air the room and conduct a follow-up check in a few days until the formaldehyde falls below the permitted level.

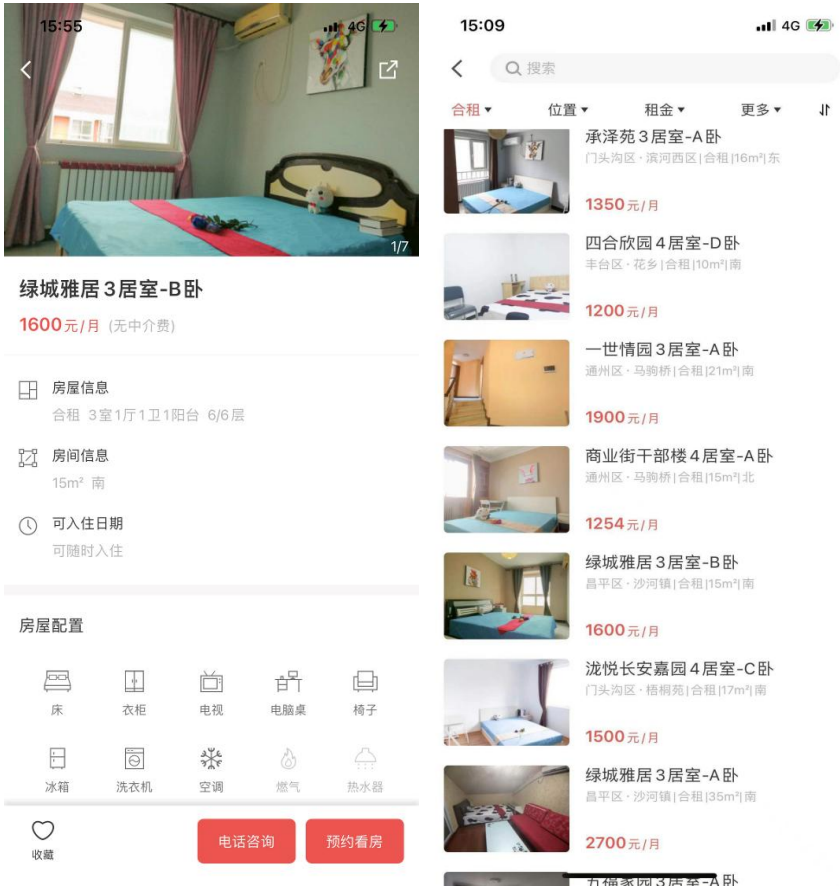
## **Apartment Marketing and Leasing**

### ***Apartment Marketing***

We conduct the majority of our marketing and sales process online, which improves our efficiency and provides a more convenient and transparent rental experience for tenants. We list the apartments on our website and mobile applications. Prospective tenants can search and view an apartment, and sign the lease online or via our

interactive APP. Leveraging our data analytics, our APP displays available apartments in tenants’ vicinity matching their inferred location and budget based on the price tiers of their smartphones, and the tenants may further fine tune the search results using various criteria including location, rental price, proximity to subway line etc., making apartment searching more efficient. As of the date of this annual report, for a majority of our listings, in addition to pictures, we also provide a 360 degree video of the apartments to give potential tenants a better view and to improve the efficiency of apartment viewing. Besides the searching and viewing functions, our APP also allows tenants to make appointments for in-person apartment viewing and interact with our sales staff live.

Mobile Map-based Apartment Search Interface on our APP



In addition to our website and APP, we use third-party platforms to promote our apartment rooms and acquire potential tenants, including search engines, online classified information platforms, online rental listing websites, and agents’ WeChat corporate accounts.

In FY 2022, substantially all of our tenants were sourced online.

Sales Management and Rental Pricing

We use a mobile-based, automated sales management system for our sales staff, who are our apartment managers, to bid for available rooms and tenant leads from call centers, track leasing process, manage rented rooms, etc. on their mobile phones or tablets. The system also allows us to track and evaluate their performance, including the number of visits completed, and the number of leases signed.

We apply our Smart Pricing System to price our lease-out rental through an automated, dynamic process, which takes into account data points including rent-in cost, decoration cost, historical transaction data (e.g., price and occupancy rate), demand fluctuations (e.g. low demand around the Chinese New Year holiday period and high demand in July and August with new college graduates moving out of campus), target occupancy rate, and market prices for apartments in similar conditions.

We have adopted a compensation structure for our sales staff, designed to better align their interest with ours to achieve a higher rental spread and reduce tenant acquisition costs. Our sales staff are generally paid a base salary plus performance-linked bonuses and other incentives to encourage full price sales and longer term leases.

### ***Tenant Vetting Process***

We require our tenants to go through our standardized tenant vetting process before we enter into a lease with him or her. Our tenant vetting process mainly includes identity authentication, criminal background checks and collection and verification of tenants' basic information. We are one of the earliest apartment rental platforms in China that utilize face recognition technology to verify the identity of a tenant. We are connected to the systems of the public security bureau to conduct tenant background checks and may reject lease applications if the background check results are unsatisfactory.

### ***Tenant Relations and Property Maintenance***

We provide after-rent services including bi-weekly cleaning of the common spaces and repair services as requested by tenants via our APP, our call centers and local property management office. Leveraging our technology platform, we have developed a number of services to improve the efficiency of our property maintenance practices and maximize tenant satisfaction. These include:

*Smart door lock service.* All our apartment and bedroom doors are equipped with smart digital locks and tenants can enter by tapping a digital access card. Some of our smart digital locks are equipped with Bluetooth function so that tenants can enjoy key-less apartment and bedroom access by logging into our APP with their accounts and passwords and pressing "I want to unlock a door" button in our APP. Our APP then sends a signal via Bluetooth to the digital locks on the apartment and bedroom doors. Alternatively, by tapping digital access cards or calling our call center, tenants may open the apartment and bedroom doors when their mobile phones run out of battery or lose internet access. In addition, through our digital locks, we have the ability to control the access to our apartments and bedrooms and may take over the relevant property if a tenant defaults on payment after sufficient warning pursuant to our lease agreement and the relevant PRC laws.

*Repair request and service evaluation.* Tenants may submit repair and maintenance requests on our APP, such as reporting a malfunctioning home appliance. Our service center will schedule appointments with tenants within 24-48 hours based on the urgency of such requests. To ensure the quality of the repair provided by our service providers, we ask our tenants to fill out a service evaluation questionnaire on our APP after the appointments.

We outsource the cleaning, maintenance and repair services to qualified third-party service contractors, who compete for orders on our bidding system. To ensure the quality of the cleaning and repair services, contractors are required to upload pictures of work sites after completion of each service for our inspection and approval.

Our apartment managers regularly visit our apartments to inspect their condition, paying particular attention to potential safety hazards as well as potential causes of damage that could result in significant maintenance costs if left unaddressed, assess and document interior and exterior condition, and determine whether the tenant is adhering to the terms of their lease. They also schedule periodic in-person checks on service contractors' work quality. In addition, our apartment managers conduct inspections prior to scheduled tenant move outs to notify tenants of any repairs they may need to undertake prior to moving out of the property, in order to avoid forfeiture of part or all of their security deposit. These inspections also allow us to begin preparing a scope of work and budget for the turnover work we undertake to prepare our apartments to be re-leased to a new tenant, and increase our ability to pre-market our apartments.

*Self-help rental and bill payment.* Our tenants may pay rental and utility bills via our APP. Our APP consolidates all outstanding bills and connects to tenants’ bank accounts. Once we receive the authorization from the tenants, our APP will automatically deduct the authorized amounts from the tenants’ accounts to settle the bills.

We make tenant safety and security our priority. We engage third-party service contractors to inspect safety facilities and appliances in our rental apartments on a bi-weekly basis to identify any potential safety hazards. In addition, we may forfeit all or part of a tenant’s security deposits or terminate the lease pursuant to the terms of the lease, if he or she violates the rules for our rental community in a serious way, such as causing nuisances or otherwise jeopardizing other tenants or damaging our rental apartments or facilities.

In July 2020, to replenish and expand our rental units portfolio, we acquired lease contracts with landlords and tenants and related fixtures, equipment and other assets for approximately 72,000 rental units in various cities across China. In FY 2022, we have continued to optimize our asset portfolios and reduced the number of rental units under management. As of September 30, 2022, we had 38,253 available rental units under management spread across China located in Beijing, Chengdu, Fuzhou, Hefei, Kunming, Nanchang, Nanjing, Nanning, Qingdao, Xi’an, and Tianjin. We have engaged a third-party contractor to manage these rental units, including but not limited to marketing, maintenance, tenant screening, communications with landlords and tenants. We take measures to supervise and control the quality of the contractor’s management, including but not limited to monitoring operating data related to these rental units on a daily basis such as the number of new leases with tenants and amount of rental income, and reviewing the performance of these rental units each month. For the management of these rental units, we are in the process of integrating these rental units into our proprietary system and APP, and before this process completes, some of these rental units are still managed using the third-party contractor’s system.

**Our Apartments and Services**

***Our Rental Units***

Our rental units typically had net area (excluding common spaces) from 10 square meters to 15 square meters, with monthly rental from RMB300 to RMB22,000 in FY 2022, depending on factors including location and type of housing. Our rental units are generally fitted with standardized interior styles, and are equipped with air conditioners and basic furniture including a bed, a wardrobe, a desk and a chair. Bathrooms and kitchens are equipped with standardized electrical appliances. We install a digital lock and separate electricity meter for each bedroom. All our apartments have pre-installed broadband internet access including Wi Fi.

The following are pictures of our standard bedrooms, bathroom and kitchen.

**Standard Bedrooms**







When a new tenant moves in, our apartment managers conduct a tenant orientation, during which we revisit the terms of the lease, outline what aspects of the apartment's upkeep are the tenant's responsibility, walk through all of the home's major systems in order to familiarize the tenant with their safe and proper operation. During the move-in orientation, each tenant is provided with a "refrigerator list" and encouraged to keep a record of any non-emergency service items noted after moving into the apartment. By conducting an in-person move-in orientation, we are able to ensure that tenants understand their obligations under the terms of their lease, as well as how to safely and properly operate the apartment's systems, reducing both the likelihood of misaligned expectations and unnecessary wear and tear on the apartment.

The following is a summary of the key terms in a typical lease with tenant.

*Contracted lease term.* Typically 3 to 12 months. Rental is fixed through the term of the lease. During the contracted lease term, typically, termination will result in forfeiture of the security deposit. On September 30, 2022, the average contracted lease term of our outstanding leases was 11.4 months.

Since May 2020, the financial institutions have suspended providing new rental installment loans to tenants. Before this, if a tenant's rental installment loan application was approved, his or her lease would be subject to a lock-in period of 12 months or longer. If the rental installment loan application was denied, his or her lease would not be subject to such lock-in period and he or she might move out after all prepaid rents were used or enter into a new lease with us with an agreed lock-in period. On September 30, 2022, none of our tenants was in the process of applying for rental installment loans.

In FY 2020, FY 2021 and FY 2022, tenants on average stayed in our rental units for 8.8 months, 8.2 months and 8.3 months, respectively.

*Security deposit.* Usually one to two months' rental to cover damages to the apartment, potential loss, tenant default and certain early termination as described below.

*Rental prepayment and payment frequency.* Tenants are required to pay for the rental in advance every three months during the contracted lease term. We subsidize the interest payment for rental installment loan offered by our financial institution partners. The rental prepayment helps us finance our expansion and operation.

Upon termination of the lease, we will return the unused portion of any prepaid rental to the tenant, or the financial institution where the tenant utilized the proceeds from the rental installment loan granted by the financial institution to prepay the rental. It is common for tenants to terminate the leases before the expiration of the lease term. In FY 2022, 43.8% of our terminated leases with tenants were terminated before the expiration of the contracted lease term.

*Tenants' initial stays.* To encourage prospective tenants to try out our apartments, we have put in place a policy to allow tenants to cancel leases within three days from the move-in date, and we will return all rental, deposits and fees penalty free. If a new tenant cancels the lease on the fourth to seventh day, we will return all unused rental, deposit and fees penalty free. In FY 2022, approximately 1.91% of our leases with tenants were terminated during the first week of their leases.

*Termination.* If a tenant chooses to terminate the lease during the lock-in period, except for termination during the first week of the lease, the tenant's security deposit will be forfeited and other fees may apply. After the lock-in period, the tenant may terminate the lease anytime without penalty. If we choose to terminate the lease before the expiry of the lease term, except for termination upon tenant's default, we will generally facilitate tenant relocation and subsidize relocation related expenses.

*Utilities and internet access.* Tenants are usually required to prepay utilities including water and electricity. We typically charge tenants a flat monthly fee for broadband internet access.

*Other covenants of the tenants.* Tenants shall not, without approval from us, sublease or allow unauthorized person to live in the apartments. Pets are not allowed in the apartments. Tenants shall abide by our tenant convention which includes requirements such as noise control, proper use of public area, paying bills in a timely manner, etc.

### ***Our Value-added Services***

We are committed to not just providing a room but a home to our tenants, and improving their overall quality of life. To that end, we offer a wide variety of value-added products and services through our engaging online and mobile platform and frequent offline group activities to alleviate the hassles and stress associated with moving into a new apartment and settling in a big city. These initiatives cater to tenants' lifestyle demand and foster a strong sense of community among our tenants, enhancing their brand loyalty.

We cooperate with third-party service providers to offer complementary bi-weekly cleaning of common spaces, and broadband internet and bedroom cleaning at a charge. Tenants can subscribe to the broadband internet service package or book the bedroom cleaning service through our APP.

### ***Cooperation with Third-party contractors to Manage Rental Units***

We started to expand our cooperation with third-party contractors to manage rental units. In July 2020, to replenish and expand our rental units portfolio, one of our subsidiaries entered into agreements with a rental service company and its affiliates to acquire-lease contracts with landlords and tenants and related fixtures, equipment and other assets for approximately 72,000 rental units in various cities across China. In FY 2022, we have continued to optimize our asset portfolios and reduced the number of rental units under management. As of September 30, 2022, we had 38,253 available rental units under management spread across China located in Beijing, Chengdu, Fuzhou, Hefei, Kunming, Nanchang, Nanjing, Nanning, Qingdao, Xi'an, and Tianjin. We have engaged a third-party contractor to manage these rental units, including but not limited to marketing, maintenance, tenant screening, communications with landlords and tenants. We take measures to supervise and control the quality of the contractor's management, including but not limited to monitoring operating data related to these rental units on a daily basis such as the number of new leases with tenants and amount of rental income, and reviewing the performance of these rental units each month. We are in the process of integrating these rental units into our system.

## **Our Data Analytics and Data Security**

### ***Our Data Analytics***

We have accumulated extensive data from apartment rental and other related activities, including apartment information data, project management data, and data on landlord and tenants' attributes. We have optimized our database structure to make it more suitable for AI and machine learning processes. The data we have accumulated are continuously fed into and refine our data analytics, which are the backbone of our business. Our big data analytic capabilities enable us to achieve data fusion across business scenarios upon our core database to drive our operation efficiency and additional revenue opportunities. As of September 30, 2022, our research and development team of eight data scientists and engineers worked continually to optimize our proprietary analytical models and improve our analytic capabilities.

For example, once information of available for rent apartments is input into our system, we store, cleanse, structure and encrypt the data, including landlord information, apartment information including price, location, residential compound name, floor, layouts, size, etc., for modeling exercise in an aggregated and anonymized fashion. Our technology-driven Smart Pricing System estimates appropriate rental cost and price by selecting and parsing historical rentals from recent comparable transactions in adjacent area from our own transaction data and public market data collected from third parties, and then automatically adjusts the level of the rentals based on multiple influencing factors, including size, orientation, and floor (high, medium or low). Our data analytics enable us to effectively manage occupancy rates and rental rates and implement and adjust our marketing strategy based on real-time data feedback.

Our data analytics also help us manage a fast-growing number of suppliers and contractors efficiently. Our contractors and suppliers can bid for renovation requests and maintenance service orders in real-time in our dynamic bidding system. We grade the contractors and suppliers based on their track record of project fulfillment and other criteria, and constantly update the grading based on the feedback from our systems for more efficient work allocation and better quality control.

We have also accumulated valuable data on our tenants from the apartment leasing process and after-rent services. Leveraging these data insights and our data algorithms, we are able to predict tenants' interests to construct big data recommendation engines. This enables us to implement more tailored marketing and explore additional revenue opportunities.

### ***Data Privacy and Security***

Data privacy is of utmost importance to us. We dedicate significant resources to the goal of strengthening our user privacy protection, promoting a safe environment, and ensuring the security of user data.

Our tenants or landlords are required to register an account on our APP and sign up to a user agreement in the registration process. The user privacy section of the user agreement describes our data use practices and how privacy works. Specifically, we undertake to manage and use the data collected from users in accordance with applicable laws and make reasonable efforts to prevent the unauthorized use, loss, or leak of user data and will not disclose sensitive user data to any third party without users' approval except under legal requirement or certain circumstances specified in the user agreement. In addition, we use a variety of technologies to protect the data with which we are entrusted and have a team of privacy professionals dedicated to the ongoing review and monitoring of data security practices. For example, we store all user data in encrypted format and strictly limit the number of personnel who can access those servers that store user data. Only our senior management team and employees whose work is directly related have access to the data, and all of our employees must acquire prior approval to download any data. For our external interfaces, we also utilize firewalls to protect against potential attacks or unauthorized access.

We are committed to maintaining a secure information technology infrastructure. We have been granted a Level 3 data protection certification for our system by the relevant PRC regulatory authority, the highest level achievable by a non-financial institution in China. We have built a firewall that monitors and controls incoming and outgoing traffic and will automatically take reactive measures against threats. We also have a firewall between our private cloud services and public cloud services. We segregate our internal databases and operating systems from

our external-facing services and intercept unauthorized access. We encrypt our data transmission, especially user data transmission, using sophisticated security protocols and algorithms to ensure confidentiality. We back up our user data and operating data on a daily basis in separate back-up systems to minimize the risk of user data loss or leakage. In particular, we have adopted comprehensive policies and measures to comply with the relevant PRC secrecy laws and regulations. We also provide personal information security protection training to our relevant employees, and require them to report any information security breach. Upon the occurrence of an information security breach, we will follow pre-determined procedures and systems to respond to any such incident in accordance with our policies and measures. We have also adopted and implemented a comprehensive set of rules and policies relating to information system integrity to prevent physical and cyberspace security breach, such as running code tests before applying new codes. We perform periodic reviews of our information technology infrastructure, identifying and mitigating problems that may undermine our system security.

The regulatory framework for the collection, use, safeguarding, sharing, transfer and other processing of personal information and important data worldwide is rapidly evolving in PRC and is likely to remain uncertain for the foreseeable future. Regulatory authorities in China have implemented and are considering a number of legislative and regulatory proposals concerning data protection. For example, the PRC Cybersecurity Law, which became effective in June 2017, established China's first national-level data protection for "network operators," which may include all organizations in China that connect to or provide services over the internet or other information network. The PRC Data Security Law, which was promulgated by the Standing Committee of PRC National People's Congress, or the SCNPC, on June 10, 2021 and became effective on September 1, 2021, outlines the main system framework of data security protection.

In December 2021, the CAC promulgated the amended Measures of Cybersecurity Review which require cyberspace operators with personal information of more than one million users to file for cybersecurity review with the CRO, in the event such operators plan for an overseas listing. The amended Measures of Cybersecurity Review provide that, among others, an application for cybersecurity review must be made by an issuer that is a "critical information infrastructure operator" or a "data processing operator" as defined therein before such issuer's securities become listed in a foreign country, if the issuer possesses personal information of more than one million users, and that the relevant governmental authorities in the PRC may initiate cybersecurity review if such governmental authorities determine an operator's cyber products or services, data processing or potential listing in a foreign country affect or may affect China's national security. The amended Measures of Cybersecurity Review will take effect on February 15, 2022. In August 2021, the Standing Committee of the National People's Congress of China promulgated the Personal Information Protection Law which became effective on November 1, 2021. The Personal Information Protection Law provides a comprehensive set of data privacy and protection requirements that apply to the processing of personal information and expands data protection compliance obligations to cover the processing of personal information of persons by organizations and individuals in China, and the processing of personal information of persons outside of China if such processing is for purposes of providing products and services to, or analyzing and evaluating the behavior of, persons in China. The Personal Information Protection Law also provides that critical information infrastructure operators and personal information processing entities who process personal information meeting a volume threshold to be set by Chinese cyberspace regulators are also required to store in China personal information generated or collected in China, and to pass a security assessment administered by Chinese cyberspace regulators for any export of such personal information. Moreover, pursuant to the Personal Information Protection Law, persons who seriously violate this law may be fined for up to RMB50 million or 5% of annual revenues generated in the prior year and may also be ordered to suspend any related activity by competent authorities.

In November 2021, the CAC released the Regulations on Network Data Security (draft for public comments) and accepted public comments until December 13, 2021. The draft Regulations on Network Data Security provide more detailed guidance on how to implement the general legal requirements under laws such as the Cybersecurity Law, Data Security Law and the Personal Information Protection Law. The draft Regulations on Network Data Security follow the principle that the state will regulate based on a data classification and multi-level protection scheme, under which data is largely classified into three categories: general data, important data and core data. Under the current PRC cybersecurity laws in China, critical information infrastructure operators that intend to purchase internet products and services that may affect national security must be subject to the cybersecurity review. On July 30, 2021, the State Council of the PRC promulgated the Regulations on the Protection of the Security of Critical Information Infrastructure, which took effect on September 1, 2021. The regulations require, among others,

that certain competent authorities shall identify critical information infrastructures. If any critical information infrastructure is identified, they shall promptly notify the relevant operators and the Ministry of Public Security.

Currently, the cybersecurity laws and regulations have not directly affected our business and operations, but in anticipation of the strengthened implementation of cybersecurity laws and regulations and the expansion of our business, we face potential risks if we are deemed as a critical information infrastructure operator under the Cybersecurity Law. In such case, we must fulfill certain obligations as required under the Cybersecurity Law and other applicable laws, including, among others, storing personal information and important data collected and produced within the PRC territory during our operations in China, which we are already doing in our business, and we may be subject to review when purchasing internet products and services. When the amended Measures of Cybersecurity Review take effect in February 2022, we may be subject to review when conducting data processing activities, and may face challenges in addressing its requirements and make necessary changes to our internal policies and practices in data processing. As of the date of this annual report, we have not been involved in any investigations on cybersecurity review made by the CAC on such basis, and we have not received any inquiry, notice, warning, or sanctions in such respect. Based on the foregoing, we and our PRC legal counsel, JunHe LLP, do not expect that, as of the date of this annual report, the current applicable PRC laws on cybersecurity would have a material adverse impact on our business.

On September 1, 2021, the PRC Data Security Law became effective, which imposes data security and privacy obligations on entities and individuals conducting data-related activities, and introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, as well as the degree of harm it will cause to national security, public interests, or legitimate rights and interests of individuals or organizations when such data is tampered with, destroyed, leaked, or illegally acquired or used. As of the date of this annual report, we have not been involved in any investigations on data security compliance made in connection with the PRC Data Security Law, and we have not received any inquiry, notice, warning, or sanctions in such respect. Based on the foregoing, we do not expect that, as of the date of this annual report, the PRC Data Security Law would have a material adverse impact on our business.

On July 6, 2021, the relevant PRC governmental authorities publicated the Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law. These opinions require the relevant regulators to coordinate and accelerate amendments of legislation on the confidentiality and archive management related to overseas issuance and listing of securities, and to improve the legislation on data security, cross-border data flow and management of confidential information. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. As these opinions were recently issued, official guidance and related implementation rules have not been issued yet and the interpretation of these opinions remains unclear at this stage. As of the date of this annual report, we have not received any inquiry, notice, warning, or sanctions from the CSRC or any other PRC government authorities. Based on the foregoing and the currently effective PRC laws, we and our PRC legal counsel, JunHe LLP, are of the view that, as of the date of this annual report, these opinions do not have a material adverse impact on our business.

On December 24, 2021, the CSRC published the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments), and Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments), or, collectively, the Draft Overseas Listing Regulations, which set out the new regulatory requirements and filing procedures for Chinese companies seeking direct or indirect listing in overseas markets. The Draft Overseas Listing Regulations, among others, stipulate that Chinese companies that seek to offer and list securities in overseas markets shall fulfill the filing procedures with and report relevant information to the CSRC, and that an initial filing shall be submitted within three working days after the application for an initial public offering is submitted, and a second filing shall be submitted within three working days after the listing is completed. Moreover, an overseas offering and listing is prohibited under circumstances if (i) it is prohibited by PRC laws, (ii) it may constitute a threat to or endanger national security as reviewed and determined by competent PRC authorities, (iii) it has material ownership disputes over equity, major assets, and core technology, (iv) in recent three years, the Chinese operating entities and their controlling shareholders and actual controllers have committed relevant prescribed criminal offenses or are currently under investigations for suspicion of criminal offenses or major violations, (v) the directors, supervisors, or

senior executives have been subject to administrative punishment for severe violations, or are currently under investigations for suspicion of criminal offenses or major violations, or (vi) it has other circumstances as prescribed by the State Council. The Draft Overseas Listing Regulations, among others, stipulate that when determining whether an offering and listing shall be deemed as “an indirect overseas offering and listing by a Chinese company”, the principle of “substance over form” shall be followed, and if the issuer meets the following conditions, its offering and listing shall be determined as an “indirect overseas offering and listing by a Chinese company” and is therefore subject to the filing requirement: (i) the revenues, profits, total assets or net assets of the Chinese operating entities in the most recent financial year accounts for more than 50% of the corresponding data in the issuer’s audited consolidated financial statements for the same period; and (ii) the majority of senior management in charge of business operation are Chinese citizens or have domicile in PRC, and its principal place of business is located in PRC or main business activities are conducted in PRC. As advised by our PRC legal counsel, the Draft Overseas Listing Regulations were released only for soliciting public comment at this stage and their provisions and anticipated adoption or effective date are subject to changes, and thus their interpretation and implementation remain substantially uncertain. It is uncertain whether the Draft Overseas Listing Regulations apply to the follow-on offerings or other offerings of the Chinese companies that have been listed overseas. We cannot predict the impact of the Draft Overseas Listing Regulations on us at this stage.

On April 2, 2022, the CSRC published the Provisions on Strengthening the Confidentiality and Archives Administration Related to the Overseas Securities Offering and Listing by Domestic Enterprises (Draft for Comments), or the Draft Provisions on Confidentiality and Archives Administration, which was open for public comments until April 17, 2022. The Draft Provisions on Confidentiality and Archives Administration requires that, in the process of overseas issuance and listing of securities by domestic entities, the domestic entities, and securities companies and securities service institutions that provide relevant securities service shall strictly implement the provisions of relevant laws and regulations and the requirements of these provisions, establish and improve rules on confidentiality and archives administration. Where the domestic entities provide with or publicly disclose documents, materials or other items related to the state secrets and government work secrets to the relevant securities companies, securities service institutions, overseas regulatory authorities, or other entities or individuals, the companies shall apply for approval of competent departments with the authority of examination and approval in accordance with law and report the matter to the secrecy administrative departments at the same level for record filing. Where there is unclear or controversial whether or not the concerned materials are related to state secrets, the materials shall be reported to the relevant secrecy administrative departments for determination. However, the Draft Provisions on Confidentiality and Archives Administration have not yet been settled or become effective, and there remain uncertainties regarding the further interpretation and implementation of the Draft Provisions on Confidentiality and Archives Administration.

Further, the CAC issued the Measures for the Security Assessment of Outbound Data Transfer (the “Measures”) on July 7, 2022, which took effect on September 1, 2022. The Measures shall apply to the security assessment of data processors’ provision of important data and personal information collected and generated in their operations within the territory of the PRC to overseas recipients. The Measures require relevant data processors to submit a data security assessment to the CAC for review prior to the outbound data transfer activities in order to prevent illegal data transfer activities.

As there are still uncertainties regarding these new laws and regulations as well as the amendment, interpretation and implementation of the existing laws and regulations related to cybersecurity and data protection, we cannot assure you that we will be able to comply with these laws and regulations in all respects. The regulatory authorities may deem our activities or services non-compliant and therefore require us to suspend or terminate our business. We may also be subject to fines, legal or administrative sanctions and other adverse consequences, and may not be able to become in compliance with relevant laws and regulations in a timely manner, or at all. These may materially and adversely affect our business, financial condition, results of operations and reputation.

### ***Technology Systems and Infrastructure***

Our technology-driven, end-to-end systems are built on a highly-scalable and reliable public and proprietary cloud-based technology infrastructure. We have invested heavily in standardization of our technology systems, which are in continuous maintenance and upgrade processes and built to have scalability to support our growth. Our information technology system includes (i) front end mobile applications such as our APP and mini program on

WeChat; (ii) business management systems for each step of a rental transaction, such as our smart pricing and contractor bidding systems, (iii) support and management systems to provide back office and operational management support, such as management reporting and performance evaluation and (iv) Internet of things technology to remotely manage our dispersed apartments, e.g. our smart electric meters and smart door locks.

We have built an efficient, scalable and stable information technology infrastructure to provide strong computing ability for our information systems. Our technology infrastructure has been fully integrated with our computer environments and business requirements to serve as a powerful engine for business operation. As of September 30, 2022, our information technology infrastructure included five data centers and about 44 servers, with over 151 access nodes and with storage capacity of over 295 terabytes.

- *Real-time analytics.* We ingest a large amount of data through multiple highly optimized points and analyze them using both offline batch processing and online real-time processing through streaming technologies. This architecture allows us to combine multiple data dimensions and apply various machine learning algorithms in real-time to our data, including in rental pricing and contractor bidding for renovation projects. For example, our system analyzes potential tenants' traits simultaneously while they are searching for rental units on our APP, and recommends relevant rental units based on their location and budget, etc. as inferred by our data analytics. In addition, we adjust the number of new apartments to be leased in simultaneously according to our real-time lease-out operating data.
- *Scalability.* With modular architecture that is built to be horizontally scalable, our technology systems can be easily expanded as data storage and processing requirements increase to support our centralized management of a large dispersed portfolio of apartments. For example, our third party servers can be expanded within a few minutes by simply submitting an expansion request. Our data repositories are clustered and our data processing architecture is distributed in several cities in China, which supports efficient expansion. When need arises, we can easily add servers and integrate them into our existing server clusters as either data nodes or processing nodes.
- *Stability.* Our technology layers have built in software and hardware redundancy and will automatically switch if any error is detected. We implement a real-time data backup mechanism to ensure the reliability of our information technology infrastructure. Our system adopts modular architecture that consists of multiple connected components, each of which can be separately upgraded and replaced without compromising the functioning of other components. In addition, we have implemented a disaster recovery plan that involves hosting our information technology infrastructure in separate locations in China, including third party backup data servers for disaster recovery. We believe our information technology infrastructure is highly stable. We have not experienced any major interruption of our information technology infrastructure since inception.

## **Risk Management**

We face various types of risk in our business ranging from broad economic, rental market and interest rate risks, to more specific factors, such as re-leasing of properties and competition for properties, credit risk related to our tenants, and cash management risk where we are required to return the rental prepayment upon termination of a lease, either by tenants or by us due to, for example, tenant default.

We believe that our technology-driven systems and business processes allow us to monitor, manage and ultimately navigate these risks. For example, we seek to reduce the impact of increase in rental cost and shortage in supply by entering into long-term leases with landlords, with an agreed rent control period and a rent increase schedule. This provides us with a stable supply of properties as well as visibility into cost fluctuation.

We cooperate with a number of financial institutions, which provide rental installment loans to our tenants, and we provide guarantee. We may also provide additional credit enhancement in the form of security deposits, usually no more than 5% of the total outstanding loan balance with the relevant financial institutions with respect to our tenants' repayment of the loans. We seek to prevent and minimize the risk of tenant default through our robust, standardized tenant screening process (which includes credit checks, evaluations of household income and criminal background checks), and technology, including the installation of smart digital locks on each of our apartment and bedroom doors to deny apartment and bedroom access if a tenant defaults on payment after sufficient warning, and

our efficient sales management system to reduce the turnaround time to rent out a vacated apartment. Since May 2020, the financial institutions have suspended providing new rental installment loans to tenants. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—Our results of operation, financial condition, and reputation would be adversely affected if a significant number of our tenants fail to meet their obligations in connection with the lease.”

We encourage tenants to prepay rental and have used the prepayments to finance our operation and expansion. To the extent a lease is terminated before the rental period covered by the prepayment, we shall, upon such termination, return the unused prepaid rents, typically in a lump sum, to the tenant, or to our financial intuition partner where the tenant has used the rental installment loan granted by such financial institution to finance his/her rental prepayment. To manage potential liquidity risks arising from such early termination, we have adopted a stringent cash management policy, which involves monitoring the level of outstanding rental installment loan on the one hand, and our expenses and other capital requirements and available sources of financing on the other hand on a monthly basis to determine the maximum scale of rental installment loan for the following month. We also regularly monitor our current and expected liquidity requirements to ensure that we maintain sufficient cash balances of at least one month’s rental cost to meet our liquidity needs.

## **Research and Development**

We invest substantial resources in research and product development. Our research and development efforts are focused primarily on improving our technology and developing new systems that are complementary to existing ones including our pricing system and project management system. As of September 30, 2022, we had a research and development team of eight employees, representing more than 25.0% of our total employees.

## **Intellectual Property**

Our copyrights, trademarks, trade secrets, domain names and other intellectual properties are important to our business and we devote significant time and resources to their development and protection. We rely on intellectual property laws and confidentiality agreements to protect our intellectual property rights. In addition, we generally control access to and use of our proprietary and other confidential information through the use of internal and external controls, such as use of confidentiality agreements with our employees and outside consultants.

As of the date of this annual report, we had four copyrights registered in China, and two patents and eight trademarks registered outside China. Our intellectual properties are complementary and indispensable to each other to form the basis of our services and solutions and our operational systems. We intend to file additional intellectual property applications as we continue to innovate through our research and development efforts, and to pursue additional intellectual property protection to the extent we deem it beneficial and cost-effective.

From time to time, we incorporate certain intellectual property licensed from third parties, including under certain open source licenses. Even if any such third party technology did not continue to be available to us on commercially reasonable terms, we believe that alternative technologies would generally be available as needed. For additional information about our intellectual property and associated risks, see “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—We may be subject to intellectual property infringement or misappropriation claims by third parties, which may force us to incur substantial legal expenses and, if determined adversely against us, could materially disrupt our business.”

## **Competition**

- China’s long-term apartment rental market is highly competitive. We believe the principal competitive factors in the apartment rental market include:
- ability to source suitable and sufficient apartments across multiple regions with favorable lease terms, including contract length, rental free period, rent-in costs, etc.;
- ability to use big data analysis to establish competitive lease terms with both landlords and tenants;
- ability to establish sustainable unit economic model;



- ability to renovate and operate rental apartments in an efficient and cost-effective manner;
- ability to achieve high standardization and manage a complex supply network;
- ability to maintain financial flexibility;
- geographic coverage and customer reach;
- ability to establish comprehensive IT and internet infrastructure to manage a large and fast-growing portfolio of rental apartments; and
- brand awareness and customer satisfaction, including the availability and range of value-added services to help foster a sense of community and loyalty among tenants.

In particular, our competitors in sourcing apartments are companies with business similar to us, which may be large participants in the apartment rental market and may have greater resources than we do. These competitors may rent apartments that meet our requirements before we do as they have rapid access to the information of available apartments. In addition, our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of rental apartments. Our primary competitors in renting out rental apartments include other companies with business similar to us and apartment owners who directly rent their apartments to tenants. Our competitors' apartments may be newer, better located, at more affordable rents, with better incentives, amenities and value-added services and more attractive to tenants than our rental apartments may be. Our competitors may have higher rates of occupancy than we do, better access to tenant information or may have superior access to capital and other resources, which may result in our competitors more easily locating tenants and leasing available apartments at lower rental rates than we might offer at our rental apartments. Moreover, some competing housing options may qualify for government subsidies that may make such options more accessible and therefore more attractive than our rental apartments. However, we believe that our concentration on and experience in the apartment rental business, and our advanced system, and technology utilized in our apartment sourcing, renovation, operation and maintenance, provide us with competitive advantages.

### **Insurance**

In line with general market practice, we do not maintain any business interruption insurance, which is not typical in our industry or mandatory under PRC laws. We do not maintain key-man life insurance or insurance policies covering damages to our IT infrastructure or information technology systems. We also do not maintain insurance policies against risks relating to the contractual arrangements. We do not maintain insurance policies for landlords, tenants or contractors.

As required by laws and regulations in China, we participate in various employee social security plans that are organized by municipal and provincial governments, including housing, pension, medical insurance, childbirth insurance, work-related injury insurance, employment injury insurance, maternity insurance, and unemployment insurance.

### **Legal Proceedings**

We have been, may from time to time be, subject to various legal or administrative claims and proceedings arising in the ordinary course of business. Litigation or any other legal or administrative proceeding, regardless of the outcome, is likely to result in substantial cost and diversion of our resources, including our management's time and attention. Please refer to Item 8. Financial Information A. Consolidated Statements and Other Financial Information Legal Proceedings.

### **Seasonality**

Please refer to Item 5. Operating and Financial Review and Prospects A. Operating Results Key Factors Affecting Our Results of Operations General Factors Affecting Our Results of Operations Seasonality.

## Regulations

We operate in an increasingly complex legal and regulatory environment. We are subject to a variety of PRC and foreign laws, rules and regulations across numerous aspects of our business. This section sets forth a summary of the principal PRC laws, rules and regulations relevant to our business and operations in the PRC.

### *Regulations Relating to Foreign Investment*

Companies established and operating in the PRC shall be subject to the Company Law of the PRC, or the PRC Company Law, which was promulgated on December 29, 1993 and newly amended on December 28, 2013 and October 26, 2018. The PRC Company Law provides general regulations for companies set up and operating in the PRC, including foreign-invested companies. Unless otherwise provided in the PRC foreign investment laws, the provisions in the PRC Company Law shall prevail.

Investments in the PRC by foreign investors and foreign-invested enterprises are regulated by the Special Administrative Measures (Negative List) for the Access of Foreign Investment, or the Negative List, the latest version of which was promulgated by the NDRC and the PRC Ministry of Commerce, or the MOFCOM on June 23, 2020 and became effective as of July 23, 2020 and Catalogue of Industries for Encouraging Foreign Investment, or the Encouraging Catalogue, the latest version of which was promulgated by the NDRC and the MOFCOM on December 27, 2020 and became effective as of January 27, 2021. The Negative List and the Encouraging Catalogue jointly categorize the industries into three categories: encouraged industries, restricted industries and prohibited industries. Establishment of wholly foreign-owned enterprises is generally allowed in industries outside of the Negative List. For the restricted industries within the Negative List, some are limited to equity or contractual joint ventures, while in some cases Chinese partners are required to hold the majority interests in such joint ventures. Foreign investors are not allowed to invest in industries in the Negative List. Industries not listed in the Negative List are generally open to foreign investment unless specifically restricted by other applicable PRC regulations. The Negative List expands the scope of permitted industries by reducing the number of industries that fall within the previous negative list where restrictions on the shareholding percentage or requirements on the composition of board or senior management still exists.

The Foreign Investment Law became effective on January 1, 2020 and has replaced the trio of three previous laws regulating foreign investment in China, or the Three FIE Laws, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations, as the legal foundation for foreign investment in the PRC. Generally speaking, the PRC Company Law or the PRC Partnership Law shall apply with respect to an FIE's organization. This is aimed to put an end to any discrepancy between the Three FIE Laws and the Company Law.

The Foreign Investment Law mainly stipulates four forms of foreign investors, which includes: (a) a foreign investor, individually or collectively with other investors, establishes a foreign-invested enterprise within PRC; (b) a foreign investor acquires stock shares, equity shares, interests in assets, or other like rights and interests of an enterprise within PRC; (c) a foreign investor, individually or collectively with other investors, invests in a new project within PRC; and (d) foreign investors invest in China through any other methods under laws, administrative regulations, or provisions prescribed by the State Council. Compared with the Three FIE Laws, the Foreign Investment Law is profoundly different in the following aspects:

- Application of a pre-establishment national treatment. According to the Foreign Investment Law, the PRC governments shall govern foreign investment according to the system of pre-establishment national treatment, which requires treatment given to foreign investors and their investments during the market access stage shall not be inferior to treatment afforded to PRC domestic investors and their investment except where a foreign investment falls into the orbit of the Negative List.
- Application of an updated Investment Management. Pursuant to the Foreign Investment Law, the State shall establish a foreign investment information report system. Foreign investors or FIEs shall submit investment information to the competent department for commerce through the enterprise registration system and the enterprise credit information publicity system. The content and scope of information subject to the reporting obligations shall be determined under the principle of necessity. In addition, the

State shall establish a security review system for foreign investment, under which a security review shall be conducted for any foreign investment affecting or having the possibility to affect the state security.

In addition, the Foreign Investment Law also provides several protective rules and principles for foreign investors and their investments in the PRC, including, among others, that local governments shall abide by their policy commitments to the foreign investors and perform all contracts entered into in accordance with the law; foreign-invested enterprises are allowed to issue stocks and corporate bonds; except for special circumstances, in which case statutory procedures shall be followed and fair and reasonable compensation shall be made in a timely manner, expropriate or requisition the investment of foreign investors is prohibited; mandatory technology transfer is prohibited; foreign investors' funds are allowed to be freely transferred out and into the territory of PRC, which run through the entire lifecycle from the entry to the exit of foreign investment; and providing an all-around and multi-angle system to guarantee fair competition of foreign-invested enterprises in the market economy. Furthermore, the Foreign Investment Law provides that foreign-invested enterprises established according to the existing laws regulating foreign investment may maintain their structure and corporate governance within five years after the implementation of the Foreign Investment Law, which means that foreign-invested enterprises may be required to adjust the structure and corporate governance in accordance with the current PRC Company Law and other laws and regulations governing the corporate governance.

On December 12, 2019, the State Council promulgated the Implementation Regulations of Foreign Investment Law, or the Implementation Regulations, which simultaneously came into force with the Foreign Investment Law from January 1, 2020. The Implementation Regulations provides specific operation rules for the principles of investment protection, investment promotion and investment management in the Foreign Investment Law.

#### ***Regulations Relating to Foreign Investment in the Value-added Telecommunication Services***

The Telecommunications Regulations of the People's Republic of China, which was promulgated by the State Council on September 25, 2000 and last amended on February 6, 2016, categorizes all telecommunications businesses in China as either basic telecommunications businesses or value-added telecommunications businesses. Further, according to the Catalog of Telecommunications Business, attached to the Telecommunications Regulations and last amended by the MIIT on December 28, 2015, information services provided via fixed network, mobile network and Internet fall within value-added telecommunication services.

The State Council promulgated the Administrative Rules on Foreign-invested Telecommunications Enterprises in December 2001, as last amended on February 6, 2016, or the FITE Regulations. The FITE Regulations set forth detailed requirements with respect to capitalization, investor qualifications and application procedures in connection with the establishment of a foreign-invested telecommunications enterprise. These administrative rules require a foreign-invested value-added telecommunications enterprises in mainland China to be established as Sino-foreign joint ventures, which the foreign investors may acquire up to 50% of the equity interest of such enterprise.

In July 2006, MIIT publicly released the Notice on Strengthening the Administration of Foreign Investment in Operating Value-added Telecommunications Business, or the MIIT Notice, which reiterates certain provisions under the FITE Regulations. According to the MIIT Notice, if any foreign investor intends to invest in a PRC telecommunications business, a foreign-invested telecommunications enterprise must be established and such enterprise must apply for the relevant telecommunications business licenses. Under the MIIT Notice, domestic telecommunications enterprises are prohibited from renting, transferring or selling a telecommunications license to foreign investors in any form, and from providing any resources, premises, facilities and other assistance in any form to foreign investors for their illegal operation of any telecommunications business in China.

#### ***Regulations Relating to Residential Tenancy***

The laws and regulations governing residential tenancy in China are still developing and evolving. Most of them are in the form of government opinions, rules or circulars issued by different government agencies at the national or local level rather than detailed legislations. These government opinions, rules or circulars are aimed at encouraging, facilitating and guiding the development of residential tenancy market. The following provides a summary.

On January 6, 2015, the Ministry of Housing and Urban-rural Construction, or MOHURD, released Guidelines on the cultivation and development of residential tenancy market, which encourage the establishment of residential tenancy organizations. Residential tenancy organizations are encouraged to purchase or lease homes for long-term, and re decorate the homes before renting out to the public.

Furthermore, on May 17, 2016, the State Council released Several Opinions of the General Office of the State Council on Accelerating the Cultivation and Development of the Home-Rental Market, which set forth the following principles:

- Transformation on properties for rental is allowed. Commercial properties are allowed to be transformed to rental homes with land use duration and plot ratio unchanged, the purpose of land use shall be adjusted from commercial to residential, and after the adjustment, the prices of utilities like water, electricity, and gas shall follow residential standards. Transformation on residential properties for rental according to the national and local housing design standards is allowed, and the transformation shall not alter existing fire proof compartmentation, emergency evacuation or fire separation facilities so as to ensure the intactness and validation of fire protection facilities.
- Preferential policies encouraging individuals to rent out homes shall be implemented and individuals shall be encouraged to rent out their proprietary properties in accordance with the laws. Leasing of residential properties by individuals shall be regulated. Individuals are encouraged to entrust their homes to home-rental enterprises or intermediary agencies for rental.
- Local governments shall adopt preferential policies and measures to support leasing of residential properties by individuals, and guide urban residents to resolving housing issues through residential tenancy. Laws and regulations on residential tenancy shall clearly define the rights and obligations of the parties in residential tenancy, regulate market conducts, and stabilize landlord-tenant relationship. Exemplary residential lease texts and online execution of contract shall be implemented, and the residential lease registration and recordation system shall be implemented.
- Provincial-level governments shall strengthen the administration of home-rental market within their respective administrative regions. Municipal governments shall take the general charge of the administration of the home-rental market within their respective administrative regions, establish a regulatory system with the cooperation of multiple departments. Local governments shall establish a residential tenancy information service and regulatory system to promote information sharing between government agencies.
- Local housing authorities shall be responsible for the administration and coordination of the home-rental market, strengthen the administration of residential tenancy market in coordination with relevant departments, improve the credit administration system of residential tenancy enterprises, intermediary agencies and professionals, and keep credit records of relevant market participants which shall be incorporated into the national credit information sharing platform for the regulation and punishment of market participants with serious loss of credit. The public security authorities shall strengthen the public security administration of rented properties, residential tenancy and the residence registration in rental homes residential tenancy, urge and guide neighborhood committees, villagers committees, property service enterprises and other administration entities in screening for potential safety risks. All related government agencies shall, according to their powers, duties and division of work, investigate and prosecute the engagement in illegal activities in rented homes.

On May 19, 2017, the MOHURD published for public discussion the Measures on Management of Residential Tenancy and Home Sales (Discussion Draft), the deadline of receiving comments of which was June 19, 2017 and as of the date of this annual report, the MOHURD has not yet promulgated and made public any further rules, regulations, notices or circulars in this regard. However, it reflects, to certain extent, the regulatory thinking with regard to residential tenancy as follows:

- Landlords shall ensure the safety and basic function of rented homes. Residential tenancy enterprises shall screen the identity of tenants and keep a truthful record thereof. Landlords shall not evict the tenants through violence, threats, or other coercive methods to repossess the properties.
- Landlords shall ensure that each room in the rented homes conforms to certain standards regarding maximum of tenants and minimum floor space in a single room. Such standards shall be promulgated by local authorities. Non-residence space such as kitchens, bathrooms, balconies and basement storage space shall not be rented for residential purpose.
- Leases shall contain a duration clause. Duly executed leases that last over three years are encouraged and shall receive support by local governments.
- Landlords and tenants shall register signed leases at the local housing authorities within 15 days after the execution of the leases.
- Residential tenancy enterprises shall, within 30 days of its establishment, report to local housing authorities. Housing authorities shall publish information of residential tenancy enterprises in a timely manner and inspect residential tenancy enterprises.

On July 18, 2017, the MOHURD, the National Development and Reform Commission, or the NDRC, and the Ministry of Public Security, or the MPS, jointly released Notice of Accelerating the Development of Residential Tenancy Industry in Large to Medium Sized Cities with Positive Population Influx, which states the following:

- Institutionalized residential tenancy enterprises are encouraged. Home developers, realtors and property management enterprises are encouraged to expand its business into residential tenancy industry.
- Housing authorities shall establish an online lease recordation system. Housing authorities shall also regulate and supervise the rental process in the residential tenancy industry including ensuring the truthfulness of residential tenancy advertisements and standardizing the residential tenancy process.
- To increase the supply of rental homes, local governments are encouraged to provide new land zoned for residential tenancy properties. Financial institutions are encouraged to extend more loans to residential tenancy enterprises with controllable risks and sustainable business operation.
- Different departments in local governments shall jointly enforce laws and regulations regarding residential tenancy and maintain the order of the residential tenancy market.

Since 2017, local governments of major cities in the PRC, including but not limited to Shanghai, Beijing, Hangzhou, Suzhou, Wuhan, Nanjing have promulgated notices regarding the measures to implement policies released by the state council and Ministry of Housing and Urban-rural Construction, which mainly include (i) tax and financial support to residential tenancy industry; (ii) improvement of local rules on residential tenancy; (iii) standards regarding maximum tenants and minimum floor space in a single rented room. To further illustrate this point, we summarize the standards regarding maximum tenants and minimum floor space in a single rented room adopted by the local governments in Beijing, Shanghai, Hangzhou, Suzhou, Wuhan and Nanjing as below:

- Beijing: non-residence space such as kitchens, bathrooms, balconies and basement storage space is not allowed to be rented for residential purpose; a room is not allowed to be divided into smaller sections for rental; the minimum rented floor space per capita is five square meters; a single rented room is not allowed to accommodate more than two persons. Only a room designed for residential purpose, including a living room, can be leased as a unit for rental and such room cannot be segmented into more rooms for rental.
- Shanghai: residential tenancy are banned if: (i) a single room is divided into smaller sections for rental; (ii) non-residence space such as kitchens, bathrooms, balconies and basement storage space is rented for

residential purpose; (iii) rented floor space per capita is below five square meters; or (iv) a single rented room accommodates more than two persons. Living rooms are allowed to be rented only if the floor space exceeds 12 square meters.

- Hangzhou: non-residence space such as dining rooms, kitchens, bathrooms, balconies, corridors, storage room and basement storage space is not allowed to be rented for residential purpose; a single room is not allowed to be divided into smaller sections for rental; living rooms are allowed to be rented for residence purpose; the minimum rented floor space per capita is four square meters.
- Suzhou: non-residence space such as kitchens, bathrooms, balconies, garage and basement storage space is not allowed to be rented for residential purpose; a single room is not allowed to be divided into smaller sections for rental; living rooms with floor space over 12 square meters are allowed to be rented for residence purpose; the minimum rented floor space per capita is four square meters; a single rented room is not allowed to accommodate more than two persons.
- Wuhan: non-residence space such as dining rooms, kitchens, bathrooms, balconies, corridors, storage room and basement storage space is not allowed to be rented for residential purpose; a single room is not allowed to be divided into smaller sections for rental; living rooms with floor space over 12 square meters are allowed to be rented for residence purpose; the minimum rented floor space per capita is five square meters; a single rented room is not allowed to accommodate more than two persons.
- Nanjing: non-residence space such as kitchens, bathrooms, balconies, garage and basement storage space is not allowed to be rented for residential purpose; a room is not allowed to be divided into smaller sections for rental; the minimum rented floor space per capita is 15 square meters; a single rented room is not allowed to accommodate more than two persons.

On December 13, 2019, the MOHURD, NDRC, MPS, State Administration for Market Regulation, or the SAMR, China Banking and Insurance Regulatory Commission, or the CBIRC, and Cyberspace Administration of China promulgated Opinions on Rectification and Normalization of Home-Rental Market, which states, among others:

- Rental loans shall be released by banks at same intervals as the payment of rent by tenants. Banks shall screen tenants applying for rental loans regarding their ability to repay loans and avoid the formation of cash pool by home-rental enterprises. Home-rental enterprises shall not require or solicit tenant to apply for rental loan by concealment, fraud, coercion or by offering discounts in rent.
- For home-rental enterprises, the aggregate amount of rental loans shall not exceed 30% of their total rental income. Any non-compliance in this regard shall be rectified by the end of 2022.

In September 2020, the MOHURD published Measures on Residential Tenancy (Discussion Draft) for public discussion, which states, among others:

- Residential rental operators are prohibited from inducing tenants to utilize rental installment loans by providing rental discounts or by including any terms of rental installment loans in the rental agreement.
- Commercial banks may extend a rental installment loan only if the lease agreement has been registered with local housing bureau and the term of the loan does not exceed the duration of the tenancy.
- MOHURD is empowered to set standards of qualification for residential rental operators on financial position, expertise and managing abilities.
- Municipal governments are empowered to promulgate local policies to regulate rental income and deposits received by residential rental operators with a regulatory focus on high risk circumstances where (1) the rent paid to the landlord is higher than the rent received from the tenants; and (2) the credit term of rent payment to landlords are longer than the credit term of receiving rent payment from the tenants.

In April 2021, the MOHURD, along with relevant government authorities, published the Opinions on Strengthening Regulation on Light-asset Residential Rental Enterprises, which set out regulatory measures on various aspects, including standards of qualification, online registration and filing of business operation, limitation and supervision on utilization of loans and monitoring of rents.

### ***Regulations Relating to Leasing***

In May 2020, the National People's Congress, or the NPC, passed the PRC Civil Code, of which Chapter 14 governs lease contracts. According to the PRC Civil Code, subject to the consent of the lessor, the lessee may sublease the leased item to a third party. Where the lessee subleases the leased item, the leasing contract between the lessee and the lessor remains valid. The lessor is entitled to terminate the contract if the lessee subleases the leased item without the consent of the lessor.

Under the Law on Urban Real Estate Administration promulgated by the Standing Committee of National People's Congress, or the SCNPC, which took effect in January 1995 and amended in August 2009 and the Administrative Measures for Commodity House Leasing promulgated by the Ministry of Housing and Urban-rural Construction, which took effect in February 2011, when leasing premises, the lessor and lessee are required to enter into a written lease contract prescribing such provisions as the leasing terms, use of the premises, rental price, rental payment and repair liabilities, and other rights and obligations of both parties. Both lessor and lessee are also required to file the lease contract with the local real estate administration department. Pursuant to these laws and regulations and various local regulations, if the lessor and lessee fail to go through the recordation procedure in the prescribed period, both lessor and lessee may be subject to administrative penalties, and the leasing interest therein will be subordinated to third parties' rights.

Furthermore, according to the Law on Urban Real Estate Administration, the leasing of residential premises shall correspond with the rules and policies stipulated by the people's government of the State and the region where these residential premises are located.

In Shanghai, since January 2015, several qualified institutions have been encouraged to engage in the long-term lease and sublease of the vacant premises or accept commission from the owners or other holders to lease their properties. Each of these institutions shall be registered as an independent enterprise legal entity and be approved to conduct "real estate agency" business.

### ***Regulations Relating to Decoration Projects***

Under the Law on Construction promulgated by the SCNPC, which took effect in November 1997 and amended in July 2011 and the Regulations on the Quality Management of Construction Projects, or the Construction Projects Regulations, which took effect in January 2000 and amended in October 2017, in the case of a decoration project involving a change of the main structure or load-bearing structure of a building, the owner of this project shall be obliged to acquire the design scheme from the original design entity or another design entity with the corresponding qualification grade prior to its implementation and operation. If the decoration project is carried out without the qualified design scheme, the owner may be required to amend this and subject to administrative fines. Pursuant to the Construction Projects Regulations, where the owner of a construction project, commits any of the following acts, it shall be ordered to make corrections, and shall be imposed a fine of not less than 2% but not more than 4% of the contractual project price; if any losses have been caused, it shall be liable for making compensation including (i) arbitrarily delivering the project for use before organizing the acceptance inspection, (ii) arbitrarily delivering the project for use in the event that the project has not passed the acceptance inspection, or (iii) inspecting and accepting a substandard construction project as one which is up to standards. With a view to controlling the air contamination and hazards in an indoor space, in 2002 the State Environmental Protection Administration issued the Indoor Air Quality Standards (GB/T18883-2002), which was generally applicable to residential and office building as well as other similar indoor environment. Subsequently, in 2013 the MOHURD promulgated the Standard for Indoor Environmental Pollution Control of Civil Building Engineering (GB50325-2010) to further stipulate the standards for preventing the indoor environmental hazards generated by construction materials and decorative building materials used for a civil building engineering, inter alia, radon, methanol, aminobenzene, toluene and xylene and total volatile organic compounds. To sum up, the rental apartments we are operating shall be up to the air quality and environmental protection standards as listed above before they are rented out to the tenants, otherwise

we may be subject to civil liabilities or administrative fines for our failure in compliance with all the environmental laws or regulations or technical standards relating to renovation of our rental apartments.

### ***Regulations on Consumer Protection***

In October 1993, the SCNPC promulgated the Law on the Protection of the Rights and Interests of Consumers, or the Consumer Protection Law, which became effective on January 1, 1994 and was further amended on August 27, 2009 and October 25, 2013. Under the Consumer Protection Law, any business operator providing a commodity or service to a consumer is subject to certain mandatory requirements, including the following:

- to ensure that commodities and services up to certain safety requirements;
- to protect the safety of consumers;
- to disclose serious defects of a commodity or a service and to adopt preventive measures against occurrence of damage;
- to provide consumers with accurate information and to refrain from conducting false advertising;
- to obtain consents of consumers and to disclose the rules for the collection and/or use of information when collecting data or information from consumers; to take technical measures and other necessary measures to protect the personal information collected from consumers; not to divulge, sell, or illegally provide consumers' information to others; not to send commercial information to consumers without the consent or request of consumers or with a clear refusal from consumers;
- not to set unreasonable or unfair terms for consumers or alleviate or release itself from civil liability for harming the legal rights and interests of consumers by means of standard contracts, circulars, announcements, shop notices or other means;
- to remind consumers in a conspicuous manner to pay attention to the quality, quantity and prices or fees of commodities or services, duration and manner of performance, safety precautions and risk warnings, after-sales service, civil liability and other terms and conditions vital to the interests of consumers under a standard form of agreement prepared by the business operators, and to provide explanations as required by consumers; and
- not to insult or slander consumers or to search the person of, or articles carried by, a consumer or to infringe upon the personal freedom of a consumer.

Business operators in China may be subject to civil liabilities for failing to fulfill the obligations discussed above. These liabilities include restoring the consumer's reputation, eliminating the adverse effects suffered by the consumer, and offering apology and compensation for any loss thus incurred to the consumer. The following penalties may also be imposed by relevant governmental agencies upon business operators for the infraction of these obligations: issuance of a warning, confiscation of any illegal income, imposition of a fine, an order to cease business operation, revocation of its business license or imposition of criminal liabilities under circumstances that are specified in laws and statutory regulations.

In December 2003, the Supreme People's Court in China enacted the Interpretation of Some Issues Concerning the Application of Law for the Trial of Cases on Compensation for Personal Injury, which further enhances the liabilities of business operators engaged in the operation of accommodation, restaurants, or entertainment facilities and subjects such operators to compensatory liabilities for failing to fulfill their statutory obligations to a reasonable extent or to guarantee the personal safety of others.



### ***Regulations relating to Information Security and Censorship***

Internet content in China is also strictly regulated and restricted from a state security standpoint. Pursuant to the Decision Regarding the Protection of Internet Security enacted by the SCNPC on December 28, 2000, which was amended on August 27, 2009, any attempt to undertake the following actions may be subject to criminal punishment in China:

- gaining improper entry into a computer or system of national strategic importance;
- disseminating politically disruptive information;
- leaking government secrets;
- spreading false commercial information; or
- infringing intellectual property rights.

The MPS has also promulgated a series of measures that prohibit the use of the internet in ways that, among other things, result in the leakage of government secrets or the spread of socially destabilizing content. The MPS and its local counterparts have supervision and inspection powers in this regard, and we may be subject to the jurisdiction of the local security bureaus. If an internet information service provider violates these measures, the PRC government may revoke its license and shut down its website. In 1997, the MPS issued the Administration Measures on the Security Protection of Computer Information Network with International Connections, which was amended by the State Council on January 8, 2011 and prohibited using internet in ways which, among others, resulted in a leakage of state secrets or spreading of socially destabilizing content.

Moreover, on December 7, 2016, the SCNPC promulgated the Cybersecurity Law of the People's Republic of China, which became effective on June 1, 2017, pursuant to which, network operators shall comply with laws and regulations and fulfill their obligations to safeguard security of the network when conducting business and providing services. Those who provide services through networks shall take technical measures and other necessary measures pursuant to laws, regulations and compulsory national requirements to safeguard the safe and stable operation of the networks, respond to network security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data, and the network operator shall not collect the personal information irrelevant to the services it provides or collect or use the personal information in contravention of the laws or agreements between both parties.

### ***Regulations relating to Protection of User Identity and Information***

The security and confidentiality of information on the identity of internet users are also highly regulated in China. The Internet Information Service Administrative Measures promulgated by the State Council requires internet information service providers to maintain an adequate system that protects the security of user information. In December 2005, the MPS promulgated the Regulations on Technical Measures of Internet Security Protection, requiring internet service providers to utilize standard technical measures for internet security protection. Moreover, the Rules for Regulating the Market Order of Internet Content Services, which was promulgated in December 2011, further enhances the protection of internet users' personal information by prohibiting internet information service providers from unauthorized collection, disclosure or use of personal information of their users.

In December 2012, the SCNPC promulgated the Decision on Strengthening Network Information Protection to enhance the legal protection of information security and privacy on the internet. On July 16, 2013, the Ministry of Industry and Information Technology, or the MIIT, promulgated the Provisions for the Protection of Telecommunication and Internet User Personal Information, or the Provisions for the Protection of Person Information. According to the Provisions for the Protection of Person Information, under which Internet information service providers are subject to strict requirements to protect personal information of internet users, including: if a network service provider wishes to collect or use personal information, such personal information collected shall be used only in connection with the services to be provided by Internet information service providers to such users and shall be kept in strict confidence. Furthermore, it must disclose to its users the purpose, method and scope of any such collection or usage, and must obtain consent from the users whose information is being collected or used. Network service providers are also required to establish and publish their protocols relating to personal information

collection or usage, keep any collected information strictly confidential and take technological and other measures to maintain the security of such information. Network service providers are required to cease any collection or usage of the relevant personal information, and de register the relevant user account, when a user stops using the relevant Internet service. Network service providers are further prohibited from divulging, distorting or destroying any such personal information, or selling or providing such personal information unlawfully to other parties. In addition, if a network service provider appoints an agent to undertake any marketing or technical services that involve the collection or usage of personal information, the network service provider is required to supervise and manage the protection of the information. Pursuant to the Provisions for the Protection of Person Information, in broad terms, that violators may face warnings, fines, public exposure and, in the most severe cases, criminal liability.

### ***Regulations relating to Mobile Internet Applications Information Services***

In China a mobile internet application is governed by the Provisions on the Administration of Mobile Internet Application Information Services, or the Provisions on Administration of Application, as promulgated by the Cyberspace Administration of PRC on June 28, 2016 and became effective on August 1, 2016.

Pursuant to the Provisions on Administration of Application, application information service providers shall obtain the relevant qualifications as required by laws and regulations, strictly implement their information security management responsibilities, and carry out the duties including to establish and complete user information security protection mechanism, to establish and complete information content inspection and management mechanisms, to protect users' right to know the right to choose in the process of usage, and to record users' daily information and preserve it for sixty (60) days.

### ***Regulation Relating to Intellectual Property***

#### ***The Copyright Law***

PRC has enacted various laws and regulations relating to the protection of copyright. PRC is a signatory to some major international conventions on protection of copyright and became a member of the Berne Convention for the Protection of Literary and Artistic Works in October 1992, the Universal Copyright Convention in October 1992, and the Agreement on Trade-Related Aspects of Intellectual Property Rights upon its accession to the World Trade Organization in December 2001.

The Copyright Law of the PRC (2010 Revision), or the Copyright Law, which was promulgated on September 7, 1990 and subsequently amended on October 27, 2001 and February 26, 2010 and the Implementation Regulation of the Trademark Law of the PRC promulgated by the State Council on August 2, 2002 and further amended on January 8, 2011 and January 30, 2013 provides that Chinese citizens, legal persons, or other organizations shall, whether published or not, enjoy copyright in their works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software. The purpose of the Copyright Law aims to encourage the creation and dissemination of works which is beneficial for the construction of socialist spiritual civilization and material civilization and promotes the development and prosperity of Chinese culture.

Pursuant to the Computer Software Protection Regulations, as promulgated by the State Council on December 20, 2001, and most recently amended on January 30, 2013, Chinese citizens, legal persons and other organizations shall enjoy copyright on the software they develop, regardless of whether the software has been released publicly. Software copyright commences from the date on which the development of the software is completed. The protection period for software copyright of a legal person or other organizations shall be 50 years, concluding on December 31 of the 50th year after the software's initial release. In order to further implement the Computer Software Protection Regulations, the State Copyright Bureau issued the Regulations for Computer Software Copyright Registration Procedures on February 20, 2002, which apply to software copyright registration, license contract registration and transfer contract registration.

### *The Trademark Law*

Trademarks are protected by the Trademark Law of the People's Republic of China (2013 Revision) which was promulgated on August 23, 1982 and subsequently amended on February 22, 1993, October 27, 2001 and August 30, 2013 respectively as well as the Implementation Regulation of the PRC Trademark Law adopted by the State Council on August 3, 2002 and further amended on April 29, 2014. In China, registered trademarks include commodity trademarks, service trademarks, collective trademarks and certification trademarks.

The Trademark Office under the SAMR, handles trademark registrations and grants a term of ten years to registered trademarks. Trademarks are renewable every ten years where a registered trademark needs to be used after the expiration of its validity term. A registration renewal application shall be filed within 12 months prior to the expiration of the term. A trademark registrant may license its registered trademark to another party by entering into a trademark license contract. Trademark license agreements must be filed with the Trademark Office to be recorded. The licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities. As with trademarks, the PRC Trademark Law has adopted a "first come, first file" principle with respect to trademark registration. Where the trademark for which a registration application has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a "sufficient degree of reputation" through such party's use.

### *The Patent Law*

According to the Patent Law of the People's Republic of China (2008 Revision) promulgated by the SCNPC, and its Implementation Rules (2010 Revision) promulgated by the State Council, the State Intellectual Property Office of the PRC is responsible for administering patents in the PRC. The patent administration departments of provincial or autonomous regions or municipal governments are responsible for administering patents within their respective jurisdictions. The Patent Law of the PRC and its implementation rules provide for three types of patents, "invention", "utility model" and "design". Invention patents are valid for twenty years, while design patents and utility model patents are valid for ten years, from the date of application. The Chinese patent system adopts a "first come, first file" principle, which means that where more than one person files a patent application for the same invention, a patent will be granted to the person who files the application first. To be patentable, invention or utility models must meet three criteria: novelty, inventiveness and practicability. Except under certain specific circumstances provided by law, any third party user must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the use constitutes an infringement of the patent rights.

### *Domain Names*

On May 29, 2012, the China Internet Network Information Center, or the CNNIC issued the Implementing of the Rules for China Internet Network Information Center Domain Name Registration (2012 Revision), setting forth detailed rules for registration of domain names. The MIIT promulgated the Administrative Measures on Internet Domain Name, or the Domain Name Measures on August 24, 2017, which became effective on November 1, 2017. According to the Domain Name Measures, domain name owners are required to register their domain names and the MIIT is in charge of the administration of PRC Internet domain names. The domain name services follow a "first come, first file" principle. Applicants for registration of domain names shall provide their true, accurate and complete information of such domain names to and enter into registration agreements with domain name registration service institutions. The applicants will become the holders of such domain names upon the completion of the registration procedure.

## ***Regulations Relating to Foreign Exchange***

### ***General Administration of Foreign Exchange***

Foreign currency exchange in China is primarily governed by the Foreign Exchange Control Regulations of the PRC, or the Foreign Exchange Administration Rules, promulgated by the State Council on January 29, 1996 and last amended on August 5, 2008, and various regulations issued by the State Administration of Foreign Exchange, or the SAFE and other relevant PRC government authorities. Under the Foreign Exchange Administration Rules, the RMB is freely convertible into other currencies for routine current account items, including distribution of dividends, payment of interest, trade and service related foreign exchange transactions. The conversion of RMB into other currencies for most capital account items, such as direct equity investment, overseas loan, and repatriation of investment, however, is still regulated. Payments for transactions that take place within the PRC must be made in RMB. Unless otherwise approved, PRC companies may repatriate foreign currency payments received from abroad or retain the same abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks under the current account items subject to a cap set by the SAFE or its local office. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaging in settlement and sale of foreign exchange pursuant to relevant rules and regulations of the State. For foreign exchange proceeds under the capital accounts, approval from the SAFE is required for its retention or sale to a financial institution engaging in settlement and sale of foreign exchange, except where such approval is not required under the relevant rules and regulations of the PRC.

Pursuant to the Notice of the SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment, or the SAFE Notice No. 59, as promulgated by SAFE on November 19, 2012 and further amended on May 4, 2015 and October 10, 2018, approval is not required for the opening of an account entry in foreign exchange accounts under direct investment, for domestic transfer of the foreign exchange under direct investment. SAFE Notice No. 59 also simplified the capital verification and confirmation formalities for foreign-invested entities and the foreign capital and foreign exchange registration formalities required for the foreign investors to acquire the equities of a Chinese party, and further improve the administration on exchange settlement of foreign exchange capital of foreign-invested entities.

On February 13, 2015, SAFE promulgated the Notice on Simplifying and Improving the Foreign Currency Management Policy on Direct Investment, effective June 1, 2015, which canceled the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment. In addition, it simplified the procedure of registration of foreign exchange and investors shall register with banks for direct domestic investment and direct overseas investment.

The Notice of the SAFE on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise, or the SAFE Notice No. 19, was promulgated on March 30, 2015 and became effective on June 1, 2015. According to the SAFE Notice No. 19, a foreign-invested enterprise may, in response to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange bureau has confirmed monetary contribution rights and interests (or for which the bank has registered the account crediting of monetary contribution). For the time being, foreign-invested enterprises are allowed to settle 100% of their foreign exchange capitals on a discretionary basis; a foreign-invested enterprise shall truthfully use its capital for its own operational purposes within the scope of business; where an ordinary foreign-invested enterprise makes domestic equity investment with the amount of foreign exchanges settled, the invested enterprise shall first go through domestic re-investment registration and open a corresponding account for foreign exchange settlement pending payment with the foreign exchange bureau (bank) at the place of registration.

The Notice of the SAFE on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or the SAFE Notice No. 16, was promulgated and became effective on June 9, 2016. According to the SAFE Notice No. 16, enterprises registered in PRC may also convert their foreign debts from foreign currency into RMB on self-discretionary basis. The SAFE Notice No. 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on self-discretionary basis, which applies to all enterprises registered in the PRC. The SAFE Notice No. 16 reiterates the principle that RMB converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope and may not be used for

investment in securities or other investment with the exception of bank financial products that can guarantee the principal within PRC unless otherwise specifically provided. Besides, the converted RMB shall not be used to make loans for related enterprises unless it is within the business scope or to build or to purchase any real estate that is not for the enterprise own use with the exception for the real estate enterprises.

On January 26, 2017, SAFE promulgated the Notice on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification, or the SAFE Notice No. 3, which stipulates several capital control measures with respect to the outbound remittance of profits from domestic entities to offshore entities, including (i) under the principle of genuine transaction, banks shall check board resolutions regarding profit distribution, the original version of tax filing records and audited financial statements; and (ii) domestic entities shall cover losses in the previous years prior to remittance of profits. Moreover, pursuant to the SAFE Notice No. 3, domestic entities shall make detailed explanations of the sources of capital and utilization arrangements, and provide board resolutions, contracts and other proof when completing the registration procedures in connection with an outbound investment.

#### *Regulations on Offshore Financing*

On July 4, 2014, the SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange for Overseas Investment and Financing and Reverse Investment by Domestic Residents via Special Purpose Vehicles, or Circular 37, which became effective on the same date, and Circular 37 shall prevail over any other inconsistency between itself and relevant regulations promulgated earlier. Pursuant to Circular 37, any PRC residents, including both PRC institutions and individual residents, are required to register with the local SAFE branch before making contribution to a company set up or controlled by the PRC residents outside of the PRC for the purpose of overseas investment or financing with their legally owned domestic or offshore assets or interests, referred to in this circular as a “special purpose vehicle”. Under Circular 37, the term “PRC institutions” refers to entities with legal person status or other economic organizations established within the territory of the PRC. The term “PRC individual residents” includes all PRC citizens (also including PRC citizens abroad) and foreigners who habitually reside in the PRC for economic benefit. A registered special purpose vehicle is required to amend its SAFE registration or file with respect to such vehicle in connection with any change of basic information including PRC individual resident shareholder, name, term of operation, or PRC individual resident’s increase or decrease of capital, transfer or exchange of shares, merger, division or other material changes. In addition, if a non-listed special purpose vehicle grants any equity incentives to directors, supervisors or employees of domestic companies under its direct or indirect control, the relevant PRC individual residents could register with the local SAFE branch before exercising such options. The SAFE simultaneously issued a series of guidance to its local branches with respect to the implementation of Circular 37. Under Circular 37, failure to comply with the foreign exchange registration procedures may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including restrictions on the payment of dividends and other distributions to its offshore parent company and the capital inflow from the offshore entity, and may also subject the relevant PRC residents and onshore company to penalties under the PRC foreign exchange administration regulations.

On February 15, 2012, SAFE issued the Notice of the State Administration of Foreign Exchange on Issues concerning the Foreign Exchange Administration of Domestic Individuals’ Participation in Equity Incentive Plans of Overseas Listed Companies, or the Circular 7, which replaced the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plans or Stock Option Plans of Overseas Publicly-listed Companies issued by SAFE on March 28, 2007. Under the Circular 7, a PRC entity’s directors, supervisors, senior management officers, other staff or individuals who have an employment or labor relationship with a Chinese entity and are granted stock options by an overseas publicly-listed company are required, through a qualified PRC domestic agent which could be a PRC subsidiary of such overseas publicly-listed company, to register with SAFE and complete certain other procedures. Such PRC resident participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, purchase and sale of corresponding stocks or interests, and fund transfer. The PRC agent shall, among other things, file on behalf of such PRC resident participants an application with SAFE to conduct the SAFE registration with respect to such stock incentive plan and obtain approval for an annual allowance with respect to the purchase of foreign exchange in connection with the exercise or sale of stock options or stock such participants hold. 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 aspects. Such

participating PRC residents' foreign exchange income received from the sale of stock and dividends distributed by the overseas publicly-listed company must be fully remitted into a PRC collective foreign currency account opened and managed by the PRC agent before distribution to such participants. We and our PRC resident employees who have been granted stock options or other share-based incentives of our company are subject to the Circular 7 as our company is an overseas listed company. If we or our PRC resident participants fail to comply with these regulations in the future, we and/or our PRC resident participants may be subject to fines and legal sanctions.

## ***Regulations relating to Tax***

### ***Enterprise Income Tax***

On March 16, 2007, the NPC promulgated the Law of the PRC on Enterprise Income Tax which was amended on February 24, 2017 and December 29, 2018, and on December 6, 2007, the State Council enacted the Regulations for the Implementation of the Law on Enterprise Income Tax, or collectively, the EIT Law. The EIT Law came into effect on January 1, 2008. According to the EIT Law, taxpayers consist of resident enterprises and Non-Resident Enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC. Non-Resident Enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but have established institutions or premises in the PRC, or have no such established institutions or premises but have income generated from inside the PRC. Under the EIT Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is applicable. However, if non-resident enterprises have not formed permanent establishments or premises in the PRC, or if they have formed permanent establishment institutions or premises in the PRC but there is no actual relationship between the relevant income derived in the PRC and the established institutions or premises set up by them, the enterprise income tax is, in that case, set at the rate of 10% for their income sourced from inside the PRC. Enterprises that are recognized as high and new technology enterprises in accordance with the Notice of the Ministry of Science, the Ministry of Finance and the State Administration of Taxation on Amending and Issuing the Administrative Measures for the Determination of High and New Tech Enterprises are entitled to enjoy the preferential enterprise income tax rate of 15%. The validity period of the high and new technology enterprise qualification shall be three years from the date of issuance of the certificate of high and new technology enterprise. The enterprise can reapply for such recognition as a high and new technology enterprise before or after the previous certificate expires.

The Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies promulgated by the SAT on April 22, 2009 and amended on January 29, 2014 sets out the standards and procedures for determining whether the "de facto management body" of an enterprise registered outside of the PRC and controlled by PRC enterprises or PRC enterprise groups is located within the PRC.

### ***Value-added tax***

The Provisional Regulations of the PRC on Value-added tax (2017 Revision) were promulgated by the State Council on November 19, 2017. The Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added tax (2011 Revision) were promulgated by the Ministry of Finance and the SAT on December 15, 2008, which were subsequently amended on October 28, 2011 and came into effect on November 1, 2011, or collectively, the VAT Law. According to the VAT Law, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of the PRC must pay value-added tax. For general VAT taxpayers selling services or intangible assets other than those specifically listed in the VAT Law, the value-added tax rate is 6%.

### ***Dividend Withholding Tax***

The EIT Law provides that since January 1, 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident investors who do not have an establishment or place of business in the PRC, or which have such establishment or place of business, but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC.

In addition, the EIT Law provides that an income tax rate of 10% will normally be applicable to dividends payable to investors that are “Non-Resident Enterprises”, and gains derived by such investors, which (a) do not have an establishment or place of business in the PRC or (b) have an establishment or place of business in the PRC, but the relevant income is not effectively connected with the establishment or place of business to the extent such dividends and gains are derived from sources within the PRC. Such income tax on the dividends may be reduced pursuant to a tax treaty between China and the jurisdictions in which the non-PRC shareholders reside. Pursuant to the Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Tax on Income, or the Double Tax Avoidance Arrangement, and other applicable PRC laws, if a Hong Kong resident enterprise has satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%. However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties, or Notice No. 81, issued on February 20, 2009 by the SAT, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax driven, such PRC tax authorities may adjust the preferential tax treatment. In August 2015, the State Administration of Taxation promulgated the Administrative Measures for Non-resident Taxpayers to Enjoy Treatment under Tax Treaties, or SAT Circular 60, which became effective on November 1, 2015. SAT Circular 60 provides that Non-Resident Enterprises are not required to obtain pre-approval from the relevant tax authority in order to enjoy the reduced withholding tax. Instead, Non-Resident Enterprises and their withholding agents may, by self-assessment and on confirmation that the prescribed criteria to enjoy the tax treaty benefits are met, directly apply the reduced withholding tax rate, and file the necessary forms and supporting documents when performing tax filings, which will be subject to post tax filing examinations by the relevant tax authorities.

According to the Circular on Several Questions regarding the “Beneficial Owner” in Tax Treaties, which was issued on February 3, 2018 by the SAT and took effect on April 1, 2018, when determining the applicant’s status of the “beneficial owner” regarding tax treatments in connection with dividends, interest or royalties in the tax treaties, several factors, including without limitation, whether the applicant is obligated to pay more than 50% of his or her income in 12 months to residents in a third country or region, whether the business operated by the applicant constitutes the actual business activities, and whether the counterparty country or region to the tax treaties does not levy any tax or grants tax exemption on relevant incomes or levy tax at an extremely low rate, will be taken into account, and it will be analyzed according to the actual circumstances of the specific cases. This circular further provides that applicants who intend to prove his or her status as the “beneficial owner” shall submit the relevant documents to the relevant tax bureau according to the Announcement on Issuing the Measures for the Administration of Non-resident Taxpayers’ Enjoyment of the Treatment under Tax Agreements.

### ***Regulations Relating to Dividend Distribution***

The principal regulations governing distribution of dividends of foreign-invested enterprises include (i) the Company Law, promulgated by the SCNPC on December 29, 1993, and as amended on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013 and October 26, 2018, respectively, (ii) the Foreign-invested Enterprise Law, promulgated by the SCNPC on April 12, 1986, and as amended on October 31, 2000 and September 3, 2016, respectively, and (iii) the Implementation Rules of the Foreign-invested Enterprise Law approved by the State Council on October 28, 1990, and as amended on April 12, 2001, and February 19, 2014, respectively.

Under these laws and regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, foreign-invested enterprises in China are required to allocate at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds unless these reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends. A foreign-invested enterprise has the discretion to allocate a portion of its after tax profits to staff welfare and bonus funds. A Chinese company (including the foreign-invested enterprise) is not permitted to distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

## ***Regulations Relating to Merger and Acquisition and Overseas Listing***

On August 8, 2006, six PRC regulatory agencies, namely the MOFCOM, the State Assets Supervision and Administration Commission, the State Administration of Taxation, the State Administration of Industry and Commerce, or the SAIC, the China Securities Regulatory Commission, or the CSRC, and the SAFE, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the New M&A Rule, which became effective on September 8, 2006. This New M&A Rule, as amended on June 22, 2009, purports, among other things, to require offshore special purpose vehicles, or SPVs, formed for overseas listing purposes through acquisitions of PRC domestic companies and controlled by PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange. On September 21, 2006, the CSRC published a notice on its official website specifying documents and materials required to be submitted to it by SPVs seeking CSRC approval of their overseas listings.

The New M&A Rule also 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 advance of any change of control transaction in which a foreign investor takes control of a PRC domestic enterprise.

## ***Regulation relating to Employment and Social Welfare***

### ***Labor Protection***

The main PRC employment laws and regulations include the Labor Law of the PRC, as revised on December 29, 2018, the Labor Contract Law of the PRC, or the Labor Contract Law and the Implementing Regulations of the Employment Contract Law of the PRC.

The Labor Contract Law was promulgated on June 29, 2007, revised on December 28, 2012, and came into force on July 1, 2013. This law governs the establishment of employment relationships between employers and employees, and the execution, performance, termination of, and the amendment to, employment contracts. The Labor Contract Law is primarily aimed at regulating employee/employer rights and obligations, including matters with respect to the establishment, performance and termination of labor contracts. Pursuant to the Labor Contract Law, labor contracts shall be concluded in writing if labor relationships are to be or have been established between enterprises or institutions and the laborers. Enterprises and institutions are forbidden to force laborers to work beyond the time limit and employers shall pay laborers for overtime work in accordance with national regulations. In addition, labor wages shall not be lower than local standards on minimum wages and shall be paid to laborers in a timely manner. In addition, according to the Labor Contract Law: (i) employees must adhere to regulations in the labor contracts concerning commercial confidentiality and non-competition; (ii) employees may terminate their employment contracts with their employers if their employers fail to make social insurance contributions in accordance with the law; and (iii) enterprises and institutions shall establish and improve their system of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety, educate laborers in labor safety and sanitation in the PRC.

The Labor Contract Law imposes more stringent requirements on labor dispatch. According to the Labor Contract Law, (i) it is strongly emphasized that dispatched contract workers shall be entitled to equal pay for equal work as an employee of an employer; (ii) dispatched contract workers may only be engaged to perform temporary, auxiliary or substitute works; and (iii) an employer shall strictly control the number of dispatched contract workers so that they do not exceed certain percentage of total number of employees and the specific percentage shall be prescribed by the Ministry of Human Resources and Social Security. Under the law, “temporary work” means a position with a term of less than six months; “auxiliary work” means a non-core business position that provides services for the core business of the employer; and “substitute work” means a position that can be temporarily replaced with a dispatched contract worker for the period that a regular employee is away from work for vacation, study or other reasons. According to the Interim Provisions on Labor Dispatch promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, which became effective on March 1, 2014, (i) the number of dispatched contract workers hired by an employer should not exceed 10% of the total number of its employees (including both directly hired employees and dispatched contract workers); and (ii) in the case that the number of dispatched contract workers exceeds 10% of the total number of its employees at the time when the Interim Provisions on Labor Dispatch became effective, the employer must formulate a plan to reduce the number of



its dispatched contract workers to comply with the aforesaid cap requirement prior to March 1, 2016. In addition, such plan shall be filed with the local administrative authority of human resources and social security. Nevertheless, the Interim Provisions on Labor Dispatch do not invalidate the labor contracts and dispatch agreements entered into prior to December 28, 2012 and such labor contracts and dispatch agreements may continue to be performed until their respective dates of expiration. The employer may also not hire any new dispatched contract worker before the number of its dispatched contract workers is reduced to below 10% of the total number of its employees. In case of violation, the labor administrative department shall order rectification within a specified period of time; if the situation is not rectified within the specified period, a fine from RMB5,000 to RMB10,000 for each person shall be imposed, and the staffing company's business license shall be revoked. If a placed worker suffers any harm or loss caused by the receiving entity, the staffing company and the receiving entity shall be jointly and severally liable for damages.

#### *Social Insurance and Housing Fund*

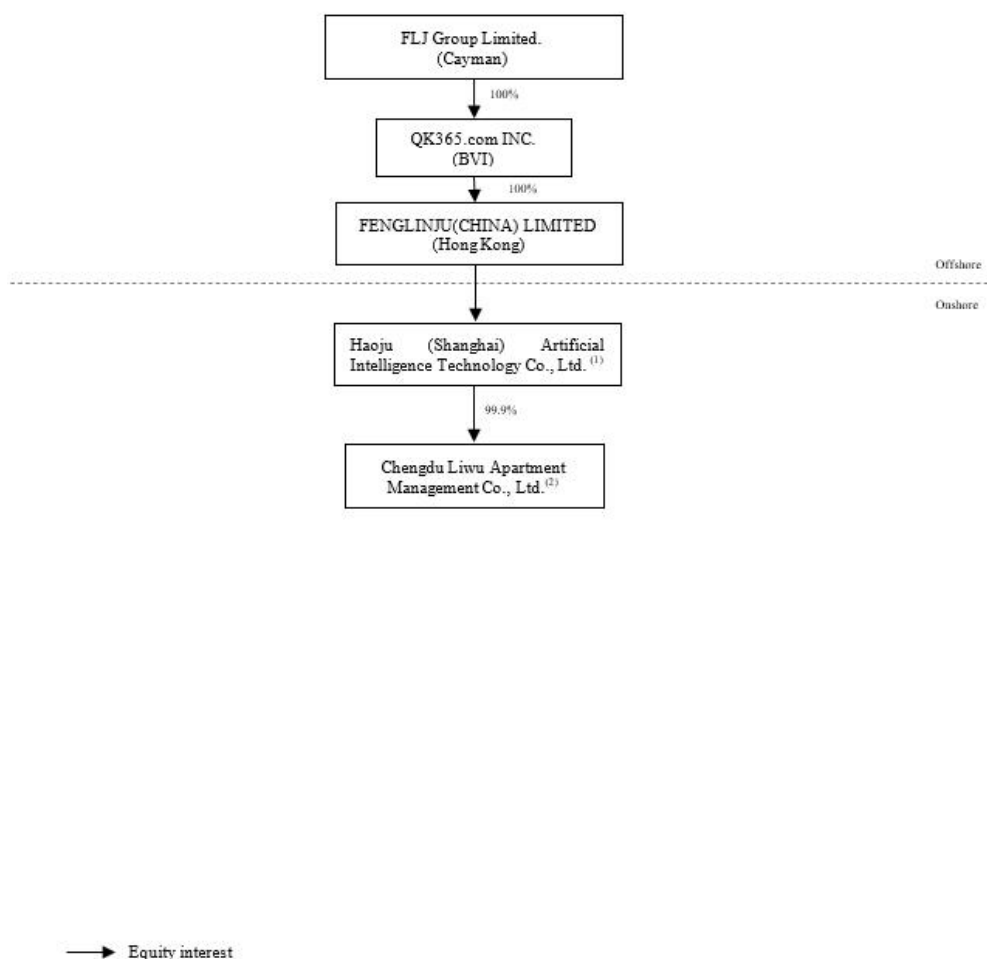
As required under the Regulation of Insurance for Labor Injury implemented on January 1, 2004 and amended in 2010, the Provisional Measures for Maternity Insurance of Employees of Corporations implemented on January 1, 1995, the Decisions on the Establishment of a Unified Program for Basic Old Aged Pension Insurance of the State Council issued on July 16, 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council promulgated on December 14, 1998, the Unemployment Insurance Measures promulgated on January 22, 1999 and the Social Insurance Law of the PRC implemented on July 1, 2011 and revised on December 29, 2018, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. These payments are made to local administrative authorities and any employer that fails to contribute may be fined and ordered to make up within a prescribed time limit.

In accordance with the Regulations on the Management of Housing Funds which was promulgated by the State Council in 1999 and amended in 2002, enterprises must register at the competent managing center for housing funds and upon the examination by such managing centers of housing funds, these enterprises shall complete procedures for opening an account at the relevant bank for the deposit of employees' housing funds. Enterprises are also required to pay and deposit housing funds on behalf of their employees in full and in a timely manner, and any employer that fails to open such bank account or contribute any housing funds may be fined and ordered to make up within a prescribed time limit.

#### **C. Organizational Structure**

We are not an operating company but a Cayman Islands holding company with operations conducted by our subsidiaries in China. Investors in our securities have purchased securities of a holding company incorporated in the Cayman Islands. On October 26, 2021, we transferred all of our equity interest in the WFOE, to Wangxiancai Limited, which is beneficially owned by the legal representative and executive director of one of our subsidiaries, a related party, for nominal consideration (the "Equity Transfer"). The WFOE had a series of contractual arrangements with the VIE. Through the VIE entities, we carried out certain rental apartment operation business prior to the Equity Transfer. On December 17, 2021, we transferred all of our equity interest in Q&K HK to Wangxiancai Limited. See "Item 4. Information on the Company—A. History and Development of the Company" in this annual report for more details. As of September 30, 2022, four of the subsidiaries of the VIE filed the voluntary petition for bankruptcy under the Article 2 of the PRC Enterprise Bankruptcy Law with Shanghai Third Intermediary Court ("Court"), and the Court announced the effectiveness of the petition and the administrator of bankruptcy was assigned on board. As a result, the Company had no control over the allocation of remaining assets in liquidation of these subsidiaries and therefore deconsolidated the subsidiaries of the VIE.

The chart below sets forth our simplified corporate structure and identifies our principal subsidiaries as of the date of this annual report.



- (1) Previously known as Qingke (Shanghai) Artificial Intelligence Technology Co., Ltd.
- (2) Chengcai Qu holds the remaining 0.1% of the shares of Chengdu Liwu Apartment Management Co., Ltd. on behalf of Haoju (Shanghai) Artificial Intelligence Technology Co., Ltd.

Currently we conduct substantially all of our operations through Chengdu Liwu Apartment Management Co., Ltd. in China.

#### D. **Property, Plants and Equipment**

Our principal executive office is located in Shanghai, China, where we rent the office space with an aggregate floor area of approximately 1,296.4 square meters as of September 30, 2022.

#### ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations is based upon, and should be read in conjunction with, our audited consolidated financial statements and the related notes included in this annual report on Form 20-F. This report contains forward-looking statements. See “Forward-Looking Statements” in this annual report. In evaluating our business, you should carefully consider the information provided under the caption “Item 3. Key Information—D. Risk Factors” in this annual report on Form 20-F. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

### **A. Operating Results**

#### **Overview**

We are a leading technology-driven long-term apartment rental platform in China, offering young, emerging urban residents conveniently located, ready to move in, and affordable branded apartments as well as facilitating a variety of value-added services. We are one of the pioneers in providing branded rental apartments in China. Under our dispersed lease-and-operate model, we lease apartments from landlords and transform these apartments, mostly from bare-bones condition, into standardized furnished rooms to lease to people seeking affordable residence in cities, following an efficient, technology-driven business process.

We cooperate with third parties, including professional home service providers, e commerce companies and other service providers to facilitate a wide array of value-added services for our tenants. Revenue from value-added services and others as a percentage of our net revenues increased from 8.5% in FY 2020 to 9.4% in FY 2021 and then to 13.3% in FY 2022.

We also cooperate with financial institutions to facilitate rental installment loans for our tenants in need. As of September 30, 2020, we cooperated with seven financial institutions to finance rental installment loans, and the rental payment of 1.4% of our occupied rental units had been financed by these rental installment loans. Since May 2020, the financial institutions have suspended providing new rental installment loans to tenants.

In FY 2022, our business was negatively affected by the COVID-19 pandemic with our net revenues decreasing by 37.0% to RMB652.3 million from FY 2021. In FY 2022, we generated the net income of RMB820.0 million, compared with the net loss of RMB569.2 million in FY 2021. Our period-average occupancy rates were 83.8%, 89.9% and 89.7% in FY 2020, FY 2021 and FY 2022, respectively. Our net revenues were RMB1,208.0 million, RMB1,036.2 million and RMB 652.3 million (US\$91.7 million) in FY 2020, 2021 and 2022, respectively. Our net loss were RMB1,533.6 million and RMB569.2 million in FY 2020 and 2021, respectively, and our net income were RMB 820.0 million (US\$115.3 million) in FY 2022.

#### **Key Factors Affecting Our Results of Operations**

##### ***General Factors Affecting Our Results of Operations***

Our results of operations are subject to general economic conditions and conditions affecting China’s real estate industry, in particular the apartment rental industry, which include, among others:

##### ***Changes in the National, Regional or Local Economic Conditions and Outlook in China***

We target young people including recent college graduates, entry level white collar workers and industry workers in cities with strong economic growth, net inflow of people, rapid urban development and favorable policies supporting the development of the apartment rental market. Our occupancy levels and rental rates mainly depend on the demands from our target population in our target markets. Changes in national, regional or local economic conditions in China, including urbanization rates and employment rates in our target markets may materially affect demand for our apartments and services, and as a result, our business, financial condition and results of operations.

Our costs and expenses may also be affected by China’s inflation level. We may not be able to pass on increased costs to our tenants.

## *Government Policies and Regulations in China*

Our business and results of operations can be significantly affected by PRC laws, regulations and policies, particularly those relating to the real estate industry. We have benefited in recent periods from certain favorable policies for the apartment rental industry, including:

- stringent home buying requirements in top-tier cities in China, which have made it more difficult to purchase apartments, particularly for our target customers; and
- favorable policies to incentivize and support the growth of the apartment rental sector.

The PRC laws, regulations and policies concerning the apartment rental industry are developing and evolving. New laws, regulations and policies may increase our compliance cost, and require adjustments to our business model. For additional information, please refer to “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Residential Tenancy” and “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Leasing.”

## *The Competitive Landscape of China’s Long-term Apartment Rental Market*

China’s long-term apartment rental market is highly competitive. Our competitors include other branded apartment operators and apartment owners who rent their apartments to tenants directly or through real estate agencies. In addition, in response to increased cooling measures on housing sales, real estate developers may also pivot into standardized rental market.

## ***Specific Factors Affecting Our Results of Operations***

Our results of operations are also affected by company specific factors, including, among others:

- Our ability to expand our apartment network;
- Our ability to maintain and increase occupancy level and rental rate;
- Our ability to control operating costs and expenses and improve operational efficiency;
- Our ability to manage upfront capital outlay and expansion cost; and
- Seasonality.

## *Our Ability to Expand Our Apartment Network*

Our growth is impacted by our ability to expand our apartment network. We strategically select apartments in relatively inexpensive yet convenient locations, typically near subway stations in metropolitan areas. These locations provide tenants with convenient access to an entire city, including major business districts and commercial centers, and hence have strong demand potential and ample room for rental increase. Our ability to identify and source apartments that meet our strategic and financial return criteria is, in turn, impacted by, among others, the availability of, and competition for, our target apartments, as well as the efficiency of our sourcing staff.

As we expand the geographic coverage of our apartment network, we believe we will benefit from enhanced brand recognition and economies of scale. For example, as we expand and our reputation grows, an increasing number of landlords no longer require us to pay security deposits. We are also able to bulk purchase directly from manufacturers at competitive prices as we scale up.

## *Our Ability to Maintain and Increase Occupancy Level and Rental Rate*

Our rental service revenues are affected by our occupancy level and rental rates. Our occupancy level mainly depends on the locations of our rental units, affordability of our rentals, including rental discounts and other promotions we offer, and the effectiveness of our sales and marketing efforts. In addition, as we expand into new geographic regions, it takes time to ramp up the occupancy rate to our target levels. Leveraging our standardized and replicable sourcing and pricing systems, we were able to reduce the ramp up time as we expand to other cities. For

example, it took us eight months to ramp up the month-end occupancy rate in Hangzhou to above 90%, while it took us only four months to ramp up the month-end occupancy rate to above 90% when we expanded to Wuhan subsequently.

Our rental rate is primarily affected by the supply and demand dynamics in the rental markets where we operate. We apply Smart Pricing System to price our apartments through an automated, dynamic process, which takes into account data points including rent-in cost, decoration cost, historical transaction data (e.g., price and occupancy rate), demand seasonality, our target occupancy rates, and market prices for nearby apartments in similar conditions.

#### *Our Ability to Control Operating Costs and Expenses and Improve Operational Efficiency*

Rental cost represents our largest operating costs and expenses. We also incur substantial operating expenses, including those for apartment sourcing, marketing, leasing, after lease maintenance and research and development. In addition, as we expand into new regions, we incur substantial upfront operating expenses for market research, establishing logistics and supply chain and other supporting functions, and building our brand name. We have been improving, and intend to continue to improve, our operational efficiency through our end-to-end, technology-driven operational and management systems. For example, when we expand into a new city, our Smart Pricing System is replicable with some adjustments in parameters, enabling faster expansion at a lower cost. In addition, in July 2020, we engaged a third-party contractor to manage rental units after acquiring lease contracts with landlords and tenants and related fixtures and equipment for these rental units from another rental service company. This enables us to operate our business in new locations, where we lack experience and resources, at a lower cost by leveraging the experience and resources of the contractor. In terms of apartment renovation, our project management system enables modularization, standardization and digitization of the renovation process, which allows us to efficiently manage a fast-growing number of suppliers and contractors and streamline our decoration and renovation process. We conduct the majority of our marketing and leasing processes and handle after-rent services and property maintenance requests online, which helps to improve efficiency. The average number of rental units managed by each of our apartment managers decreased from 82.5 in FY 2020 to 38 in FY 2021 as our business was adversely affected by the COVID-19 pandemic, and increased to 50.1 in FY 2022 because our rental units are more geographically dispersed due to the change of our rental unit portfolio since July 2020.

#### *Our Ability to Manage Upfront Capital Outlay and Expansion Cost*

We utilize a lease-and-operate model. Under this model, we incur substantial capital outlay, including for apartment sourcing, renovation, and prepayment of a few months' rentals to landlords. We finance our capital outlay primarily from tenants' rental prepayments. Tenants who rent rental units other than those we acquired from the rental service company in July 2020 and prepay at least six months' rental can enjoy a 5% rental discount, and tenants who prepay at least 12 months' rental can enjoy a 10% rental discount (subject certain limits) for the lock-in period. Our rental service revenues are net of these discounts. In addition, we pay interest on rental installment loans for our tenants. Our results of operations, therefore, are significantly affected by our ability to finance the capital outlay for our expansion economically, reducing our reliance on tenant's rental prepayment. In August 2018, we started to cooperate with a rental service company owned by a bank for apartment sourcing and renovation. Under this model for certain newly sourced apartments, we continue to be responsible for the entire operating process, including identifying potential apartments for rent, rental pricing and procuring and paying for apartment renovation. Once we have finished the renovation, the rental service company reimburses us for our costs incurred for the renovation. We make payments to the rental service company in installments equal to the reimbursed renovation costs plus interest and tax over a period of five years. At the end of the five-year period, the ownership of the renovation will be transferred to us. Under this arrangement, we also sell leasehold improvements and furniture, fixtures and equipment of certain existing apartments to the rental service company at carrying value and simultaneously lease them back. Due to the rising vacancy rate of our rental units caused by the COVID-19 pandemic, we decreased the number of apartment contracted by terminating some of the leases with landlords under this model. In April 2020, we started to modify this cooperation for apartments in certain cities. For some apartments under this model, we no longer lease-in apartments from the rental service company or enter into new lease-out agreements with tenants. Instead, we transferred existing leases with tenants to the rental service company. The rental service company maintains the lease-in agreements with the landlords of the apartments, collects rental from the tenants directly and enters into lease-out agreements with new tenants directly. We are engaged by the

rental service company to manage these apartments. Pursuant to this arrangement, we are responsible for hiring and supervising the third-party contractor including in its identification of potential tenants and daily operation, and receives fee income equals to the rental income from tenants minus the rental fee to landlords. For each of these apartments, if the rental collected from the tenants is less than the rental paid to the landlords, we are required to pay the rental service company this difference via separate payments. The model has provided us with a stable source of lower-cost capital to finance apartment sourcing and renovation, compared to the tenant rental prepayment model.

Since February 2019, we have started to source decorated and furnished apartments from landlords thus compared to sourcing bare-bones apartments, substantially reducing our upfront capital outlay for apartment renovation, while still adding an additional bedroom.

### Seasonality

Our operating results have been, and may continue to be subject to, seasonality. Our occupancy and revenues were generally higher during the three months ended September 30 of each year, as many students search for apartments in cities where they are employed after graduation. In addition, during and around the Chinese New Year holidays, which usually fall in January or February, people are less likely to move into new apartments or stay in rented apartments. As a result, our occupancy and revenues were generally lower for the three months ended March 31 of each year, despite the rebound in March from higher demand as labor forces come back to cities in search of jobs after the Chinese New Year.

### Key Operating Metrics

We regularly review a number of operating metrics to evaluate our business, measure our performance, identify trends affecting our business, establish budgets, measure the effectiveness of sales and marketing, and assess our operational efficiencies.

The table below sets forth our key operating data as of September 30, 2020, 2021 and 2022:

	As of September 30,		
	2020	2021	2022
Number of rental units contracted	82,185	62,757	38,253
Number of rental units under renovation	921	—	—
Number of available rental units	81,264	62,757	38,253
Number of occupied rental units	68,755	57,255	33,201
Number of vacant available rental units	12,509	5,502	5,052
Number of rental units managed but not contracted by us <sup>(1)</sup>	25,133	—	—

(1) refers to the number of rental units that (i) we provide our rental management service for and (ii) are leased-in from landlords by third parties

The table below sets forth the numbers of available rental units as of September 30, 2020, 2021 and 2022:

	As of September 30,		
	2020	2021	2022
East China <sup>(1)</sup>	23,772	17,080	8,614
North China <sup>(2)</sup>	27,853	21,916	18,550
Southwest China <sup>(3)</sup>	21,514	19,676	10,267
Others <sup>(4)</sup>	8,125	4,085	822

(1) includes Fuzhou, Hefei, Nanjing and Qingdao

(2) includes Beijing, Tianjin and Xi'an

(3) includes Chengdu and Kunming

(4) includes Nanchang and Nanning

The table below sets forth our key operating data for FY 2020, FY 2021 and FY 2022:

	FY 2020	FY 2021	FY 2022
Period-average occupancy rate (%)	83.8	89.9	89.7
Average monthly rental (RMB)			
before discount for rental prepayment	1,185	1,080	1,055
after discount for rental prepayment	1,169	1,075	1,055
Rental spread margin (%)			
before discount for rental prepayment	20.9	22.6	18.0
after discount for rental prepayment	19.8	22.2	18.0

#### ***Numbers of Rental Units Contracted, Numbers of Available Rental Units, and Number of Occupied Rental Units***

Number of rental units contracted and number of available rental units are important operating measures by which we evaluate and manage the scale of our business and growth. Apartments in China usually have two to three bedrooms, which are suitable for a household, but could be too costly for individual tenants. We typically convert a leased-in apartment to add an additional bedroom, or the N+1 Model, and rent each bedroom, or rental unit, separately to individual tenants after standardized decoration and furnishing. The N+1 model further increases affordability and provides flexibilities and cost rental efficiency for tenants.

Our rental units contracted refer to rental units in apartments that we have leased in from landlords. Our number of rental units contracted decreased by 23.6% from September 30, 2020 to September 30, 2021, as we no longer managed some rental units from April 2020 to optimize our portfolio. Our number of rental units contracted decreased by 39.0% from September 30, 2021 to September 30, 2022, as we continue to optimize our rental asset portfolio. Our number of available rental units refers to the number of our leased in rental units that have been renovated and ventilated and are ready for rent.

Our occupied rental units refer to available rental units that have been leased out to tenants. Our number of occupied rental units was lower than our number of rental units contracted because of (i) the impact of the COVID-19 pandemic and (ii) some of our available rental units' vacancy, as it takes time to ramp up our occupancy rate to our target levels as we expanded to new geographic regions. Our number of occupied rental units decreased by 16.7% from September 30, 2020 to September 30, 2021, which is in line with the decrease in the total rental units contracted. Our number of occupied rental units decreased by 42.0% from September 30, 2021 to September 30, 2022, which is in line with the decrease in the total rental units contracted.

#### ***Period-average occupancy rate, Average Monthly Rental, and Rental Spread Margin***

Our period-average occupancy rate is calculated by dividing the aggregate number of our leased-out rental unit nights by the aggregate number of available rental unit nights during a relevant period. Our period-average occupancy rate increased from 83.8% in FY 2020 to 89.9% in FY 2021 because of gradual recovery from the COVID-19 pandemic in China; and remained almost the same at 89.7% in FY 2022.

Our average monthly rental after discount for rental prepayment refers to the total rental we receive from our tenants for a period, net of value-added tax, divided by the number of leased-out rental unit nights for the relevant period times 30.5 (which represents the average number of days in a month). Our average monthly rental before discount for rental prepayment refers to the total rental we receive from our tenants for a period, net of value-added tax, after adding back any discount for rental prepayment, divided by the number of leased-out rental unit nights for the relevant period times 30.5 (which represents the average number of days in a month). Our rental spread margin after discount for rental prepayment refers to the rental spread after discount for rental prepayment as a percentage of the average monthly rental after discount for rental prepayment on a lease to a tenant on the same space. Our rental spread margin before discount for rental prepayment refers to the rental spread before discount for rental prepayment as a percentage of the average monthly rental before discount for rental prepayment on a lease to a tenant on the same space. Our leases with landlords generally contain rent holidays and typically lock in our rental cost for the first three years, and we record the total rental expense on a straight line basis over the initial lease term, or monthly straight-lined rental. We use big data to establish a fair and efficient rental pricing mechanism.

Our average monthly rental before discount for rental prepayment decreased from RMB1,185 in FY 2020 to RMB1,080 in FY 2021, and our average monthly rental after discount for rental prepayment decreased from RMB1,169 in FY 2020 to RMB1,075 in FY 2021, due to the impact of the COVID-19 pandemic. Our average monthly rental before discount for rental prepayment decreased from RMB1,080 in FY 2021 to RMB1,055 in FY 2022, and our average monthly rental after discount for rental prepayment decreased from RMB1,075 in FY 2021 to RMB1,055 (US\$148.3) in FY 2022, as we are still impacted by the COVID-19 pandemic.

Our rental spread margin before discount for rental prepayment increased from 20.9% in FY 2020 to 22.6% in FY 2021, and our rental spread margin after discount for rental prepayment increased from 19.8% in FY 2020 to 22.2% in FY 2021, as we took measures to optimize our rental facilities and assets. Our rental spread margin before discount for rental prepayment decreased from 22.6% in FY 2021 to 18% in FY 2022, and our rental spread margin after discount for rental prepayment decreased from 22.2% in FY 2021 to 18.0% in FY 2022. Our rental spread margin declined in FY 2022, primarily because we reduced our average monthly rental in an effort to maintain our period-average occupancy rate, due to the impact of the COVID-19 pandemic.

#### ***Number of rental units managed but not contracted by us***

The rental units managed but not contracted by us refers to the rental units that (i) we provide our rental management service for and (ii) are leased in from landlords by third parties. For some apartments under this model, we no longer lease-in apartments from the rental service company or enter into new lease-out agreements with tenants. Instead, we transferred existing leases with tenants to the rental service company. The rental service company maintains the lease-in agreements with the landlords of the apartments, collects rental from the tenants directly and enters into lease-out agreements with new tenants directly. We are engaged by the rental service company to manage these apartments. Pursuant to this arrangement, we are responsible for hiring and supervising the third-party contractor including in its identification of potential tenants and daily operation, and receives fee income equals to the rental income from tenants minus the rental fee to landlords. For each of these apartments, if the rental collected from the tenants is less than the rental paid to the landlords, we are required to pay the rental service company this difference.

### **Components of Results of Operations**

#### ***Net Revenues***

Our net revenues primarily consist of rental service revenues, and revenue from various types of fees we charge our tenants for some of our value-added services. Our revenues are net of value-added tax. The following table sets forth a breakdown of our net revenues.

	FY 2020		FY 2021		FY 2022		
	RMB	% of total net revenues	RMB	% of total net revenues	RMB	US\$	% of total net revenues
	(in thousands except for percentages)						
Net revenues:							
Rental service	1,105,172	91.5	939,169	90.6	565,759	79,533	86.7
Value-added services and others	102,791	8.5	97,037	9.4	86,574	12,170	13.3
<b>Total net revenues</b>	<b>1,207,963</b>	<b>100.0</b>	<b>1,036,206</b>	<b>100.0</b>	<b>652,333</b>	<b>91,703</b>	<b>100.0</b>

Our rental service revenues consist of rents collected under our lease agreements with tenants and in the arrangement with the rental service company. Our leases with tenants typically have a contracted lease term of 3 to 12 months. During the contracted lease term, typically, termination will result in forfeiture of the security deposit.



To a lesser extent, we derive net revenues from various types of fees we charge our tenants for certain value-added and other services, such as broadband internet and utilities. We also receive indemnification payments from landlords and tenants for their termination of lease agreements within the lock-in period. The following table sets forth a breakdown of our net revenues from value-added services and others for the periods indicated.

	FY 2020		FY 2021		FY 2022		
	RMB	% of revenue from value-added services and others	RMB	% of revenue from value-added services and others	RMB	US\$	% of revenue from value-added services and others
(in thousands, except for percentages)							
Broadband internet	34,100	33.2	3,275	3.4	27,680	3,891	32.0
Utility service	13,257	12.9	1,220	1.3	25,370	3,566	29.3
Indemnity	32,782	31.9	53,134	54.8	31,875	4,481	36.8
Others	22,652	22.0	39,408	40.5	1,649	232	1.9
<b>Total</b>	<b>102,791</b>	<b>100.0</b>	<b>97,037</b>	<b>100.0</b>	<b>86,574</b>	<b>12,170</b>	<b>100.0</b>

### Operating Costs and Expenses

Our operating costs and expenses primarily consist of costs and expenses related to operating our network of apartments and rental units. The following table sets forth the components of our operating costs and expenses, both in absolute amount and as a percentage of total revenues for the period indicated.

	FY 2020		FY 2021		FY 2022		
	RMB	% of total net revenues	RMB	% of total net revenues	RMB	US\$	% of total net revenues
(in thousands, except for percentages)							
Operating costs and expenses:							
Operating cost	1,203,415	99.6	949,654	91.6	711,003	99,952	109
Selling and marketing expenses	63,512	5.2	13,115	1.3	13	2	—
General and administrative expenses	102,769	8.5	217,108	21.0	62,161	8,738	10
Research and development expenses	24,934	2.1	7,768	0.7	2,795	393	—
Pre-operation expenses	14,245	1.2	—	—	—	—	—
Impairment loss on long-lived assets	846,766	70.1	199,575	19.3	100,156	14,080	15
Loss from disposal of property and equipment and intangible assets	468,980	38.8	30,173	2.9	11,972	1,683	1.8
Other (income) expense, net	(15,881)	(1.3)	18,476	1.8	8,104	1,140	1.2
<b>Total operating costs and expenses</b>	<b>2,708,740</b>	<b>224.2</b>	<b>1,435,869</b>	<b>138.6</b>	<b>896,204</b>	<b>125,988</b>	<b>137</b>

### Operating Cost

Our operating cost includes rental cost, depreciation, personnel costs incurred by apartment managers in providing after-rent services, cleaning cost, utilities cost, broadband internet cost and others. Rental cost represents our rental expenses incurred after our leased-in rental units are renovated and decorated and available for rent to tenants. Depreciation is primarily associated with our capitalized renovation incurred when we convert and furnish our leased-in apartments for rent to tenants. We recognize depreciation with our leasehold improvements and other capital expenditures using a straight line method over the shorter of expected useful lives or lease term. Personnel

costs incurred by apartment managers in providing after-rent services are primarily associated with management and inspection of rental units and regular communication with tenants. Personnel costs incurred by apartment managers in providing before-rent services, such as accompanying potential tenants to visit our apartments and negotiating lease agreements with tenants, are recorded in selling and marketing expenses. Personnel costs are allocated according to the time apartment managers spend. The following table sets forth our operating cost in absolute amount and as a percentage of net revenue for the periods indicated.

	FY 2020		FY 2021		FY 2022		
	RMB	% of total net revenues	RMB	% of total net revenues	RMB	US\$	% of total net revenues
	(in thousands except for percentages)						
Rental cost	813,773	67.4	642,354	62.0	539,487	75,840	82.7
Depreciation expenses	256,056	21.2	75,332	7.3	26,543	3,731	4.1
Personnel cost	77,392	6.4	224,125	21.6	144,926	20,373	22.2
Cleaning cost	7,657	0.6	5,573	0.5	—	—	—
Utility cost	14,446	1.2	265	—	—	—	—
Broadband internet cost	31,920	2.6	1,358	0.1	—	—	—
Others	2,171	0.2	647	0.1	47	8	—
<b>Total</b>	<b>1,203,415</b>	<b>99.6</b>	<b>949,654</b>	<b>91.6</b>	<b>711,003</b>	<b>99,952</b>	<b>109.0</b>

#### *Selling and Marketing Expenses*

Selling and marketing expenses primarily include online and offline marketing expenses, promotion expenses, staff costs of sales personnel and other related incidental expenses that are incurred indirectly to attract or retain tenants for us.

#### *General and Administrative Expenses*

Our general and administrative expenses consist primarily of personnel costs, consulting expenses, headquarter office rental expenses, general office expenses and other costs associated with running our day to day activities.

#### *Research and Development Expenses*

Research and development expenses include payroll expenses, employee benefits, and other headcount-related expenses associated with platform development and big data analysis to support our business operations.

#### *Pre-operation Expenses*

Pre-operation expenses mainly include rental and sourcing costs incurred before an apartment is ready for lease.

#### *Impairment Loss on long-lived Assets*

We evaluate our long-lived assets and finite lived intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying amount of the assets exceeds its expected undiscounted cash flows, we will recognize an impairment loss equal to the difference between the carrying amount and the fair value of these assets. We determined the fair value of the property and equipment based on the income approach using the discounted cash flow associated with the underlying assets, which incorporated certain assumptions including the projected rental units' revenue, growth rates and projected operating costs based on current economic condition, expectation of management and projected trends of current operating results. In July 2020, we acquired certain assets from a rental service company, Great Alliance Co-living Limited, and its affiliates, including apartment rental agreements and leasehold improvements attached to approximately 72,000 rental units in various cities across China, and its trademarks. We reviewed the fair value of the apartment rental agreements and trademarks based on the income approach using the discounted cash flow

associated with the underlying assets, which incorporated certain assumptions including the projected rental units' revenue, growth rates and projected operating costs based on current economic condition, expectation of management and projected trends of current operating results. For the year ended September 30, 2022, we recognized impairment of RMB 70.6 million and RMB 29.6 million against trademark and apartment rental contracts.

#### *Loss from disposal of property and equipment and intangible assets*

Our loss from disposal of property and equipment and intangible assets in FY 2021 and FY 2022 mainly includes our loss of renovations due to the termination of our leases with landlords of certain rental units for the impact of the COVID-19 pandemic on our business. In addition, in FY 2021, we sold buildings under construction in Suzhou through judicial sales.

#### *Interest Expense, Net*

Interest expense primarily consists of interest on rental installment loans we pay for our tenants, interest on our bank borrowings, and interest on capital lease and other financing arrangement. The following table sets forth a breakdown of our interest expense, net for the periods indicated.

	FY 2020		FY 2021		FY 2022		
	RMB	% of interest expense, net	(in thousands except for percentages)		RMB	US\$	% of interest expense, net
			RMB	% of interest expense, net			
Interest on bank borrowings	(56,533)	43.4	(47,656)	37.4	(25,529)	(3,589)	38.2
Interest expense on convertible notes	(5,899)	4.5	(49,512)	38.9	(33,905)	(4,766)	50.7
Interest on capital lease and other financing arrangement	(31,094)	23.9	(22,483)	17.7	—	—	—
Interest on rental installment loans	(37,004)	28.4	(7,687)	6.0	(7,239)	(1,018)	10.8
Interest income (expenses)	324	(0.2)	38	—	(219)	(30)	0.3
Total	(130,206)	100.0	(127,300)	100.0	(66,892)	(9,403)	100

#### **Taxation**

##### *Cayman Islands*

We are incorporated in the Cayman Islands. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax. The Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

##### *The British Virgin Islands*

Our subsidiary incorporated in the British Virgin Islands is not subject to income or capital gains taxes, estate duty, inheritance tax or gift tax under the current applicable laws of the British Virgin Islands. In addition, payment of dividends to the shareholders of our subsidiary in the British Virgin Islands are not subject to withholding tax in the British Virgin Islands.

## ***Hong Kong***

Before April 1, 2018, our subsidiary incorporated in Hong Kong was subject to Hong Kong profit tax at a rate of 16.5%. Since April 1, 2018, our subsidiary incorporated in Hong Kong has been subject to Hong Kong profit tax at a rate of 8.25% on assessable profits up to HK\$2.0 million and 16.5% on any part of assessable profits over HK\$2.0 million. There is an anti-fragmentation measure where each group will have to nominate only one company in the group to benefit from the progressive rates. No Hong Kong profit tax has been levied as we did not have assessable profit that was earned in or derived from the Hong Kong subsidiary during the periods presented. Hong Kong does not impose a withholding tax on dividends.

## ***United States***

Our subsidiary in the United States is registered in the state of Delaware and is subject to a flat U.S. federal corporate income tax rate of 21%.

## ***China***

Generally, our PRC subsidiaries, the VIE and subsidiaries of the VIE, which are considered PRC resident enterprises under PRC tax law, are subject to enterprise income tax on their worldwide taxable income as determined under PRC tax laws and accounting standards at a rate of 25%.

We are subject to value-added tax, or VAT, at a rate of 6% on the services we provide, less any deductible VAT we have already paid or borne. We are also subject to surcharges on VAT payments in accordance with PRC law. VAT has been phased in since May 2012 to replace the business tax that was previously applicable to the services we provide. During the periods presented, we were not subject to business tax on the services we provide.

Dividends paid by our wholly foreign-owned subsidiary in China to our intermediary holding company in Hong Kong will be subject to a withholding tax rate of 10%, unless the relevant Hong Kong entity satisfies all the requirements under the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income. If our Hong Kong subsidiary satisfies all the requirements under the tax arrangement, then the dividends paid to the Hong Kong subsidiary would be subject to withholding tax at the standard rate of 5%. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—We rely on dividends and other distributions on equity paid by our PRC subsidiary to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiary to make payments to us could have a material adverse effect on our ability to conduct our business.”

If our holding company in the Cayman Islands or any of our subsidiaries outside of China were deemed to be a “resident enterprise” under the PRC Enterprise Income Tax Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders.”

## Results of Operations

The following table sets forth a summary of our consolidated results of operations for the periods indicated, both in absolute amount and as a percentage of our net revenues. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. The operating results in any period are not necessarily indicative of the results that may be expected for any future period.

	FY 2020		FY 2021		FY 2022		
	RMB	% of total net revenues	RMB	% of total net revenues	RMB	US\$	% of total net revenues
Net revenues:							
Rental service revenue	1,105,172	91.5	939,169	90.6	565,759	79,533	86.7
Value-added services and others	102,791	8.5	97,037	9.4	86,574	12,170	13.3
Total net revenues	1,207,963	100.0	1,036,206	100.0	652,333	91,703	100.0
Operating costs and expenses:							
Operating cost	(1,203,415)	(99.6)	(949,654)	(91.6)	(711,003)	(99,952)	(109.0)
Selling and marketing expenses	(63,512)	(5.3)	(13,115)	(1.3)	(13)	(2)	—
General and administrative expenses	(102,769)	(8.5)	(217,108)	(21.0)	(62,161)	(8,738)	(9.5)
Research and development expenses	(24,934)	(2.1)	(7,768)	(0.7)	(2,795)	(393)	(0.4)
Pre-operation expenses	(14,245)	(1.2)	—	—	—	—	—
Impairment loss on long-lived assets	(846,766)	(70.1)	(199,575)	(19.3)	(100,156)	(14,080)	(15.4)
Loss from disposal of property and equipment and intangible assets	(468,980)	(38.8)	(30,173)	(2.9)	(11,972)	(1,683)	(1.8)
Other income (expenses), net	15,881	1.3	(18,476)	(1.8)	(8,104)	(1,140)	(1.3)
Total operating costs and expenses	(2,708,740)	(224.2)	(1,435,869)	(138.6)	(896,204)	(125,988)	(137.4)
Loss from operation	(1,500,777)	(124.2)	(399,663)	(38.6)	(243,871)	(34,285)	(37.4)
Interest expense, net	(130,206)	(10.8)	(127,300)	(12.3)	(66,892)	(9,403)	(10.3)
Inducement expenses	—	—	—	—	(423,686)	(59,561)	(65.0)
Gains from deconsolidation of VIE's subsidiaries	—	—	—	—	1,554,450	218,521	238.3
Debt extinguishment loss	—	—	(41,961)	(4.0)	—	—	—
Foreign exchange loss, net	(62)	—	(247)	—	—	—	—
Fair value change of contingent earn-out liabilities	97,417	8.0	—	—	—	—	—
(Loss) income before income taxes	(1,533,628)	(127.0)	(569,171)	(54.9)	820,001	115,272	125.6
Income tax expense	(13)	—	(31)	—	(21)	(3)	—
Net (loss) income	(1,533,641)	(127.0)	(569,202)	(54.9)	819,980	115,269	125.6

## FY 2022 Compared to FY 2021

### Net Revenues

Our net revenues decreased by 37.0% from RMB1,036.2 million in FY 2021 to RMB652.3 million (US\$91.7 million) in FY 2022. Our rental service revenues decreased by 39.8% from RMB939.2 million in FY 2021 to RMB565.8 million (US\$79.5 million) in FY 2022, primarily attributable to the reduced number of rental units due to COVID-19 pandemic, the termination of business co-operation with one rental service company and China Construction Bank, and cessation of certain proprietary businesses.

Our net revenues from value-added services and others decreased by 10.7% from RMB97.0 million in FY 2021 to RMB86.6 million (US\$12.2 million) in FY 2022, primarily because we continue to optimize our asset portfolio due to the impact of COVID-19 pandemic and reduced number of rental units in FY 2022.

### *Operating Costs and Expenses*

Our total operating costs and expenses decreased by 37.6% from RMB1,435.9 million in FY 2021 to RMB896.2 million (US\$126.0 million) in FY 2022.

- *Operating cost.* Our operating cost decreased by 25.1% from RMB949.7 million in FY 2021 to RMB711.0 million (US\$100.0 million) in FY 2022.
  - *Rental cost.* Our rental cost decreased by 16.0% from RMB642.4 million in FY 2021 to RMB539.5 million (US\$75.8 million) in FY 2022. This was primarily because due to the decrease in rental units.  
Our rental cost as a percentage of rental service revenue increased from 68.4% in FY 2021 to 95.4% in FY 2022, primarily attributable to the decrease in rental spread margin.
  - *Depreciation expenses.* Our depreciation expenses decreased by 64.8% from RMB75.3 million in FY 2021 to RMB26.5 million (US\$3.7 million) in FY 2022, primarily because we have already provided significant impairment loss on long-lived assets.
  - *Personnel costs.* Our personnel costs decreased by 35.3% from RMB224.1 million in FY 2021 to RMB144.9 million (US\$20.4 million) in FY 2022, primarily because we terminated self-operating rental units business and thus did not incur personnel cost in FY 2022.
  - *Costs for value-added services and others.* Our cleaning cost, utility cost, broadband internet cost and other cost decreased by 99.4% from RMB7.8 million in FY 2021 to RMB 0.05 million (US\$0.01 million) in FY 2022. This decrease was primarily because we terminated self-operating rental units business and thus did not incur such costs in FY 2022.
- *Selling and marketing expenses.* Our selling and marketing expenses decreased by 99.9% from RMB13.1 million in FY 2021 to RMB13 thousand (US\$2 thousand) in FY 2022. The decrease was primarily because we terminated cooperation with one rental service company in FY 2021 and thus there were nil selling and marketing expenses in FY 2022.
- *General and administrative expenses.* Our general and administrative expenses decreased by 71.3% from RMB217.1 million in FY 2021 to RMB62.2 million (US\$8.7 million) in FY 2022. The decrease was primarily attributable to the decrease in bad debt expense of RMB 142.6 million. We provided sufficient bad debt expense in FY 2021 and thus less bad debt expense was provided in FY 2022.  
Our general and administrative expenses as a percentage of total net revenues decreased from 21.0% in FY 2021 to 9.5% in FY 2022 primarily due to our cost-saving strategy in FY 2022.
- *Research and development expenses.* Our research and development expenses decreased by 64.1% from RMB7.8 million in FY 2021 to RMB2.8 million (US\$0.4 million) in FY 2022, primarily due to our cost-saving strategy in FY 2022.
- *Pre-operation expenses.* Our pre-operation expenses were nil in both FY 2021 and FY 2022. This was primarily because there were few new rental units in both fiscal years due to COVID-19 pandemic.  
Our pre-operation expenses as a percentage of total net revenues stayed nil in both FY 2021 and FY 2022 because there were few new rental units in both fiscal years due to COVID-19 pandemic.

- *Impairment loss on long-lived assets.* Our impairment loss on long-lived assets decreased by 49.8% from RMB199.6 million in FY 2021 to RMB100.2 million (US\$14.1 million) in FY 2022, primarily because we have provided significant impairment loss in the previous years.
- *Loss from disposal of property and equipment and intangible assets.* Our loss from disposal of property and equipment and intangible assets decreased by 60.3% from RMB30.2 million in FY 2021 to RMB12.0 million (US\$1.7 million) in FY2022. Our loss from disposal of property and equipment and intangible assets was primarily attributable to the disposal of property when we returned the rental units to the landlords.

#### *Loss from Operations*

As a result of the foregoing, our loss from operations decreased by 40.0% from RMB399.7 million in FY 2021 to RMB243.9 million (US\$34.3 million) in FY 2022.

#### *Interest Expense, Net*

Our interest expense decreased by 47.4% from RMB127.3 million in FY 2021 and RMB66.9 million (US\$9.4 million) in FY 2022, respectively. The decrease was primarily attributable to the decrease of balance of interest-bearing liabilities.

Our interest income, which primary related to the interest from our bank deposits, decreased from RMB77 thousand in FY 2021 to RMB2 thousand (US\$281) in FY 2022.

#### *Gains from deconsolidation of VIE's subsidiaries*

As of September 30, 2022, four of the subsidiaries of the VIE filed the voluntary petition for bankruptcy under the Article 2 of the PRC Enterprise Bankruptcy Law with Shanghai Third Intermediary Court (“Court”), and the Court announced the effectiveness of the petition and the administrator of bankruptcy was assigned on board. As a result, the Company had no control over the allocation of remaining assets in liquidation of these subsidiaries and their subsidiaries (collectively “Deconsolidated VIE’s Subsidiaries”), accordingly the Company deconsolidated these Deconsolidated VIE’s Subsidiaries .

Upon the deconsolidation of Deconsolidated VIE’s Subsidiaries, we would continue its effort to provide rental and value-added services in China. The management believed the deconsolidation does not represent a strategic shift because it is not changing the way it is running its business. We have not shifted the nature of its operations or the major geographic market area. Prior to the deconsolidation, operating revenue generated through the subsidiaries of the VIE amounted to RMB1.6 million (US\$0.2 million) for the period from October 1, 2021 through deconsolidation dates, accounting for 0.2% of consolidated revenues for the year ended September 30, 2022. Net loss amounted to RMB40.9 million (US\$5.7 million) for the period from October 1, 2021 through deconsolidation dates, the abstract amount accounted for 5% of the consolidated net income of the Company for the year of 2022. On the deconsolidation date, the net deficit of Deconsolidated VIE’s Subsidiaries was RMB 2,231.1 million (US\$313.6 million) and the Group wrote off investments of RMB 500 million (US\$70.3 million) in Deconsolidated VIE’s Subsidiaries, and waived amounts of RMB 176.7 million (US\$24.8 million) due from Deconsolidated VIE’s Subsidiaries. The Group recognized gains of RMB 1,554.5 million (US\$218.5 million) from deconsolidation of Deconsolidated VIE’s Subsidiaries.

#### *Loss/income before Income Taxes*

As a result of the foregoing, we incurred loss before income taxes of RMB569.2 million in FY 2021 but generated net income before income taxes of RMB820.0 million (US\$115.3 million) in FY 2022.

### *Income Tax Expense*

Our income tax expense was RMB31.0 thousand in FY 2021 and RMB21 thousand (US\$3 thousand) in FY 2022. We incurred income tax expense despite our loss before income tax because there was income in some of the subsidiaries.

### *Net (Loss) Income*

As a result of the foregoing, we recorded a net loss of RMB569.2million in FY 2021 and a net income of RMB820.0 million (US\$115.3 million) in FY 2022.

## **FY 2021 Compared to FY 2020**

### *Net Revenues*

Our net revenues decreased by 14.2% from RMB1,208.0 million in FY 2020 to RMB1,036.2 million (US\$160.8 million) in FY 2021. Our rental service revenues decreased by 15.0% from RMB1,105.2 million in FY 2020 to RMB939.2 million (US\$145.8 million) in FY 2021, primarily because we terminated the cooperation with the rental service company owned by a state-owned bank and therefore we no longer managed those rental units that were not contracted by us.

Our net revenues from value-added services and others decreased by 5.6% from RMB102.8 million in FY 2020 to RMB97.0 million (US\$15.1 million) in FY 2021, primarily because (i) we terminated the cooperation with the rental service company owned by a state-owned bank and therefore we no longer managed those rental units that were not contracted by us, and (ii) for the approximately 72,000 rental units that were added to our portfolio in July 2020, the fees for the value-added services we provided were included in the rental the tenants paid us.

### *Operating Costs and Expenses*

Our total operating costs and expenses decreased by 47.0% from RMB2,708.7 million in FY 2020 to RMB1,435.9 million (US\$222.8 million) in FY 2021.

- *Operating cost.* Our operating cost decreased by 21.1% from RMB1,203.4 million in FY 2020 to RMB949.7 million (US\$147.4 million) in FY 2021.
  - *Rental cost.* Our rental cost decreased by 21.1% from RMB813.8 million in FY 2020 to RMB642.4 million (US\$99.7 million) in FY 2021. This was primarily because we terminated the cooperation with the rental service company owned by a state-owned bank and, therefore, we no longer managed those rental units that were not contracted by us.  
Our rental cost as a percentage of rental service revenue decreased from 73.6% in FY 2020 to 68.4% in FY 2021, primarily attributable to the increase in the occupancy rate in FY 2021.
  - *Depreciation expenses.* Our depreciation expenses decreased by 70.6% from RMB256.1 million in FY 2020 to RMB75.3 million (US\$11.7 million) in FY 2021, primarily because we ceased to recognize depreciation expenses for leasehold improvements and other capital expenditure for the rental units that were managed but not contracted by us from the termination of the cooperation with the rental service company owned by a state-owned bank.
  - *Personnel costs.* Our personnel costs increased by 189.5% from RMB77.4 million in FY 2020 to RMB224.1 million (US\$34.8 million) in FY 2021, primarily attributable to the service fee we paid the rental service company for the approximately 72,000 rental units that were added to our portfolio in July 2020, which we operated for 12 months in FY 2021 compared to approximately three months in FY 2020.
  - *Costs for value-added services and others.* Our cleaning cost, utility cost, broadband internet cost and other cost decreased by 86.1% from RMB56.2 million in FY 2020 to RMB7.8 million (US\$1.2 million) in FY 2021. This decrease was primarily because (i) we terminated the cooperation with the rental service company owned by a state-owned bank and therefore we no



longer managed those rental units that were not contracted by us, and (ii) for the approximately 72,000 rental units that were added to our portfolio in July 2020, the costs for the value-added services we provided were recorded in the rental cost.

- *Selling and marketing expenses.* Our selling and marketing expenses decreased by 79.4% from RMB63.5 million in FY 2020 to RMB13.1 million (US\$2.0 million) in FY 2021. The decrease was primarily attributable to our cost-saving and personnel cost optimizing efforts, including providing less promotions in response to the COVID-19 pandemic. Our personnel costs under selling and marketing expenses decreased by 69.4% from RMB42.1 million in FY 2020 to RMB12.9 million (US\$2.0 million) in FY 2021. Our advertising and promotion expenses decreased from RMB13.6 million in FY 2020 to nil in FY 2021.

Our selling and marketing expenses as a percentage of total net revenues decreased from 5.3% in FY 2020 to 1.3% in FY 2021 due to our cost-saving strategy.

- *General and administrative expenses.* Our general and administrative expenses increased by 111.2% from RMB102.8 million in FY 2020 to RMB217.1 million (US\$33.7 million) in FY 2021. The increase was primarily attributable to (i) the bad debt expenses we recognized for rentals that could not be collected from tenants and certain prepayment to suppliers and (ii) write-off of the deductible value-added tax that could no longer be deducted.

Our general and administrative expenses as a percentage of total net revenues increased from 8.5% in FY 2020 to 21.0% in FY 2021 primarily due to an increase in bad debt expenses and write-off of the deductible value-added tax.

- *Research and development expenses.* Our research and development expenses decreased by 68.7% from RMB24.9 million in FY 2020 to RMB7.8 million (US\$1.2 million) in FY 2021, primarily because we continuously reduced investments in the IT infrastructure as the system becomes mature.
- *Pre-operation expenses.* Our pre-operation expenses decreased from RMB14.2 million in FY 2020 to nil in FY 2021. The decrease was primarily because we seldom developed any new rental units in FY 2021.

Our pre-operation expenses as a percentage of total net revenues decreased from 1.2% in FY 2020 to nil in FY 2021 due to the same reason above.

- *Impairment loss on long-lived assets.* Our impairment loss on long-lived assets decreased by 76.4% from RMB846.8 million in FY 2020 to RMB199.6 million (US\$31.0 million) in FY 2021, primarily because large provisions was provided in 2020 for the impact of the COVID-19 pandemic on our business.
- *Loss from disposal of property and equipment and intangible assets.* Our loss from disposal of property and equipment and intangible assets decreased by 93.6% from RMB469.0 million in FY 2020 to RMB30.2 million (US\$4.7 million) in FY2021. Our loss from disposal of property and equipment and intangible assets was primarily attributable to (i) our loss of renovations due to the termination of our leases with landlords of certain rental units for the impact of the COVID-19 pandemic on our business and (ii) our sales of buildings under construction in Suzhou through judicial sales for proceeds of RMB100.3 million. The court assisted us to sell the buildings under construction and collected the proceeds on behalf of us.

#### *Loss from Operations*

As a result of the foregoing, our loss from operations decreased by 73.4% from RMB1,500.8 million in FY 2020 to RMB399.7 million (US\$62.0 million) in FY 2021.

### *Interest Expense, Net*

Our interest expense decreased by 2.4% from RMB130.5 million in FY 2020 and RMB127.3 million (US\$19.8 million) in FY 2021, respectively. The decrease was primarily attributable to the decrease in the interest expense of installment loans, which partially offset by the increase of our debts and the issuance of convertible notes.

Our interest income, which primary related to the interest from our bank deposits, decreased from RMB0.3 million in FY 2020 to RMB77 thousand (US\$12 thousand) in FY 2021.

### *Fair Value Change of Contingent Earn-out Liabilities*

We recorded a gain from fair value change of contingent earn-out liabilities of RMB97.4 million and nil in FY 2020 and FY 2021, respectively.

### *Loss before Income Taxes*

As a result of the foregoing, our loss before income taxes decreased by 62.9% from RMB1,533.6 million in FY 2020 to RMB569.2 million (US\$88.3million) in FY 2021.

### *Income Tax Expense*

Our income tax expense was RMB13.0 thousand in FY 2020 and RMB31.0 thousand (US\$4.8 thousand) in FY 2021. We incurred income tax expense despite our loss before income tax because certain of our subsidiaries in the PRC had income before taxes and income tax was assessed accordingly on these subsidiaries.

### *Net Loss*

As a result of the foregoing, we recorded a net loss of RMB1,533.6 million in FY 2020 and RMB569.2million (US\$88.3million) in FY 2021.

## **B. Liquidity and Capital Resources**

To date, our principal sources of liquidity, which we have used to fund our growth, operations and capital expenditures for our apartments network, have been proceeds from tenants' rental prepayment, including rental prepayment financed by rental installment loans from our financial institution partners, availability under our bank facilities, capital lease and other financing, proceeds from our initial public offering, equity financing from issuance of preferred shares, and proceeds from our issuance of convertible notes.

As of September 30, 2022, we had cash and cash equivalents of RMB2.8 million (US\$0.4 million), and restricted cash of RMB106 thousand (US\$15 thousand). Our cash and cash equivalent represented cash on hand and demand deposits, which are unrestricted as to withdrawal and use that which have original maturities of three months or less when purchased, and our restricted cash represented our frozen bank accounts for liquidation of the VIE's subsidiaries and are not available to fund our general liquidity needs.

We recorded rental installment loan proceeds, which represent our tenants' prepaid rents, as rental installment loans in our consolidated balance sheet. As of September 30, 2022, we had RMB15.8 million (US\$2.2 million) in outstanding rental installment loans, with fixed annual interest rates of 11% and 15%. Since May 2020, the financial institutions have suspended providing new rental installment loans to tenants.

In August 2018, we started to cooperate with a rental service company owned by a bank to source and renovate apartments in Shanghai and Hangzhou. Under this model for certain newly sourced apartments, we continue to be responsible for the entire operating process, including identifying potential apartments for rent, rental pricing and procuring and paying for apartment renovation. Once we have finished the renovation, the rental service company reimburses us for our costs incurred for the renovation. We make payments to the rental service company in installments equal to the reimbursed renovation costs plus interest (with a fixed annual interest rate ranging from 6.84% to 8.04%) and tax over a period of five years. At the end of the five-year period, the ownership of the renovation will be transferred to us. We account for the arrangement with the rental service company as a capital lease. Under this arrangement, we also sell leasehold improvements and furniture, fixtures and equipment of certain existing apartments to the rental service company at carrying value and simultaneously lease them back. We account for such transaction as a financing arrangement. The proceeds received from the rental service company are reported as other financing arrangement payable. Due to the rising vacancy rate of our rental units caused by the COVID-19 pandemic, we decreased the number of apartment contracted by terminating some of the leases with landlords under this model. In April 2020, we started to modify this cooperation for apartments in certain cities. For some apartments under this model, we no longer lease-in apartments from the rental service company or enter into new lease-out agreements with tenants. Instead, we transferred existing leases with tenants to the rental service company. The rental service company maintains the lease-in agreements with the landlords of the apartments, collects rental from the tenants directly and enters into lease-out agreements with new tenants directly. We are engaged by the rental service company to manage these apartments. Pursuant to this arrangement, we are responsible for hiring and supervising the third-party contractor including in its identification of potential tenants and daily operation, and receives fee income equals to the rental income from tenants minus the rental fee to landlords. For each of these apartments, if the rental collected from the tenants is less than the rental paid to the landlords, we are required to pay the rental service company this difference. As of September 30, 2022, we had no outstanding balances of capital lease payable or other financing arrangement payable.

As of September 30, 2022, we had RMB103.6 million (US\$14.6 million) in our outstanding bank borrowings. As of September 30, 2022, we were in compliance with all material terms and covenants of our credit agreements.

We also raised capital from issuing preferred shares, convertible notes and warrants. In July 2020, we issued series 1 and series 2 convertible notes in the aggregate principal amount of US\$30.050 million at par and warrants to purchase 20,974 ADSs to Key Space (S) Pte Ltd and Veneto Holdings Ltd., and subsequently, from September 2020 to March 2022, we issued additional series 1 and series 2 convertible notes in the aggregate principal amount of US\$21.6 million at par and warrants to purchase 78,237 ADSs to Key Space (S) Pte Ltd, pursuant to the convertible notes and warrant purchase agreements. As of May 13, 2022, the date on which the Company settled the convertible noted, we closed 22 issuances of Notes of \$51.6 million (approximately RMB 344.6 million). The maturity dates of these Notes shall be the fourth anniversary of issuance dates. See “—Convertible Notes and Warrants.”

Our business requires substantial capital expenditure, and we need to make significant upfront investment for sourcing and renovation of rental apartments, including to add an additional bedroom under our N+1 model, and decorate and furnish them. We have relied on proceeds from our tenants’ rental prepayment to finance a significant portion of our capital expenditure. When a tenant terminates the lease before the end of the period covered by his or her rental prepayment, we are required to refund the unused prepaid rentals to the tenant, or repay the rental installment loans representing the unused prepaid rentals to our financial institution partners where the tenant used the proceeds from the rental installment loans granted by such financial institution partners to finance the rental prepayment. In FY 2022, 43.8% of our terminated leases with tenants were terminated before the expiration of the contracted lease term (if a tenant terminates the lease before the end of the contracted lease term, his or her security deposit, usually representing one or two months’ rental will be forfeited).

To manage potential liquidity risk arising from tenants’ early termination, we have adopted a stringent cash management policy, which involves monitoring the level of our outstanding rental installment loan on the one hand, and our expenses and other capital requirements and available sources of financing on the other hand on a monthly basis to determine the maximum volume of rental installment loan inflow for the following month. We have also been exploring alternative sources of financing and asset-light strategies, including sourcing furnished apartments from landlords to reduce our upfront capital outlay. We also regularly monitor our current and expected liquidity requirements to ensure that we maintain sufficient cash balances to meet our liquidity needs.

As of September 30, 2020, 2021 and 2022, we recorded negative working capital, and our current liabilities exceeded our current assets by RMB1,758.7 million, RMB2,171.0 million and RMB597.2 million (US\$84.0 million), respectively. Furthermore, in January 2020, we entered into agreements with a rental service company to acquire-lease contracts with landlords and tenants and related fixtures and equipment for approximately 47,000 rental units in Sichuan and Chongqing for a consideration of RMB580.0 million, consisting of cash and our Class A ordinary shares, which is payable by the end of 2020 and subject to adjustments based on the quality of the assets according to the agreements. However, given the closing conditions were not fulfilled by September 30, 2020, this acquisition has been terminated in substance. We did not pay any consideration, and the deposit of RMB200.0 million we paid in January 2020 was fully returned to us. We have agreed to pay back the RMB8.0 million that this rental service company paid us before the termination of this acquisition. In addition, in July 2020, to replenish and expand our rental units portfolio, one of our subsidiaries entered into agreements with a rental service company and its affiliates to acquire-lease contracts with landlords and tenants and related fixtures, equipment and other assets for approximately 72,000 rental units in various cities across China at a total consideration of US\$130 million, less certain liabilities to be assumed by us. We paid US\$5.8 million to the transferor to settle the first installment of the consideration. In May 2021, the remaining consideration for the acquisition consisted of US\$23.2 million in cash and RMB289.7 million worth of our Class A ordinary shares and we entered into supplemental agreements with the rental service company and its affiliates, pursuant to which we settled the remaining consideration by delivering 186,375,850 Class A ordinary shares to them. They are entitled to sell these Class A ordinary shares in the open market, subject to certain lock-up arrangements. Among the 186,375,850 Class A ordinary shares delivered, we are obliged to (i) make up the shortfall if the proceeds they receive from the sale of 57,786,458 Class A ordinary shares are lower than US\$0.4014 per share and (ii) repurchase 20,860,749 Class A ordinary shares at US\$0.4015 per share in installments if they do not trade these shares in the open market, subject to the terms and conditions set forth in the agreements with them. We will also issue in installments, to a third-party contractor that manages the rental units as previously announced, up to 99.6 million Class A ordinary shares, subject to certain performance indicators and other terms and conditions set forth in the agreement. These factors raise substantial doubt about our ability to continue as a going concern. The report of our independent registered public accounting firm on our consolidated financial statements included elsewhere in this annual report includes an explanatory paragraph questioning our ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern. These factors are mitigated by the following plans and actions: (i) on October 26, 2022, the Company's Form F-3 to offer up to a total amount of US\$300 million was declared effective. The Company plans to raise funds under the Form F-3 to support the Company's operations; (ii) In January 2023, a shareholder of the Company, has agreed to consider providing necessary financial support in the form of debt and/or equity, to the Company to enable the Company to meet its other liabilities and commitments as they become due for at least twelve months from the issuance date of this annual report. Based on our historical experience, renovation and supply chain funding requests will be approved in the normal course of business, provided that we submit the required supporting documentation and the amount is within the credit limit granted.

However, future financing requirements will depend on many factors, including the scale and pace of the expansion of our apartment network, efficiency in apartment operation, including apartment renovation and pricing, the expansion of our sales and marketing activities, and potential investments in, or acquisitions of, businesses or technologies. Inability to access financing on favorable terms in a timely manner or at all would materially and adversely affect our business, results of operations, financial condition, and growth prospects. See "Item 3. Key Information—D. Risk Factors—Risk Related to Our Business and Industry—Our business requires significant capital expenditure for sourcing, renovation and maintenance of rental apartments. Inability to access financing on favorable terms in a timely manner or at all would materially and adversely affect our business, results of operations, financial condition, and growth prospects."

The following table sets forth a summary of our cash flows for the years indicated:

	FY 2020	FY 2021	FY 2022	
	RMB	RMB	RMB	US\$
Net cash (used in) provided by operating activities	54,841	(109,661)	(43,656)	(6,137)
Net cash used in investing activities	(138,670)	(6,486)	(11,468)	(1,612)
Net cash provided by (used in) financing activities	(134,924)	101,601	33,376	4,692
Effect of foreign exchange rate changes	(295)	2,032	5,374	756
Net decrease in cash, cash equivalents and restricted cash	(219,048)	(12,514)	(16,374)	(2,301)
Cash, cash equivalents and restricted cash at the beginning of the year	250,814	31,766	19,252	2,706
Cash, cash equivalents and restricted cash at the end of the year	31,766	19,252	2,878	405

### Operating Activities

Net cash used in operating activities was RMB39.6 million (US\$5.6 million) in FY 2022, which was primarily attributable to a net income of RMB820.0 million (US\$115.3 million) adjusted by non-cash items of RMB980.2 million (US\$137.8 million) and a net working capital inflow of RMB116.6 million (US\$16.4 million). The non-cash items of RMB980.2 million (US\$137.8 million) were primarily attributable to RMB1,554.5 million (US\$218.5 million) of gains from deconsolidation of VIE's subsidiaries, RMB423.7 million (US\$59.6 million) of inducement expenses and impairment loss of RMB 100.2 million (US\$14.1 million). The net working capital inflow of RMB116.6 million (US\$16.4 million) was primarily attributable to RMB90.7 million (US\$12.8 million) increase of accounts payable and RMB59.2 million (US\$8.3 million) decrease of other current assets, offset by RMB40.7 million (US\$5.7 million) decrease of deferred revenue, RMB25.9 million (US\$3.6 million) decrease of deposits from tenants and RMB 42.7 million (US\$6.0 million) decrease of accrued expenses and other current liabilities.

Net cash used in operating activities was RMB109.7 million (US\$17.0 million) in FY 2021, which was primarily attributable to a net loss of RMB569.2 million (US\$88.3 million), partially offset by non-cash items of RMB304.4 million (US\$47.2 million) and a net working capital inflow of RMB155.2 million (US\$24.1 million). The non-cash items of RMB304.4 million (US\$47.2 million) were primarily attributable to (i) impairment loss of RMB199.6 million (US\$31.0 million), (ii) writing off doubtful accounts of RMB150.2 million (US\$23.3 million), and (iii) depreciation and amortization of RMB79.3 million (US\$12.3 million), partially offset by the deferred rent of RMB214.6 million (US\$33.3 million). The net working capital inflow of RMB155.2 million (US\$24.1 million) was primarily attributable to (i) an increase in accrued expenses and other current liabilities of RMB51.2 million (US\$7.9 million), (ii) a decrease in other assets of RMB47.6 million (US\$7.4 million), and (iii) a decrease in the prepaid rent and deposit of RMB37.6 million (US\$5.8 million), partially offset by (i) a decrease in deferred revenue of RMB18.6 million (US\$2.9 million) and (ii) a decreased in deposits from tenants of RMB16.4 million (US\$2.5 million).

Net cash provided by operating activities was RMB54.8 million in FY 2020, which was primarily attributable to a net loss of RMB1,533.6 million adjusted by non-cash items of RMB1,296.5 million and a net working capital inflow of RMB292.0 million. The non-cash items of RMB1,296.5 million were primarily attributable to (i) impairment loss of RMB846.8 million as we recorded an impairment, (ii) loss from disposal of property, plant and equipment and intangible assets of RMB469.0 million as we terminated our leases with landlords of 48,292 rental units before the end of the original lease terms in FY 2020 due to the COVID-19 pandemic, and (iii) depreciation and amortization of RMB263.0 million, partially offset by (i) reverse of deferred rent of RMB201.1 million due to the early termination of leases with landlords and (ii) fair value change of contingent earn-out liabilities of RMB97.4 million. The net working capital inflow of RMB292.0million was primarily attributable to (i) an increase in accrued expenses and other current liabilities of RMB269.5 million, (ii) a decrease in prepaid rent and deposit of RMB146.9 million, and (iii) an increase in accounts payable of RMB115.2 million and, partially offset by (i) a decrease in deposits from tenants of RMB161.5 million and (ii) a decrease in deferred revenue of RMB127.9 million.

### ***Investing Activities***

Net cash used in investing activities was RMB11.5 million (US\$1.6 million) in FY 2022, primarily due to our RMB9.8 million (US\$1.4 million) investment in acquiring non-controlling interest and RMB1.7 million (US\$0.2 million) disposal of cash in deconsolidated subsidiaries, VIE and VIE's subsidiaries.

Net cash used in investing activities was RMB6.5 million (US\$1.0 million) in FY 2021, primarily due to our payment of RMB6.5 million (US\$1.0 million) for asset acquisition in July 2020.

Net cash used in investing activities was RMB138.7 million in FY 2020, due to our purchases of property and equipment of RMB99.2 million and partial payment for asset acquisition of RMB39.5 million.

### ***Financing Activities***

Net cash provided by financing activities was RMB29.3 million (US\$4.1 million) in FY 2022. This primarily consisted of the proceeds of RMB20.0 million (US\$2.8 million) from issuance of convertible notes, (ii) the proceeds of RMB6.5 million (US\$0.9 million) from short-term bank borrowings, and (iii) the proceeds of RMB4.7 million (US\$0.7 million) from borrowings from related parties, offset by (i) the repayment of RM2.0 million (US\$0.3 million) from rental installment loans.

Net cash provided by financing activities was RMB101.6 million (US\$15.8 million) in FY 2021. This primarily consisted of (i) the proceeds of RMB113.2 million (US\$17.6 million) from issuance of convertible notes, (ii) the proceeds of RMB75.3 million (US\$11.7 million) from long-term bank borrowings, and (iii) the proceeds of RMB39.7 million (US\$6.2 million) from short-term bank borrowings, partially offset by (i) the repayment of RMB85.0 million (US\$13.2 million) from rental installment loans, and (ii) the repayment of RMB4.5 million (US\$0.7 million) of short-term bank borrowings and RMB37.1 million (US\$5.8 million) of long-term borrowings.

Net cash used in financing activities was RMB134.9 million in FY 2020. This primarily consisted of (i) the repayment of RMB924.2 million of rental installment loans, and (ii) the payment of RMB248.9 million for repurchase of ADS from certain investors into treasury shares, partially offset by (i) proceeds of RMB351.0 million from short term bank borrowing, (ii) net proceeds of RMB289.0 million from IPO, net of issuance cost of RMB29.3 million, and (iii) proceeds of RMB258.1 million from rental installment loans.

### ***Capital Expenditures***

Our capital expenditures were primarily in connection with renovation of our leased-in apartments and procurement of technology, information and operational software and hardware. Our capital expenditures totaled RMB138.7 million, RMB6.5 million and nil in FY 2020, FY 2021 and FY 2022, respectively. We will continue to make capital expenditures to meet the expected growth of our business.

### ***Impact of Recently Issued Accounting Standards***

A list of recently issued accounting pronouncements that are relevant to us is included in note 2 “Summary of Principal Accounting Policies—Recent accounting pronouncements” to our consolidated financial statements included elsewhere in this annual report.

### ***Holding Company Structure***

We are a holding company with no material operations of our own. We conduct our operations primarily through our subsidiaries in the PRC. In utilizing the proceeds from the initial public offering, as an offshore holding company, we are permitted, under PRC laws and regulations, to provide funding to our PRC subsidiaries only through loans or capital contributions. Subject to satisfaction of applicable government registration and approval requirements, we may extend inter-company loans to our PRC subsidiaries or make additional capital contributions to our PRC subsidiaries to fund their capital expenditures or working capital. For an increase in the registered capital of any of our PRC subsidiaries, we need to complete certain filing and/or registration procedures with competent authorities, which typically take us one or two months. Some local authorities in the PRC require prior approval

before such procedures, according to which we shall file requested documents related to the proposed capital increased on the online integrated registration system. If we provide funding to any of our PRC subsidiaries through loans, the total amount of such loans may not exceed the difference between the total investment as approved by the foreign investment authorities and the registered capital of such PRC subsidiary. Such loans should be registered with the SAFE which usually takes no more than 20 working days to complete. The cost of obtaining such approvals or completing such registration is minimal. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the proceeds we receive from our offshore financing activities to make loans to or make additional capital contributions to our PRC subsidiary, which could materially and adversely affect our liquidity and our ability to fund and expand our business.”

As a holding company, we rely upon dividends paid to us by our subsidiaries in the PRC to pay dividends and to finance any debt we may incur. If our subsidiaries or other consolidated entities or any newly formed subsidiaries or other consolidated entities incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our subsidiaries and other consolidated entities are permitted to pay dividends to us only out of their accumulated profits, if any, as determined in accordance with PRC accounting standards and regulations. Pursuant to laws applicable to entities incorporated in the PRC, each of our subsidiaries and other consolidated entities in the PRC must make appropriations from after tax profit to a statutory surplus reserve fund. The reserve fund requires annual appropriation of 10% of after tax profit (as determined under accounting principles generally accepted in the PRC at each year-end) after offsetting accumulated losses from prior years, until such reserve reaches 50% of the subsidiary’s registered capital. The reserve fund can only be used to increase the registered capital and eliminate further losses of the respective companies under PRC regulations. As of September 30, 2020, 2021 and 2022, we did not incur statutory reserves of our PRC subsidiaries and other consolidated entities as we incurred net loss in FY 2020, FY 2021 and FY 2022. These reserves are not distributable as cash dividends, loans or advances. In addition, due to restrictions under PRC laws and regulations, our PRC subsidiaries and other consolidated entities are restricted in their ability to transfer their net assets to us in the form of dividend payments, loans or advances. Amounts of net assets restricted include paid up capital and statutory reserve funds of our PRC subsidiaries amounted to RMB930.5 million, RMB1,754.6 million and RMB10.0 million (US\$1.4 million) as of September 30, 2020, 2021 and 2022, respectively.

Furthermore, under regulations of the SAFE, the RMB is not convertible into foreign currencies for capital account items, such as loans, repatriation of investments and investments outside of China, unless the prior approval of the SAFE is obtained and prior registration with the SAFE is made.

#### **C. Research and Development, Patents, and Licenses, etc.**

See “Item 4. Information on the Company—B. Business Overview—Technology Systems and Infrastructure,” “Item 4. Information on the Company—B. Business Overview—Risk Management,” and “Item 4. Information on the Company—B. Business Overview—Intellectual Property.”

#### **D. Trend Information**

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for FY 2022 that are reasonably likely to have a material and adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future results of operations or financial conditions.

#### **E. Critical Accounting Estimates**

We prepare our consolidated financial statements in accordance with U.S. GAAP. The preparation of financial statements in conformity with U.S. GAAP requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. We continually evaluate these judgments and estimates based on our own experience, knowledge and assessment of current business and other conditions.

Our expectations regarding the future are based on available information and assumptions that we believe to be reasonable, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application.

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur, could materially impact the combined and consolidated financial statements.

When reading our consolidated financial statements, you should consider our selection of critical accounting policies, the judgment and other uncertainties affecting the application of such policies and the sensitivity of reported results to changes in conditions and assumptions.

Our critical accounting policies and practices include the following: (i) revenue recognition; (ii) convertible loans; (iii) lease accounting with landlords; and (iv) income taxes. See Note 2—Summary of Principal Accounting Policies to our consolidated financial statements for the disclosure of these accounting policies. We believe the following accounting estimates involve the most significant judgments used in the preparation of our financial statements.

### ***Impairment of long-lived assets***

We measure impairment of long-lived assets, including property and equipment, and intangible assets, by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets, we recognize an impairment loss equal to the difference between the carrying amount and fair value of these assets.

#### ***Property and equipment***

We determined the fair value of the property and equipment was determined based on the income approach using the discounted cash flow associated with the underlying assets, which incorporated certain assumptions including projected rooms' revenue, growth rates and projected operating costs based on current economic condition, expectation of management and projected trends of current operating results.

The revenue growth rate and the discount rate were the significant unobservable inputs used in the fair value measurement, which were 3% and 11% for FY 2020. As of September 30, 2021, these property and equipment no longer generated cash flow for us, we recognize full allowance against the property and equipment.

As a result of reduced expectations of future cash flows from certain leased apartments, we determined that the property and equipment was not fully recoverable and consequently recorded impairment charges of RMB 313.4 million, RMB 199.6 million and RMB nil for the years ended September 30, 2020, 2021 and 2022, respectively.

### ***Intangible assets***

During FY 2020, we acquired from Great Alliance Co-living Limited and its affiliates certain assets, including approximately 72,000 apartment rental contracts and leasehold improvements attached to the apartments, and trademarks of Great Alliance Co-living Limited and its affiliates, which are also subject to impairment test.

The apartment rental agreements with both landlords and tenants were valued using the multi-period excess earnings method, which incorporated certain assumptions including projected rooms' revenue, growth rates and projected operating costs based on current economic condition, expectation of management and projected trends of current operating results. The revenue growth rate and the discount rate were the significant unobservable inputs used in the fair value measurement, which were positive 3% and 11%, respectively, for FY 2021. The revenue



growth rate for apartment rental agreements was 0%, as a result of increase of unit rental fee by 0%, and the discount rate was 11% for the year ended September 30, 2022, which underperformed the profit projection target. Because the fair value was higher than the carrying amount of the apartment rental agreements, the Group did not recognize impairment against these intangible assets for the year ended September 30, 2021.

The trademarks were valued using the relief from royalty method, which incorporated certain assumptions including projected revenues contributed by trademarks, royalty savings and projected trends of operating results. The revenue growth rate and the discount rate were the significant unobservable inputs used in the fair value measurement, which were negative 8% and 11 %, respectively, for FY 2021. Because the fair value was higher than the carrying amount of the trademarks, the Group did not recognize impairment against these intangible assets for the year ended September 30, 2021.

The revenue growth rate for apartment rental agreements was 0%, as a result of increase of unit rental fee by 0%, and the discount rate was 11% for FY2022, which underperformed the profit projection target. In FY 2022, based on result of the impairment test, we recorded impairment of RMB29.6 million on apartment rental contracts. In addition, with our change of name into FLJ in September 2022, the Company would no longer operate rental business under the trademark of “Beautiful House” and provided impairment of RMB 70.6 million on trademarks for the year ended September 30, 2022.

#### ***Convertible notes and warrants***

For the period from July 2020 through March 2022, we closed 23 issuances of convertible notes (“Notes”) of US\$51.6 million (approximately RMB344.6 million). The maturity dates of these Notes shall be the fourth anniversary of issuance dates. We also issued to the holder of the Notes, warrants to purchase ADSs equal to 4% of the principal balance on the date of issuance and 4%, 6%, 7% and 8% of the principal amount of the Notes outstanding as of such anniversary dates. Each of the warrants expire five years after its respective issue date and has an exercise price equivalent to 110% of the volume weighted average price (“VWAP”) of the ADSs over the 60 trading days preceding the date of issuance of each warrant, subject to certain adjustments upon the occurrence of certain dilutive events.

The convertible notes did not contain beneficial conversion feature. We assessed that the embedded features, including conversion features, redemption features and acceleration features were not bifurcated from the debt hosts as they were clearly and closely related to the debt hosts. We classified the convertible notes as debt measured at amortized cost. We classified the warrants as an equity as they were cashless settled and were indexed to our own stocks and classified in the shareholders’ equity in the consolidated balance sheets.

The proceeds from issuance of the Notes were allocated to the relative fair values of the Notes and warrants. We estimated total fair value of Notes were RMB286.1 million (US\$40.2 million) using discount cash flow model, which took into consideration the term yields ranging between 18.12% and 25.58%. We estimated total fair value of the warrants issued at RMB6.1 million (US\$0.9 million) using the Black-Scholes valuation model, which took into consideration the underlying price of ordinary shares, a risk-free interest rate, expected term and expected volatility. As of September 30, 2021 and March 31, 2022 (which was the date we closed the 23rd Note), we allocated proceeds of RMB7.2 million and RMB8.6 million (US\$1.2 million), respectively, to the warrants which was recorded as an additional paid-in capital.

#### ***Valuation of deferred tax assets***

Deferred income taxes are provided using assets and liabilities method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Deferred tax assets are recognized to the extent that these assets are more likely than not to be realized. In making such determination, our management considers all positive and negative evidence, including future reversals of projected future taxable income and results of recent operation. As of September 30, 2021 and 2022, we had

valuation allowance against deferred tax assets of RMB601.9 million and RMB 523.1 million (US\$73.3 million), respectively.

In order to assess uncertain tax positions, we apply a more likely than not threshold and a two-step approach for the tax position measurement and financial statement recognition. Under the two-step approach, the first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. We recognize interest and penalties, if any, under accrued expenses and other current liabilities on our consolidated balance sheet and under other expenses in its consolidated statement of comprehensive loss. As of September 30, 2020, 2021 and 2022, we did not have any significant unrecognized uncertain tax positions.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. Directors and Senior Management

The following table sets forth information regarding our directors and executive officers as of the date of this annual report.

Directors and Executive Officers	Age	Position/Title
Chengcai Qu	41	Chairman of the board of directors, chief executive officer, chief operating officer and vice president
Gang Xie	50	Director, chief technology officer
Jiamin Chen	42	Director and vice president
Zongquan Yang	39	Director
Chen Chen	42	Independent director
Lin Zhou	63	Independent director
Zhichen (Frank) Sun	40	Chief Financial Officer

*Mr. Chengcai Qu* has been the chairman of our board of directors and chief executive officer since January 2021, our chief operating officer since June 2020, our director since March 2020, and our vice president since 2014. Prior to joining our company, Mr. Qu was a director of the office of public relations at Antai School of Economics and Management of Shanghai Jiao Tong University from November 2006 to November 2013. From June 2004 to October 2006, Mr. Qu was a newspaper reporter specializing in business and management. Mr. Qu received a bachelor's degree in literature from Shanghai University of Finance and Economics in 2004, and a master's degree in business administration from Shanghai Jiao Tong University in 2013.

*Mr. Gang Xie* has been our director and chief technology officer since our inception in 2012. Mr. Xie is also a director of Shanghai Liangzhouan Decoration Co., Ltd. and Shanghai Ziniu Property Management Co., Ltd. Prior to joining our company, he was a platform research and development manager of Shanghai Koss Software Co., Ltd from August 2008 to December 2011. From December 2007 to June 2008, he was a project manager at the mobile phone division of Ping An Insurance (Group) Corporation of China. From February 2005 to November 2007, he was a senior manager and technology director of Handlink Ltd. From September 2000 to January 2005, he was a system architect and project manager of Shanghai Insk Computer Co., Ltd. From August 1995 to August 2000, he was an engineer and project leader of Shanghai Electronic Technology Co., Ltd. Mr. Xie received his bachelor's degree in engineering in 1995 from Shanghai University of Science and Technology.

*Mr. Jiamin Chen* has been our director and vice president since February 2022, our general manager of the investment and financing department since he joined our Company in July 2019. Prior to joining our company, he was a manager of the personal credit department at Shanghai Branch of China Construction Bank from April 2006 to June 2019. Mr. Chen received his bachelor's degree in computer science and technology from Shanghai University of Engineering and Technology in 2006.

*Mr. Zongquan Yang* has been our director and vice president since February 2022, our head of product management department and senior manager of IT center since May 2017. Prior to joining our company, he was a

project manager of E-Commerce Business and manager of research and development department at Yonyou Software Co., Ltd. from September 2009 to October2017 . Prior to that, Mr. Yang was a development engineer and project manager of Shanghai Hengju Network Technology Co. from September 2005 to October2009 and a development engineer at Shanghai Youfu Computer Network Co., Ltd. in 2005. Mr. Yang received his bachelor’s degree in computer science and technology from Nankai University in 2012.

*Mr. Chen Chen* has been our independent director since November 2019. Mr. Chen has served as chief financial officer of Yunji Inc. since May 2018. Mr. Chen has more than 16 years of comprehensive experience in audit and consulting services. Prior to joining Yunji, Mr. Chen was a partner at Deloitte, and had been working in Deloitte since July 2002. Mr. Chen is a member of the Association of International Certified Professional Accountants (AICPA) and China Institute of Certified Public Accountants (CICPA). Mr. Chen received his bachelor’s degree from Shanghai Jiao Tong University in 2002.

*Mr. Lin Zhou* has been our independent director since November 2019. Mr. Zhou is the university chair professor of Shanghai Advanced Institute of Finance of Shanghai Jiao Tong University since August 2018. Prior to that, Mr. Zhou served as the dean and professor of Antai College of Economics and Management of Shanghai Jiao Tong University from April 2010 to July 2018, a founding deputy director and professor of Shanghai Advanced Institute of Finance of Shanghai Jiao Tong University from September 2008 to April 2010, a WP Carey professor of economics of WP Carey School of Business of Arizona State University from September 2001 to August 2010, an associate professor of department of economics of Duke University from September 1996 to August 2001, and an assistant/associate professor of department of economics of Yale University from September 1989 to August 1996. Mr. Zhou received his PhD in economics from Princeton University in June 1989 and his bachelor’s degree in mathematics from Fudan University in August 1982.

*Mr. Zhichen (Frank) Sun* has been our chief financial officer since January 2020. He served as our financial director from April 2017 to January 2020. Prior to joining our company, Mr. Sun was an audit senior manager of Ernst & Young LLP, Shanghai office from January 2016 to April 2017. From January 2011 to December 2015, he was an audit manager of Deloitte LLP, Calgary office. From July 2005 to December 2010, he was successively a senior auditor and an audit manager of Deloitte Touche Tohmatsu Certified Public Accountants LLP, Shanghai office. Mr. Sun received his bachelor’s degree in Japanese language and literature from Shanghai International Studies University in 2005. Mr. Sun holds CPA designations in China and Canada.

Board Diversity Disclosure

The following information was provided by our directors on a voluntary basis.

Board Diversity Matrix (As of date of this annual report)

Country of Principal Executive Offices	Shanghai, China			
Foreign Private Issuer	Yes			
Disclosure Prohibited Under Home Country Law	No			
Total Number of Directors	6			
	Female	Male	Non-Binary	Did not disclose
Part I: Gender Identity				
Directors	0	6	0	0
Part II: Demographic Background				
Underrepresented Individual in Home Country			0	
LGBTQ+			0	
Did Not Disclose Demographic Background			0	

## **B. Compensation**

For FY 2022, we paid an aggregate of approximately RMB1.19 million (US\$0.16 million) in cash to our directors and executive officers. Except as disclosed in this annual report, we have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors. Our PRC subsidiaries are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, unemployment insurance and other statutory benefits and a housing provident fund.

### **Employment Agreements and Indemnification Agreements**

We have entered into employment agreements with each of our executive officers. Under these agreements, each of our executive officers is employed for a specified time period. We may terminate employment for cause, at any time, for certain acts of the executive officer, such as conviction or plea of guilty to a felony or any crime involving moral turpitude, negligent or dishonest acts to our detriment, or misconduct or a failure to perform agreed duties. If the executive officer otherwise fails to perform agreed duties, we may terminate employment upon 30 day advance written notice. In such case of termination by us, we will provide severance payments to the executive officer as expressly required by applicable law of the jurisdiction where the executive officer is based. The executive officer may resign at any time upon mutual agreement or 30 day advance written notice.

Each executive officer has agreed to hold, both during and after the termination or expiry of his or her employment agreement, in strict confidence and not to use, except as required in the performance of his or her duties in connection with the employment or pursuant to applicable law, any of our confidential information or trade secrets, any confidential information or trade secrets of our clients or prospective clients, or the confidential or proprietary information of any third party received by us and for which we have confidential obligations. The executive officers have also agreed to disclose in confidence to us all inventions, designs and trade secrets which they conceive, develop or reduce to practice during the executive officer's employment with us and to assign all right, title and interest in them to us upon our request.

In addition, each executive officer has agreed to be bound by non-competition and non-solicitation restrictions during the term of his or her employment and typically for two years following the last date of employment. Specifically, each executive officer has agreed not to (i) engage directly or indirectly in any business, including his or her own business, related to the development, operation or sales of any same or similar technologies or products, whether as employee, consultant or otherwise; (ii) approach directly or indirectly our clients or customers for the purpose of doing business of the same or a similar nature to our business with such persons or entities that will harm our business relationships with these persons or entities or for purposes of making such persons or entities limit or terminate their business relationship with us; or (iii) seek directly or indirectly, to solicit the services of any of our employees who is employed by us.

We have entered into indemnification agreements with each of our directors and executive officers. Under these agreements, we may agree to indemnify our directors and executive officers against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being a director or officer of our company.

### **Stock Options and RSUs**

In September 2019, our board of directors approved our 2019 share incentive plan, or the 2019 Plan, to provide incentives to employees, officers, directors and consultants and promote the success of our business.

Further, in November 2022, our board of directors approved our 2022 share incentive plan, or the 2022 Plan, to provide incentives to employees, officers, directors and consultants and promote the success of our business.

#### ***Stock Options A***

In August 2014, April 2016 and October 2016, we granted an aggregate number of 26.86 million share options to certain of our management, employees and non-employees ("Stock Options A"), 16.61 million of which had been

forfeited as of the date of this annual report. The remaining Stock Options A are exercisable into 10.25 million Class B ordinary shares. The exercise price of Stock Options A is RMB2.0 per ordinary share. Stock Options A vest 50% on the first and second calendar year after the year of our initial public offering. All grantees of Stock Options A are restricted from transferring more than 25% of their total converted ordinary shares each year after the exercise date.

### Stock Options B

In July 2017, we granted 43.14 million share options to our management and employees (“Stock Options B”), 19.29 million of which had been forfeited as of the date of this annual report. The remaining Stock Options B are exercisable into 23.85 million Class A ordinary shares. The exercise price of Stock Options B is RMB2.0 per ordinary share. Stock Options B vested immediately upon the grant-date. All grantees of Stock Options B are restricted from transferring their converted ordinary shares after certain periods subsequent to the date of our initial public offering. If the grantee of Stock Options B resigned from our company before the restricted period lapses, we have the right to repurchase the Stock Options B or ordinary shares at RMB2.0 per Stock Option B or ordinary share.

The following table summarizes, as of the date of this annual report, the outstanding Stock Options A and Stock Options B granted to our directors, officers and other grantees.

Name	Ordinary Shares Underlying Award Granted	Exercise Price (per share)	Date of Grant	Date of Expiration
Chengcai Qu	*	RMB2.0	July 31, 2017	December 31, 2025
Gang Xie	*	RMB2.0	August 31, 2014	August 30, 2024
Zhichen (Frank) Sun	*	RMB2.0	July 31, 2017	December 31, 2025
Zongquan Yang	*	RMB2.0	August 31, 2014 and July 31, 2017	May 31, 2014 and December 31, 2024
Other			from August 31, 2014 to July 31, 2017	from August 30, 2024 to December 31, 2025
	24,100,000	RMB2.0		
Total	34,100,000			

\* Less than 1% of our total outstanding shares.

### RSUs

In March 2021, we issued 25,000,000 restricted share units (“RSUs”) to a consulting company for the service provided, pursuant to the 2019 Plan. All of the RSUs were vested immediately upon grant. The consulting company exercised all of these RSUs and therefore we issued 25,000,000 Class A ordinary shares to this consulting company pursuant to the 2019 Plan and the award agreement. We recorded the RSUs at the measurement date fair value per share of US\$0.09 by reference to the share price in the open market on the grant date.

As of the date of this annual report, no RSU is outstanding.

## 2019 Share Incentive Plan

The 2019 Plan became effective immediately upon the completion of our initial public offering. The maximum number of shares that may be issued under the 2019 Plan is 10% of the total outstanding shares as of the date of the consummation of our initial public offering.

In June 2022, FLJ Group Limited (the “Group”) issued 72 million stock options to Mr. Qu, the Chief Executive Officer of the Group. All of the stock options were vested immediately upon grant. The Group recorded stock options at the grant date fair value per ADS of US\$1.4537 by reference to the share price in the open market on grant date. In June 2022, the Group issued 50.36 million stock options to Mr. Sun, the Chief Financial Officer of the Group, of which 43.18 million stock options vested immediately upon grant, 3.59 million stock options vested on August 3, 2022, and the remaining 3.59 million stock options vested on August 3, 2023. The Group recorded stock options at the grant date fair value per ADS of US\$1.4537 by reference to the share price in the open market on grant date.

As of the date of this annual report, we have issued 25,000,000 RSUs and 122,360,108 options under the 2019 Plan, of which 25,000,000 RSUs and 115,180,054 options have been exercised.

The following paragraphs describe the principal terms of our share incentive plan:

*Plan Administration.* Our board of directors or a committee of one or more members of our board of directors (the “Committee”) will administer the 2019 Plan. The Committee will determine the participants to receive awards, the nature and the amount of each award to be granted to each participant, and the terms and conditions of each award grant.

*Type of Awards.* The 2019 Plan permits the awards of options, restricted shares, restricted share units or any other type of awards that the Committee decides.

*Award Agreement.* Awards granted under the 2019 Plan are evidenced by an award agreement that sets forth terms, conditions and limitations for each award, which may include the term of the award, the provisions applicable in the event of the grantee’s employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award.

*Eligibility.* We may grant awards to employees, consultants, and directors, as determined by the Committee.

*Vesting Schedule.* In general, the Committee determines the vesting schedule, which is specified in the relevant award agreement. Unless otherwise specified in the 2019 Plan, the term of any award granted under the 2019 Plan shall not exceed ten (10) years.

*Exercise of Options.* Subject to any specific designation in the 2019 Plan, the Committee determines the exercise price for each award, which is stated in the relevant award agreement. Unless otherwise specified in the 2019 Plan, the maximum exercisable term of options is ten years from the date of a grant.

*Transfer Restrictions.* Awards may not be transferred in any manner by the recipient except as otherwise provided in the 2019 Plan, by applicable law and by relevant award agreement.

*Termination and Amendment.* Unless terminated earlier, the 2019 Plan has a term of ten years. Subject to any specific designation in the 2019 Plan, our board of directors has the authority to amend or terminate the 2019 Plan; provided, however, that any amendment or modification of the maximum number of shares that may be issued under the 2019 Plan shall be determined by at least two-thirds of votes cast by directors in a duly constituted meeting (which, for this purpose, shall include all independent directors to be quorate), including affirmative votes from all independent directors. However, no such action may adversely affect in any material way any awards previously granted unless agreed by the recipient, unless otherwise specified in the 2019 Plan.

## 2022 Share Incentive Plan

In November 2022, our board of directors has approved and adopted a new share incentive plan (the “2022 Plan”). The maximum number of shares available for issuance under the 2022 Plan is 2,500,000,000 Class B ordinary shares of the Company (the “Shares”). The board of directors has also approved the issuance of the Shares to Golden Stream Ltd., the current ESOP Platform of the Company, which is holding these Shares (representing 8.8% of the total outstanding share capital and 49.1% of the voting power of the Company) and will act upon the instructions from a senior management committee of the Company determined on a unanimous basis in relation to the voting and, prior to the vesting of the Shares to the relevant grantee of the share-based awards under the 2022 Plan, the disposition of the Shares. The Shares held by Golden Stream Ltd. are reserved for share-based awards that the Company may grant in the future under the 2022 Plan. As of the date of this annual report, no share-based awards have been granted under the 2022 Plan.

The principal terms of the 2022 Plan are substantially the same as those of the 2019 Plan.

### C. **Board Practices**

Our board of directors consists of six (6) directors. A director is not required to hold any shares in our company to qualify to serve as a director. A director may vote with respect to any contract, proposed contract or arrangement notwithstanding that he may be interested therein, and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of our directors at which any such contract or proposed contract or arrangement is considered, provided (a) such director, if his interest (whether direct or indirect) in such contract or arrangement is material, has declared the nature of his interest at the earliest meeting of the board at which it is practicable for him to do so, either specifically or by way of a general notice and (b) if such contract or arrangement is a transaction with a related party, such transaction has been approved by the audit committee. The directors may exercise all the powers of the company to borrow money, to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures or other securities whenever money is borrowed or as security for any debt, liability or obligation of the company or of any third party. None of our non-executive directors has a service contract with us that provides for benefits upon termination of service.

### **Committees of the Board of Directors**

We have established three committees under the board of directors: an audit committee, a compensation committee and a nominating and corporate governance committee. We have adopted a charter for each of the three committees. Each committee’s members and functions are described below.

*Audit Committee.* Our audit committee consists of Chen Chen and Lin Zhou. Chen Chen is the chairman of our audit committee. We have determined that each of Chen Chen and Lin Zhou satisfies the “independence” requirements of Rule 5605(c)(2) of the Listing Rules of the NASDAQ and Rule 10A 3 under the Securities Exchange Act of 1934, as amended. We have determined that Chen Chen qualifies as an “audit committee financial expert.” The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- appointing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management’s response;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing the adequacy and effectiveness of our accounting and internal control policies and procedures and any steps taken to monitor and control major financial risk exposures;
- reviewing and approving all proposed related party transactions;
- meeting separately and periodically with management and the independent auditors; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

*Compensation Committee.* Our compensation committee consists of Chengcai Qu, Jiamin Chen and Gang Xie. Chengcai Qu is the chairman of our compensation committee. The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. The compensation committee is responsible for, among other things:

- reviewing and approving, or recommending to the board for its approval, the compensation for our chief executive officer and other executive officers;
- reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors;
- reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements; and
- selecting compensation consultant, legal counsel or other advisers only after taking into consideration all factors relevant to that person's independence from management.

*Nominating and Corporate Governance Committee.* Our nominating and corporate governance committee consists of Chengcai Qu, Gang Xie and Chen Chen. Chengcai Qu is the chairman of our nominating and corporate governance committee. The nominating and corporate governance committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is responsible for, among other things:

- selecting and recommending nominees for election by the shareholders or appointment by the board;
- reviewing annually with the board the current composition of the board with regards to characteristics such as independence, knowledge, skills, experience and diversity;
- making recommendations on the frequency and structure of board meetings and monitoring the functioning of the committees of the board; and
- advising the board periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken.

## **Duties of Directors**

Under Cayman Islands law, our directors owe fiduciary duties to our company, including a duty of loyalty, a duty to act honestly and a duty to act in what they consider in good faith to be in our best interests. Our directors must also exercise their powers only for a proper purpose. A director must exercise the skill and care of a reasonably diligent person having both – (a) the general knowledge, skill and experience that may reasonably be expected of a person in the same position (an objective test), and (b) if greater, the general knowledge, skill and experience that that director actually possesses (a subjective test). In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time, and the class rights vested thereunder in the holders of the shares. Our company has the right to seek damages if a duty owed by our directors is breached. A shareholder may in certain limited exceptional circumstances have the right to seek damages in our name if a duty owed by the directors is breached.

Our board of directors has all the powers necessary for managing, and for directing and supervising, our business affairs. The functions and powers of our board of directors include, among others:

- convening shareholders' annual and extraordinary general meetings;
- declaring dividends and distributions;
- appointing officers and determining the term of office of the officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and



- approving the transfer of shares in our company, including the registration of such shares in our register of members.

### **Terms of Directors and Officers**

The number of directors shall not be less than three (3). No person may be nominated for, or appointed as, a director, nor removed from any such appointment as a director, unless such nomination, appointment or removal has been approved by our nominating and corporate governance committee prior to such nomination, appointment or removal.

Generally, (i) any person appointed as a director as of the closing date of our IPO shall hold office for a period of three (3) years from the closing date of our initial public offering, or such other term as may be approved in the resolution appointing them; and (ii) any person appointed as a director after the closing date of our IPO shall hold office for a period of three (3) years from the date of such appointment, or such other term as may be approved in the resolution appointing them. Each director shall hold office until the expiration of his term, or his resignation, removal or retirement from our board of directors, or his disqualification as a director.

A retiring director shall be eligible for re-election from the date commencing six (6) months prior to the date of expiry of his term of office, and shall continue to act as a director throughout the meeting at which his re-election is considered. Where the retirement of any director would cause the number of directors to fall below the minimum number required pursuant to our amended and restated articles of association, then such director shall continue to act as a director until the appointment of such additional director(s) as would not result in the director's retirement causing the number of directors to fall below the minimum number required pursuant to our amended and restated articles of association, at which time they shall retire.

Subject to our amended and restated articles of association and the applicable Law, the shareholders may by ordinary resolution elect any person to be a director either to fill a casual vacancy or as an addition to the existing board of directors. In addition, the directors shall have the power from time to time and at any time, by the affirmative vote of a majority of the directors present and voting at a meeting of our board of directors, to appoint any person as a director to fill a casual vacancy on our board of directors or as an addition to the existing board of directors.

No director shall be required to hold any shares of our company by way of qualification and a director who is not a shareholder shall be entitled to receive notice of and to attend and speak at any general meeting of our company and of all classes of shares of our company.

Subject to any provision to the contrary in our amended and restated memorandum and articles of association, a director may, at any time before the expiration of his or her period of office (notwithstanding anything in our amended and restated memorandum and articles of association or in any agreement between our company and such director (but without prejudice to any claim for damages under any such agreement)) be removed by way of either (a) a special resolution of the shareholders; or (b) the affirmative vote of two-thirds of the other directors present and voting at a board meeting; or (c) a resolution in writing (which complies with the requirements of the provisos contained in article 119 of our amended and restated memorandum and articles of association) signed by all the directors other than the director being removed.

The office of a director shall be vacated if the director (a) resigns his or her office by notice delivered to our company at the office or tendered at a meeting of our board of directors, or (b) becomes of unsound mind or dies, or (c) without special leave of absence from our board of directors, is absent from meetings of our board of directors for three (3) consecutive times, unless our board of directors resolves that his or her office not be vacated, or (d) becomes bankrupt or has a receiving order made against him or her or suspends payment or compounds with his or her creditors, or (e) is prohibited by law from being a director, or (f) ceases to be a director by virtue of any provision of the statutes or is removed from office pursuant to our amended and restated memorandum and articles of association, or (g) for any director that is not an independent director, without special leave of absence from our board of directors, is absent from more than fifty per cent (50%) of our weekly management meetings in any financial year, unless our board of directors resolves that his or her office not be vacated; or (h) for any director that

is not an independent director, without special leave of absence from our board of directors, is present at the premises of our company, or any of our subsidiaries, for less than 60 business days in any financial year, unless our board of directors resolves that his or her office not be vacated.

Each director shall use his or her best efforts to attend all meetings of our board of directors. Any director may at any time appoint another director to be his or her alternate director. Any such appointment shall be in respect of a specific meeting of directors only and such appointment shall automatically cease upon termination of such meeting. An alternate director may also be removed as an alternate director at any time by the director who appoints him or her.

#### **D. Employees**

As of September 30, 2020, 2021 and 2022, we had 248, 40 and 28 employees, respectively. Substantially all of our employees are based in China. The table below shows the number of our employees by function as of September 30, 2022.

<u>Function</u>	<u>Number of Employees</u>
Apartment leasing, tenant relations and property maintenance*	3
Research and development	6
Other	19
<b>Total</b>	<b>28</b>

\* In addition to our own employees, we had 763 apartment managers from our outside contractors as of September 30, 2022.

The number of employees decreased from 248 as of September 30, 2020 to 40 as of September 30, 2021 mainly because (i) the number of rental units contracted decreased and (ii) after we terminated the cooperation with the rental service company owned by a state-owned bank in apartment sourcing and renovation, substantially all of our rental units are managed by third-party contractors.

The number of employees decreased from 40 as of September 30, 2021 to 28 as of September 30, 2020 mainly due to our cost-saving efforts.

We have a well-trained and motivated workforce, and an effective training program to develop our operations and management staff to manage its rapidly expanding apartment network. Our regional management teams offers structured training programs for sales, sourcing, and corporate staff. Our apartment sourcing and sales staff are required to attend a three day new hire training program offered by us covering topics such as our corporate culture, sales and marketing, office software skills, sourcing skills, tenant service, and apartment operation standards. Our managers also attend team management, financial, and human resource management courses. In FY 2022, our operations and management staff on average received approximately 60 and 30 hours of training, respectively..

We have a comprehensive review and incentive system that aligns performance and compensation as well as internal promotions, which also enable us to motivate and retain our workforce. For example, a substantial portion of sourcing and sales staff's salary is based on their performance. In addition, at the end of each month, employees whose performance ranks bottom 20% will be required to attend compulsory trainings, half of whom may be discharged if their performance does not fulfil the requirements of their positions after such trainings.

#### **E. Share Ownership**

Except as specifically noted, the following table sets forth information with respect to the beneficial ownership of our ordinary shares as of the date of this annual report by:

- each of our directors and executive officers; and
- each person known to us to beneficially own more than 5% of our total outstanding ordinary shares.

We have adopted a dual class ordinary share structure. The calculations in the table below are based on 28,378,920,464 ordinary shares outstanding as of the date of this annual report, consisting of 25,878,920,464 Class A ordinary shares and 2,500,000,000 Class B ordinary shares.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days of the date of this annual report, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

On May 25, 2022, the holders (the “CB Holders”) of the Company’s convertible note dated July 29, 2020 (the “2020 CB”) converted all of the outstanding principal amount and accrued but unpaid interest of the 2020 CB, resulting in our issuance of 15,414,467,400 Class A ordinary shares. In addition, on May 25, 2022, the Company issued 8,617,124,250 Class A ordinary shares to the lender (the “Lender”) of an outstanding loan (“Converted Loan”) to set off the repayment obligation by the Company of outstanding principal amount and accrued but unpaid interest of the Converted Loan. As of the date hereof, the CB Holders and the Lender no longer hold these conversion shares.

On June 24, 2022, Yijia Inc. transferred approximately 75.2 million and 105.2 million Class B ordinary shares, representing all the shares of the Company it held as of such date to Golden Stream Limited and High Gate Investments Ltd., respectively. Upon transfer to Golden Stream Limited and High Gate Investments Ltd., the Class B ordinary shares previously held by Yijia Inc. were automatically converted to Class A ordinary shares pursuant to the Company’s third amended and restated memorandum and articles of association.

	Class A ordinary shares		Class B Ordinary Shares		Total ordinary shares on an as-converted basis		Aggregate voting power***
	Number	%	Number	%	Number	%	
<b>Directors and Executive Officers**:</b>							
Chengcai Qu (1)	*	*	—	—	*	*	*
Gang Xie	—	—	—	—	—	—	—
Jiamin Chen (1)	—	—	—	—	—	—	—
Zongquan Yang	—	—	—	—	—	—	—
Chen Chen	—	—	—	—	—	—	—
Lin Zhou	—	—	—	—	—	—	—
Zhichen (Frank) Sun (1)	*	*	—	—	*	*	*
All Directors and Executive Officers as a Group (2)	132,660,108	0.51 %	2,500,000,000	100.0 %	2,632,660,108	9.28 %	49.40 %
<b>Principal Shareholders:</b>							
Golden Stream Ltd.(1)	*	*	2,500,000,000	100.0 %	2,500,000,000	8.80 %	49.10 %

\* Less than 1% of our total outstanding shares.

\*\* Except as indicated otherwise below, the business address of our directors and executive officers is 2F, Building 5, No.18, Gongping Road, Hongkou District, Shanghai, 200082, People’s Republic of China.

\*\*\* For each person or group included in this column, percentage of total voting power represents voting power based on both Class A and Class B ordinary shares held by such person or group with respect to all outstanding shares of our Class A and Class B ordinary shares as a single class and on an as-converted basis. Each Class A ordinary shares is entitled to one vote per share. Each Class B ordinary share is entitled to ten (10) votes per share. Our Class B ordinary shares are convertible at any time by the holder into Class A ordinary shares on a one-for-one basis.

- (1) The shares beneficially owned by Golden Stream Ltd. represents 2,500,000,000 Class B ordinary shares directly held by Golden Stream Ltd., the current ESOP Platform of the Company. Golden Stream Ltd. holds the Shares underlying the share-based awards pursuant to the Company’s 2022 Equity Incentive Plan (the

“2022 Plan”) and will act upon the instructions of a senior management committee of the Company consisting of Chengcai Qu, Zhichen (Frank) Sun and Jiamin Chen determined on a unanimous basis in relation to the voting and, prior to the vesting of the Shares to the relevant grantee of the share-based awards the Company may grant under the 2022 Plan, the disposition of these Class B ordinary shares.

- (2) Includes 2,500,000,000 Class B ordinary shares held by Golden Stream Ltd. (see footnote (1) above).

To our knowledge, 638,607,300 Class A ordinary shares, representing approximately 2.3% of our total outstanding ordinary shares, were held by one record shareholder with registered addresses in the United States, our depository. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

## **ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

### **A. Major Shareholders**

Please refer to “Item 6. Directors, Senior Management and Employees—E. Share Ownership.”

### **B. Related Party Transactions**

#### **Contractual Arrangements with the VIE and Its Shareholders**

PRC laws and regulations restrict foreign ownership and investment in value-added telecommunications services in China. As a result, we conducted certain business through Q&K E-commerce, the VIE, based on a series of contractual arrangements before the Equity Transfer. On October 26, 2021, we transferred all of our equity interest in the WFOE to Wangxiancai Limited. As of the date of this annual report, we do not conduct any business operation through a variable interest entity. On December 17, 2021, we transferred all of our equity interest in Q&K HK to Wangxiancai Limited. See “—Transaction with Wangxiancai Limited” for more details.

#### **Employment Agreements and Indemnification Agreements**

See “Item 6. Directors, Senior Management and Employees—B. Compensation—Employment Agreements and Indemnification Agreements.”

#### **Share Incentives**

See “Item 6. Directors, Senior Management and Employees—B. Compensation—Stock Options and RSUs.”

#### **Convertible Notes and Warrants**

We have issued convertible notes and warrants to Key Space (S) Pte Ltd., an entity controlled by certain shareholder of us. In FY 2021 and FY 2022, we issued convertible notes in exchange for cash of US\$17.6 million and US\$2.8 million, respectively, to Key Space (S) Pte Ltd. As of the date of this annual report, we have issued 22 installments of convertible notes and raised proceeds of US\$44.4 million in aggregate from Key Space (S) Pte Ltd. In FY 2021 and FY 2022, we accrued interest expenses of RMB49.5 million and RMB32.7 million (US\$4.6 million) on the convertible notes, respectively. See “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Convertible Notes and Warrants.” On May 25, 2022, we settled convertible notes and all the accrued but unpaid interest. In the meantime, the warrants to subscribe the ADSs were cancelled.

#### **Transaction with Wangxiancai Limited**

On October 26, 2021 and December 17, 2021, we transferred all of our equity interest in the WFOE and Q&K HK, respectively, to Wangxiancai Limited, which is beneficially owned by the legal representative and executive director of one of our subsidiaries, a related party, for nominal consideration. The consideration was nominal value because the Q&K HK, WFOE and the VIE were loss-making and the possibility that they would generate cash flow in the future was minimal. The WFOE was a wholly owned subsidiary of Q&K HK, and had a series of contractual arrangements with the VIE, through which we carried out certain rental apartment operation business prior to the

Equity Transfer. The Equity Transfer was performed to dedicate our business resources to operate higher-quality rental apartments through our subsidiaries in China. As of the date of this annual report, we no longer conduct any business operation through a variable interest entity.

C. **Interests of Experts and Counsel**

Not applicable.

## ITEM 8. FINANCIAL INFORMATION

### A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

### Legal Proceedings

We have been, and may from time to time be, subject to various legal or administrative claims and proceedings arising in the ordinary course of business or otherwise. Litigation or any other legal or administrative proceeding, regardless of the outcome, is likely to result in substantial cost and diversion of our resources, including our management's time and attention.

As of October 26, 2021 immediately before the Equity Transfer, the VIE was involved in eight ongoing legal proceedings, most of which were initiated by suppliers. The amount of the claims arising from these ongoing legal proceedings were RMB33.7 million (US\$5.2 million) in aggregate. Two of these legal proceedings had claims over RMB1.0 million (US\$0.2 million). In particular, one of our suppliers, Shanghai Greenland Construction (Group) Co. Ltd., or Shanghai Greenland, filed a lawsuit against one of the VIE's subsidiaries, alleging that it should pay Shanghai Greenland the construction fee and other related expenses and fees for the construction of the VIE's subsidiary's research and development center in Suzhou pursuant to a construction contract entered into by Shanghai Greenland and the VIE's subsidiary. The amount of the construction fee and other related expenses and fees was approximately RMB58.0 million (US\$8.5 million), which had been accounted for in the consolidated financial statements for FY 2021. We sold buildings under construction in Suzhou through judicial sales for proceeds of RMB100.3 million. The court assisted us to sell the buildings under construction and collected the proceeds on behalf of us. The proceedings had been settled in December 2021. After the Equity Transfer, we are no longer involved in these legal proceedings.

In addition, in 2020, due to the COVID-19 pandemic, the VIE terminated certain leases with landlords before the end of the original lease terms by sending landlords short messages indicating that the leases would be terminated on the specified dates and we would not assume any liability for the early termination of the leases. We had disputes with some of these landlords. Some landlords filed lawsuits against us for compensation aggregating RMB3.9 million (US\$0.6 million), under which we estimated that we are exposed to the compensation of RMB3.9 million (US\$0.6 million) and recorded the contingent liability in our balance sheet as of September 30, 2021. Certain landlords had expressed their objection to our early termination of leases but did not file lawsuits against us. These landlords had rights to file lawsuits against us within three years from the date of our early termination notice, for a maximum compensation of RMB58.0 million (US\$8.9 million). This amount is equivalent to three months' rents of these leases, based on relevant trial guidance issued by the high people's courts in the PRC as advised by our PRC legal counsel, JunHe LLP. The actual compensation amount will be negotiated with each landlord and we did not accrue the contingent liability in our balance sheet as of September 30, 2022. As of October 26, 2021 immediately before the Equity Transfer, a majority of these landlords had expressed their consents to the early termination of leases as set forth in the short messages, or had not raised any objection to the early termination of leases. As advised by our PRC legal counsel, JunHe LLP, pursuant to the PRC laws, the landlords may file lawsuits against the VIE for the early termination of leases with the courts within three months from the date of the early termination notice, otherwise their claims will not be supported by the courts. After we deconsolidated the subsidiaries of the VIE, we are no longer exposed to these contingencies.

Disputes, legal proceedings and potential legal proceedings related to us had materially and adversely affected, and may continue materially and adversely affecting, our financial condition, business and reputation.

## **Dividend Policy**

Our board of directors has discretion on whether to distribute dividends, subject to certain restrictions under Cayman Islands law, namely that our company may only pay dividends out of profits or share premium, and provided always that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant.

We do not have any plan to pay any cash dividends on our ordinary shares in the foreseeable future and intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

We are a holding company incorporated in the Cayman Islands. We may rely on dividends from our subsidiaries in China for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiary to pay dividends to us. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Dividend Distribution” and “Item 10. Additional Information—E. Taxation—People’s Republic of China Taxation.”

If we pay any dividends on our ordinary shares, we will pay those dividends which are payable in respect of the Class A ordinary shares underlying our ADSs to the depositary, as the registered holder of such Class A ordinary shares, and the depositary then will pay such amounts to our ADS holders in proportion to the Class A ordinary shares underlying the ADSs held by such ADS holders, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. See “Item 12. Description of Securities Other Than Equity Securities—D. American Depositary Shares.” Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

### **B. Significant Changes**

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

## **ITEM 9. THE OFFER AND LISTING**

### **A. Offering and Listing Details**

Our ADSs, each representing 150 of our Class A ordinary shares, have been listed on the NASDAQ Global Market since November 5, 2019. Our ADSs trade under the symbol “FLJ”. In FY 2020, FY 2021 and FY 2022, no significant trading suspensions occurred.

### **B. Plan of Distribution**

Not applicable.

### **C. Markets**

The principal trading market for our ADSs is the NASDAQ Global Market.

### **D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**A. Share Capital**

Not applicable.

**B. Memorandum and Articles of Association**

We are a Cayman Islands exempted company with limited liability and our corporate affairs are governed by our amended and restated memorandum and articles of association, as amended from time to time and the Companies Act (As Revised), as amended and revised of the Cayman Islands (the “Companies Act”), and the common law of the Cayman Islands.

The following are summaries of material provisions of our amended and restated memorandum and articles of association and the Companies Act insofar as they relate to the material terms of our Class A ordinary shares and Class B ordinary shares.

**Ordinary Shares**

**General.** Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of our Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights. Our ordinary shares are issued in registered form and are issued when registered in our register of members. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares.

**Conversion.** Each Class B ordinary share is convertible into one Class A ordinary share at any time at the option of the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any transfer of Class B ordinary shares by a holder to any person or entity which is not an affiliate of such holder, such Class B ordinary shares shall be automatically and immediately converted into the equivalent number of Class A ordinary shares.

**Dividends.** The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors. Our amended and restated articles of association provide that dividends may be declared and paid out of our profits, realized or unrealized, or from any reserve set aside from profits which our board of directors determine is no longer needed. Dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Act.

**Voting Rights.** Holders of our ordinary shares have the right to receive notice of, attend, speak and vote at general meetings of our company. Except as required by applicable law and subject to the amended and restated memorandum and articles of association, holders of Class A ordinary shares and Class B ordinary shares shall at all times vote together as one class on all matters submitted to a vote of the shareholders.

At any general meeting on a poll, every shareholder holding Class A ordinary shares present in person or by proxy or, in the case of a shareholder being a corporation, by its duly authorized representative shall have one (1) vote for every fully paid Class A ordinary share of which he is the holder; and every shareholder holding Class B ordinary shares present in person or by proxy or, in the case of a shareholder being a corporation, by its duly authorized representative shall have ten (10) votes for every fully paid Class B ordinary share of which he is the holder.



A resolution put to the vote of a meeting shall be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case (i) every shareholder holding Class A ordinary shares present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one (1) vote, and (ii) every shareholder holding Class B ordinary shares present in-person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have ten (10) votes, provided that, notwithstanding anything contained in our amended and restated memorandum and articles of association, where more than one proxy is appointed by a shareholder which is a clearing house or a central depository house (or its nominee(s)), each such proxy shall have one vote on a show of hands. For the purposes of our amended and restated memorandum and articles of association, procedural and administrative matters are those that (i) are not on the agenda of the general meeting or in any supplementary circular that may be issued by us to the shareholders; and (ii) relate to the chairman's duties to maintain the orderly conduct of the meeting and/or allow the business of the meeting to be properly and effectively dealt with, whilst allowing all shareholders a reasonable opportunity to express their views.

An ordinary resolution to be passed at a meeting by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the shares cast at a meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes attaching to the shares cast at a meeting. A special resolution will be required for important matters such as a change of name, making changes to our amended and restated memorandum and articles of association, a reduction of our share capital and the winding up of our Company.

**Transfer of Ordinary Shares.** Subject to the restrictions contained in our amended and restated memorandum and articles of association, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board of directors.

Our board of directors may, in its absolute discretion, and without giving any reason therefor, refuse to register a transfer of any share that is not a fully paid up share to a person of whom it does not approve, or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also, without prejudice to the foregoing generality, refuse to register a transfer of any share to more than four joint holders or a transfer of any share that is not a fully paid up share on which we have a lien. Our board of directors may also decline to register any transfer of any ordinary share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of ordinary shares;
- the instrument of transfer is properly stamped, if required;
- a fee of such maximum sum as the Nasdaq may determine to be payable or such lesser sum as our directors may from time to time require is paid to us in respect thereof.

If our directors refuse to register a transfer, they shall, within three months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, after compliance with any notice required of the Nasdaq, be suspended and the register of members closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register of members closed for more than 30 days in any year as our board may determine.

**Liquidation.** On a return of capital on winding up or otherwise (other than on conversion, redemption or purchase of ordinary shares), assets available for distribution among the holders of ordinary shares shall be distributed among the holders of the ordinary shares on a pro rata basis. If our assets available for distribution are insufficient to repay all of the paid-up ordinary share capital, the assets will be distributed so that the losses are borne by our holders of ordinary shares proportionately.

***Calls on Ordinary Shares and Forfeiture of Ordinary Shares.*** Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their ordinary shares in a notice served to such shareholders at least 14 clear days prior to the specified time of payment. The ordinary shares that have been called upon and remain unpaid are subject to forfeiture.

***Redemption of Ordinary Shares.*** The Companies Act and our amended and restated articles of association permit us to purchase our own shares. In accordance with our amended and restated articles of association and provided the necessary shareholders or board approval have been obtained, we may issue shares on terms that are subject to redemption, at our option or at the option of the holders of these shares, on such terms and in such manner, including out of capital, as may be determined by our board of directors.

***Variations of Rights of Shares.*** All or any of the special rights attached to any class of shares may, subject to the provisions of the Companies Act, be varied with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class. Separate general meetings of the holders of a class or series of shares may be called only by (i) the chairman of our board of directors, or (ii) a majority of our board of directors (unless otherwise specifically provided by the terms of issue of the shares of such class or series), and nothing in the amended and restated memorandum and articles of association shall give any shareholder or shareholders the right to call a class or series meeting. The rights conferred upon the holders of the shares of any class issued shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with such existing class of shares.

## **General Meetings of Shareholders**

A quorum required for a meeting of shareholders consists of one or more shareholders present in person or by proxy representing not less than one-third of all voting power of the company's share capital in issue. (i) A majority of our board of directors, or (ii) the chairman of our board of directors, or (iii) any director, where required to give effect to a requisition received under the amended and restated memorandum and articles of association, may call extraordinary general meetings, which extraordinary general meetings shall be held at such times and locations (as permitted hereby) as such person or persons shall determine.

Any one or more shareholders holding at the date of deposit of the requisition not less than two-thirds of the voting power of our share capital in issue carrying the right of voting at general meetings of our company shall at all times have the right, by written requisition to our board of directors or our secretary, to require an extraordinary general meeting to be called by our board of directors for the transaction of any business permitted by the Companies Act or the amended and restated memorandum and articles of association (subject to the below) as specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit our board of directors fails to proceed to convene such meeting, the requisitionist(s) himself or herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of our board of directors shall be reimbursed to the requisitionist(s) by us.

A meeting requisitioned under the amended and restated memorandum and articles of association shall not be permitted to consider or vote upon (A) any resolutions with respect to the election, appointment or removal of directors or with respect to the size of our board of directors, unless such proposal is first approved by our nominating and corporate governance committee; or (B) other than a special resolution in respect of the appointment or removal of any director, any special resolution or any matters required to be passed by way of special resolution pursuant to the amended and restated memorandum and articles of association or the Companies Act. Written notice shall be given not less than ten clear days before the date of any general meeting.

## **Inspection of Books and Records**

Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, in our amended and restated memorandum and articles of association we provide our shareholders with the right to inspect our list of shareholders and to receive annual audited financial statements. See “—H. Documents on Display.”

## **Changes in Capital**

We may from time to time by ordinary resolution:

- increase the share capital by such sum, to be divided into shares of such classes and amount, as the resolution shall prescribe;
- consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares;
- sub-divide our existing shares, or any of them into shares of a smaller amount; or
- cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the shares so canceled.

We may by special resolution, subject to any confirmation or consent required by the Companies Act, reduce our share capital or any capital redemption reserve in any manner permitted by law.

## **Proceedings of the Directors**

Our board of directors may meet for the dispatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes, other than (i) any removal of any person as a director, or (ii) any appointment or removal of any person as the chairman of our board of directors, or (iii) any removal of any person as chairman or other member of any committee of our board of directors which, in each case, shall be determined by a resolution passed by a majority of not less than two-thirds of votes cast by such directors as, being entitled so to do, vote at a meeting of our board of directors. In the case of any equality of votes, the chairman of the meeting shall have an additional or casting vote. A meeting of our board of directors may be convened by (i) the chairman of our board of directors, or (ii) a majority of the directors. Our secretary shall convene a meeting of our board of directors whenever so required to do by the chairman of our board of directors or a majority of the directors by notice in writing to each director. A meeting of our board of directors may be called by not less than two (2) clear days' notice. A meeting of our board of directors may be called by shorter notice if it is so agreed by all the directors entitled to attend and vote at such a meeting. Any notice of a meeting of our board of directors shall (i) specify the time and place of the meeting, and (ii) set out in reasonable detail the nature of the business to be discussed at the meeting. Notice may be given in writing or by telephone or in such other manner as our board of directors may from time to time determine.

A resolution in writing signed by all the directors (other than in the circumstances set out in article 85 in our amended and restated memorandum and articles of association) except such as are temporarily unable to act due to ill-health or disability shall (provided that (i) the circulation of such resolutions has the prior approval of, and is initiated by, the chairman of our board of directors, (ii) such number of signatories includes the chairman of our board of directors and is sufficient to constitute a quorum, and (iii) further provided that a copy of such resolution has been given or the contents thereof communicated to all the directors for the time being entitled to receive notices of board meetings in the same manner as notices of meetings are required to be given by our amended and restated memorandum and articles of association) be as valid and effectual as if a resolution had been passed at a meeting of our board of directors duly convened and held.

## **Exempted Company**

We are an exempted company with limited liability incorporated under the Companies Act. The Companies Act in the Cayman Islands distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except for the exemptions and privileges listed below:

- an exempted company does not have to file an annual return of its shareholders with the Registrar of Companies;
- an exempted company's register of members is not open to inspection;

- an exempted company does not have to hold an annual general meeting;
- an exempted company may issue no par value shares;
- an exempted company may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- an exempted company may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- an exempted company may register as a limited duration company; and
- an exempted company may register as a segregated portfolio company.

“Limited liability” means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company. We are subject to reporting and other informational requirements of the Exchange Act, as applicable to foreign private issuers. We currently intend to comply with the Nasdaq rules in lieu of following home country practice. The Nasdaq rules require that every company listed on the Nasdaq hold an annual general meeting of shareholders. In addition, our amended and restated articles of association allow directors to call special meeting of shareholders pursuant to the procedures set forth in our articles.

### **Differences in Corporate Law**

The Companies Act is modeled after that of England and Wales but does not follow recent statutory enactments in England. In addition, the Companies Act differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Act applicable to us and the laws applicable to companies incorporated in the State of Delaware.

### ***Mergers and Similar Arrangements***

A merger of two or more constituent companies under Cayman Islands law requires a plan of merger or consolidation to be approved by the directors of each constituent company and authorization by a special resolution of the members of each constituent company.

A merger between a Cayman parent company and its Cayman subsidiary or subsidiaries does not require authorization by a resolution of shareholders. For this purpose a subsidiary is a company of which at least ninety percent (90%) of the issued shares entitled to vote are owned by the parent company.

The consent of each holder of a fixed or floating security interest over a constituent company is required unless this requirement is waived by a court in the Cayman Islands.

Save in certain circumstances, a dissentient shareholder of a Cayman constituent company is entitled to payment of the fair value of his shares upon dissenting to a merger or consolidation. The exercise of appraisal rights will preclude the exercise of any other rights save for the right to seek relief on the grounds that the merger or consolidation is void or unlawful.

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by seventy-five per cent in value of the members or class of members, as the case may be, with whom the arrangement is to be made and a majority in number of each class of creditors with whom the arrangement is to be made, and who must, in addition, represent seventy-five per cent in value of each such class of creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the required majority vote have been met;
- the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class;
- the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Act.

When a takeover offer is made and accepted by holders of 90% of the shares the subject of the offer within four months, the offeror may, within a two-month period commencing on the expiration of such four month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud, bad faith or collusion.

If an arrangement and reconstruction is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

The Companies Act also contains statutory provisions which provide that a company may present a petition to the Grand Court of the Cayman Islands for the appointment of a restructuring officer on the grounds that the company (a) is or is likely to become unable to pay its debts within the meaning of section 93 of the Companies Act; and (b) intends to present a compromise or arrangement to its creditors (or classes thereof) either, pursuant to the Companies Act, the law of a foreign country or by way of a consensual restructuring. The petition may be presented by a company acting by its directors, without a resolution of its members or an express power in its articles of association. On hearing such a petition, the Cayman Islands court may, among other things, make an order appointing a restructuring officer or make any other order as the court thinks fit.

### ***Shareholders' Suits***

In principle, we will normally be the proper plaintiff and as a general rule a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, there are exceptions to the foregoing principle, including when:

- a company acts or proposes to act illegally or ultra vires;
- the act complained of, although not ultra vires, could only be effected duly if authorized by more than the number of votes which have actually been obtained; and
- those who control the company are perpetrating a "fraud on the minority."
- A shareholder may have a direct right of action against us where the individual rights of that shareholder have been infringed or are about to be infringed.

### ***Indemnification of Directors and Executive Officers and Limitation of Liability***

Cayman Islands law does not limit the extent to which a company's memorandum and articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our amended and restated memorandum and articles of association permit indemnification of officers and directors for losses, damages, costs and expenses incurred in their capacities as such unless such losses or damages arise from dishonesty or fraud which may attach to such directors or officers. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation. In addition, we have entered into indemnification agreements with our directors and senior executive officers that provide such persons with additional indemnification beyond that provided in our amended and restated memorandum and articles of association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

### ***Anti-Takeover Provisions in the Memorandum and Articles of Association***

Some provisions of our amended and restated memorandum and articles of association may discourage, delay or prevent a change in control of our company or management that shareholders may consider favorable, including provisions that authorize our board of directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our amended and restated memorandum and articles of association, as amended and restated from time to time, for what they believe in good faith to be in the best interests of our company.

### ***Directors' Fiduciary Duties***

Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he or she reasonably believes to be in the best interests of the corporation. He or she must not use his or her corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore it is considered that he owes the following duties to the company — a duty to act *bona fide* in the best interests of the company, a duty not to make a profit based on his or her position as director (unless the company permits him to do so) and a duty not to put himself in a position where the interests of the company conflict with his or her personal interest or his or her duty to a third party. A director of a Cayman Islands company owes to the company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his or her duties a greater degree of skill than may reasonably be expected from a person of his or her knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands.

### ***Shareholder Action by Written Consent***

Under the Delaware General Corporation Law, a corporation may eliminate the right of shareholders to act by written consent by amendment to its certificate of incorporation. Our amended and restated articles of association provide that shareholders may not approve corporate matters by way of a unanimous written resolution signed by or on behalf of each shareholder who would have been entitled to vote on such matter at a general meeting without a meeting being held.

### ***Shareholder Proposals***

Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

Our amended and restated articles of association allow our shareholders to requisition a shareholders' meeting (see above). As an exempted Cayman Islands company, we are not obliged by law to call shareholders' annual general meetings though we may do so.

### ***Cumulative Voting***

Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. As permitted under Cayman Islands law, our amended and restated articles of association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

### ***Removal of Directors***

Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Subject to any provision to the contrary in our amended and restated memorandum and articles of association, a director may, at any time before the expiration of his or her period of office (notwithstanding anything in our amended and restated memorandum and articles of association or in any agreement between our company and such director (but without prejudice to any claim for damages under any such agreement)) be removed by way of either (a) an ordinary resolution of the shareholders; or (b) the affirmative vote of a majority of the remaining directors present and voting at a board meeting; or (c) a resolution in writing (which complies with the requirements of the provisos contained in article 119 of our amended and restated memorandum and articles of association) signed by all the directors other than the director being removed.

### ***Transactions with Interested Shareholders***

The Delaware General Corporation Law contains a business combination statute applicable to Delaware corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target's outstanding voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into *bona fide* in the best interests of the company and for a proper corporate purpose and not with the effect of constituting a fraud on the minority shareholders.

### ***Dissolution; Winding Up***

Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its members or, if the company is unable to pay its debts, by an ordinary resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

Under the Companies Act and our amended and restated articles of association, our company may be dissolved, liquidated or wound up by a special resolution of shareholders.

### ***Variation of Rights of Shares***

Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under Cayman Islands law and our amended and restated articles of association, if our share capital is divided into more than one class of shares, we may vary the rights attached to any class only with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class.

### ***Amendment of Governing Documents***

Under the Delaware General Corporation Law, a corporation's governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. As permitted by Cayman Islands law, our amended and restated memorandum and articles of association may only be amended by a special resolution of shareholders.

### ***Rights of Non-Resident or Foreign Shareholders***

There are no limitations imposed by our amended and restated memorandum and articles of association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our amended and restated memorandum and articles of association governing the ownership threshold above which shareholder ownership must be disclosed.

### ***Directors' Power to Issue Shares***

Subject to applicable law, our board of directors is empowered to issue or allot shares or grant options and warrants with or without preferred, deferred, qualified or other special rights or restrictions.

### ***Limitations or Qualifications***

We have a dual-class voting structure such that our ordinary shares consist of Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share in respect of matters requiring the votes of shareholders, while holders of Class B ordinary shares are entitled to ten (10) votes per share, subject to certain exceptions. Due to the super voting power of Class B ordinary share holder, the voting power of the Class A ordinary shares may be materially limited.



**C. Material Contracts**

We have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 4. Information on the Company,” “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions,” or elsewhere in this annual report on Form 20-F.

**D. Exchange Controls**

See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Foreign Exchange.”

**E. Taxation**

The following summary of the material Cayman Islands, PRC and U.S. federal income tax consequences of an investment in ADSs or Class A ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in ADSs or Class A ordinary shares, such as the tax consequences under U.S. state and local tax laws or under the tax laws of jurisdictions other than the Cayman Islands, the People’s Republic of China and the United States.

**Cayman Islands Taxation**

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty.

Pursuant to the Tax Concessions Act of the Cayman Islands, we have obtained an undertaking from the Governor in Council: (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations shall apply to us or our operations; and (b) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of us. The undertaking is for a period of twenty years from March 8, 2018.

Payments of dividends and capital in respect of the shares of our company will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of a dividend or capital to any holder of the shares, nor will gains derived from the disposal of the ordinary shares be subject to Cayman Islands income or corporation tax.

Certain stamp duties may be applicable, from time to time, on certain instruments executed in or brought into the Cayman Islands. No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**People’s Republic of China Taxation**

Under the PRC Enterprise Income Tax 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 at the rate of 25% on its global income. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control over and overall management of the business, productions, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation 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, the criteria set forth in the circular may reflect the State Administration of Taxation’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 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 seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

We do not believe that FLJ Group Limited meets all of the conditions above. FLJ Group Limited is a company incorporated outside the PRC. As a holding company, its key assets are its ownership interests in its subsidiaries, and its key assets are located, and its records (including the resolutions of its board of directors and the resolutions of its shareholders) are maintained, outside the PRC. For the same reasons, we believe our other entities outside of China are not PRC resident enterprises either. 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." There can be no assurance that the PRC government will ultimately take a view that is consistent with ours.

However, if the PRC tax authorities determine that FLJ Group Limited is a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are Non-Resident Enterprises, including the holders of our ADSs. Such 10% tax rate could be reduced by applicable tax treaties or similar arrangements between China and the jurisdiction of our shareholders. For example, for shareholders eligible for the benefits of the tax treaty between China and Hong Kong, the tax rate is reduced to 5% for dividends if relevant conditions are met. In addition, Non-Resident Enterprise shareholders (including our ADS holders) may be subject to a 10% PRC tax on gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is treated as sourced from within the PRC. It is unclear whether our non-PRC individual shareholders (including our ADS holders) would be subject to any PRC tax on dividends or gains obtained by such non-PRC individual shareholders in the event we are determined to be a PRC resident enterprise. If any PRC tax were to apply to such dividends or gains, it would generally apply at a rate of 20% unless a reduced rate is available under an applicable tax treaty. However, it is also unclear whether non-PRC shareholders of FLJ Group Limited would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that FLJ Group Limited is treated as a PRC resident enterprise.

Provided that our Cayman Islands holding company, FLJ Group Limited, is not deemed to be a PRC resident enterprise, holders of our ADSs and Class A ordinary shares who are not PRC residents will not be subject to PRC income tax on dividends distributed by us or gains realized from the sale or other disposition of our shares or ADSs. However, under Circular 7, where a Non-Resident Enterprise conducts an "indirect transfer" by transferring taxable assets, including, in particular, equity interests in a PRC resident enterprise, indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise, being the transferor, or the transferee or the PRC entity which directly owned such taxable assets may report to the relevant tax authority such indirect transfer. Using a "substance over form" principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee would be obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. We and our non-PRC resident investors may be at risk of being required to file a return and being taxed under Circular 7, and we may be required to expend valuable resources to comply with Bulletin 37, or to establish that we should not be taxed under Circular 7 and Bulletin 37. See "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—We and our shareholders face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises or other assets attributed to a Chinese establishment of a non-Chinese company, or immovable properties located in China owned by non-Chinese companies."

### **United States Federal Income Tax Considerations**

The following is a summary of material U.S. federal income tax considerations that are likely to be relevant to the purchase, ownership and disposition of our Class A ordinary shares or ADSs by a U.S. Holder (as defined below).

This summary is based on provisions of the Internal Revenue Code of 1986, as amended, or the “Code,” and regulations, rulings and judicial interpretations thereof, in force as of the date hereof. Those authorities may be changed at any time, perhaps retroactively, so as to result in U.S. federal income tax consequences different from those summarized below.

This summary is not a comprehensive discussion of all of the tax considerations that may be relevant to a particular investor’s decision to purchase, hold, or dispose of Class A ordinary shares or ADSs. In particular, this summary is directed only to U.S. Holders that hold Class A ordinary shares or ADSs as capital assets and does not address all of the tax consequences that may be applicable to U.S. Holders who may be subject to special tax rules, such as banks, brokers or dealers in securities or currencies, traders in securities electing to mark-to-market, financial institutions, insurance companies, tax exempt entities, regulated investment companies, partnerships (including any entities or arrangements that are treated as partnerships for U.S. federal income tax purposes) and the partners therein, holders that own or are treated as owning 10% or more of our shares (measured by vote or value), persons holding Class A ordinary shares or ADSs as part of a hedging or conversion transaction or a straddle, or persons whose functional currency is not the U.S. dollar. Moreover, this summary does not address state, local or non-U.S. taxes, the U.S. federal estate and gift taxes, or the Medicare contribution tax applicable to net investment income of certain non-corporate U.S. Holders, or alternative minimum tax consequences of acquiring, holding or disposing of Class A ordinary shares or ADSs.

For purposes of this summary, a “U.S. Holder” is a beneficial owner of Class A ordinary shares or ADSs that is a citizen or resident of the United States or a U.S. domestic corporation or that otherwise is subject to U.S. federal income taxation on a net income basis in respect of such Class A ordinary shares or ADSs.

**You should consult your own tax advisors about the consequences of the acquisition, ownership and disposition of the Class A ordinary shares or ADSs, including the relevance to your particular situation of the considerations discussed below and any consequences arising under non-U.S., state, local or other tax laws.**

## **ADSs**

In general, a U.S. Holder of ADSs will be treated, for U.S. federal income tax purposes, as the beneficial owner of the underlying Class A ordinary shares that are represented by those ADSs.

## ***Taxation of Dividends***

Subject to the discussion below under “—Passive Foreign Investment Company Rules,” the gross amount of any distribution of cash or property with respect to our Class A ordinary shares or ADSs (including amounts, if any, withheld to reflect PRC taxes) that is paid out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) will generally be includible in your taxable income as ordinary dividend income on the day on which you receive the dividend, in the case of Class A ordinary shares, or the date the depositary receives the dividends, in the case of ADSs, and will not be eligible for the dividends received deduction allowed to U.S. corporations under the Code.

We do not expect to maintain calculations of our earnings and profits in accordance with U.S. federal income tax principles. U.S. Holders therefore should expect that distributions generally will be treated as dividends for U.S. federal income tax purposes.

Subject to certain exceptions for short-term and hedged positions, the dividends received by a non-corporate U.S. Holder with respect to the Class A ordinary shares or ADSs will be subject to taxation at a preferential rate if the dividends are “qualified dividends.” Dividends paid on the Class A ordinary shares or ADSs will be treated as qualified dividends if:

- the Class A ordinary shares or ADSs on which the dividend is paid are readily tradable on an established securities market in the United States or we are eligible for the benefits of a comprehensive tax treaty with the United States that the U.S. Treasury determines is satisfactory for purposes of these rules and that includes an exchange of information program; and
- we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a PFIC.

Our ADSs are listed on the NASDAQ Global Market, and the ADSs qualify as readily tradable on an established securities market in the United States so long as they are so listed. As discussed in more detail below, based on our financial statements, the manner in which we conduct our business and the relevant market data, we believe there is a significant risk that we were a PFIC for U.S. federal income tax purposes with respect to our 2022 taxable year. In addition, based on our financial statements, the manner in which we conduct our business, relevant market data and our current expectations regarding the value and nature of our assets and the sources and nature of our income, there is a significant risk that we will be a PFIC for our 2023 taxable year and in the foreseeable future.

Because the Class A ordinary shares are not themselves listed on a U.S. exchange, dividends received with respect to the Class A ordinary shares that are not represented by ADSs may not be treated as qualified dividends. U.S. Holders of Class A ordinary shares or ADSs should consult their own tax advisors regarding the potential availability of the reduced dividend tax rate in light of their own particular circumstances.

In the event that we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law (see “—People’s Republic of China Taxation”), a U.S. Holder may be subject to PRC withholding taxes on dividends paid on our ADSs or Class A ordinary shares. In that case, we may, however, be eligible for the benefits of the Agreement Between the Government of the United States of America and the Government of the People’s Republic of China for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income, or the “Treaty.” If we are eligible for such benefits, dividends we pay on our Class A ordinary shares, regardless of whether such shares are represented by the ADSs, would be eligible for the reduced rates of taxation described above. Dividend distributions with respect to our Class A ordinary shares or ADSs generally will be treated as “passive category” income from sources outside the United States for purposes of determining a U.S. Holder’s U.S. foreign tax credit limitation. Subject to generally applicable limitations and conditions, a U.S. Holder may be able to claim a foreign tax credit against its U.S. federal income tax liability in respect of any PRC income taxes withheld at the appropriate rate applicable to the U.S. Holder from a dividend paid to such U.S. Holder. These generally applicable limitations and conditions include new requirements recently adopted by the U.S. Internal Revenue Service (“IRS”) and any PRC tax will need to satisfy these requirements in order to be eligible to be a creditable tax for a U.S. Holder. In the case of a U.S. Holder that is eligible for, and properly elects, the benefits of the Treaty, the PRC tax on dividends will be treated as meeting the new requirements and therefore as a creditable tax. In the case of all other U.S. Holders, the application of these requirements to the PRC tax on dividends is uncertain and we have not determined whether these requirements have been met. If the PRC dividend tax is not a creditable tax for a U.S. Holder or the U.S. Holder does not elect to claim a foreign tax credit for any foreign income taxes paid or accrued in the same taxable year, the U.S. Holder may be able to deduct the PRC tax in computing such U.S. Holder’s federal taxable income for U.S. federal income tax purposes. The rules with respect to foreign tax credits are complex and involve the application of rules that depend on a U.S. Holder’s particular circumstances. Accordingly, U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit or the deductibility of foreign taxes under their particular circumstances.

U.S. Holders that receive distributions of additional ADSs or Class A ordinary shares or rights to subscribe for ADSs or Class A ordinary shares as part of a pro rata distribution to all our shareholders generally will not be subject to U.S. federal income tax in respect of the distributions.

### ***Taxation of Dispositions of ADSs or Class A Ordinary Shares***

Subject to the discussion below under “—Passive Foreign Investment Company Rules,” upon a sale, exchange or other taxable disposition of the ADSs or Class A ordinary shares, U.S. Holders will realize gain or loss for U.S. federal income tax purposes in the amount equal to the difference between the amount realized on the disposition and the U.S. Holder’s adjusted tax basis in the ADSs or Class A ordinary shares. Such gain or loss will be capital gain or loss and generally will be long-term capital gain or loss if the ADS or Class A ordinary shares have been held for more than one year. Long-term capital gain realized by a non-corporate U.S. Holder generally is subject to taxation at a preferential rate. The deductibility of capital losses is subject to limitations.

Gain, if any, realized by a U.S. Holder on the sale or other disposition of the ADSs or Class A ordinary shares generally will be treated as U.S. source income for U.S. foreign tax credit purposes. Under the new foreign tax credit requirements recently adopted by the IRS, any PRC tax imposed on the sale or other disposition of the ADSs or Class A ordinary shares generally will not be treated as a creditable tax for U.S. foreign tax credit purposes except in the case of a U.S. Holder that is eligible for, and properly elects to claim, the benefits of the Treaty. If the PRC tax is not a creditable tax or claimed as a credit by the U.S. holder pursuant to the Treaty, the tax would reduce the amount realized on the sale or other disposition of the ADSs or Class A ordinary shares even if the U.S. Holder has elected to claim a foreign tax credit for other taxes in the same year. In the event that gain from the disposition of the ADSs or Class A ordinary shares is subject to tax in the PRC, and a U.S. Holder is eligible for the benefits of the Treaty, such holder may elect to treat such gain as PRC source gain under the Treaty. If no such election is made by a U.S. Holder that is eligible for the benefits of the Treaty, such a U.S. Holder that does not receive significant foreign source income from other sources may not be able to derive effective U.S. foreign tax credit benefits in respect of such PRC tax. U.S. Holders should consult their own tax advisors regarding the application of the foreign tax credit rules to their investment in, and disposition of, the ADSs or Class A ordinary shares.

Deposits and withdrawals of Class A ordinary shares by U.S. Holders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

### ***Passive Foreign Investment Company Rules***

Special U.S. tax rules apply to companies that are considered to be PFICs. We will be classified as a PFIC in a particular taxable year if either

- 75% or more of our gross income for the taxable year is passive income; or
- 50% or more of the value of our assets (generally determined on the basis of a quarterly average) is attributable to assets that produce or are held for the production of passive income.

For this purpose, passive income generally includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person) and the excess of gains over losses from the disposition of assets that produce passive income. However, rents derived in the active conduct of a trade or business and received from an unrelated party are considered active income for these purposes. Goodwill is treated as an active asset under the PFIC rules to the extent attributable to activities that produce active income. Cash generally is a passive asset for these purposes. If we own at least 25% (by value) of the stock of another corporation, for purposes of determining whether we are a PFIC, we will be treated as owning our proportionate share of the other corporation’s assets and receiving our proportionate share of the other corporation’s income.

Based on our financial statements, the composition of our income and assets, the manner in which we conduct our business, the relevant market data and our current expectations regarding the value and nature of our assets and the sources and nature of our income, we believe there is a significant risk that we were a PFIC in our taxable year ending September 30, 2022. Further, there is a significant risk that we will be a PFIC for our current taxable year and in the foreseeable future. In particular, whether our rental income and any gain from the sale or other disposition of rental property is considered active for purposes of these tests depends upon whether our employees conduct sufficient marketing or other activities with respect to the rented properties in each taxable year to meet the requirements for an active rental business under applicable Treasury regulations. The PFIC tests must be applied each year.

In the event that we are classified as a PFIC in any year during which a U.S. Holder holds our Class A ordinary shares or ADSs and such U.S. Holder does not make a mark-to-market election, as described below, the U.S. Holder will be subject to a special tax at ordinary income tax rates on “excess distributions,” including certain distributions by us (generally, any distributions that you receive in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or the U.S. Holder’s holding period for the Class A ordinary shares or ADSs) and gain that the U.S. Holder recognizes on the sale of our ordinary shares or ADSs. Under these rules (a) the excess distribution or gain will be allocated ratably over the U.S. Holder’s holding period, (b) the amount allocated to the current taxable year and any taxable year prior to the first taxable year in which we are a PFIC will be taxed as ordinary income, and (c) the amount allocated to each of the other taxable years will be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit will be imposed with respect to the resulting tax attributable to each such other taxable year. Further, if we are a PFIC for any year during which a U.S. Holder holds our Class A ordinary shares or ADSs, we generally will continue to be treated as a PFIC for all subsequent years during which such U.S. Holder holds our Class A ordinary shares or ADSs unless we cease to be a PFIC and the U.S. Holder makes a special “purging” election on IRS Form 8621. Additionally, dividends paid by us will not be eligible for the special reduced rate of taxes described above under “—Taxation of Dividends.” Classification as a PFIC may also have other adverse tax consequences, including, in the case of individuals, the denial of a step up in the basis of his or her Class A ordinary shares or ADSs at death.

If we are a PFIC for any taxable year during which a U.S. Holder holds our ADSs or Class A ordinary shares and any of our non-U.S. subsidiaries is also a PFIC, such U.S. Holder will be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of the PFIC rules. U.S. Holders should consult their own tax advisors about the possible application of the PFIC rules to any of our subsidiaries.

A U.S. Holder may be subject to alternative treatment by electing to mark its ADSs to market, provided the ADSs are treated as “marketable stock.” The ADSs generally will be treated as marketable stock if the ADSs are “regularly traded” on a “qualified exchange or other market” (which includes the NASDAQ Global Market). It should also be noted that the Class A ordinary shares are not listed on the NASDAQ Global Market. Consequently, a U.S. Holder that holds Class A ordinary shares that are not represented by ADSs may not be eligible to make a mark-to-market election. If the U.S. Holder makes a mark-to-market election, (i) the U.S. Holder will be required in any year in which we are a PFIC to include as ordinary income the excess of the fair market value of its ADSs at the end of the U.S. Holder’s taxable year over the U.S. Holder’s basis in those ADSs and (ii) the U.S. Holder will be entitled to deduct as an ordinary loss in each such year the excess of the U.S. Holder’s basis in its ADSs over their fair market value at the end of the U.S. Holder’s taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A U.S. Holder’s adjusted tax basis in its ADSs will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. In addition, any gain the U.S. Holder recognizes upon the sale of the U.S. Holder’s ADSs in a year in which we are a PFIC will be taxed as ordinary income in the year of sale, and any loss the U.S. Holder recognizes upon the sale will be treated as ordinary loss, but only to the extent of the net amount of previously included income as a result of the mark to mark election. However, because a mark-to-market election cannot be made for equity interests in any lower-tier PFICs of the Company, a U.S. Holder would continue to be subject to the excess distribution rules with respect to subsidiaries of the Company that are PFICs, any distributions received by the Company from a subsidiary that is a PFIC, and any gain recognized by the Company upon a sale of equity interest of a subsidiary that is a PFIC, even if a mark-to-market election has been made by the U.S. Holder with respect to the ADSs. The interaction of the mark-to-market election rules and the rules governing lower-tier PFICs is complex and uncertain, and U.S. Holders should therefore consult their own tax advisors regarding the mark-to-market election as well as the application of the PFIC rules to their ownership of the ADSs.

ADSs will be considered to be regularly traded (i) during the current calendar year if they are traded, other than in de minimis quantities, on at least 1/6 of the days remaining in the quarter in which offering of the ADSs occurs, and on at least 15 days during each remaining quarter of the calendar year; and (ii) during any other calendar year if they are traded, other than in de minimis quantities, on at least 15 days during each calendar quarter. Once made, the election cannot be revoked without the consent of the IRS unless the shares cease to be marketable.

In some cases, a shareholder of a PFIC may also be subject to alternative treatment by making a “qualified electing fund” (“QEF”) election to be taxed currently on its share of the PFIC’s undistributed income. To make a QEF election, the PFIC must provide shareholders with certain information compiled according to U.S. federal income tax principles. We do not intend to make available the information necessary to make a QEF election, and such election therefore will not be available to you.

A U.S. Holder that owns an equity interest in a PFIC must annually file IRS Form 8621. A failure to file one or more of these forms as required may toll the running of the statute of limitations in respect of each of the U.S. Holder’s taxable years for which such form is required to be filed. As a result, the taxable years with respect to which the U.S. Holder fails to file the form may remain open to assessment by the IRS indefinitely, until the form is filed.

U.S. Holders should consult their own tax advisors regarding the U.S. federal income tax considerations discussed above and the desirability of making a mark-to-market election.

### ***Foreign Financial Asset Reporting***

Certain U.S. Holders who are individuals that own “specified foreign financial assets” with an aggregate value in excess of US\$50,000 on the last day of the taxable year or US\$75,000 at any time during the taxable year are generally required to file an information statement along with their tax returns, currently on IRS Form 8938, with respect to such assets. “Specified foreign financial assets” include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which would include the Class A ordinary shares and the ADSs) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. Holders that fail to report the required information could be subject to substantial penalties. In addition, the statute of limitations for assessment of tax would be suspended, in whole or part. Prospective investors should consult their own tax advisors concerning the application of these rules to their investment in the Class A ordinary shares or the ADSs, including the application of the rules to their particular circumstances.

### ***Backup Withholding and Information Reporting***

Dividends paid on, and proceeds from the sale or other disposition of, the ADSs or Class A ordinary shares that are paid to a U.S. Holder generally may be subject to the information reporting requirements of the Code and may be subject to backup withholding unless the U.S. Holder provides an accurate taxpayer identification number and makes any other required certification or otherwise establishes an exemption. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a refund or credit against the U.S. Holder’s U.S. federal income tax liability, provided the required information is furnished to the IRS in a timely manner.

A holder that is a non-U.S. corporation or a non-resident alien individual may be required to comply with certification and identification procedures in order to establish its exemption from information reporting and backup withholding.

#### **F. Dividends and Paying Agents**

Not applicable.

#### **G. Statement by Experts**

Not applicable.

#### **H. Documents on Display**

We have filed a registration statement, including relevant exhibits, with the SEC on Form F-1 (Registration No. 333-234112) under the Securities Act to register the issuance and sale of our ordinary shares represented by ADSs in relation to our initial public offering. We have also filed a related registration statement on Form F-6 (Registration No. 333-234252) with the SEC to register the ADSs. We have also filed a registration statement on Form F-3 (File Number 333-258187) with the SEC.

We are subject to periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Accordingly, we are required to file reports, including annual reports on Form 20-F, and other information with the SEC. All information filed with the SEC can be obtained over the internet at the SEC's website at [www.sec.gov](http://www.sec.gov) or inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of documents, upon payment of a duplicating fee, by writing to the SEC.

As a foreign private issuer, we are exempt under the Exchange Act from, among other things, the rules prescribing the furnishing and content of proxy statements, and our executive officers, directors and principal shareholders are exempt from the reporting and short swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we intend to furnish the depositary with our annual reports, which will include a review of operations and annual audited consolidated combined financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders. The depositary will make such notices, reports and communications available to holders of ADSs and, if we so request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depositary from us.

#### **I. Subsidiary Information**

Not applicable.

### **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **Interest Rate Risk**

Our exposure to interest rate risk primarily relates to the interest rates for capital leases, rental installment loans and other financing arrangement, and bank borrowings. The interest rate risk may result from many factors, including government monetary and tax policies, domestic and international economic and political considerations, and other factors that are beyond our control. We may incur additional borrowings or other facilities in the future. Significant increases in interest rates may have an adverse impact on our earnings if we are unable to source rental apartments with rental rates high enough to offset the increase in interest rates for the rental installment loans, capital leases and other financing arrangement, and bank borrowings.

The sensitivity analysis below has been determined based on the exposure to interest rates for interest bearing bank balances and other borrowings with variable interest rates as of September 30, 2022. The analysis is prepared assuming that those balances outstanding as of September 30, 2019 and 2020 were outstanding for the whole financial year. A 10% increase or decrease which represents the management's assessment of the reasonably possible change in interest rates is used. Assuming no change in the outstanding balance of our existing interest bearing bank balances and other borrowings with variable interest rates as of September 30, 2022, a 10% increase or decrease in each applicable interest rate would add or deduct RMB6.7 million (US\$0.9 million) to our interest expense in FY 2022.

This analysis does not consider the effects of the reduced level of overall economic activity that could exist in such an environment. In addition, in the event of a change of such magnitude, we would consider taking actions to mitigate our exposure to the change. However, because of the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in our capital structure. We have not used any derivative financial instruments to manage our interest risk exposure.



## Foreign Exchange Risk

The value of Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions and the foreign exchange policy adopted by the PRC government. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Following the removal of the U.S. dollar peg, the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the PRC government has allowed the Renminbi to appreciate slowly against the U.S. dollar again, and it has appreciated more than 10% since June 2010. On August 11, 2015, the PBOC announced plans to improve the central parity rate of the RMB against the U.S. dollar by authorizing market makers to provide parity to the China Foreign Exchange Trading Center operated by the PBOC with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign currencies as well as changes in exchange rates of major international currencies. Effective from October 1, 2016, the International Monetary Fund added Renminbi to its Special Drawing Rights currency basket. Such change and additional future changes may increase the volatility in the trading value of the Renminbi against foreign currencies. The (depreciation) /appreciation of the U.S. dollar against the Renminbi was approximately (5.0)%, (5.1)% and 10.4% in FY 2020, FY 2021 and FY 2022, respectively. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. Accordingly, it is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and the U.S. dollar in the future.

As substantially all of our revenues and expenses are denominated in Renminbi, we do not believe that we currently have any significant direct foreign exchange risk, and have not used any derivative financial instruments to hedge exposure to such risk. Although our exposure to foreign exchange risks should be limited in general, the value of your investment in our ADSs will be affected by the exchange rate between U.S. dollar and Renminbi because the value of our business is effectively denominated in Renminbi, while our ADSs will be traded in U.S. dollars. In addition, the reporting currency of our company is Renminbi, the functional currency of our company is U.S. dollars, and the functional currency of our subsidiaries is their local currencies, which is Renminbi for our operating subsidiaries. Any significant revaluation of U.S. dollars may materially and adversely affect our earnings and shareholders' deficits in Renminbi given that a portion of our cash and cash equivalents are denominated in U.S. dollars. A 10% depreciation of U.S. dollars against Renminbi may increase loss and shareholders' deficits by RMB145.1 thousand (US\$20.3 thousand) for FY 2022.

## Liquidity Risk

We manage liquidity risk by closely and continuously monitoring our financial positions. We aim to maintain sufficient cash flows with internally generated from our operation, borrowings from financial institutions, issuance of convertible notes and principal shareholder's financial support. We also review forecasted cash flows on an on-going basis.

## ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

### A. Debt Securities

Not applicable.

### B. Warrants and Rights

Not applicable.

### C. Other Securities

Not applicable.

## D. American Depositary Shares

### Fees and Expenses

An ADS holder will be required to pay the following fees under the terms of the deposit agreement:

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***Persons depositing or withdrawing shares or ADS holders must pay:***

US\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

US\$.05 (or less) per ADS

A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs

US\$.05 (or less) per ADS per calendar year

Registration or transfer fees

Expenses of the depositary

Taxes and other governmental charges the depositary or the custodian has to pay on any ADSs or shares underlying ADSs, such as stock transfer taxes, stamp duty or withholding taxes

Any charges incurred by the depositary or its agents for servicing the deposited securities

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***For:***

Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property

Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates

Any cash distribution to ADS holders

Distribution of securities distributed to holders of deposited securities (including rights) that are distributed by the depositary to ADS holders

Depositary services

Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares

Cable (including SWIFT) and facsimile transmissions (when expressly provided in the deposit agreement)

Converting foreign currency to U.S. dollars

As necessary

As necessary

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or by charging the book entry system accounts of participants acting for them. The depositary may collect any of its fees by deduction from any cash distribution payable (or by selling a portion of securities or other property distributable) to ADS holders that are obligated to pay those fees. The depositary may generally refuse to provide fee attracting services until its fees for those services are paid.

From time to time, the depositary may make payments to us to reimburse us for costs and expenses generally arising out of establishment and maintenance of the ADS program, waive fees and expenses for services provided to us by the depositary or share revenue from the fees collected from ADS holders. In performing its duties under the deposit agreement, the depositary may use brokers, dealers, foreign currency dealers or other service providers that are owned by or affiliated with the depositary and that may earn or share fees, spreads or commissions. For FY 2020, we received reimbursement of US\$0.7 million from the depositary.

The depositary may convert currency itself or through any of its affiliates and, in those cases, acts as principal for its own account and not as agent, advisor, broker or fiduciary on behalf of any other person and earns revenue, including, without limitation, transaction spreads, that it will retain for its own account. The revenue is based on, among other things, the difference between the exchange rate assigned to the currency conversion made under the deposit agreement and the rate that the depositary or its affiliate receives when buying or selling foreign currency for its own account. The depositary makes no representation that the exchange rate used or obtained in any currency conversion under the deposit agreement will be the most favorable rate that could be obtained at the time or that the method by which that rate will be determined will be the most favorable to ADS holders, subject to the depositary's obligations under the deposit agreement. The methodology used to determine exchange rates used in currency conversions is available upon request.

### **Payment of Taxes**

You will be responsible for any taxes or other governmental charges payable on your ADSs or on the deposited securities represented by any of your ADSs. The depositary may refuse to register any transfer of your ADSs or allow you to withdraw the deposited securities represented by your ADSs until those taxes or other charges are paid. It may apply payments owed to you or sell deposited securities represented by your ADSs to pay any taxes owed and you will remain liable for any deficiency. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to ADS holders any proceeds, or send to ADS holders any property, remaining after it has paid the taxes.

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS****Material Modifications to the Rights of Security Holders**

See “Item 10. Additional Information—B. Memorandum and Articles of Association” for a description of the rights of securities holders, which remain unchanged.

**Use of Proceeds**

The following “Use of Proceeds” information relates to the registration statement on Form F-1, as amended (File No. 333-234112) in relation to our initial public offering, which was declared effective by the SEC on November 4, 2019. In November 2019, we completed our initial public offering in which we issued and sold an aggregate of 2,700,000 ADSs (excluding ADSs offered in the exercise of the over allotment options), representing 81,000,000 Class A ordinary shares. In November 2019, the underwriters for our initial public offering exercised all of their over allotment options to purchase an addition of 405,000 ADSs. The net proceeds we received from the initial public offering and the exercise of over allotment options totaled US\$44.5 million. Morgan Stanley & Co. LLC and China International Capital Corporation Hong Kong Securities Limited were the representatives of the underwriters for our initial public offering.

For the period from November 4, 2019, the date that the registration statement on Form F-1 was declared effective by the SEC, to the date of this annual report, the total expenses incurred for our company’s account in connection with our initial public offering was approximately US\$6.4 million, which included US\$3.9 million in underwriting discounts and commissions for the initial public offering and approximately US\$2.5 million in other costs and expenses for our initial public offering. None of the transaction expenses included payments to directors or officers of our company or their associates, persons owning more than 10% or more of our equity securities or our affiliates.

For the period from November 4, 2019, the date that the registration statement on Form F-1 was declared effective by the SEC, to the date of this annual report, we used (i) RMB229.2 million of the net proceeds from our initial public offering to expand our apartment network, primarily consisting of a deposit of approximately RMB200.0 million for the planned acquisition of lease contracts with landlords and tenants and related fixtures and equipment for approximately 47,000 rental units in Sichuan and Chongqing from another rental service company in early 2020, which was eventually used to repurchase our ADSs due to the termination of this transaction, and a deposit of approximately RMB22.5 million to secure the acquisition of lease contracts with landlords and tenants and related fixtures and equipment for certain rental units in Tianjin from another rental service company in December 2019, and (ii) RMB44.2 million of the net proceeds from our initial public offering for general use. We then used the RMB200.0 million returned to us to repurchase ADSs on the open market and the process of transferring the ADSs to our account has completed. None of the net proceeds from the initial public offering were paid, directly or indirectly, to any of our directors or officers or their associates, persons owning 10% or more of our equity securities or our affiliates.

As of the date of this annual report, we have used all proceeds from our initial public offering.

## ITEM 15. CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act.

Based upon that evaluation, our management has concluded that, due to the outstanding material weakness described below, as of September 30, 2022, our disclosure controls and procedures were not effective in ensuring that the information required to be disclosed by us in the reports that we file and furnish under the Exchange Act was recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

### Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for designing, establishing and maintaining a system of internal controls over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act, to provide reasonable assurance that the financial information prepared by us for external purposes is reliable and has been recorded, processed and reported in an accurate and timely manner in accordance with U.S. GAAP. Our board of directors is responsible for ensuring that management fulfills its responsibilities. Because of its inherent limitations, our internal control over financial reporting may not prevent or detect all possible misstatements or frauds. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

In connection with the audits of our consolidated financial statements as of September 30, 2022 and for FY 2022, we and our independent registered public accounting firm identified one material weakness in our internal control over financial reporting. As defined in the standards established by the U.S. Public Company Accounting Oversight Board, a "material weakness" is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness identified relates to lack of sufficient accounting and financial reporting personnel with appropriate knowledge of U.S. GAAP and SEC reporting requirements to (a) formalize and carry out key controls over financial reporting, (b) properly address complex accounting issues and (c) prepare and review consolidated financial statements and related disclosures in accordance with U.S. GAAP and SEC reporting requirements, and lack of a comprehensive accounting policy manual and closing procedure manual for its finance department to convert its primary financial information prepared under accounting principles generally accepted in the PRC into U.S. GAAP.

We established an audit committee in November 2019. We have also engaged an internal control consultant to help us establish and improve our internal controls, hired additional accounting staff with appropriate understanding of U.S. GAAP and SEC reporting requirements, trained the existing financial reporting personnel and engaged an independent third party consultant to assist in establishing processes and oversight measures to comply with the requirements of Sarbanes-Oxley Act. We are in the process of implementing a number of measures to address the material weakness that has been identified, including formalizing a set of comprehensive U.S. GAAP accounting manuals, hiring more qualified internal auditors to strengthen our overall governance, providing relevant training to our accounting personnel and upgrading our financial reporting system to streamline monthly and year-end closings and integrate financial and operating reporting systems. We also plan to take other steps to strengthen our internal control over financial reporting, including enhancing our internal audit function independently led by audit committee. However, we cannot assure you that we will remediate our material weakness in a timely manner.

Because of the material weakness identified above, our management has concluded that our internal control over financial reporting was not effective as of September 30, 2022.

## Attestation report of the registered public accounting firm

Since we are an “emerging growth company” as defined under the JOBS Act, we are exempt from the requirement to comply with the auditor attestation requirements that our independent registered public accounting firm attest to and report on the effectiveness of our internal control structure and procedures for financial reporting.

## Changes in Internal Control over Financial Reporting

There was no changes in our internal control over financial reporting that occurred in FY 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Chen Chen, our independent director (under the standards set forth under Rule 5605(a)(2) of the NASDAQ Marketplace Rules and Rule 10A-3 under the Exchange Act) is an “audit committee financial expert.”

## ITEM 16B. CODE OF ETHICS

Our board of directors adopted a code of business conduct and ethics that applies to our directors, officers and employees in September 2019. We have posted a copy of our code of business conduct and ethics on our website at <https://ir.qk365.com/static-files/f3b7f9ae-914c-4059-9f2f-ebf9a7268429>, where you can obtain a copy without charge.

## ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Marcum Asia CPAs LLP, our principal external auditors, for the periods indicated.

	FY 2021 RMB	FY 2022 RMB (in thousands)	US\$
Audit fees <sup>(1)</sup>	3,608	4,695	660
<b>Total</b>	3,608	4,695	660

(1) Audit fees include the aggregate fees incurred in each of the fiscal years listed above for professional services rendered by our principal auditors for the audit or review of our annual financial statements or quarterly financial information and review of documents filed with the SEC.

The policy of our audit committee is to pre-approve all audit and non-audit services provided by Marcum Asia CPAs LLP, including audit services, audit related services, tax services and other services as described above, other than those for *de minimis* services which are approved by the audit committee prior to the completion of the audit.

## ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Period	(a) Total Number of Class A Ordinary Shares Purchased	(b) Average Price Paid per Class A Ordinary Shares (US\$)	(c) Total Number of Class A Ordinary Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Approximate Dollar Value of Class A Ordinary Shares That May Yet Be Purchased Under the Plans or Programs
April 1, 2021 through April 30, 2021	77,100,000(1)	0.00001	—	—
Total	77,100,000(1)	0.00001	—	—

- (1) On April 23, 2021, we issued 77,100,000 Class A ordinary shares to a third party, and repurchased all of these shares and held them as treasury shares on the same day, for the charge to secure the payment and other obligations of our subsidiaries, as borrowers, under certain loan agreements with SHRB, as lender, with an aggregate outstanding principal amount of RMB384.3 million.

**ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT**

On December 3, 2020, we dismissed Deloitte Touche Tohmatsu Certified Public Accountants LLP (“Deloitte”), as our independent registered public accounting firm, effective immediately, and engaged Marcum Bernstein & Pinchuk LLP (now as Marcum Asia CPAs LLP) as our independent registered public accounting firm in connection with the audit of our consolidated financial statements as of September 30, 2020 and for FY 2020, effective as of December 3, 2020. Our decision to dismiss Deloitte and engage Marcum Bernstein & Pinchuk LLP (now as Marcum Asia CPAs LLP) was approved by the audit committee of our board of directors on November 11, 2020.

Deloitte’s audit report on our consolidated financial statements for the FY 2019 did not contain an adverse opinion or a disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles. Deloitte did not audit any financial statements of our company as of any date or for any period subsequent to September 30, 2019. For more details, please refer to our annual report for FY 2021.

**ITEM 16G. CORPORATE GOVERNANCE**

As a Cayman Islands company listed on the NASDAQ Global Market, we are subject to the NASDAQ Global Market corporate governance listing standards. However, NASDAQ Global Market rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the NASDAQ Global Market corporate governance listing standards. We opt to follow our home country practices and rely on certain exemptions provided by the NASDAQ Global Market corporate governance listing standards to a foreign private issuer, including exemptions from the requirements to have:

- majority of independent directors on our board of directors;
- a minimum of three members in our audit committee;
- only independent directors being involved in the selection of director nominees and determination of executive officer compensation;
- regularly scheduled executive sessions of independent directors;

- a quorum of annual general meeting which is no less than 33 1/3% of our outstanding shares; and
- shareholder approval prior to an issuance of securities in connection with (i) acquisition of the stock or assets of another company, (ii) change of control, (iii) equity compensation, and (iv) transactions other than public offerings.

As a result of our reliance on the corporate governance exemptions available to foreign private issuers, holders of our ADSs will not have the same protection afforded to shareholders of companies that are subject to all of NASDAQ Global Market corporate governance requirements.

**ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

**ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

Not applicable.



**ITEM 17. FINANCIAL STATEMENTS**

We have elected to provide financial statements pursuant to Item 18.

**ITEM 18. FINANCIAL STATEMENTS**

Our consolidated financial statements are included at the end of this annual report.

**ITEM 19. EXHIBITS**

Exhibit Number	Description of Document
1.1	<a href="#"><u>Form of Third Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated herein by reference to Exhibit 3.2 to the registration statement on Form F-1 (File No. 333-234112), as amended, initially filed with the Securities and Exchange Commission on October 7, 2019)</u></a>
2.1	<a href="#"><u>Registrant's Specimen American Depositary Receipt (included in Exhibit 2.3)</u></a>
2.2	<a href="#"><u>Registrant's Specimen Certificate for Class A ordinary shares (incorporated herein by reference to Exhibit 4.2 to the registration statement on Form F-1 (File No. 333-234112), as amended, initially filed with the Securities and Exchange Commission on October 7, 2019)</u></a>
2.3	<a href="#"><u>Form of Deposit Agreement, among the Registrant, the depositary and owners and holders of American Depositary Receipts (incorporated herein by reference to Exhibit (a) to the registration statement on Form F-6 (File No. 333-234252), as amended, initially filed with the Securities and Exchange Commission on October 18, 2019).</u></a>
2.4	<a href="#"><u>Description of Securities (incorporated herein by reference to Exhibit 2.4 to the annual report on Form 20-F (File No. 001-39111) filed with the Securities and Exchange Commission on February 16, 2021)</u></a>
4.1	<a href="#"><u>2019 Share Incentive Plan of the Registrant (incorporated herein by reference to Exhibit 10.9 to the registration statement on Form F-1 (File No. 333-234112), as amended, initially filed with the Securities and Exchange Commission on October 7, 2019)</u></a>
4.2	<a href="#"><u>Form of Indemnification Agreement between the Registrant and its directors and executive officers (incorporated herein by reference to Exhibit 10.1 to the registration statement on Form F-1 (File No. 333-234112), as amended, initially filed with the Securities and Exchange Commission on October 7, 2019)</u></a>
4.3	<a href="#"><u>English translation of the form of Employment Agreement between the Registrant and its executive officers (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form F-1 (File No. 333-234112), as amended, initially filed with the Securities and Exchange Commission on October 7, 2019)</u></a>
4.4	<a href="#"><u>English translation of the executed equity pledge agreement entered into by and among Q&amp;K Investment Consulting, Q&amp;K E-commerce and the shareholders of Q&amp;K E-commerce dated April 21, 2015 (incorporated herein by reference to Exhibit 10.3 to the registration statement on Form F-1 (File No. 333-234112), as amended, initially filed with the Securities and Exchange Commission on October 7, 2019)</u></a>
4.5	<a href="#"><u>English translation of the executed shareholder voting proxy agreement entered into by and among Q&amp;K Investment Consulting, Q&amp;K E-commerce, Xiamen Siyuan Investment Management Co., Ltd., Guangjie Jin and Bing Xiao dated April 21, 2015 (incorporated herein by reference to Exhibit 10.4 to the registration statement on Form F-1 (File No. 333-234112), as amended, initially filed with the Securities and Exchange Commission on October 7, 2019)</u></a>

- 4.6 [English translation of the Spouse Consent Letter signed by the spouse of Mr. Bing Xiao dated April 14, 2015 \(incorporated herein by reference to Exhibit 10.5 to the registration statement on Form F-1 \(File No. 333-234112\), as amended, initially filed with the Securities and Exchange Commission on October 7, 2019\)](#)
- 4.7 [English translation of the executed exclusive technology service agreement entered into by and between Q&K Investment Consulting and Q&K E-commerce dated April 21, 2015 \(incorporated herein by reference to Exhibit 10.6 to the registration statement on Form F-1 \(File No. 333-234112\), as amended, initially filed with the Securities and Exchange Commission on October 7, 2019\)](#)
- 4.8 [English translation of the executed exclusive option agreement entered into by and among Q&K Investment Consulting, Q&K E-commerce and the shareholders of Q&K E-commerce \(incorporated herein by reference to Exhibit 10.7 to the registration statement on Form F-1 \(File No. 333-234112\), as amended, initially filed with the Securities and Exchange Commission on October 7, 2019\)](#)
- 4.9 [English translation of the executed strategic cooperation agreement entered into by and between SHRB and Shanghai Qingke Public Rental Housing Leasing Management Co., Ltd. dated February 21, 2019 \(incorporated herein by reference to Exhibit 10.8 to the registration statement on Form F-1 \(File No. 333-234112\), as amended, initially filed with the Securities and Exchange Commission on October 7, 2019\)](#)
- 4.10 [Loan agreement between the Registrant and Azure Investments Ltd. dated December 18, 2019 \(incorporated herein by reference to Exhibit 4.10 to the annual report on Form 20-F \(File No. 001-39111\) initially filed with the Securities and Exchange Commission on February 18, 2020 and amended on February 21, 2020\)](#)
- 4.11 [Asset purchase agreement between the Registrant and Great Alliance Co-living Limited dated July 22, 2020 \(incorporated herein by reference to Exhibit 4.11 to the annual report on Form 20-F \(File No. 001-39111\) filed with the Securities and Exchange Commission on February 16, 2021\)](#)
- 4.12 [Side Letter to the Asset purchase agreement between the Registrant and Great Alliance Co-living Limited dated July 22, 2020 \(incorporated herein by reference to Exhibit 4.12 to the annual report on Form 20-F \(File No. 001-39111\) filed with the Securities and Exchange Commission on February 16, 2021\)](#)
- 4.13 [Share subscription agreement between the Registrant and Great Alliance Co-living Limited dated July 22, 2020 \(incorporated herein by reference to Exhibit 4.13 to the annual report on Form 20-F \(File No. 001-39111\) filed with the Securities and Exchange Commission on February 16, 2021\)](#)
- 4.14 [Share subscription agreement between the Registrant and Beautiful House Limited dated July 22, 2020 \(incorporated herein by reference to Exhibit 4.14 to the annual report on Form 20-F \(File No. 001-39111\) filed with the Securities and Exchange Commission on February 16, 2021\)](#)
- 4.15 [English translation of the executed asset transfer agreement between Chengdu Liwu Apartment Management Co., Ltd. and Beijing LianULife Technology Co., Ltd., among others, dated July 22, 2020 \(incorporated herein by reference to Exhibit 4.15 to the annual report on Form 20-F \(File No. 001-39111\) filed with the Securities and Exchange Commission on February 16, 2021\)](#)
- 4.16 [English translation of the contracted operation agreement among Chengdu Liwu Apartment Management Co., Ltd., Beijing Yihongyue Real Estate Co., Ltd. and Guang Han dated July 22, 2020 \(incorporated herein by reference to Exhibit 4.16 to the annual report on Form 20-F \(File No. 001-39111\) filed with the Securities and Exchange Commission on February 16, 2021\)](#)
- 4.17 [Convertible notes and warrant purchase agreement between the Registrant and Key Space \(S\) Pte Ltd, dated July 22, 2020 \(incorporated herein by reference to Exhibit 4.17 to the annual report on Form 20-F \(File No. 001-39111\) filed with the Securities and Exchange Commission on February 16, 2021\)](#)

Exhibit Number	Description of Document
4.18	<a href="#"><u>Amendment No. 1 to the convertible notes and warrant purchase agreement between the Registrant and Key Space (S) Pte Ltd, dated July 29, 2020 (incorporated herein by reference to Exhibit 4.18 to the annual report on Form 20-F (File No. 001-39111) filed with the Securities and Exchange Commission on February 16, 2021)</u></a>
4.19	<a href="#"><u>Convertible notes and warrant purchase agreement between the Registrant and Veneto Holdings Ltd., dated July 22, 2020 (incorporated herein by reference to Exhibit 4.19 to the annual report on Form 20-F (File No. 001-39111) filed with the Securities and Exchange Commission on February 16, 2021)</u></a>
4.20	<a href="#"><u>Share charge agreement between the Registrant and Shanghai Huarui Bank Co., Ltd. dated April 23, 2021(incorporated herein by reference to Exhibit 4.20 to the annual report on Form 20-F (File No. 001-39111) filed with the Securities and Exchange Commission on February 15, 2022)</u></a>
4.21	<a href="#"><u>English translation of the equity transfer agreement of Shanghai Qingke Investment Consulting Co., Ltd. between Qingke (China) Limited and Wangxiancai Limited dated October 26, 2021 (incorporated herein by reference to Exhibit 4.21 to the annual report on Form 20-F (File No. 001-39111) filed with the Securities and Exchange Commission on February 15, 2022)</u></a>
4.22	<a href="#"><u>Amendment No.1 dated May 25, 2022, to the Series 1 Convertible Note Due 2024 Dated July 29, 2020, between the Issuer and Key Space (S) Pte Ltd (incorporated herein by reference to Exhibit 99.2 to the Schedule-13D (File No. 005-91370) filed with the Securities and Exchange Commission on May 26, 2022)</u></a>
4.23	<a href="#"><u>Amendment No.1 dated May 25, 2022, to Q&amp;K Warrant to Purchase ADSs Dated July 29, 2020, between the Issuer and Key Space (S) Pte Ltd (incorporated herein by reference to Exhibit 99.3 to the Schedule-13D (File No. 005-91370) filed with the Securities and Exchange Commission on May 26, 2022)</u></a>
4.24	<a href="#"><u>Amendment No. 2 dated May 25, 2022, to the convertible notes and warrant purchase agreement dated July 22, 2020, between the Issuer and Key Space (S) Pte Ltd (incorporated herein by reference to Exhibit 99.4 to the Schedule-13D (File No. 005-91370) filed with the Securities and Exchange Commission on May 26, 2022)</u></a>
4.25	<a href="#"><u>Subscription agreement dated May 25, 2022, between the Issuer and Azure Investments Ltd. (incorporated herein by reference to Exhibit 99.2 to the Schedule-13D (File No. 005-91370) filed with the Securities and Exchange Commission on June 3, 2022)</u></a>
4.26	<a href="#"><u>Amendment No.1 dated May 25, 2022, to the Series 1 Convertible Note Due 2024 Dated July 29, 2020, between the Issuer and Veneto Holdings Ltd. (incorporated herein by reference to Exhibit 99.2 to the Schedule-13D (File No. 005-91370) filed with the Securities and Exchange Commission on June 6, 2022)</u></a>
4.27	<a href="#"><u>Amendment No.1 dated May 25, 2022, to Q&amp;K Warrant to Purchase ADSs Dated July 29, 2020, between the Issuer and Veneto Holdings Ltd.(incorporated herein by reference to Exhibit 99.3 to the Schedule-13D (File No. 005-91370) filed with the Securities and Exchange Commission on June 6, 2022)</u></a>
4.28	<a href="#"><u>Amendment No. 1 dated May 25, 2022, to the convertible notes and warrant purchase agreement dated July 22, 2020, between the Issuer and Veneto Holdings Ltd. (incorporated herein by reference to Exhibit 99.4 to the Schedule-13D (File No. 005-91370) filed with the Securities and Exchange Commission on June 6, 2022)</u></a>
8.1	<a href="#"><u>Significant Subsidiaries of the Registrant (incorporated herein by reference to Exhibit 8.1 to the annual report on Form 20-F (File No. 001-39111) filed with the Securities and Exchange Commission on February 15, 2022)</u></a>
11.1	<a href="#"><u>Code of Business Conduct and Ethics of the Registrant (incorporated herein by reference to Exhibit 99.1 to the registration statement on Form F-1 (File No. 333-234112), as amended, initially filed with the Securities and Exchange Commission on October 7, 2019)</u></a>
12.1*	<a href="#"><u>Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>

Exhibit Number	Description of Document
12.2*	<a href="#">Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
13.1**	<a href="#">Certification by Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
13.2**	<a href="#">Certification by Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
15.1*	<a href="#">Consent of Marcum Asia CPAs LLP, independent registered public accounting firm</a>
15.2*	<a href="#">Consent of JunHe LLP</a>
101.INS*	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document)

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\* Filed herewith

\*\* Furnished herewith

## SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

FLJ Group Limited

By: /s/ Chengcai Qu  
Name: Chengcai Qu  
Title: Chairman of the Board of Directors, Chief Executive Officer, Chief Operating Officer and Vice President

Date: January 20, 2023

**FLJ GROUP LIMITED**  
**(formerly known as “Q&K INTERNATIONAL GROUP LIMITED”)**  
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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of  
FLJ Group Limited (formerly Q&K International Group Limited)

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of FLJ Group Limited, its subsidiaries and consolidated variable interest entities (the “Group”) as of September 30, 2022 and 2021, the related consolidated statements of comprehensive (loss) income, changes in shareholders’ deficit and cash flows for each of the three years in the period ended September 30, 2022, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as of September 30, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2022, in conformity with accounting principles generally accepted in the United States of America.

### Explanatory Paragraph—Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Group will continue as a going concern. As more fully described in Note 2, the Group has a significant working capital deficiency, has incurred significant losses and needs to raise additional funds to meet its obligations and sustain its operations. These conditions raise substantial doubt about the Group’s ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### Basis for Opinion

These financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on the Group’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Group is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Marcum Asia CPAs LLP

Marcum Asia CPAs LLP

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We have served as the Group’s auditor since 2020

New York, NY  
January 20, 2023

**FLJ GROUP LIMITED**  
**(formerly known as “Q&K INTERNATIONAL GROUP LIMITED”)**  
**CONSOLIDATED BALANCE SHEETS**  
**(Renminbi and USD in thousands, except for share and per share data, unless otherwise stated)**

	As of September 30,		
	2021	2022	
	RMB	RMB	USD
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	16,317	2,772	390
Restricted cash	2,935	106	15
Accounts receivable, net	370	752	106
Amounts due from related parties	201	—	—
Prepaid rent and deposit	571	—	—
Advances to suppliers	12,933	8,501	1,195
Other current assets	143,343	59,029	8,298
<b>Total current assets</b>	<b>176,670</b>	<b>71,160</b>	<b>10,004</b>
Non-current assets:			
Property and equipment, net	38,940	500	70
Intangible assets, net	152,464	13,475	1,894
Other assets	9,556	10,405	1,464
<b>Total non-current assets</b>	<b>200,960</b>	<b>24,380</b>	<b>3,428</b>
<b>Total assets</b>	<b>377,630</b>	<b>95,540</b>	<b>13,432</b>
<b>LIABILITIES AND DEFICIT</b>			
LIABILITIES (including amounts of the consolidated VIEs without recourse to the Group, see Note 2)			
Current liabilities:			
Accounts payable	320,269	122,667	17,244
Amounts due to related parties	—	4,831	679
Deferred revenue	171,157	129,930	18,265
Short-term debt	558,705	110,097	15,477
Rental instalment loans	18,094	15,756	2,215
Deposits from tenants	65,785	38,439	5,404
Contingent liabilities for payable for asset acquisition	164,254	165,033	23,200
Accrued expenses and other current liabilities	1,049,361	81,649	11,480
<b>Total current liabilities</b>	<b>2,347,625</b>	<b>668,402</b>	<b>93,964</b>
Non-current liabilities:			
Long-term debt	201,041	—	—
Convertible note, net	313,870	—	—
<b>Total non-current liabilities</b>	<b>514,911</b>	<b>—</b>	<b>—</b>
<b>Total liabilities</b>	<b>2,862,536</b>	<b>668,402</b>	<b>93,964</b>



**FLJ GROUP LIMITED**  
**(formerly known as “Q&K INTERNATIONAL GROUP LIMITED”)**  
**CONSOLIDATED BALANCE SHEETS**  
**(Renminbi and USD in thousands, except for share and per share data, unless otherwise stated)**

	As of September 30,		
	2021	2022	
	RMB	RMB	USD
Commitments and contingencies (Note 16)			
<b>Deficit:</b>			
Class A Ordinary shares (US\$0.00001 par value per share; 37,500,000,000 and 37,500,000,000 shares authorized; 1,544,097,151 shares issued and 1,466,997,151 shares outstanding as of September 30, 2021, and 25,878,920,464 shares issued and outstanding as of September 30, 2022, respectively)	99	1,727	243
Class B Ordinary shares (US\$0.00001 par value per share; 2,500,000,000 and 2,500,000,000 shares authorized; 180,389,549 shares and nil shares issued and outstanding as of September 30, 2021 and 2022, respectively)	11	—	—
Treasury shares, at cost	(5)	—	—
Additional paid-in capital	1,845,295	2,954,625	415,355
Accumulated deficit	(4,378,690)	(3,558,667)	(500,270)
Accumulated other comprehensive income	38,784	29,453	4,140
<b>Total FLJ Group Limited shareholders' deficit</b>	<b>(2,494,506)</b>	<b>(572,862)</b>	<b>(80,532)</b>
Noncontrolling interest	9,600	—	—
<b>Total deficit</b>	<b>(2,484,906)</b>	<b>(572,862)</b>	<b>(80,532)</b>
<b>Total liabilities and deficit</b>	<b>377,630</b>	<b>95,540</b>	<b>13,432</b>

The accompanying notes are an integral part of these consolidated financial statements.

**FLJ GROUP LIMITED**  
**(formerly known as “Q&K INTERNATIONAL GROUP LIMITED”)**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**  
**(Renminbi and USD in thousands, except for share and per share data, unless otherwise stated)**

	For the years ended September 30,			
	2020	2021	2022	
	RMB	RMB	RMB	USD
Net revenues:				
Rental service	1,105,172	939,169	565,759	79,533
Value-added services and others	102,791	97,037	86,574	12,170
<b>Total net revenues</b>	<b>1,207,963</b>	<b>1,036,206</b>	<b>652,333</b>	<b>91,703</b>
Operating costs and expenses:				
Operating cost (including costs charged by related parties of RMB 47,464, RMB nil and RMB nil for the years ended September 30, 2020, 2021 and 2022, respectively)	(1,203,415 )	(949,654 )	(711,003 )	(99,952 )
Selling and marketing expenses	(63,512 )	(13,115 )	(13 )	(2 )
General and administrative expenses	(102,769 )	(217,108 )	(62,161 )	(8,738 )
Research and development expenses	(24,934 )	(7,768 )	(2,795 )	(393 )
Pre-operation expenses	(14,245 )	—	—	—
Impairment loss on long-lived assets	(846,766 )	(199,575 )	(100,156 )	(14,080 )
Loss from disposal of property and equipment and intangible assets	(468,980 )	(30,173 )	(11,972 )	(1,683 )
Other income (expense), net	15,881	(18,476 )	(8,104 )	(1,140 )
<b>Total operating costs and expenses</b>	<b>(2,708,740 )</b>	<b>(1,435,869 )</b>	<b>(896,204 )</b>	<b>(125,988 )</b>
<b>Loss from operations</b>	<b>(1,500,777 )</b>	<b>(399,663 )</b>	<b>(243,871 )</b>	<b>(34,285 )</b>
Interest expense, net	(130,206 )	(127,300 )	(66,892 )	(9,403 )
Inducement expenses	—	—	(423,686 )	(59,561 )
Gains from deconsolidation of VIE's subsidiaries	—	—	1,554,450	218,521
Debt extinguishment loss	—	(41,964 )	—	—
Foreign exchange loss, net	(62 )	(244 )	—	—
Fair value change of contingent earn-out liabilities	97,417	—	—	—
<b>(Loss) income before income taxes</b>	<b>(1,533,628 )</b>	<b>(569,171 )</b>	<b>820,001</b>	<b>115,272</b>
Income tax expense	(13 )	(31 )	(21 )	(3 )
<b>Net (loss) income</b>	<b>(1,533,641 )</b>	<b>(569,202 )</b>	<b>819,980</b>	<b>115,269</b>
Less: net loss attributable to noncontrolling interests	(49 )	(28 )	(43 )	(6 )
<b>Net loss attributable to FLJ Group Limited's ordinary shareholders</b>	<b>(1,533,592 )</b>	<b>(569,174 )</b>	<b>820,023</b>	<b>115,275</b>
Net (loss) earnings per share attributable to ordinary shareholders of FLJ Group Limited—Basic and diluted	(1.14 )	(0.39 )	0.08	0.01
Weighted average number of ordinary shares used in computing net loss per share—Basic and diluted	1,351,127,462	1,460,692,909	10,258,424,457	10,258,424,457

**FLJ GROUP LIMITED**  
**(formerly known as “Q&K INTERNATIONAL GROUP LIMITED”)**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**  
**(Renminbi and USD in thousands, except for share and per share data, unless otherwise stated)**

	For the years ended September 30,			
	2020	2021	2022	
	RMB	RMB	RMB	USD
<b>Net (loss) income</b>	<b>(1,533,641)</b>	<b>(569,202)</b>	<b>819,980</b>	<b>115,269</b>
<b>Other comprehensive income (expenses), net of tax of nil:</b>				
Foreign currency translation adjustments	24,265	20,427	(9,331)	(1,312)
<b>Comprehensive (loss) income</b>	<b>(1,509,376)</b>	<b>(548,775)</b>	<b>810,649</b>	<b>113,957</b>
Less: comprehensive loss attributable to noncontrolling interests	(49)	(28)	(43)	(6)
<b>Comprehensive (loss) income attributable to FLJ Group Limited’s ordinary shareholders</b>	<b>(1,509,327)</b>	<b>(548,747)</b>	<b>810,692</b>	<b>113,963</b>

The accompanying notes are an integral part of these consolidated financial statements.

**FLJ GROUP LIMITED**  
**(formerly known as “Q&K INTERNATIONAL GROUP LIMITED”)**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS’ DEFICIT**  
**(Renminbi and USD in thousands, except for share data, unless otherwise stated)**

FLJ Group Limited Shareholders’ Deficit														
	Class A Ordinary shares		Class B Ordinary shares		Series A non-redeemable preferred shares		Treasury stock		Additional	Accumulated other comprehensive (loss) income	Accumulated deficit	Total	Noncontrolling interests	Total shareholders’ deficit
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	paid in capital					
<b>Balance at September 30, 2019</b>	59,731,861	4	370,718,629	23	255,549,510	35,777	—	—	—	(5,908)	(2,275,924)	(2,246,028)	9,677	(2,236,351)
Issuance of ordinary shares in connection with initial public offering (“IPO”), net off issuance of cost of RMB 29,289	93,150,000	6	—	—	—	—	—	—	289,021	—	—	289,027	—	289,027
Conversion of Series Anon-redeemable preferred shares into ordinary shares	255,549,510	17	—	—	(255,549,510)	(35,777)	—	—	35,760	—	—	—	—	—
Conversion of mezzanine equity into ordinary shares	656,860,850	42	—	—	—	—	—	—	1,425,436	—	—	1,425,478	—	1,425,478
Repurchase of American Depositary Shares (“ADS”) from certain investors into treasury shares	—	—	—	—	—	—	(77,250,000)	(298,110)	—	—	—	(298,110)	—	(298,110)
ADS to be issued in exchange for acquisition of certain assets from two third parties	—	—	—	—	—	—	—	—	312,273	—	—	312,273	—	312,273
Share-based compensation	—	—	—	—	—	—	—	—	16,045	—	—	16,045	—	16,045
Warrants issued in connection with convertible notes	—	—	—	—	—	—	—	—	6,564	—	—	6,564	—	6,564
Redesignation of Class B Ordinary Shares into Class A Ordinary Shares	190,329,080	12	(190,329,080)	(12)	—	—	—	—	—	—	—	—	—	—
Net loss	—	—	—	—	—	—	—	—	—	—	(1,533,592)	(1,533,592)	(49)	(1,533,641)
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	—	24,265	—	24,265	—	24,265
<b>Balance at September 30, 2020</b>	1,255,621,301	81	180,389,549	11	—	—	(77,250,000)	(298,110)	2,085,099	18,357	(3,809,516)	(2,004,078)	9,628	(1,994,450)
Issuance of ordinary shares to settle payable for asset acquisition	186,375,850	11	—	—	—	—	—	—	(8)	—	—	3	—	3
Reissuance of treasury shares to as debt extinguishment cost	—	—	—	—	—	—	77,250,000	298,110	(256,146)	—	—	41,964	—	41,964
Exercise of share-based compensation	25,000,000	2	—	—	—	—	—	—	(2)	—	—	—	—	—
Issuance and repurchase of ordinary shares	77,100,000	5	—	—	—	—	(77,100,000)	(5)	—	—	—	—	—	—
Share-based compensation	—	—	—	—	—	—	—	—	15,806	—	—	15,806	—	15,806
Warrants issued in connection with convertible notes	—	—	—	—	—	—	—	—	546	—	—	546	—	546
Net loss	—	—	—	—	—	—	—	—	—	—	(569,174)	(569,174)	(28)	(569,202)
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	—	20,427	—	20,427	—	20,427
<b>Balance at September 30, 2021</b>	1,544,097,151	99	180,389,549	11	—	—	(77,100,000)	(5)	1,845,295	38,784	(4,378,690)	(2,494,506)	9,600	(2,484,906)
Issuance of ordinary shares to settle acquisition of certain assets from two third parties	7,662,060	1	—	—	—	—	—	—	(1)	—	—	—	—	—
Issuance of ordinary shares upon the conversion of convertible bond	15,414,467,400	1,031	—	—	—	—	—	—	700,372	—	—	701,403	—	701,403
Issuance of ordinary shares to settle short-term borrowings	8,617,124,250	577	—	—	—	—	—	—	391,527	—	—	392,104	—	392,104
Share-based compensation	115,180,054	8	—	—	—	—	—	—	9,763	—	—	9,771	—	9,771
Warrants issued in connection with convertible notes	—	—	—	—	—	—	—	—	1,420	—	—	1,420	—	1,420
Acquisition of noncontrolling interest	—	—	—	—	—	—	—	—	(243)	—	—	(243)	(9,557)	(9,800)
Transfer of treasury stock to a third party	—	—	—	—	—	—	77,100,000	5	6,492	—	—	6,497	—	6,497
Redesignation of Class B Ordinary Shares into Class A Ordinary Shares	180,389,549	11	(180,389,549)	(11)	—	—	—	—	—	—	—	—	—	—
Net income (loss)	—	—	—	—	—	—	—	—	—	—	820,023	820,023	(43)	819,980
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	—	(9,331)	—	(9,331)	—	(9,331)
<b>Balance at September 30, 2022</b>	25,878,920,464	1,727	—	—	—	—	—	—	2,954,625	29,453	(3,558,667)	(572,862)	—	(572,862)

The accompanying notes are an integral part of these consolidated financial statements.

**FLJ GROUP LIMITED**  
**(formerly known as “Q&K INTERNATIONAL GROUP LIMITED”)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Renminbi and USD in thousands, unless otherwise stated)**

	For the years ended September 30,			
	2020	2021	2022	
	RMB	RMB	RMB	USD
Operating activities:				
Net (loss) income	(1,533,641)	(569,202)	819,980	115,269
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:				
Share-based compensation	16,045	15,806	9,771	1,374
Depreciation and amortization	263,038	79,259	27,399	3,852
Loss from disposal of property, plant and equipment and intangible assets	468,980	30,173	11,972	1,683
Accretion of interest expense	214	1,988	1,222	172
Fair value change of contingent earn-out liabilities	(97,417)	—	—	—
Deferred rent	(201,127)	(214,557)	—	—
Writing off doubtful accounts	—	150,155	—	—
Impairment loss	846,766	199,575	100,156	14,080
Inducement expenses	—	—	423,686	59,561
Gains from deconsolidation of VIE’s subsidiaries	—	—	(1,554,450)	(218,521)
Debt extinguishment loss	—	41,964	—	—
Changes in operating assets and liabilities:				
Accounts receivable	(644)	1,573	(391)	(55)
Amounts due from related parties	5,419	(33)	201	28
Prepaid rent and deposit	146,913	37,623	234	33
Advances to suppliers	47,985	9,595	(4,743)	(667)
Other current assets	44,756	23,460	59,240	8,328
Other assets	(51,187)	47,577	(849)	(119)
Accounts payable	115,201	25,800	90,736	12,755
Amounts due to related parties	3,473	(6,594)	97	14
Deferred revenue	(127,947)	(18,631)	(40,669)	(5,717)
Deposits from tenants	(161,525)	(16,406)	(25,930)	(3,645)
Accrued expenses and other current liabilities	269,539	51,214	42,749	6,010
<b>Net cash provided by (used in) operating activities</b>	<b>54,841</b>	<b>(109,661)</b>	<b>(39,589)</b>	<b>(5,565)</b>
Investing activities:				
Purchases of property and equipment	(99,172)	(2)	—	—
Payment for asset acquisition (Note 8)	(39,498)	(6,484)	—	—
Acquisition of non-controlling interest	—	—	(9,800)	(1,378)
Disposal of cash in deconsolidated subsidiaries, VIE and VIE’s subsidiaries	—	—	(1,668)	(234)
<b>Net cash used in investing activities</b>	<b>(138,670)</b>	<b>(6,486)</b>	<b>(11,468)</b>	<b>(1,612)</b>
Financing activities:				
Proceeds from IPO, net off issuance cost of RMB 29,289	289,027	—	—	—
Proceeds from issuance of convertible notes	163,565	113,236	20,007	2,813
Payment for repurchase of ADS from certain investors into treasury shares	(248,859)	—	—	—
Proceeds from short-term bank borrowings	351,046	39,652	6,544	920
Repayment of short-term bank borrowings	(65,000)	(4,500)	—	—
Proceeds from long-term bank borrowings	150,000	75,329	—	—
Repayment of long-term bank borrowings	(122,548)	(37,090)	—	—
Proceeds from rental instalment loans	258,097	—	—	—
Repayment of rental instalment loans	(924,171)	(85,026)	(1,976)	(278)
Proceeds from capital lease and other financing arrangement payable	65,415	—	—	—
Repayment of capital lease and other financing arrangement payable	(51,496)	—	—	—
Proceeds from borrowings from related parties	—	—	4,734	665
<b>Net cash (used in) provided by financing activities</b>	<b>(134,924)</b>	<b>101,601</b>	<b>29,309</b>	<b>4,120</b>
Effect of foreign exchange rate changes	(295)	2,032	5,374	756
Net decrease in cash, cash equivalents and restricted cash	(219,048)	(12,514)	(16,374)	(2,301)
Cash, cash equivalents and restricted cash at the beginning of the year	250,814	31,766	19,252	2,706
Cash, cash equivalents and restricted cash at the end of the year	31,766	19,252	2,878	405

	For the years ended September 30,			
	2020	2021	2022	
	RMB	RMB	RMB	USD
<b>Supplemental disclosure of cash flow information:</b>				
Interest paid, net of amounts capitalized	(16,628)	(1,017)	—	—
Income taxes paid	(90)	(3)	(4)	(0)
<b>Supplemental schedule of non-cash investing and financing activities:</b>				
Purchases of property and equipment included in payables	(97,835)	—	—	—
Acquisition of rental assets financed by ADS	(22,540)	—	—	—
Asset acquisition financed by payables and ADS	(455,541)	—	—	—
Asset acquisition settled by ordinary shares	—	(164,256)	—	—
Payment of debt extinguishment cost by ordinary shares	—	(41,961)	—	—
Convertible note converted into ordinary shares	—	—	(333,679)	(46,908)
Short-term borrowings settled by ordinary shares	—	—	(217,477)	(30,572)
Short-term borrowings settled by transfer of treasury stocks	—	—	(6,497)	(913)
Conversion of Series Anon-redeemable preferred shares and mezzanine into ordinary shares	(1,425,478)	—	—	—
Issuance of convertible notes to repurchase ADS from an investor	49,251	—	—	—
<b>Reconciliation to amounts on the consolidated balance sheets:</b>				

	As of September 30,			
	2020	2021	2022	
	RMB	RMB	RMB	USD
Cash and cash equivalents	22,879	16,317	2,772	390
Restricted cash	8,887	2,935	106	15
Total cash, cash equivalents and restricted cash	<b>31,766</b>	<b>19,252</b>	<b>2,878</b>	<b>405</b>

The accompanying notes are an integral part of these consolidated financial statements.

**FLJ Group Limited**  
**(formerly known as “Q&K INTERNATIONAL GROUP LIMITED”)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Renminbi and USD in thousands, except for share data and per share data, unless otherwise stated)**

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

FLJ Group Limited (formerly known as “Q&K International Group Limited”) (the “Company” or “FLJ”), its subsidiaries and consolidated variable interest entities (the “Group”) is a rental apartment operation platform in the People’s Republic of China (the “PRC”), that provides rental and value-added services to young, emerging urban residents since 2012. The Group sources and converts apartments to standardized furnished rooms and leases to young people seeking affordable residence in cities in the PRC. The Company has changed its corporate name from “Q&K International Group Limited” to “FLJ Group Limited”, effective on September 13, 2022. In addition, the Company began trading under the new ticker symbol “FLJ” on the NASDAQ effective on September 26, 2022.

Effective on March 7, 2022, the Group changed the ratio of the American depositary shares (“ADSs”) representing its Class A ordinary shares from one (1) ADS representing thirty (30) Class A ordinary share to one (1) ADS representing one hundred and fifty (150) Class A ordinary shares. For the ADS holders, the change in the ADS ratio will have the same effect as a one-for-five reverse ADS split. There will be no change to the Group’s Class A ordinary shares. The exchange of every five (5) then-held (old) ADSs for one (1) new ADS will occur automatically with the then-held ADSs being cancelled and new ADSs being issued by the depositary bank, in each case as of the effective date for the ADS ratio change. No fractional new ADSs will be issued in connection with the change in the ADS ratio.

On October 26, 2021 and December 17, 2021, the Group transferred of all of its equity interest in Q&K Investment Consulting Co., Ltd. (“Q&K Investment Consulting”) and Qingke (China) Limited (“Q&K HK”), respectively, to Wangxiancai Limited, which is a related party of the Group, and is beneficially owned by the legal representative and executive director of one of the Group’s subsidiaries (the “Equity Transfer”). The Equity Transfer was made at nominal consideration. As of the date of this annual report, the Group no longer conducts substantial operation through any variable interest entity.

As of September 30, 2022, four of the subsidiaries of Shanghai Qingke E-Commerce Co., Ltd. (“Q&K E-Commerce”) filed the voluntary petition for bankruptcy under the Article 2 of the PRC Enterprise Bankruptcy Law with Shanghai Third Intermediary Court (“Court”), and the Court announced the effectiveness of the petition and the administrator of bankruptcy was assigned on board. Accordingly the Group had no control over the allocation of remaining assets in liquidation of these subsidiaries and their subsidiaries (collectively “Deconsolidated VIE’s Subsidiaries”), accordingly the Company deconsolidated these deconsolidated subsidiaries .

Upon the deconsolidation of Deconsolidated VIE’s Subsidiaries, the Group would continue its effort to provide rental and value-added services in China. The management believed the deconsolidation does not represent a strategic shift because it is not changing the way it is running its business. The Group has not shifted the nature of its operations or the major geographic market area. Prior to the deconsolidation, operating revenue generated through the subsidiaries of the VIE amounted to RMB 1,635 for the period from October 1, 2021 through deconsolidation dates, accounting for 0.2% of consolidated revenues for the year ended September 30, 2022. Net loss amounted to RMB40,902 for the period from October 1, 2021 through deconsolidation dates, the abstract amount accounted for 5% of the consolidated net income of the Company for the year ended September 30, 2022. On the deconsolidation date, the net deficit of Deconsolidated VIE’s Subsidiaries was RMB 2,231,140 and the Group wrote off investments of RMB 500,000 in Deconsolidated VIE’s Subsidiaries, and waived amounts of RMB 176,690 due from Deconsolidated VIE’s Subsidiaries. The Group recognized gains of RMB 1,554,450 from deconsolidation of Deconsolidated VIE’s Subsidiaries.

The management believed the deconsolidation of Deconsolidated VIE's Subsidiaries does not represent a strategic shift that has (or will have) a major effect on the Company's operations and financial results. The deconsolidation is not accounted as discontinued operations in accordance with ASC 205-20.

The Group did not account for the transfer of equity interest in Q&K HK, Q&K Investment Consulting and Q&K E-commerce as a discontinued operation, as FLJ is the primary beneficiary of Q&K HK, Q&K Investment Consulting and Q&K E-commerce as FLJ has the power to direct the activities of these companies that most significantly impact their economic performance and FLJ has the obligation to absorb losses of these companies that could potentially be significant to these companies since their inception. The Group accounted for Q&K HK, Q&K Investment Consulting and Q&K E-commerce as variable interest entities. Accordingly, the accompanying consolidated financial statements include the financial statements of Q&K HK, Q&K Investment Consulting and Q&K E-commerce. For the year ended September 30, 2022, operating revenue generated through Q&K HK, Q&K Investment Consulting and Q&K E-commerce were RMB 1,635, accounting for 0.3% of consolidated revenues, and net loss amounted to RMB43,940, the abstract amount accounting for 5% of the consolidated net income of the Company.

As of September 30, 2022, the Group's significant subsidiaries and VIE:

Entity	Date of incorporation	Place of incorporation	Percentage of legal/beneficial ownership by the Company	Principal activities
<b>Subsidiaries:</b>				
QK365.com INC. (BVI)	September 29, 2014	BVI	100 %	Holding
Fenglinju (China) Hong Kong Limited ("Fenglinju")	October 21, 2021	Hong Kong	100 %	Holding
Haoju(shanghai) Artificial Intelligence Technology Co., Ltd (formerly known as "Qingke (Shanghai) Artificial Intelligence Technology Co., Ltd.") ("Q&K AI")	May 13, 2019	PRC	100 %	Holding and Operating
Chengdu Liwu Apartment Management Co., Ltd	June 19, 2020	PRC	100 %	Operating
<b>VIE:</b>				
QingKe (China) Limited ("Q&K HK")	July 7, 2014	Hong Kong	100 %	Holding
Q&K Investment Consulting Co., Ltd. ("Q&K Investment Consulting")	April 2, 2015	PRC	100 %	Holding and Operating
Shanghai Qingke E-Commerce Co., Ltd. ("Q&K E-Commerce")	August 2, 2013	PRC	100 %	Holding and Operating

## 2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES



### ***Basis of presentation***

As of and for the years ended September 30, 2020 and 2021, the consolidated financial statements include the financial statements of the Group, its subsidiaries and consolidated variable interest entity and its subsidiaries. As of and for the year ended September 30, 2022, the consolidated financial statements include the financial statements of the Group, its subsidiaries and the consolidated variable interest entity. All intercompany transactions and balances are eliminated on consolidation.

The accompanying consolidated financial statements have been prepared assuming that the Group will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The realization of assets and the satisfaction of liabilities in the normal course of business are dependent on, among other things, the Group's ability to generate cash flows from operations, and the Group's ability to arrange adequate financing arrangements, to support its working capital requirements.

### ***Going concern***

The Group has been incurring losses from operations since its inception. Accumulated deficits amounted to RMB 4,378,690 and RMB 3,558,667 as of September 30, 2021 and 2022, respectively. Net cash used in operating activities were RMB 109,661 and RMB 39,589 for the years ended September 30, 2021 and 2022, respectively, while the Group generated cash of RMB 54,841 from operating activities for the year ended September 30, 2020. As of September 30, 2021 and 2022, current liabilities exceeded current assets by RMB 2,170,955 and RMB 597,242, respectively.

In addition, the Group's operations have been affected by the outbreak and spread of the coronavirus disease 2019 (COVID-19). During the period, the Group adopted a defensive strategy after a prudent assessment of the broader macroeconomic downturn by consolidating internal resources, further improving operating efficiencies and focusing on asset quality improvement rather than aggressive expansion. During the years ended September 30, 2020, 2021 and 2022, the average month-end occupancy rate and the rental spread margin before discount for rental prepayments decreased as compared to fiscal year 2019 mainly due to the impact of COVID-19.

These factors raise substantial doubt about the Group's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Group is unable to continue as a going concern.

The Group intends to meet the cash requirements for the next 12 months from the issuance date of this report through a combination of bank loans, issuance of ordinary shares, principal shareholder's financial support. The Group will focus on the following activities:

- On October 26, 2022, the Company's Form F-3 to offer up to a total amount of \$300 million was declared effective. The Company plans to raise funds under the Form F-3 to support the Company's operations; and
- In January 2023, a shareholder of the Group, has agreed to consider providing necessary financial support in the form of debt and/or equity, to the Group to enable the Group to meet its other liabilities and commitments as they become due for at least twelve months from the issuance date of this consolidated financial statements.

The Management plan cannot alleviate the substantial doubt of the Group's ability to continue as a going concern. There can be no assurance that the Group will be successful in achieving its strategic plans, that the Group's future capital raises will be sufficient to support its ongoing operations, or that any additional financing will be available in a timely manner or with acceptable terms, if at all. If the Group is unable to raise sufficient financing or events or circumstances occur such that the Group does not meet its strategic plans, the Group will be required to reduce certain discretionary spending, alter or scale back research and development programs, or be unable to fund capital expenditures, which would have a material adverse effect on the Group's financial position, results of operations, cash flows, and ability to achieve its intended business objectives.

The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Accordingly, the consolidated financial statements have been prepared on a basis that assumes the Group will continue as a going concern and which contemplates the realization of assets and satisfaction of liabilities and commitments in the ordinary course of business.

### ***Principles of consolidation***

The consolidated financial statements include the financial statements of the Group, its subsidiaries and consolidated variable interest entity and its subsidiaries. All intercompany transactions and balances are eliminated on consolidation.

Upon the transfer of equity in Q&K HK and Q&K Investment Consulting on December 17, 2021 and October 26, 2021, respectively, the Group became primary beneficiary of the two former subsidiaries. Since the dates of equity transfer, the Group consolidated Q&K HK and Q&K Investment Consulting as variable interest entities.

To comply with the PRC law and regulations which restrict foreign ownership of companies that provide value-added telecommunication services in the PRC, Q&K Investment Consulting entered into VIE Agreements with Q&K E-Commerce and its respective shareholders through which the Group became the primary beneficiary of Q&K E-Commerce and its subsidiaries.

The following is a summary of the key VIE Agreements:

### ***Shareholder Voting Proxy Agreement***

Q&K Investment Consulting, Q&K E-Commerce and the shareholders of Q&K E-Commerce entered into a shareholder voting proxy agreement on April 21, 2015. Pursuant to the voting proxy agreement, each shareholder of Q&K E-Commerce irrevocably authorizes any person(s) designated by Q&K Investment Consulting to act as his or her attorney-in-fact to exercise all of such shareholder's voting and other rights associated with the shareholder's equity interest in Q&K E-Commerce, such as the right to appoint or remove directors, supervisors and officers, as well as the right to sell, transfer, pledge and dispose of all or a portion of the shares held by such shareholder. The shareholder voting proxy agreement will remain in force unless Q&K Investment Consulting gives out any instruction in writing or otherwise.

### ***Spousal Consent Letters***

The spouse of one shareholder of Q&K E-Commerce who holds 10.47% equity interest in Q&K E-Commerce signed a spousal consent letter on April 14, 2015. Under the spousal consent letter, the signing spouse unconditionally and irrevocably agreed, respectively, that she was aware of the disposal of Q&K E-Commerce shares held by the shareholder in the abovementioned exclusive option agreement, equity pledge agreement, shareholder voting proxy agreement and power of attorney. The signing spouse confirmed not having any interest in the Q&K E-Commerce shares and committed not to impose any adverse assertions upon those shares. The signing spouse further confirmed that her consent and approval are not needed for any amendment or termination of the abovementioned agreements and committed that she shall take all necessary measures needed for the performance of those agreements.

### ***Exclusive Technology Service Agreement***

Q&K Investment Consulting and Q&K E-Commerce entered into an exclusive technology service agreement on April 21, 2015. Pursuant to this agreement, Q&K Investment Consulting or its designated party has the exclusive right to provide Q&K E-Commerce with consulting, software and technology services. Without Q&K Investment Consulting's prior written consent, Q&K E-Commerce shall not accept any technical support and services covered by this agreement from any third party. Q&K E-Commerce agrees to pay service fees equivalent to no less than 100

% of its annual net profit. Q&K E-Commerce also agrees to pay service fees for any specific technology service and consultation service rendered by Q&K Investment Consulting at Q&K E-Commerce's request from time to time. Q&K Investment Consulting owns the intellectual property rights arising out of the provisions of services under this agreement. Unless terminated mutually, this agreement will remain effective for twenty years. This agreement will be automatically renewed for another ten years, unless there is any written objection rendered third days prior to its expiry.

#### ***Exclusive Option Agreement***

Q&K Investment Consulting, Q&K E-Commerce and the shareholders of Q&K E-Commerce entered into an exclusive option agreement in 2015. Pursuant to the exclusive option agreement, Q&K E-Commerce and its shareholders have irrevocably granted Q&K Investment Consulting or any third party designated by Q&K Investment Consulting an exclusive option to purchase all or part of their respective equity interests in Q&K E-Commerce. The purchase price shall be the lower of (i) the amount that the shareholders contributed to Q&K E-Commerce as registered capital for the equity interests to be purchased, or (ii) the lowest price permitted by applicable PRC law. The shareholders of Q&K E-Commerce irrevocably agree that if such price is lower than what is allowed by PRC law, the purchase price should be equal to the lowest price allowed by PRC law. Q&K E-Commerce or its shareholders will repay Q&K Investment Consulting or any third party designated by Q&K Investment Consulting the purchase price within ten business days after Q&K E-Commerce or its shareholders receives such purchase price. In addition, Q&K E-Commerce granted Q&K Investment Consulting an exclusive option to purchase, or have its designated entity or person, to purchase, at its discretion, to the extent permitted under PRC law, all or part of Q&K E-Commerce's assets at the net book value of the transferred assets, or the lowest price permitted by applicable PRC law if the latter is higher than the relevant net book value.

Q&K Investment Consulting may transfer any of its rights or obligations under this agreement to a third party after notifying Q&K E-Commerce and its shareholders. Without Q&K Investment Consulting's prior written consent, the shareholders of Q&K E-Commerce shall not, among other things, amend its articles of association, increase or decrease the registered capital, sell, dispose of or set any encumbrance on its assets, business or revenue outside the ordinary course of business, enter into any material contract, merge with any other persons or make any investments, distribute dividends, or enter into any transactions which have material adverse effects on its business. The shareholders of Q&K E-Commerce also undertake that they will not transfer, pledge, or otherwise dispose of their equity interests in Q&K E-Commerce to any third party or create or allow any encumbrance on their equity interests. This agreement will remain effective until Q&K Investment Consulting or any third party designated by Q&K Investment Consulting has acquired all equity interest of Q&K E-Commerce from its shareholders.

#### ***Equity Pledge Agreement***

Q&K Investment Consulting, Q&K E-Commerce and the shareholders of Q&K E-Commerce entered into an equity pledge agreement on April 21, 2015. Pursuant to the equity pledge agreement, each shareholder of Q&K E-Commerce has pledged all of its equity interest in Q&K E-Commerce to Q&K Investment Consulting to guarantee the performance by such shareholder and Q&K E-Commerce of their respective obligations under the exclusive technology service agreement, shareholder voting proxy agreements, and exclusive option agreement as well as their respective liabilities arising from any breach. If Q&K E-Commerce or any of its shareholders breaches any obligations under these agreements, Q&K Investment Consulting, as pledgee, will be entitled to dispose of the pledged equity and have priority to be compensated by the proceeds from the disposal of the pledged equity. Each of the shareholders of Q&K E-Commerce agrees that before its obligations under the contractual arrangements are discharged, he or she will not dispose of the pledged equity interests, create or allow any encumbrance on the pledged equity interests, or take any action which may result in any change of the pledged equity that may have material adverse effects on the pledgee's rights under this agreement without the prior written consent of Q&K Investment Consulting. The equity pledge agreement will remain effective until Q&K E-Commerce and its shareholders discharge all their obligations under the contractual arrangements. The Group has completed the registration of the equity pledge with the relevant office of the Administration for Industry and Commerce in accordance with PRC Property Rights Law on April 30, 2015.

The Group believes that the contractual arrangements with Q&K E-Commerce are in compliance with PRC law and are legally enforceable. However, uncertainties in the PRC legal system could limit the Group's ability to enforce the contractual arrangements. If the legal structure and contractual arrangements were found to be in violation of PRC laws and regulations, the PRC government could:

- revoke the business and operating licenses of the Group's PRC subsidiaries and Q&K E-Commerce;
- discontinue or restrict the operations of any related-party transactions between the Group's PRC subsidiaries and Q&K E-Commerce;
- limit the Group's business expansion in China by way of entering into contractual arrangements;
- impose fines or other requirements with which the Group's PRC subsidiaries and Q&K E-Commerce may not be able to comply;
- require the Group or the Group's PRC subsidiaries or Q&K E-Commerce to restructure the relevant ownership structure or operations; or
- restrict or prohibit the Group's use of the proceeds of the additional public offering to finance the Group's business and operations in China.

The imposition of any of these penalties may result in a material adverse effect on the Group's ability to conduct its business. In addition, if the imposition of any of these penalties causes the Group to lose the rights to direct the activities of Q&K E-Commerce or the right to receive their economic benefits, the Group would no longer be able to consolidate the financial results of Q&K E-Commerce.

The following financial statement amounts and balances of the Q&K HK, Q&K Investment Consulting and Q&K E-Commerce (collectively "VIE entities") and their subsidiaries were included in the accompanying consolidated financial statements after elimination of intercompany transactions and balances. The revenues, net loss and cash flows for the year of 2022 represented the amounts of Q&K HK and Q&K Investment Consulting for the period from dates of equity transfer through September 30, 2022, the amounts of Q&K E-Commerce for the year ended September 30, 2022 and the amounts of the subsidiaries of Q&K E-Commerce for the period from October 1, 2021 through the dates of deconsolidation.

	As of September 30,		
	2021	2022	
	RMB	RMB	USD
<b>ASSETS</b>			
Cash and cash equivalents	10,982	62	9
Restricted cash	2,893	—	—
Accounts receivable	370	—	—
Prepaid rent and deposit	571	—	—
Advances to suppliers	5,323	6,131	862
Other current assets	97,978	2,572	362
Property and equipment, net	38,940	—	—
Intangible assets, net	539	—	—
Other assets	108	98	14
<b>Total assets</b>	<b>157,704</b>	<b>8,863</b>	<b>1,247</b>
<b>LIABILITIES</b>			
Accounts payable	281,458	34	5
Deferred revenue	1,125	16	2
Short-term debt	256,773	13,000	1,828
Rental instalment loans	33	—	—
Deposits from tenants	1,422	—	—
Accrued expenses and other current liabilities	875,572	67,908	9,547
Long-term debt	201,041	—	—
<b>Total liabilities</b>	<b>1,617,424</b>	<b>80,958</b>	<b>11,382</b>

	For the years ended September 30,			
	2020	2021	2022	
	RMB	RMB	RMB	USD
Net revenues	965,093	173,921	1,635	230
Net loss	(1,491,565 )	(375,470 )	(43,940 )	(6,177 )

	For the years ended September 30,			
	2020	2021	2022	
	RMB	RMB	RMB	USD
Net cash provided by (used in) operating activities	72,293	(108,705 )	(16,087 )	(2,261 )
Net cash used in investing activities	(99,172 )	—	(217 )	(31 )
Net cash (used in) provided by financing activities	(95,948 )	98,466	2,267	319

The consolidated VIE entities and their subsidiaries contributed 80%, 17% and 0.3% and of the Group's consolidated revenues for the years ended September 30, 2020, 2021 and 2022. As of September 30, 2021 and 2022, the consolidated VIE entities and their subsidiaries accounted for an aggregate of 42% and 9%, respectively, of the Group's consolidated total assets, and 57% and 12%, respectively, of the Group's consolidated total liabilities.

There are no terms in any arrangements, considering both explicit arrangements and implicit variable interests that require the Group or its subsidiaries to provide financial support to the VIE entities. However, the Company has provided and will continue to provide financial support to the VIE considering the business requirements of the VIE entities, as well as the Company's own business objectives in the future.

There are no assets held in the VIE entities and its subsidiaries that can be used only to settle obligations of the VIE entities and their subsidiaries, except for registered capital and the PRC statutory reserves. As the VIE entities and their subsidiaries are incorporated as a limited liability company under the PRC Company Law, creditors of the VIE entities do not have recourse to the general credit of the Group for any of the liabilities of the VIE entities. Relevant PRC laws and regulations restrict the VIE entities from transferring a portion of their net assets, equivalent to the balance of its statutory reserve and its share capital, to the Group in the form of loans and advances or cash dividends. Please refer to Note 14 for disclosure of restricted net assets.

### ***Use of estimates***

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. The Group bases its estimates on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Significant accounting estimates reflected in the Group's consolidated financial statements include the useful lives and impairment of property and equipment and intangible assets, valuation allowance of deferred tax assets, share-based compensation, fair value of the convertible note without the warrants and the warrants themselves.

### ***Cash and cash equivalents***

Cash and cash equivalents consist of cash on hand and demand deposits, which are unrestricted as to withdrawal and use that which have original maturities of three months or less when purchased.

### ***Restricted cash***

As of September 30, 2021, restricted cash mainly represents the Group's frozen bank accounts deposits to the bank as a form of security with respect to the Group's debt and tenants' repayment of rental instalment loans. As of September 30, 2022, restricted cash mainly represents the Group's frozen bank accounts for liquidation of the VIE's subsidiaries. The restricted cash are not available to fund the general liquidity needs of the Group.

### ***Property and equipment, net***

Property and equipment, net are stated at cost less accumulated depreciation and impairment losses. The renovations and interest cost incurred during construction are capitalized. Depreciation of property and equipment is provided using the straight-line method over their expected useful lives. The expected useful lives are as follows:

<b>Property and equipment</b>	<b>Useful lives</b>
Furniture, fixtures and equipment	3 years
Motor vehicles	4 years

Expenditures for repairs and maintenance are expensed as incurred. Gain or loss on disposal of property and equipment, if any, is recognized in the consolidated statements of comprehensive (loss) income as the difference between the net sales proceeds and the carrying amount of the underlying asset.

### ***Intangible assets, net***

On July 22, 2020, the Group entered into a series of asset purchase agreements with Great Alliance Coliving Limited. And its affiliates (“Beautiful House”) to acquire assets, including approximately 72,000 apartment rental contracts with leasehold improvements attached to them, and trademarks of Beautiful House. In addition, the Group also assumed liabilities associated with acquired assets. The Group accounted for the acquisition as an asset acquisition because the Group did not acquire substantive process from Beautiful House.

The total consideration, after deducting the liabilities assumed in the asset acquisition, was allocated to identified apartment rental contracts and trademarks on the basis of their relative fair value. See Note 8.

Purchased intangible assets are mainly comprised of software.

Separately identifiable intangible assets that have determinable lives continue to be amortized over their estimated useful lives using the straight-line method as follows:

<b>Intangible assets</b>	<b>Useful lives</b>
Apartment rental contracts	Shorter of the lease term or 8 years
Trademarks	8 years
Software	10 years

### ***Impairment of long-lived assets***

The Group evaluates its long-lived assets and finite lived intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, the Group measures impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets, the Group recognizes an impairment loss equal to the difference between the carrying amount and fair value of these assets.

For the years ended September 30, 2020, the Group recognized impairment losses of RMB 846,766 against certain apartments due to the continued underperformance relative to the projected operating results.

For the year ended September 30, 2021, the Group recognized impairment losses of RMB 199,575 against leasehold improvements and furniture, fixtures and equipment used in apartments under capital lease and other financing arrangements. The Group expected it would not receive any cash flow from these property and equipment, as the Group terminated cooperation with the rental service company and no longer received fee income during the year (See *Note 2— Capital lease and other financing arrangement*).

For the year ended September 30, 2022, the Group recognized impairment of RMB 70,606 and RMB 29,550 against trademark and apartment rental contracts (See *Note 2 – Fair value*), respectively.

### ***Capital lease and other financing arrangement***

Leases of leasehold improvements or furniture, fixtures and equipment that transfer to the Group substantially all of the risks and rewards of ownership by the end of the lease term are classified as capital leases. The leasehold improvements and liability are measured initially at an amount equal to the lower of their fair value or the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under capital leases are apportioned between the finance expense and the reduction of the outstanding lease liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

The Group started to cooperate with a rental service company to source and renovate apartments since August 2018. For certain identified newly sourced apartments, the rental service company reimburses the Group for costs incurred for the renovation. The Group then makes payments to the rental service company in instalments equal to the reimbursed renovation costs plus interest and tax over a period of five years. At the end of the five-year period, the ownership of the renovation will be transferred to the Group. The Group accounts for this arrangement with the rental service company as a capital lease. Under the same arrangement above, the Group also sells leasehold improvements and furniture, fixtures and equipment of certain existing apartments to the rental service company at carrying value and simultaneously leases them back. Such transaction fails sales and lease-back accounting and is accounted for as a financing arrangement. The proceeds received from the rental service company are reported as other financing arrangement payable.

During the year ended September 30, 2021, the Group terminated cooperation with the rental service company, and the Group reclassified the capital lease payable and other financing payable to the account of “Accrued expenses and other current liabilities”. Because the underlying leasehold improvements or furniture, fixtures and equipment used in apartments did not provide future cash flows for the Group, the Group provided full impairment against these leasehold improvements or furniture, fixtures and equipment. As of September 30, 2021 and 2022, the Group had no outstanding balances of capital lease payable or other financing arrangement payable.

### ***Lease accounting with tenants***

The Group sources apartments from landlords and converts them into standardized furnished rooms to lease to tenants seeking affordable residences in China. Revenues are primarily derived from the lease payments from its tenants and are recorded net of tax.

The Group typically enters into 12 to 26-month leases with tenants and a majority of which have a lock-in period of 12 months or longer. The lock-in period represents the term during which termination will result in the forfeiture of deposit, which is typically 1 or 2 months’ rent. The Group determines that the lock-in period is the lease term under ASC 840. Upon termination of leases, the Group returns unused portions of any prepaid rentals to the tenant within a prescribed period of time. Deposit can only be returned for termination after lock-in period. Monthly rent is fixed throughout the lease term and there is no rent-free period or rent escalations during the period. The Group determines all lease arrangements with tenants are operating leases since the benefits and risks incidental to ownership remains with the Group. Revenue is recognized on a straight-line basis starting from the commencement date stated in the lease agreements.

In April 2020, the Group started to modify arrangements with a rental service company (See ***Capital lease and other financing arrangement***) for apartments in certain cities. For some apartments under this arrangement, the Group no longer leases in apartments from the rental service company or enters into new lease-out agreements with tenants. Instead, the Group transferred existing leases with tenants to the rental service company. The rental service company maintains the lease-in agreements with the landlords of the apartments, collects rental from the tenants directly and

enters into lease-out agreements with new tenants directly. The Group and a third-party contractor are engaged by the rental service company to manage these apartments. Pursuant to this arrangement, the Group is responsible for supervising the third-party contractor including in its identification of potential tenants and daily operation, and receives fee income equals to the rental income from tenants minus the rental fee to landlords. For each of these apartments, if the rental collected from the tenants is less than the rental paid to the landlords, the Group is required to pay the rental service company this difference.

In December 2020 through August 2021, the Group terminated the arrangements with the rental service company. As of September 30, 2021, the Group did not provide supervision services over the third-party contractor and did not receive fee income from the rental service company. Accordingly the Group ceased recognition of lease income upon termination of the arrangements.

#### ***Rental incentives***

Tenants who prepay rent are entitled to rental discounts. Tenants who prepay rent of at least the first six months of the lease term can enjoy a 5% rental discount, and tenants who prepay at least the first twelve months of lease term rental can enjoy a 10% rental discount (subject to a RMB200 limit per month). Such incentives are only applicable during the lock-in period. The Group considers the rental discounts as a lease incentive and records it as a reduction in revenue on a straight line basis over the lease term. The Group recorded RMB 12,921, RMB 5,695 and RMB nil of rental incentives for the years ended September 30, 2020, 2021 and 2022, respectively.

#### ***Rental instalment loan arrangement***

In order to encourage tenants to make advance payments, the Group cooperates with various financial institution partners to facilitate rental instalment loans for its tenants, who apply for rental instalment loans directly with these financial institutions. The financial institutions approve or decline the rental instalment loans based on the tenants credit profile, and approval of the rental instalment loans are not guaranteed to the tenants at lease inception. If the loans are approved by the financial institution partners, the proceeds, which represent the total rental payments for the period covered under the lease agreement, are remitted to the Group by way of the tenant's entrustment loan. The proceeds would then be applied to the tenants' rental payments on monthly basis. The Group records the entire prepayment as rental instalment loans. Tenants repay the loan principal in monthly instalments directly to the financial institutions which equals to the monthly rental payment. The Group pays instalment loan interests on behalf of the tenants and recognizes such payments as interest expense in the consolidated statements of comprehensive loss.

The Group also provides guarantee to these financial institutions with respect to the tenants' repayment of the loans. In the event that the tenants default on the repayment or early terminate the lease agreements, the Group must return the remaining prepayments to the financial institutions within a prescribed period of time. Under the rental instalment loan scheme, the Group has full control of the entire instalment loan proceeds and the security deposits collected from the tenants at lease inception are usually sufficient to cover for the delinquent payments from default. As such, the Group determines that guarantee liability to be nil as of September 30, 2021 and 2022. The Group did not enter into new rental instalment loan arrangements from April 2021.

#### ***Impact on cash flows***

For rental instalment loans received directly from financial institutions, the Group determines the substance of the arrangement as akin to a debt from its tenants, and as such, this portion was classified as a cash inflow from financing activities within the Group's consolidated statements of cash flows. During the lease term, constructive receipts and disbursements are recognized on a monthly basis by recognizing the repayment of rental instalment loans as a financing cash outflow and the receipt of monthly rental income as an operating cash inflow.

Rental prepayments received directly from tenants were recorded as deferred revenue in the consolidated balance sheets and classified as a cash inflow from operating activities.



### ***Lease accounting with landlords***

The Group leases apartments from landlords usually for a period of five to six years which may be extended for an additional three or two years at the discretion of the landlords. Since all the benefits and risks incidental to ownership remains with the landlord, the Group determines that these arrangements are operating leases. The Group typically negotiates a rent-free period of one – two months per year and locks in a fixed rent for the first three years and approximately 5% annual, non-compounding increase for the rest of the lease period. As such, typically all leases with landlords contain rent holidays and fixed escalations of rental payments during the lease term. The Group determines the lease term under ASC 840 to include the years that can be early terminated by the landlords. The Group records total lease expense on a straight-line basis over the lease term and the difference between the straight-line lease expense and cash payments under the lease is recorded as deferred rent on the consolidated balance sheets.

In December 2020 through August 2021, the Group terminated the arrangements with the rental service company. Accordingly the Group early terminated lease agreements with landlords. Upon termination, the deferred rent was accelerated in recognition as a reduction against rental expenses of RMB 100,962.

As of September 30, 2021 and 2022, the Company had no balance deferred rent, both current and noncurrent.

Rental expense to the landlords recorded in consolidated statements of comprehensive losses were RMB 813,773, RMB 642,354 and RMB 539,487 for the years ended September 30, 2020, 2021 and 2022, respectively.

### ***Value-added services and others***

The Group adopted ASC 606, Revenue from Contracts with Customers (“ASC 606”) on October 1, 2019, using the modified retrospective approach. ASC 606 establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The Group has assessed the impact of the guidance by reviewing its existing customer contracts and current accounting policies and practices to identify differences that will result from applying the new requirements, including the evaluation of its performance obligations, transaction price, customer payments, transfer of control and principal versus agent considerations. Based on the assessment, the Group concluded that there was no change to the timing and pattern of revenue recognition for its current revenue streams in scope of ASC 605 and therefore there was no material changes.

In accordance with ASC 606, revenues are recognized when control of the promised services is transferred to customers, in an amount that reflects the consideration the Group expects to be entitled to in exchange for those products. The Group also evaluates whether it is appropriate to record the gross amount of product sales. When the Group is a principal, that the Group obtains control of the specified goods before they are transferred to the customers, the revenues should be recognized in the gross amount of consideration to which it expects to be entitled to in exchange for the specified goods transferred. Revenues are recorded net of value-added taxes.

For the years ended September 30, 2020, 2021 and 2022, the Group generated revenues from provision of value-added services. Value-added services and others primarily consist of fees received from the tenants from the Group’s provision of internet connection and utility services as part of the lease agreement.

The service fees from tenants are fixed in the agreements and is collected on a monthly basis. The Group recognized on a monthly basis during the period of the lease term. The service fees are recognized on a gross basis as the Group is the primary obligor in provision of such services and has discretion in establishing transaction prices.

***Pre-operation expenses***

The Group expenses certain costs incurred in connection with apartment pre-operation activities, mainly including rental expenses and sourcing staff costs incurred before an apartment is ready for lease.

***Selling and marketing expenses***

Sales and marketing expenses consist primarily of online and offline marketing expenses, promotion expenses, staff costs of sales personnel and other related incidental expenses that are incurred indirectly to attract or retain tenants for the Group. Advertising expenses incurred were RMB 10,773, RMB nil and RMB nil for the years end September 30, 2020, 2021 and 2022, respectively.

***Research and development expenses***

Research and development expenses include payroll expenses, employee benefits, and other headcount-related expenses associated with platform development and big data analysis to support the Group's business operations.

***Employee benefit expenses***

As stipulated by the regulations of the PRC, full-time employees of the Group are entitled to various government statutory employee benefit plans, including medical insurance, maternity insurance, workplace injury insurance, unemployment insurance and pension benefits through a PRC government-mandated multi-employer defined contribution plan. The Group is required to make contributions to the plan and accrues for these benefits based on certain percentages of the qualified employees' salaries. The total expenses the Group incurred for the plan were RMB 18,283, RMB 3,383 and RMB 1,349 for the years ended September 30, 2020, 2021 and 2022, respectively.

***PRC value-added taxes and related taxes***

The Group is subject to value-added taxes at the rate of 6% for rendering services, 9% for rental business and 13% for sales of goods, education surtax and urban maintenance and construction tax, on the services provided in the PRC. Education surtax and urban maintenance and construction tax are primarily levied based on revenue at applicable rates and are recorded as a reduction of revenues.

***Income taxes***

Current income taxes are provided on the basis of profit before income tax for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions. The Group follows the asset and liability method of accounting for income taxes.

Deferred income taxes are provided using assets and liabilities method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Deferred tax assets are recognized to the extent that these assets are more likely than not to be realized. In making such determination, the management considers all positive and negative evidence, including future reversals of projected future taxable income and results of recent operation.

In order to assess uncertain tax positions, the Group applies a more likely than not threshold and a two-step approach for the tax position measurement and financial statement recognition. Under the two-step approach, the first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained, including resolution of related appeals or litigation

processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. The Group recognizes interest and penalties, if any, under accrued expenses and other current liabilities on its consolidated balance sheet and under other expenses in its consolidated statement of comprehensive loss. As of September 30, 2021 and 2022, the Group did not have any significant unrecognized uncertain tax positions.

### ***Treasury shares***

The Group accounts for treasury shares using the cost method. Under this method, the cost incurred to purchase the shares is recorded in the treasury shares account on the consolidated balance sheets. At retirement of the treasury shares, the ordinary shares account is charged only for the aggregate par value of the shares. The excess of the acquisition cost of treasury shares over the aggregate par value is allocated between additional paid-in capital (up to the amount credited to the additional paid-in capital upon original issuance of the shares) and retained earnings. For the year ended September 30, 2020, the Group repurchased 77,250,000 ordinary shares from certain major investors in the IPO, through cash payment of RMB 248,859 and issuance of convertible notes of RMB 49,251 (equivalent to \$7,232). For the year ended September 30, 2021, the Group issued 77,250,000 treasury shares as debt extinguishment costs, to one creditor who made loans to the Group.

For the year ended September 30, 2021, the Group issued 77,100,000 treasury shares and repurchase the same amount of treasury shares which were used as a pledge with Shanghai Huarui Bank (“SHRB”). For the year ended September 30, 2022, the Company reissued the 77,100,000 treasury shares to a third party which purchased and assumed the unpaid borrowings due to SHRB.

As of September 30, 2021 and 2022, the Group had treasury shares account of 77,100,000 and nil ordinary shares with total balance of RMB 5 and RMB nil.

### ***Reclassification***

Certain reclassifications have been made to the prior year’s consolidated balance sheets to conform to the current year’s presentation. These reclassifications had no impact on net income/(loss), shareholders’ equity, or cash flows as previously reported.

### ***Foreign currency translation***

The reporting currency of the Group is the Renminbi (“RMB”). The functional currency of the Group’s entities incorporated in Cayman Islands, the United States and Hong Kong is the United States dollar (“US dollar”) and the functional currency of the Group’s PRC subsidiaries is RMB. Monetary assets and liabilities denominated in currencies other than the functional currency are translated into functional currency at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than the functional currency during the year are converted into the functional currency at the applicable rates of exchange prevailing on the day transactions occurred. Transaction gains and losses are recognized in the consolidated statements of comprehensive loss.

The financial statements of the Group’s non PRC entities are translated from their respective functional currency into RMB. Assets and liabilities are translated into RMB at the exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive loss in the consolidated statements of comprehensive loss.

The financial records of the Group’s subsidiaries are maintained in local currencies, which are the functional currencies.

**Convenience translation**

The Group's business is primarily conducted in the PRC and all of the revenues are denominated in RMB. The financial statements of the Group are stated in RMB. Translations of balances in the consolidated balance sheet, and the related consolidated statements of comprehensive loss, shareholders' equity and cash flows from RMB into US dollars as of and for the year ended September 30, 2022 are solely for the convenience of the readers and were calculated at the rate of USD1.00=RMB 7.1135, representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on September 30, 2022. No representation is made that the RMB amounts could have been, or could be, converted, realized or settled into USD at that rate on September 30, 2022, or at any other rate.

**Concentration of credit risk**

Financial instruments that potentially expose the Group to concentration of credit risk consist primarily of cash and cash equivalents, restricted cash and, account receivables and amounts due from related parties.

All of the Group's cash and cash equivalents and restricted cash are held with financial institutions that Group management believes to be high credit quality. The Group conducts credit evaluations on its tenants and generally require deposits from tenants as collateral. The Group periodically evaluates the creditworthiness of the existing tenants in determining an allowance for doubtful accounts primarily based upon the age of the receivables and factors surrounding the credit risk of specific customers.

**Other risks**

The Group's business, financial condition and results of operations may also be negatively impacted by risks related to natural disasters, extreme weather conditions, health epidemics and other catastrophic incidents, which could significantly disrupt the Group's operations.

**Coronavirus ("COVID-19") Impact**

The Group's operations have been affected by the outbreak and spread of the coronavirus disease 2019(COVID-19), which in March 2020, was declared a pandemic by the World Health Organization. The COVID-19 outbreak is causing lockdowns, travel restrictions, and closures of businesses. While the outbreak of COVID-19 has come under control in the PRC since the second quarter of 2020, there was a significant rise in COVID-19 cases, including the COVID-19 Delta and Omicron variant cases, in various cities in China in early 2022. The local governments of the affected cities, including Shanghai, have reinstated certain COVID-related measures, including travel restrictions and stay-at-home orders. The Group's businesses have been negatively impacted by the COVID-19 coronavirus outbreak to a certain extent.

Due to the outbreak of COVID-19 since February 2020 through September 2022, the Chinese government required the nationwide closure of many business activities in the PRC to prevent the spread of COVID-19 and protect public health. During this period, the Group adopted a defensive strategy after a prudent assessment of the broader macroeconomic downturn by consolidating internal resources, further improving operating efficiencies and focusing on asset quality improvement rather than aggressive expansion. During the years ended September 30, 2020, 2021 and 2022, the average month-end occupancy rate and the rental spread margin before discount for rental prepayments decreased as compared to fiscal year 2019 mainly due to the impact of COVID-19.

In December 2022, the local government abandoned its policies on quarantine at home and large-scale lockdowns, and the COVID-19 has been spreading rapidly in China. However, based on the assessment of current economic environment, customer demand and revenue trend, and the negative impact from COVID-19 outbreak and spread, it appears that the Group's revenue and operating cash flows may continue to underperform in the next 12 months. Further, a resurgence could further negatively affect both major business segments and impair their ability to regain pre-covid operating levels. As such, the future impact of COVID-19 is still highly uncertain and cannot be predicted as of the financial statement reporting date.

## Fair value

The Group defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

The established fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of inputs may be used to measure fair value include:

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The financial instruments primarily including cash and cash equivalents, restricted cash, account receivables, amounts due from related parties, account payables, amounts due to related parties, short-term debt, rental instalment loans, deposits from tenants, other liabilities, are carried at cost which approximates their fair value due to the short-term nature of these instruments. The convertible note and long-term debt approximates their fair values, because the bearing interest rate approximates market interest rate, and market interest rates have not fluctuated significantly since the commencement of loan contracts signed.

The following table summarizes the fair value of the Group's financial liabilities that are accounted for at fair value on a recurring basis, by level within the fair value hierarchy, as of September 30, 2021 and 2022:

		Fair Value Measurements at Reporting Date Using				
	Description	Fair Value as of September 30 RMB	Quoted Prices in Active Markets for Identical Assets (Level 1) RMB	Significant Other Observable Inputs (Level 2) RMB	Significant Unobservable Inputs (Level 3) RMB	Total Gain for the Year Ended September 30, RMB
As of September 30, 2021	Contingent liabilities for payable for asset acquisition	164,254	164,254	—	—	—
As of September 30, 2022	Contingent liabilities for payable for asset acquisition	165,033	165,033	—	—	—

The fair value of contingent liabilities for payable for asset acquisition was referred to the market share price of the Group and the liabilities are classified in Level 1 of the valuation hierarchy. See Note 8 for contingent liabilities for payable for asset acquisition.

The following table presents the Group's assets measured at fair value on a non-recurring basis as of September 30, 2021 and 2022:

Years Ended September 30,	Description	Fair Value as of September 30 RMB	Fair Value Measurements at Reporting Date Using			
			Quoted Prices in Active Markets for Identical Assets (Level 1) RMB	Significant Other Observable Inputs (Level 2) RMB	Significant Unobservable Inputs (Level 3) RMB	Total Loss for the Year Ended September 30, RMB
2021	Property and equipment	—	—	—	—	199,575
2021	Apartment rental agreements	75,883	—	—	75,883	—
2022	Apartment rental agreements	13,475	—	—	13,475	29,550
2021	Trademarks	76,038	—	—	76,038	—
2022	Trademarks	—	—	—	—	70,606

The property and equipment subject to impairment test represented leasehold improvements, and furniture, fixtures and equipment used in apartments. Fair value of the property and equipment was determined by the Group based on the income approach using the discounted cash flow associated with the underlying assets, which incorporated certain assumptions including projected rooms' revenue, growth rates and projected operating costs based on current economic condition, expectation of management and projected trends of current operating results. As a result, the Group has determined that the majority of the inputs used to value its property and equipment are unobservable inputs that fall within Level 3 of the fair value hierarchy. The revenue growth rate and the discount rate were the significant unobservable inputs used in the fair value measurement, 3% and 11% for the year ended September 30, 2020. As of September 30, 2021, these property and equipment no longer generated cash flow for the Group, the Group recognizes full allowance against the property and equipment.

As a result of reduced expectations of future cash flows from certain leased apartments, the Group determined that the property and equipment was not fully recoverable and consequently recorded impairment charges of RMB 313,354, RMB 199,575 and RMB nil for the years ended September 30, 2020, 2021 and 2022, respectively.

The Group acquired from Great Alliance Coliving Limited. and its affiliates ("Beautiful House") certain assets, including approximately 72,000 apartment rental contracts and leasehold improvements attached to the apartments, and trademarks of Beautiful House. The Group determined the estimated fair values using Level 3 inputs after review and consideration of relevant information, which are unobservable inputs that fall within Level 3 of the fair value hierarchy. As a result of reduced expectations of future cash flows from certain leased apartments, the Group determined that neither apartment rental contracts nor trademarks were fully recoverable and consequently recorded impairment charges of RMB 425,341 and RMB 108,071, respectively, for the year ended September 30, 2020.

As of September 30, 2021, the Group reviewed the fair value of the apartment rental agreements and trademarks based on the income approach using the discounted cash flow associated with the underlying assets, which incorporated certain assumptions including projected rooms' revenue, growth rates and projected operating costs based on current economic condition, expectation of management and projected trends of current operating results. As a result, the Group has determined that the majority of the inputs used to value its apartment rental agreements and trademarks are unobservable inputs that fall within Level 3 of the fair value hierarchy. The revenue growth rate and the discount rate were the significant unobservable inputs used in the fair value measurement.

The revenue growth rate for apartment rental agreements was 3%, as a result of increase of unit rental fee by 3%, and the discount rate was 11% for the year ended September 30, 2021, which met the profit projection target. The revenue growth rate and discount rate for trademarks were negative 8% and 11%. Because the fair value was higher than the carrying amount of the apartment rental agreements and trademarks, the Group did not recognize impairment against these intangible assets for the year ended September 30, 2021. The revenue growth rate and discount rate for trademarks were negative 8% and 11%. Because the fair value was higher than the carrying amount of the apartment rental agreements and trademarks, the Group did not recognize impairment against these intangible assets for the year ended September 30, 2021.

The revenue growth rate for apartment rental agreements was 0%, as a result of increase of unit rental fee by 0%, and the discount rate was 11% for the year ended September 30, 2022, which underperformed the profit projection target. In addition, with the Group changed its name into FLJ in September 2022, the Company would no longer operate rental business under the trademark of “Beautiful House”. The Group provided impairment of RMB 29,550 and RMB 70,606, respectively, on apartment rental contracts and trademarks for the year ended September 30, 2022.

#### ***Share-based compensation***

The Group recognizes share-based compensation in the consolidated statements of comprehensive loss based on the fair value of equity awards on the date of the grant, with compensation expenses recognized over the period in which the grantee is required to provide service to the Group in exchange for the equity award. Vesting of certain equity awards are based on the completion of initial public offering (“IPO”) and has a continued employment provision for a period of time following the grant date. The share-based compensation expenses have been categorized as either general and administrative expenses, research and development expenses or selling and marketing expenses, depending on the job functions of the grantees. For the years ended September 30, 2020, 2021 and 2022, the Group recognized share-based compensation expenses of RMB 16,045, RMB 15,806 and RMB 9,771, respectively, in the consolidated statements of comprehensive loss.

#### ***(Losses) earnings per share***

Basic (losses) earnings per share are computed by dividing net loss attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the period.

Diluted (loss) earnings per ordinary share reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares. Potential ordinary shares, including preferred shares, convertible notes, share options and warrants are excluded from the computation in income periods should their effects be anti-dilutive. The Group had share options, convertible notes and warrants, which could potentially dilute basic earnings per share in the future. To calculate the number of shares for diluted (loss) earnings per share, the effect of the convertible redeemable and non-redeemable preferred shares, share options and warrants is computed using the two-class method or the as-if converted method, whichever is more dilutive.

#### ***Segment reporting***

The Group uses management approach to determine operation segment. The management approach considers the internal organization and reporting used by the Group’s chief operating decision maker (“CODM”) for making decisions, allocation of resource and assessing performance.

The Group’s CODM has been identified as the Chief Executive Officer who reviews the consolidated results of operations when making decisions about allocating resources and assessing performance of the Group. The Group operates and manages its business as a single operating segment.

The Group’s long-lived assets are all located in the PRC and all of the Group’s revenues are derived from within the PRC. Therefore, no geographical segments are presented.

### ***Asset acquisition***

Referring to FASB ASC Topic 805-10-55-5, the Group applied two steps (including step 1, screen test and step 2, evaluation of process and input) in evaluating whether the acquisition is an asset acquisition or a business combination.

The Group measures and recognizes asset acquisitions that are not deemed to be business combinations based on the cost to acquire the assets, which includes transaction costs. Goodwill is not recognized in asset acquisitions, any excess consideration transferred over the fair value of the net assets acquired is allocated on a relative fair value basis to the identifiable net assets.

### ***Recent accounting pronouncements***

In February 2016, the FASB issued ASU2016-02, Leases (Topic 842). The guidance supersedes existing guidance on accounting for leases with the main difference being that operating leases are to be recorded in the statement of financial position as right-of-use assets and lease liabilities, initially measured at the present value of the lease payments. For operating leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2018, including final periods within those fiscal years. In transition, entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. In July 2018, the FASB issued ASU No. 2018-10 Codification Improvements to Topic 842, Leases and ASU No. 2018-11, Leases (Topic 842), Targeted Improvements. ASU No. 2018-10 affects narrow aspects of the guidance issued in the amendments in Update2016-02 and ASU No. 2018-11 allows for an additional optional transition method where comparative periods presented in the financial statements in the period of adoption will not be restated and instead, companies will recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In November 2019, the FASB issued ASU2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates. ASU2019-10 amends the effective dates for ASU2016-02. The Group is an EGC and expects to adopt ASU2016-02 utilizing the optional transition approach allowed under ASU2018-11 and apply the package of practical expedients beginning October 1, 2022. The Group expects material changes to its consolidated balance sheet to recognize right-of-use lease assets and related lease liabilities for operating leases. On October 1, 2022, the Group recognized approximately RMB 627 million of right-of-use assets and operating lease liabilities upon the adoption of ASC 842.

In June 2016, the FASB issued ASU2016-13, Credit Losses, Measurement of Credit Losses on Financial Instruments. This ASU provides more useful information about expected credit losses to financial statement users and changes how entities will measure credit losses on financial instruments and timing of when such losses should be recognized. This ASU is effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted for all entities for annual periods beginning after December 15, 2018, and interim periods therein. The updates should be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). ASU2019-10 amends the effective dates for ASU2016-13. The Group is an EGC and has elected to adopt the new standard as of the effective date applicable to non-issuers and will implement the new standard on October 1, 2023. The Group is in the process of evaluating the impact on its consolidated financial statements upon adoption.

In August 2020, the FASB issued ASU 2020-06, Debt-Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity ("ASU 2020-06"), which simplifies accounting for convertible instruments by removing major separation models required under current GAAP. The ASU also removes certain settlement conditions that are required for equity-linked contracts to qualify for scope exception, and it simplifies the diluted earnings per share calculation in certain areas. The Group continues to evaluate the impact of ASU 2020-06 on its financial position, results of operations or cash flows.



Management does not believe that any other recently issued, but not yet effective, accounting standards, if currently adopted, would have a material effect on the Group's financial statements.

### 3. OTHER CURRENT ASSETS

Other current assets consist of the following:

	As of September 30,	
	2021	2022
Receivable from sales of buildings under construction (1)	100,300	—
Due from a service provider (2)	23,326	36,100
Deposit for share settlement (3)	19,279	21,341
Others	438	1,588
	<b>143,343</b>	<b>59,029</b>

- (1) During the year ended September 30, 2021, the Group sold buildings under construction (See Note 4, *Property and equipment, net*) through judicial sale for the proceeds of RMB 100,300. As of September 30, 2021, the buyer has made cash consideration to the Court, which will allocate the proceeds to the Group's creditors. During the year ended September 30, 2022, the Court completed the allocation of proceeds of RMB 95 million, and the remaining balance of RMB 5 million was deconsolidated as part of the assets of the VIE's subsidiaries.
- (2) Upon asset acquisition with Beautiful House (Note 8), the Group engaged a third party service provider to provide apartment operation services to the Group. The third party service provider is controlled by one of the shareholders of the Seller of Beautiful House (Note 8). To support the operation services to the tenants, the Group made interest free loans to and operating expenses on behalf of the service provider and the loans are repayable on demand.
- (3) Upon settle payables due to Beautiful House arising from asset acquisition (Note 8), the Group paid a deposit of RMB 21,341 (US\$3,000) to Beautiful House, which is expected to get repaid upon share settlement.

### 4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consist of the following:

	As of September 30,	
	2021	2022
Cost:		
Buildings	40,167	—
Vehicle	3,043	2,269
Office furniture, fixtures and equipment	20,456	922
	63,666	3,191
Less: Accumulated depreciation	(24,726)	(2,691)
	<b>38,940</b>	<b>500</b>

During the year ended September 30, 2021, the Group sold the buildings under construction in progress through judicial sales for proceeds of RMB 100,300. The Court assisted the Group to sell the building under construction and collected the proceeds on behalf of the Group. The Court completed the allocation of the proceeds to creditors in the year ended September 30, 2022. Accordingly, the Group recorded the proceeds of RMB 100,300 and RMB nil as "Receivable from sales of buildings under construction" in other current assets as of September 30, 2021 and 2022, respectively (See Note 3, Other current assets).

Upon the Group terminated cooperation with a rental service company during April 2021 through August 2021, the Group expected it would not receive any cash flow from leasehold improvements and furniture, fixtures and equipment used in apartments under capital lease and other financing arrangements (See Note 2 – Summary of Principal Accounting Policies - Capital lease and other financing arrangement). Accordingly, the Group accrued full impairment against leasehold improvements and furniture, fixtures and equipment used in apartments.

Depreciation expenses were RMB187,092, RMB 20,039 and RMB 1,002 and for the years ended September 30, 2020, 2021 and 2022, respectively. Impairment loss against property and equipment were RMB 313,354, RMB 199,575 and RMB nil for the years ended September 30, 2020, 2021 and 2022, respectively.

Upon deconsolidation of Deconsolidated VIE's Subsidiaries, the Group deconsolidated certain property and equipment. As of September 30, 2022, the Company had net book value of RMB 500 in property and equipment.

For the years ended September 30, 2020 and 2021, the Group disposed of certain property and equipment, including leasehold improvements, furniture, fixtures and equipment used in apartments, and office furniture, fixtures and equipment, at no consideration. On the disposal date, the disposed property and equipment were comprised of the following. On September 30, 2021, the Group sold buildings under construction with original cost of RMB 81,431 through judicial sale for the proceeds of RMB 100,300. For the years ended September 30, 2020, 2021 and 2022, the Group recognized net loss from disposal from property and equipment of RMB 454,224, RMB 19,448 and RMB nil, respectively.

	For the years ended September 30,		
	2020	2021	2022
Cost:			
Buildings	620,354	45,548	—
Vehicle	253,205	22,830	—
Office furniture, fixtures and equipment	500	50	—
	874,059	68,428	—
Less: Accumulated depreciation	(419,835)	(42,012)	—
	<b>454,224</b>	<b>26,416</b>	<b>—</b>

## 5. INTANGIBLE ASSETS, NET

Intangible assets, net consist of the following:

	As of September 30,	
	2,021	2,022
Cost:		
Apartment rental contracts	112,849	55,967
Trademarks	86,900	16,294
Software	2,275	—
	202,024	72,261
Less: Accumulated amortization	(49,560)	(58,786)
	<b>152,464</b>	<b>13,475</b>

Amortization expenses were RMB 75,660, RMB 58,934 and RMB 26,397 for the years ended September 30, 2020, 2021 and 2022, respectively. Impairment loss against intangible assets were RMB 533,412, RMB nil and RMB 100,156 for the years ended September 30, 2020, 2021 and 2022, respectively.

For the years ended September 30, 2020, 2021 and 2022, the Group disposed of certain apartment rental contracts with net book value of RMB 14,756, RMB 10,725 and RMB 11,972, respectively, at no consideration. For the years ended September 30, 2020, 2021 and 2022, the Group recognized loss from disposal of intangible assets of RMB 14,756, RMB 10,725 and RMB 11,972, respectively.

The following table sets forth the Group's amortization expenses for the five years since September 30, 2022:

	Amortization expenses
Year ending September 30, 2023	6,002
Year ending September 30, 2024	3,734
Year ending September 30, 2025	1,588
Year ending September 30, 2026	829
Year ending September 30, 2027 and thereafter	1,322
	<u>13,475</u>

## 6. DEBT

The short-term and long-term debt were as follows:

	As of September 30,	
	2021	2022
<b>Short-term debt:</b>		
Short-term bank borrowings (1)	116,376	103,552
Long-term bank borrowings, current portion (1)	219,121	—
Other short-term payable (2)	223,208	6,545
	<u>558,705</u>	<u>110,097</u>
<b>Long-term debt:</b>		
Long-term bank borrowings, non-current portion (1)	175,534	—
Other long term payable (2)	25,507	—
	<u>201,041</u>	<u>—</u>
	<u>759,746</u>	<u>110,097</u>

### (1) Bank borrowings

#### Bank borrowings with MY Bank

On December 17, 2020, the Group entered into a 18-month borrowing agreement with Zhejiang MY Bank (the "MY Bank") under which the Group borrowed RMB 26,652. The borrowing is used to repay the rental instalment loans for the lessees. The interest rate is 8.5% per annum. Pursuant to the borrowing agreement, the Group is obliged to make monthly repayment of RMB 400 and interest expenses for the first six months and RMB 2,224 and interest expenses of the remaining twelve months. As of September 30, 2021, the Group had outstanding borrowings of RMB 24,652 due to MY Bank.

Upon deconsolidation of Deconsolidated VIE's Subsidiaries, the bank borrowing with MY Bank with outstanding balance of RMB 24,652 was deconsolidated.

#### Bank borrowings with SHRB

In July and November 2020, SHRB extended due date of matured borrowing for the principal of RMB 27,000 from September 2019 to January through March of 2022, and due date of borrowing for the principal of RMB 132,000 to March 2023. In December 2020, the Group borrowed two new bank borrowing from SHRB with principal of RMB 25,929 and RMB 9,000, respectively. Both loans bear interest rate of 7.5% per annum and are due in December 2022. These two loans were guaranteed by Suzhou Qingke, collateralize by Suzhou Qingke and Qingke Public Rental, pledged by the accounts receivables guarantee of Suzhou Qingke, Qingke Public Rental and Hangzhou Qingke Residential Management Co., Ltd., and pledged by 77,100,000 treasury shares. The Group used the bank borrowings to repay the outstanding bank borrowings. As of September 30, 2021, the Group had an outstanding balance of RMB 193,929, of which RMB 27,000 was subject to an interest rate of 8.75% per annum and remaining balance was subject to an interest rate of 7.5% per annum. The weighted average interest rate for borrowings drawn under such credit facility was 7.5% and 7.9% per annum for the years ended September 30, 2020 and 2021, respectively.

On September 26, 2020, the Group entered into an 18-month bank credit facility with SHRB under which the Group can draw-down up to RMB108,000 by March 26, 2021 to repay the rental instalment loans on behalf of tenants who early terminated the rented apartments (“departed tenants”) and for the daily operating expenditures. The interest rate for this credit facility was 8.5% per annum. In April 2021, SHRB renewed the terms under which the Group can draw-down up to RMB91,400 by September 27, 2021 and extended the loan term to September 26, 2022. As of September 30, 2021, the Group has drawn down RMB 90,400, all of which is to be repaid within one year. These loans were guaranteed by Suzhou Qingke, collateralized by Suzhou Qingke and Qingke Public Rental, and pledged by 77,100,000 treasury shares.

On April 30, 2020, the Group entered into an 18-month bank loan contract with SHRB under which the Group borrowed RMB 50,000 to repay the rental instalment loans on behalf of departed tenants. The rate of the loan was 7.5% per annum. In April 2021, SHRB extended due date of borrowing for the principal of RMB 50,000 to February 2022. Q&K Investment Consulting and Q&K E-commerce provided guarantee on the loans. As of September 30, 2021, the outstanding balance of the borrowing was RMB 50,000.

On May 28, 2020, the Group entered into an 18-month bank loan contract with SHRB under which the Group borrowed RMB 50,000 to repay the rental instalment loans on behalf of departed tenants. The rate of the loan was 7.5% per annum. In April 2021, SHRB extended due date of borrowing for the principal of RMB 50,000 to February 2022. Q&K Investment Consulting and Q&K E-commerce provided guarantee on the loans. As of September 30, 2021, the outstanding balance of the borrowing was RMB 50,000.

In June 2022, SHRB sold the above loans to the Group to a third party. In the same time SHRB also transferred the 77,100,000 treasury shares pledged to SHRB to the third party. Upon negotiation, the Company issued these shares to the third party to settle part of the obligations. On deconsolidation of the subsidiaries of the VIE, the balance of due to third parties were fully deconsolidated.

#### *Bank borrowings with China Merchants Bank*

On June 13, 2017, the Group entered into a 10-year bank loan contract with China Merchants Bank under which the Group borrowed RMB17,210 to purchase buildings for administration office purposes. The loan was collateralized by the buildings purchased under this loan contract. As of September 30, 2021, the net carrying value of the collateralized buildings was RMB 33,626. The weighted average interest rate of the loan was 5.39% per annum for the years ended September 30, 2020 and 2021. As of September 30, 2021, the Group has drawn down RMB 10,326, of which RMB 1,721 is to be repaid within one year, RMB 8,605 to be repaid over one year.

Upon deconsolidation of Deconsolidated VIE’s Subsidiaries, the bank borrowing of RMB 10,326 with China Merchants Bank were deconsolidated.

#### *Rental instalments with SHRB*

In the first quarter of 2019, the Group obtained a three-year revolving bank credit facility with SHRB under which the Group can draw-down up to RMB2,000,000, of which RMB1,000,000 is for rental instalment loans, by February 2022 with annual interest rate of 7.5%. As of September 30, 2021 and 2022, excluding the rental instalment loan facility, the Group did not draw down bank borrowings.

#### **(2) Other short and long term payable**

Other long term payable mainly represents loans from certain third party entities with no fixed term at an annual interest rate of 5%. Other short term payable mainly represents loans from certain third party entities due within one year at an annual interest rate ranging between 3.8% and 6%.

For the year ended September 30, 2021, one of the loans from a third party matured and the Group did not repay the principal when due. The Group and the borrower entered into an interest payment agreement, pursuant to which the Group paid 77,250,000 treasury shares to the borrower as interest expenses and extended the loans. Because the

interest payment agreement took effective after original borrowing agreement matured, and the original borrowing agreement does not qualify as a trouble debt restructuring under ASC 470-60, such a modification of loan agreement is treated as an extinguishment of original loan agreement. The reacquisition of the loan is referred to the value of the 77,250,000 treasury shares, which was RMB 41,964 and was recorded as a debt extinguishment cost in the consolidated statement of operations.

On May 25, 2022, the Group issued 8,617,124,250 class A ordinary shares to a third party, at a total consideration of RMB 392,104 to settle the outstanding principal of RMB 217,477 and interest of RMB 24,665. The Company recorded inducement expenses of RMB 149,962.

## 7. OPERATING COSTS

Operating costs include all direct costs incurred in the operation of the leased properties.

	For the years ended September 30,		
	2020	2021	2022
Rental cost	813,773	642,354	539,487
Depreciation expenses	256,056	75,332	26,543
Personnel cost	77,392	224,125	144,926
Cost for value-added services and others	56,194	7,843	47
	<b>1,203,415</b>	<b>949,654</b>	<b>711,003</b>

## 8. ASSET ACQUISITION

On July 22, 2020, the Group entered into a series of asset purchase agreements with Great Alliance Coliving Limited. and its affiliates (“Beautiful House” or the “Sellers”) to acquire assets, including approximately 72,000 apartment rental contracts with leasehold improvements attached to it, and trademarks of Beautiful House. In addition, the Group also assumed liabilities of RMB 349,665 associated with acquired assets. The consideration was comprised of cash of \$29,000 (approximately RMB 205,306) and 128,589,392 shares of the Group’s Class A ordinary shares with total value of \$42,673 (approximately RMB 289,733), reflecting discount for lack of marketability. The number of shares to be issued is determined based on the total share consideration amount agreed and average closing price of the Group’s ADS of 90 days prior to the execution of the asset purchase agreements. The shares are payable in three instalments of 30%, 40% and 30% with lockup periods expiring on June 30, 2021, 2022 and 2023, respectively. As of September 30, 2020, the Group made a cash payment of \$5,800 (equivalent of RMB39,498). There were no material direct transaction costs related to the transaction. The remaining cash consideration payable of \$23,200 (equivalent of RMB 165,808) and share consideration of RMB289,733 were recorded in the account of “Payable for asset acquisition” and “additional paid-in capital”, respectively.

The Group accounted for the acquisition as an asset acquisition because the Group did not acquire substantive process from Beautiful House.

On the date of asset acquisition, the Group determined the estimated fair values using Level 3 inputs after review and consideration of relevant information, including contract value of apartment rental agreements and estimates made by management. The apartment rental agreements with both landlords and tenants were valued using the multiperiod excess earnings method and the trademarks were valued using the relief from royalty method. The fair value of apartment rental agreements and trademarks was RMB 289,591 and RMB 86,900, respectively.

The total consideration of RMB 495,039, after deducting the liabilities of RMB 349,665 assumed in the asset acquisition, was allocated to identify assets on the basis of their relative fair value. The allocation is as follows:

	RMB
Apartment rental agreements	649,733
Trademarks	194,971
Liabilities assumed by the Group	(349,665)
	<b>495,039</b>

In May 2021, the Group entered into an agreement to settle the outstanding payables with the Sellers, pursuant to the agreement, the Group delivered 186,375,850 ordinary shares to settle both cash consideration payable and share consideration payable. The Sellers are entitled to trade the ordinary shares in open market. In addition, among the 186,375,850 shares delivered, 57,786,458 ordinary shares will oblige the Group to make up the shortfall if the cash collected by the Sellers are lower than \$0.4014 per share. Additionally, 20,860,749 of the 57,786,458 ordinary shares are redeemable at a per share price of \$0.4015 if the Sellers do not trade in open market.

The 57,786,458 ordinary shares are subject to a make-whole cash-settled provision, and 20,860,749 ordinary shares of which are also subject to redemption. The Group assessed the redemption terms and assessed it is probable that the Group will redeem these ordinary shares. The 57,786,458 ordinary shares fall in the classification of a liability. As of September 30, 2021 and 2022, the Group recorded the liabilities of RMB 164,254 and RMB 165,033 in the account of “Contingent liabilities for payable for asset acquisition”. The change in the balance as of September 30, 2021 and 2022 arose from change in foreign exchange rates.

## 9. CONVERTIBLE NOTE, NET

The Group has executed a convertible note and warrant purchase agreement dated July 22, 2020 (the “Purchase Agreements”) with one investor which is controlled by one principal shareholder of the Group (Note 15) and one third party investor under which the investors may subscribe at par for up to \$100,000 in aggregate principal amount of the Group’s four-year convertible notes (the “Notes”) and five-year warrants to subscribe to a certain number of the ADSs.

On May 25, 2022, the Group entered into certain amendments to the conversion price of the convertible notes, which was adjusted to being the price calculated as seventy five percent 75% of the 15-Trading Day average closing price of the Company’s American Depositary Shares (the “ADS”), each representing 150 class A ordinary shares of the Company, as of May 13, 2022 (the “Conversion Price”). The holders of Notes converted all of the outstanding principal amount of convertible notes and all the accrued but unpaid interest as of such date at the Conversion Price. The Company issued 15,414,467,400 Ordinary Shares, at fair value of RMB 701,403 to settle the convertible notes and all the accrued but unpaid interest of RMB 427,679. The Group accounted for the transaction as an inducement offer and recognized inducement expenses of RMB 273,724 upon conversion.

By May 13, 2022, the date on which the Company settled the convertible noted, the Group closed 22 issuances of Notes of \$51,637 (approximately RMB 344,619). The maturity dates of these Notes shall be the fourth anniversary of issuance dates.

Each Note is comprised of two series of notes. Series 1 Note bears interest of 7.5% per annum payable in cash annually and another 7.5% per annum payable in cash on the maturity date. Series 2 Note bears interest of 3.5% per annum payable in cash annually and another 13.5% per annum payable in cash on the maturity date. In the event of a Fundamental Change, as defined in the Purchase Agreement, the interest rate increases to 25% per annum and the holders of the Notes can require the Group to redeem the outstanding principal and interest for cash.

Each of the holders of the Notes at any time on or after the 41st day after the issuance date of the Notes and prior to the maturity date, at its option, may convert in whole but not in part the entire outstanding principal amount and the accrued and unpaid interest into ADSs. The conversion price is as follows:

- (1) 120% of 30-Trading Day average closing price of the Company's American Depositary Shares (the "ADS"), or
- (2) if the Group completes an ADS offering of at least \$50,000 within eighteen (18) months after the issuance date of this Note, eighty percent (80)% of the issue price per ADS in such offering, such adjusted conversion price shall be effective on the day immediately succeeding the closing date of the ADS offering.

The conversion price is subject to adjustment in the event of a Make Whole Fundamental Change, as defined in the Purchase Agreement.

The Group may at its option, upon the delivery of a mandatory conversion notice to the holders of the Notes (the "Mandatory Conversion Notice", and such date of delivery, the "Mandatory Conversion Date"), require the holders of the Notes to convert all the outstanding principal amount and all the accrued but unpaid share interest as of the Mandatory Conversion Date into the ADSs, in the event that: (i) the reported sales price of the ADS of the Group is no less than \$22.00 per ADS, subject to adjustment in the event of fundamental change, as defined, for more than sixty (60) consecutive trading days and (ii) the average daily trading volume during such sixty (60) consecutive trading days is more than \$15,000 per trading day.

In addition, the Group issued to the holder of the Notes, warrants to purchase ADSs equal to 4% of the principal balance on the date of issuance and 4%, 6%, 7% and 8% of the principal amount of the Notes outstanding as of such anniversary dates. Each of the warrants expire five years after its respective issue date and has an exercise price equivalent to 110% of the volume weighted average price ("VWAP") of the ADSs over the 60 trading days preceding the date of issuance of each warrant, subject to certain adjustments upon the occurrence of certain dilutive events.

A summary of warrants activity for the years ended September 30, 2020, 2021 and 2022 was as follows. The number of ADS were retroactively adjusted to reflect the stock split of ADS effective on March 7, 2022.

A summary of warrants activity for the years ended September 30, 2021 and 2021 was as follows:

	Number of ADSs	Weighted average life	Expiration dates
Balance of warrants outstanding as of September 30, 2020	21,913	4.84 years	
Grants of Warrants on October 14, 2020	963	5 years	October 14, 2025
Grants of Warrants on October 20, 2020	2,770	5 years	October 20, 2025
Grants of Warrants on October 29, 2020	3,124	5 years	October 29, 2025
Grants of Warrants on December 15, 2020	5,744	5 years	December 15, 2025
Grants of Warrants on February 25, 2021	4,630	5 years	February 25, 2026
Grants of Warrants on April 7, 2021	3,174	5 years	April 7, 2026
Grants of Warrants on May 18, 2021	1,720	5 years	May 18, 2026
Grants of Warrants on June 21, 2021	2,715	5 years	June 21, 2026
Grants of Warrants on July 13, 2021	7,435	5 years	July 13, 2026
Grants of Warrants on July 30, 2021	1,773	5 years	July 30, 2026
Grants of Warrants on September 8, 2021	1,311	5 years	September 8, 2026
Grants of Warrants on September 30, 2021	1,355	5 years	September 30, 2026
Balance of warrants outstanding as of September 30, 2021	58,627	4.25 years	
Grants of Warrants on October 19, 2021	1,705	5 years	October 19, 2026
Grants of Warrants on November 1, 2021	2,184	5 years	November 1, 2026
Grants of Warrants on November 29, 2021	1,939	5 years	November 29, 2026
Grants of Warrants on December 10, 2021	2,127	5 years	December 10, 2026
Grants of Warrants on January 6, 2022	3,801	5 years	January 6, 2027
Grants of Warrants on January 27, 2022	13,385	5 years	January 27, 2027
Grants of Warrants on March 1, 2022	7,412	5 years	March 1, 2027
Grants of Warrants on March 31, 2022	8,031	5 years	March 31, 2027
<b>Balance of warrants outstanding as of May 13, 2022</b>	<b>99,211</b>		

The warrants are subject to anti-dilution provisions to reflect stock dividends and splits or other similar transactions, but not as a result of future securities offerings at lower prices.

The convertible notes did not contain beneficial conversion feature. The embedded conversion features, redemption features and acceleration features were not bifurcated from the debt hosts as they were clearly and closely related to the debt hosts. The convertible notes were classified as debt measured at amortized cost. The warrants were cashless settled and were classified as an equity because the warrants were indexed to the Group's own stocks and classified in the shareholders' equity in the consolidated balance sheets.

The proceeds from issuance of the Notes were allocated to the relative fair values of the Notes and warrants. The Group estimated fair value of Notes were RMB 286,098, using discount cash flow model, which took into consideration the term yields ranging between 18.12% and 25.58%. The Group estimated fair value of the warrants issued at RMB 6,052, using the Black-Scholes valuation model, which took into consideration the underlying price of ordinary shares, a risk-free interest rate, expected term and expected volatility. As a result, the valuation of the warrant was categorized as Level 3 in accordance with ASC 820, "Fair Value Measurement". The Group allocated proceeds of RMB 8,596 to the warrants which was recorded as an additional paid-in capital.



On May 25, 2022, the Group settled convertible notes and all the accrued but unpaid interest. In the meantime, the warrants to subscribe the ADSs were cancelled.

The discounts of RMB 8,596 will be amortized as additional interest expense over the terms of Notes. For the years ended September 30, 2020, 2021 and 2022, the Group accrued accretion of interest expenses of RMB 214, RMB 1,988 and RMB 1,222, respectively.

The key assumption used in estimates are as follows:

	July 29, 2020	September 25, 2020	October 14, 2020	October 20, 2020	October 29, 2020	December 15, 2020	February 25, 2021	April 7, 2021	May 18, 2021
Terms of warrants	60 months	60 months	60 months	60 months	60 months	60 months	60 months	60 months	60 months
Exercise price	57.3090	51.1070	46.5205	43.3265	38.4150	25.8380	17.7090	16.6355	10.1560
Risk free rate of interest	0.21 %	0.21 %	0.29 %	0.29 %	0.29 %	0.28 %	0.58 %	0.61 %	0.69 %
Dividend yield	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Annualized volatility of underlying stock	40.0 %	39.0 %	39.0 %	39.0 %	39.0 %	40.0 %	41.0 %	40.0 %	40.0 %

	June 21, 2021	July 13, 2021	July 30, 2021	September 8, 2021	September 30, 2021
Terms of warrants	60 months	60 months	60 months	60 months	60 months
Exercise price	10.1560	8.0360	8.0360	5.9720	5.9720
Risk free rate of interest	0.69 %	0.52 %	0.52 %	0.76 %	0.76 %
Dividend yield	0.00	0.00	0.00	0.00	0.00
Annualized volatility of underlying stock	40.0 %	40.0 %	40.0 %	40.0 %	40.0 %

	October 11, 2021	November 1, 2021	November 11, 2021	December 10, 2022	January 6, 2022	January 27, 2022	March 1, 2022	March 31, 2022
Terms of warrants	60 months	60 months	60 months	60 months	60 months	60 months	60 months	60 months
Exercise price	4.5744	4.2757	4.0013	3.5739	3.2626	2.8391	2.5636	2.3658
Risk free rate of interest	1.17 %	1.24 %	1.24 %	1.55 %	1.55 %	1.55 %	1.96 %	1.96 %
Dividend yield	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Annualized volatility of underlying stock	40.9 %	40.8 %	40.8 %	41.5 %	41.5 %	41.5 %	42.2 %	42.2 %

## 10. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	As of September 30,	
	2021	2022
Due to a rental service company (1)	603,884	—
Tenant deposits	102,355	5,184
Payable to a constructor for leasehold improvements (2)	62,498	—
Other tax payable	91,970	63,619
Interest payable	106,439	1,680
Accrued utilities	25,503	—
Operation service payable	35,514	—
Accrued payroll and welfare	4,471	3,999
Others	16,727	7,167
	<b>1,049,361</b>	<b>81,649</b>

(1) As of September 30, 2021, the balance of due to a rental service company primarily represented

- a) the rental deposits and prepaid rental fee collected from tenants. The rental deposits and prepaid rental fee belonged to the rental service company, for which the Group provided apartment operation services since April 2020, and
- b) Capital lease payable and other financing payables due to the rental service company. The Group started to cooperate with a rental service company to source and renovate apartments since August 2018. For certain identified newly sourced apartments, the rental service company reimburses the Group for costs incurred for the renovation. The Group then makes payments to the rental service company in instalments equal to the reimbursed renovation costs plus interest and tax over a period of five years. At the end of the five-year period, the ownership of the renovation will be transferred to the Group. The Group accounts for this arrangement with the rental service company as a capital lease. The Group terminated cooperation with the rental service company, and the Group reclassified the capital lease payable and other financing payable to the account of “Due to a rental service company”.

During the year ended September 30, 2022, the Company deconsolidated subsidiaries of the VIE. As of September 30, 2022, the Company had no balance of due to a rental service company.

(2) During the year ended September 30, 2022, the constructor claimed debts with the Court (Note 3), which allocated the proceeds to the constructor. As of September 30, 2022, the Company had no outstanding balance due to the constructor.

## 11. SHARE BASED COMPENSATION

The Group utilized Yijia Inc., a company controlled by the Founder as a vehicle to hold shares that will be used to provide incentives and rewards to employees and executives who contribute to the success of the Group’s operations. According to the Group’s board resolutions, in July 2017 and March 2018, 86 million shares were reserved to Yijia Inc. Yijia Inc. has no activities other than administrating the incentive program and does not have any employees. On behalf of the Group and subject to approvals from the board or directors, the Founder has the authority to select eligible participants to whom equity awards will be granted; determine the number of shares covered; and establish the terms, conditions and provision of such awards. The board resolutions allow the grantees to hold options to purchase from the Yijia Inc. the equity shares of the Group.

As of June 24, 2022, Yijia Inc. held 75.2 million Class B ordinary shares. On June 24, 2022, Yijia Inc. transferred all reserved ordinary shares to Golden Stream Limited, a company controlled by Mr. Qu Chengcai, the Chief Executive Officer of the Group. Upon transfer, the Class B ordinary shares previously held by Yijia Inc. were automatically converted to Class A ordinary shares pursuant to the Company’s third amended and restated memorandum and articles of association. Since then, Golden Stream Limited became a vehicle to hold shares that will be used to provide incentives and rewards to employees and executives who contribute to the success of the Group’s

operations. The board resolutions allow the grantees to hold options to purchase from the Golden Stream Limited the equity shares of the Group.

All the share information disclosed under Stock Option A and Stock Option B in this section refers to the shares of the Group the grantees are entitled through Yijia Inc. shares before June 24, 2022 and through Golden Stream Limited after June 24, 2022. The related expenses are reflected in the Group's consolidated financial statements as share-based compensation expenses with an offset to additional paid-in capital. Given the shares owned by Yijia Inc./Golden Stream Limited for the purpose of the incentive program are existing and outstanding shares of the Group, the options do not have any dilution effect on the loss per share (see Note 12).

#### *Stock Option A*

On August 31, 2014, April 21, 2016, October 17, 2016 and October 18, 2016, the Group granted an aggregate number of 26.86 million share options to certain management, employees and non-employees of the Group. Under the plan, the exercise price was US\$0.31 (RMB2.00) per share and vests 50% on the first and second anniversary after the IPO date. All grantees were restricted from transferring more than 25% of their total exercised ordinary shares each year after the exercise date. Given the vesting was contingent on the IPO and vested on the first and second anniversary after the IPO date, no share-based compensation expense is recognized until the date of IPO. For the year ended September 30, 2021, no share options were vested or exercised. As of September 30, 2021 and 2022, the number of outstanding options is 10,250,000 and 10,250,000, respectively, which was equal to the number of option expected to be vested. The remaining Stock Options A are exercisable into 10,250,000 Class B ordinary shares. Because the exercise price is out of money, the weighted average intrinsic value of the outstanding options and the options expected to vest was RMB nil.

#### *Stock Option B*

On July 31, 2017, the Group granted 43.14 million share options to management and employees of the Group. The options vested immediately upon the grant date and the exercise price were US\$0.31 (RMB2.00) per share. All grantees were restricted from transferring its exercised ordinary shares during certain periods subsequent to the IPO date (the "lock-up period"). If the grantee resigned from the Group before the IPO or during the lock-up period, the Group has the right to repurchase the share options or ordinary shares at the exercise price. The Group believes that the repurchase feature is effectively to require the employee to remain throughout the requisite period in order to receive any economic benefit from the award. As such, the repurchase feature functions as a vesting condition that is contingent on the IPO, no share-based compensation expense is recognized until the date of IPO. As of September 30, 2021 and 2022, the Group had 23,950,000 and 23,850,000 share options outstanding, vested and exercisable. The remaining Stock Options B are exercisable into 23,850,000 Class A ordinary shares. Because the exercise price is out of money, the weighted average intrinsic value of these share options were RMB nil.

Binomial options pricing model was applied in determining the estimated fair value of the options granted. The model requires the input of highly subjective assumptions including the estimated expected stock price volatility and, the exercise multiple for which employees are likely to exercise share options. The estimated fair value of the ordinary shares, at the option grants, was determined with assistance from an independent third party valuation firm. The Group's management is ultimately responsible for the determination of the estimated fair value of its ordinary shares.

The following table presents the assumptions used to estimate the fair values of the share options granted in the years presented:

	<u>April 2016</u>		<u>October 2016</u>		<u>July 2017</u>	
Risk-free rate of return	3.18 %		3.18 %		3.21 %	
Contractual life of option	10 years		10 years		8.4 years	
Estimated volatility rate	37 %		37 %		35 %	
Expected dividend yield	0 %		0 %		0 %	
Fair value of underlying ordinary shares	US\$	0.03	US\$	0.04	US\$	0.05

## 2019 Share Incentive Plan

The 2019 Share Incentive Plan became effective immediately upon the completion of our initial public offering. The maximum number of shares that may be issued under the 2019 Plan is 10% of the total outstanding shares as of the date of the consummation of our initial public offering.

In June 2022, the Group issued 72 million stock options with nil exercise price to Mr. Qu, the Chief Executive Officer of the Company. All of the stock options were vested and exercised immediately upon grant. The Group recorded stock options at the grant date fair value per ADS of US\$1.4537 by reference to the share price in the open market on grant date.

In June 2022, the Group issued 50.36 million stock options with nil exercise price to Mr. Sun, the Chief Financial Officer of the Company, of which 43.18 million stock options vested and exercised immediately upon grant, 3.59 million stock options vested on August 3, 2022, and the remaining 3.59 million stock options vested on August 3, 2023. As of September 30, 2022, the 3.59 million stock options vested on August 3, 2022 was not exercised by or issued to Mr. Sun. The Group recorded stock options at the grant date fair value per ADS of US\$1.4537 by reference to the share price in the open market on grant date.

A summary of option activity during the year ended September 30, 2022 is presented below:

	Number of Options	Exercise Price RMB	Remaining Contractual Life
Outstanding, as of September 30, 2021	34,200,000	2	4.96
Granted	122,360,108	—	10.00
Exercised	(115,180,054)	—	10.00
Forfeited	(100,000)	2	4.83
Outstanding, as of September 30, 2022	41,280,054	2	5.44
Vested and exercisable as of September 30, 2022	37,690,027	2	4.51
Vested or expected to vest as of September 30, 2022	41,280,054	2	5.44

The Group recognized the compensation cost for the stock options on a straight line basis over the requisite service periods.

For the years ended September 30, 2020, 2021 and 2022, the Group recorded compensation expenses of RMB 16,045, RMB 1,236 and RMB 9,771 in connection with the above stock options. As of September 30, 2022, the Group had unrecognized compensation expenses for stock options of RMB169.

### Restricted shares units

Under 2019 Share Incentive Plan, in March 2021, the Group also issued 25,000,000 restricted share units (“RSU”) to a consulting company for the service provided. All of the RSU were vested immediately upon grant. The Group recorded RSU at the measurement date fair value per share of US\$0.09 by reference to the share price in the open market on grant date.

For the years ended September 30, 2020, 2021 and 2022, the Group recorded compensation expenses of RMB nil, RMB 14,570 and RMB nil in connection with the above restricted shares units.

As of September 30, 2022, the Group had no unrecognized compensation expenses for restricted share units.

For the years ended September 30, 2020, 2021 and 2022, the total share-based compensation expenses were comprised of the following:

	For the years ended September 30,		
	2020	2021	2022
Selling and marketing expenses	83	7	12
General and administrative expenses	15,596	15,991	9,737
Research and development expenses	366	(192)	22
	<u>16,045</u>	<u>15,806</u>	<u>9,771</u>

## 12. LOSS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the years indicated:

	For the years ended September 30,		
	2020	2021	2022
<b>Numerator:</b>			
Net (loss) income attributable to FLJ Group Limited's ordinary shareholders	(1,533,592)	(569,174)	820,023
<b>Denominator:</b>			
Weighted average ordinary shares outstanding—basic and diluted	1,351,127,462	1,460,692,909	10,258,424,457
Net loss per share—basic and diluted	(1.14)	(0.39)	0.08

For the years ended September 30, 2020, 2021 and 2022, weighted average ordinary shares included nil, nil and 3,590,027 stock options. The 3,590,027 stock options were vest but unexercised as of September 30, 2022. The Company included the stock options because they are exercisable at RMB nil.

For the years ended September 30, 2020, 2021 and 2022, potential ordinary shares from assumed conversion of 2,789,720, 7,452,445 and 0 convertible notes as well as 41,750,000, 34,200,000 and 37,690,027 options have not been reflected in the calculation of diluted net loss per share as their inclusion would have been anti-dilutive.

## 13. INCOME TAXES

### *Cayman Islands*

Under the current laws of the Cayman Islands, the Company, FLJ Group Limited is not subject to tax on income or capital gain.

### *BVI Islands*

Under the current laws of the British Virgin Islands ("BVI"), the Group, QK365.com Inc. incorporated in BVI is not subject to tax on income or capital gain.

### *Hong Kong*

QingKe (China) Limited and Fenglinju and are subject to Hong Kong profit tax. The applicable tax rate for the first Hong Kong dollar ("HKD\$") \$2,000 of assessable profits is 8.25% and assessable profits above HKD\$2,000 will continue to be subject to the rate of 16.5% for corporations in Hong Kong, effective from the year of assessment 2018/2019. No Hong Kong profit tax has been provided as the Group has not had assessable profit that was earned in or derived from Hong Kong during the years presented.

## United States of America

The Group's subsidiary in the U.S. is registered in the state of Delaware and is subject to a flat U.S. federal corporate income tax rate of 21%. In the year ended September 30, 2022, the US company filed a withdrawal that it was no longer required to file documents or tax returns to State or Federal since it was not generating profit as a legal entity thereafter.

## PRC

Under the Law of the People's Republic of China on Enterprise Income Tax ("EIT Law"), which was effective from January 1, 2008, domestically-owned enterprises and foreign-invested enterprises are subject to a uniform tax rate of 25%.

Tax benefits is comprised of the following:

	For the years ended September 30,		
	2020	2021	2022
Current tax income	13	31	21
Deferred tax expenses	—	—	—
	<b>13</b>	<b>31</b>	<b>21</b>

A reconciliation between the effective income tax rate and the PRC statutory income tax rate are as follows:

	For the years ended September 30,		
	2020	2021	2022
PRC statutory tax rate	25 %	25.0 %	25.0 %
Effect of different tax rates of group entities operating in other jurisdictions and preferential tax rates of group entities	0.5 %	(5.0)%	14.8 %
Effect of other expenses that are not deductible in determining taxable profit	—	(0.9)%	0.3 %
Effect of gain from deconsolidation	—	—	(52.9)%
Effect of share-based compensation	(0.3)%	(0.7)%	0.3 %
Effect of loss on disposal of long-term assets	(7.6)%	(2.0)%	0.4 %
Effect of change in valuation allowance	(17.6)%	(16.4)%	12.1 %
	<b>(0.0)%</b>	<b>(0.0)%</b>	<b>(0.0)%</b>

The principal components of the Group's deferred income tax assets as of September 30, 2021 and 2022 are as follows:

	As of September 30,	
	2021	2022
<b>Deferred tax assets:</b>		
Net losses carry forwards	215,193	109,940
Impairment loss on long-term assets	313,668	338,707
Allowance of doubtful accounts	37,668	39,136
Other accrued expenses	22,746	22,746
Advertising expenses	12,592	12,592
Valuation allowance	(601,867)	(523,121)
	<b>—</b>	<b>—</b>

Movement of the valuation allowance is as follows:

Balance as of September 30, 2019	338,964
Addition	280,958
Write off	—
Balance as of September 30, 2020	619,922
Addition	94,809
Write off	(112,864)
Balance as of September 30, 2021	601,867
Addition	99,230
Write off	(177,976)
Balance as of September 30, 2022	<u>523,121</u>

The write down of the valuation allowance is related to a reduction of the deferred tax asset for net operating losses from to the realizable amount based on prior tax filings and deconsolidation entities.

The Group considers positive and negative evidence to determine whether some portion or all of the deferred tax assets will more likely than not be realized. This assessment considers, among other matters, the nature, frequency and severity of recent losses, forecasts of future profitability, the duration of statutory carryforward periods, the Group's experience with tax attributes expiring unused and tax planning alternatives. Valuation allowances have been established for deferred tax assets based on a more likely than not threshold. The Group's ability to realize deferred tax assets depends on its ability to generate sufficient taxable income within the carryforward periods provided for in the tax law.

As of September 30, 2022, the Group had tax loss carryforwards of RMB 439,563, of which nil, RMB 143,592, RMB 24,556, RMB 21,168 and RMB 250,247, will expire, if unused, by 2023, 2024, 2025, 2026, and 2027, respectively. As of September 30, 2022, the net operating loss carryforward in Hong Kong RMB 300. The net operating loss in Hong Kong can be carried forward indefinitely.

According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of income taxes is due to computational errors made by the taxpayer. The statute of limitations will be extended to five years under special circumstances, which are not clearly defined, but an underpayment of income tax liability exceeding RMB100 is specifically listed as a special circumstance. In the case of a transfer pricing related adjustment, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion. The Group's PRC subsidiaries are therefore subject to examination by the PRC tax authorities from 2018 through 2022 on non-transfer pricing matters, and from 2012 through 2022 on transfer pricing matters.

In accordance with the EIT Law, dividends, which arise from profits of foreign invested enterprises ("FIEs") earned after January 1, 2008, are subject to a 10% withholding income tax. In addition, under tax treaty between the PRC and Hong Kong, if the foreign investor is incorporated in Hong Kong and qualifies as the beneficial owner, the applicable withholding tax rate is reduced to 5%, if the investor holds at least 25% in the FIE, or 10%, if the investor holds less than 25% in the FIE. A deferred tax liability should be recognized for the undistributed profits of PRC subsidiaries unless the Group has sufficient evidence to demonstrate that the undistributed dividends will be reinvested and the remittance of the dividends will be postponed indefinitely. The Group plans to indefinitely reinvest undistributed profits earned from its China subsidiaries in its operations in the PRC. Therefore, no withholding income taxes for undistributed profits of the Group's subsidiaries have been provided as of September 30, 2021 and 2022.

Under applicable accounting principles, a deferred tax liability should be recorded for taxable temporary differences attributable to the excess of financial reporting basis over tax basis in a domestic subsidiary.

For the year ended September 30, 2022, the gains from deconsolidation of VIE's subsidiaries were recorded by Company and was not allocated to the Group's PRC subsidiaries and VIE. The Group's PRC subsidiaries and VIE reported accumulated deficits that are not available for distribution as of September 30, 2021 and 2022.

#### 14. STATUTORY RESERVES AND NET RESTRICTED ASSETS

The Group's ability to pay dividends is primarily dependent on the Group receiving distributions of funds from its subsidiaries. Relevant PRC statutory laws and regulations permit payments of dividends by the VIE and subsidiaries of the VIE incorporated in PRC only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The consolidated results of operations reflected in the consolidated financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Group's subsidiaries.

Under PRC law, the Group's subsidiaries and consolidated VIEs located in the PRC (collectively referred as the "PRC entities") are required to provide for certain statutory reserves, namely a general reserve, an enterprise expansion fund and a staff welfare and bonus fund. The PRC entities are required to allocate at least 10% of their after tax profits on an individual company basis as determined under PRC accounting standards to the statutory reserve and has the right to discontinue allocations to the statutory reserve if such reserve has reached 50% of registered capital on an individual company basis. In addition, the registered capital of the PRC entities is also restricted.

Amounts restricted including paid-in capital and statutory reserve funds as determined pursuant to PRC Laws were RMB 1,754,615 and RMB 10,000 as of September 30, 2021 and 2022, respectively.

#### 15. RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The following entities are considered to be related parties to the Group. The related parties mainly act as service providers and service recipients to the Group. The Group is not obligated to provide any type of financial support to these related parties.

Related Party	Relationship with the Group
Shanghai Laiguan Property Management Co., Ltd. ("Laiguan")	
(i)	An entity controlled by certain shareholders of the Group
Shanghai Qingji Property Management Co., Ltd. ("Qingji")	
(i)	An entity controlled by certain shareholders of the Group
Wangxiancai Limited	An entity controlled by the legal representative and executive director of one of the subsidiaries
Key Space (S) Pte Ltd ("Key Space")	An entity controlled by certain shareholders of the Group
Mr. Qu Chengcai	Chief Executive Officer
Mr. Sun Zhichen	Chief Financial Officer

(i) Laiguan and Qingji ceased to be a related party of the Group in January 2021.

The Group entered into the following transactions with its related parties:

For the years ended September 30, 2020, 2021 and 2022, services provided by the related parties were as follows:

	For the years ended September 30,		
	2020	2021	2022
Labor outsourcing service expense to Laiguan	25,059	—	—
Labor outsourcing service expense to Qingji.	22,405	—	—
	<b>47,464</b>	<b>—</b>	<b>—</b>



As stated in Note 1, on October 26, 2021 and December 17, 2021, the Group transferred the equity interest in the Q&K Investment Consulting and Q&K HK, respectively, to Wangxiancai Limited for nominal consideration.

As stated in Note 9, for the years ended September 30, 2020, 2021 and 2022, the Group issued convertible notes in exchange for cash of \$24,018 (RMB 163,565), \$17,574 (RMB 113,236) and \$2,813 (RMB 20,007), respectively, to Key Space.

Among the convertible notes issued in the year ended September 30, 2020, \$7,133 and \$16,885 are subject to interest rate of 15% per annum and 17% per annum, respectively. Among the convertible notes issued in the year ended September 30, 2021, \$5,220 and \$12,354 are subject to interest rate of 15% per annum and 17% per annum, respectively. Among the convertible notes issued in the year ended September 30, 2022, \$835 and \$1,978 are subject to interest rate of 15% per annum and 17% per annum, respectively. For the year ended September 30, 2020, 2021 and 2022, the Group accrued interest expenses of RMB 4,365, RMB 49,512 and RMB 13,094 on the convertible notes. On May 25, 2022, the Company issued ordinary shares to settle outstanding principal and unpaid interest.

As stated in Note 11, the Group issued 72 million and 43.18 million stock options to Mr. Qu and Mr. Sun, respectively. (See Note 11-Share based compensation)

As of September 30, 2021 and 2022, amounts due from related parties were RMB 201 and RMB nil, respectively, and details are as follows:

	As of September 30,	
	2021	2022
Others	201	—
	<b>201</b>	<b>—</b>

As of September 30, 2021 and 2022, amounts due to related parties were RMB nil and RMB 4,831, respectively. The balance due to related parties represented borrowings from the related parties which were due within 12 months from borrowing. Details are as follows:

	As of September 30,	
	2021	2022
Key Space	—	4,065
Others	—	766
	<b>—</b>	<b>4,831</b>

## 16. COMMITMENTS AND CONTINGENCIES

### (a) Operating lease commitments

The Group has entered into lease agreements for properties which it operates. Such leases are classified as operating leases. Future minimum lease payments under non-cancellable operating lease agreements at September 30, 2022 were as follows:

For the years ending September 30,	
2023	339,513
2024	211,216
2025	81,947
2026	34,447
2027 and thereafter	37,905
<b>Total</b>	<b>705,028</b>

**(b) Purchase Commitments**

As of September 30, 2022, the Group's did not have commitments related to leasehold improvements and installation of equipment.

**(c) Contingencies**

The Group is subject to periodic legal or administrative proceedings in the ordinary course of business. The Group does not believe that any currently pending legal or administrative proceeding to which the Group is a party will have a material effect on its business or financial condition.

**17. SUBSEQUENT EVENTS**

*2022 Share Incentive Plan*

On November 18, 2022, the board of directors has approved and adopted a new share incentive plan (the "2022 Plan"). The maximum number of shares available for issuance under the 2022 Plan is 2,500,000,000 Class B ordinary shares of the Company (the "Shares").

In respect of matters requiring the votes of shareholders, holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share based on our dual class share structure. Each Class B ordinary share is convertible into one (1) Class A ordinary share at any time by the holder thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any transfer of Class B ordinary shares by a holder thereof to any person or entity which is not an affiliate of such holder, such Class B ordinary shares shall be automatically and immediately converted into the equal number of Class A ordinary shares.

The board of directors has also approved the issuance of the Shares to an ESOP Platform, which is holding these Shares (representing 8.8% of the total outstanding share capital and 49.1% of the voting power of the Company) and will act upon the instructions from a senior management committee of the Company determined on a unanimous basis in relation to the voting and, prior to the vesting of the Shares to the relevant grantee of the share-based awards under the 2022 Plan, the disposition of the Shares. The Shares held by the ESOP Platform are reserved for share-based awards that the Company may grant in the future under the 2022 Plan. As of the date of this report, 2,500,000,000 Class B ordinary shares were reserved to 2022 Plan and no Class B ordinary shares have been issued under the 2022 Plan.

*Commitment letter for net settle outstanding receivables*

As of September 30, 2022, the Company had a balance of due from a service provider of RMB 36,100 and deposits of RMB 21,341 (Note 3). As one of the shareholders of the Seller of Beautiful House controls the service provider, both balances were collectible from the shareholder and one of its subsidiaries ("Shareholders"), to which the Company was obliged to make contingent liabilities aggregating RMB 119,186. On January 10, 2023, the Shareholders provided a commitment letter to the Company, pursuant to which the Shareholders agreed to net settle the outstanding receivable upon the Company repays the contingent liabilities.

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Chengcai Qu, certify that:

1. I have reviewed this annual report on Form 20-F of FLJ Group Limited;
  2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
  3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
  4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
    - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles ;
    - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
  5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
    - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably
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likely to adversely affect the company's ability to record, process, summarize and report financial information; and

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: January 20, 2023

By: /s/ Chengcai Qu  
Name: Chengcai Qu  
Title: Chairman of the Board of Directors, Chief Executive Officer, Chief Operating Officer and Vice President

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**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Zhichen (Frank) Sun, certify that:

1. I have reviewed this annual report on Form 20-F of FLJ Group Limited;
  2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
  3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
  4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
    - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
  5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
    - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably
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likely to adversely affect the company's ability to record, process, summarize and report financial information; and

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.
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Date: January 20, 2023

By: /s/ Zhichen (Frank) Sun  
Name: Zhichen (Frank) Sun  
Title: Chief Financial Officer (principal financial officer)

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**CERTIFICATION BY THE PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of FLJ Group Limited (the “Company”) on Form 20-F for the fiscal year ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Chengcai Qu, Chairman of the Board of Directors, Chief Executive Officer, Chief Operating Officer and Vice President of the Company, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 20, 2023

By: /s/ Chengcai Qu  
Name: Chengcai Qu  
Title: Chairman of the Board of Directors, Chief Executive Officer, Chief Operating Officer and Vice President

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**CERTIFICATION BY THE PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of FLJ Group Limited (the “Company”) on Form 20-F for the fiscal year ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Zhichen (Frank) Sun, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 20, 2023

By: /s/ Zhichen (Frank) Sun  
Name: Zhichen (Frank) Sun  
Title: Chief Financial Officer (principal financial officer)

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INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the incorporation by reference in this Registration Statement of FLJ Group Limited on Form F-3 (FILE NO. 333-258187) of our report dated January 20, 2023, which includes an explanatory paragraph as to the Company's ability to continue as a going concern with respect to our audits of the consolidated financial statements of FLJ Group Limited as of September 30, 2022 and 2021 and for each of the three years ended September 30, 2022 appearing in the Annual Report on Form 20-F of FLJ Group Limited for the fiscal year ended September 30, 2022.

/s/ Marcum Asia CPAs LLP

Marcum Asia CPAs LLP  
New York, NY  
January 20, 2023

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**Exhibit 15.2**

January 20, 2023  
FLJ Group Limited  
2F, Building 5  
No.18, Gongping Road  
Hongkou District, Shanghai, 200082  
People's Republic of China

Dear Sir/Madam:

We hereby consent to the references to our firm's name under the headings "Part I", "Item 3. Key Information—D. Risk Factors", "Item 4. Information on the Company—B. Business Overview" and "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information" in FLJ Group Limited's annual report on Form 20-F for the fiscal year ended September 30, 2022 (the "Annual Report"), which will be filed with the Securities and Exchange Commission (the "SEC") on the date hereof. We also consent to the filing of this consent letter with the SEC as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Very truly yours,

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/s/ JunHe LLP

JunHe LLP

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