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

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

For the purposes of this section, unless the context otherwise requires, references to 2019, 2020 and 2021 refer to our fiscal years ended December 31 of such years, respectively.

OVERVIEW

We offer a broad array of cloud-native customer contact solutions, which are communication solutions that enable enterprises to engage in multi-channel customer interactions. We are China's largest provider of customer contact solutions deployed in public clouds as measured by revenue in 2021, with a market share of 10.3%, according to the CIC Report. In 2021, the market size of customer contact solutions deployed in public clouds in terms of revenue amounted to RMB4.0 billion, accounting for 38.2% of the cloud-based customer contact solutions market and 26.9% of the customer contact solutions market, respectively, according to the same source. Our solutions, rooted in our cloud-native, secure and reliable platform, empower businesses to create exceptional customer communication experience and intelligize their way of conducting sales, marketing, customer service and other business functions. In 2021, we facilitated over 3.0 billion interactions in the form of voice calls, SMS messages and text chat between businesses and their customers across multiple channels, helping increase their productivity and efficiency.

Technology is at the heart of our solutions. Driven by our unwavering commitment to innovation, we have achieved three major transformations, which set a solid foundation for our success:

- *Cloud-native architecture*. We believe deeply that cloud technology will define the future. We started to migrate our platform to the cloud as early as in 2014 by redesigning our architecture and code based on the computing, networking and storage components of public cloud environments. By 2015, we became one of the first customer contact solution providers to complete cloud migration, according to the CIC Report, and have since then continuously enhanced the functionality of our solutions. The cloud-native architecture brings scalability and stability to our platform and enables us to achieve non-disruptive, quick iterations through grayscale release, which are staged releases that reduce the risk of introducing new versions. During the Track Record Period, we rolled out releases approximately on a weekly basis and at the same time honored 99.99% uptime (calculated as the percentage of time our system is available and operational for a client in a given month), as compared to an industry average of 99.5%, according to the CIC Report. Our platform has been operating free from overall system failures for over 35 months. Amid mass digital transformation, we believe we enjoy significant first-mover advantages and are well-positioned to capture growing opportunities.

- *Software-defined networking infrastructure*. As cloud-based solutions become an increasingly popular choice, traditional WAN networks that heavily rely on data center infrastructure are no longer sufficient to support high-quality cloud connectivity. According to the CIC Report, we are the first customer contact solution provider in China to integrate our platform with software-defined wide area network (SD-WAN), which decouples networking hardware from the control mechanism and achieves centralized control and automatic traffic routing. SD-WAN and other technologies enable our services to run on two cloud computing platforms simultaneously, and we became the only industry player to achieve active-active dual cloud deployment, which significantly improved the availability, reliability and quality of connections established through our platform. For details of SD-WAN and our active-active dual cloud architecture, see "Business – Our Architecture" and "– Our Technologies."

- *Scenario-tailored AI capabilities*. Advancements in AI technologies make it possible to automate certain tasks traditionally handled by clients' human agents. Combining industry-specific automatic speech recognition (ASR) and natural language processing (NLP) capabilities, our ContactBot is able to understand industry jargons and engage in text- and voice-based intelligent interactions using industry-specific terms and languages. Our platform also hosts a wealth of AI-powered functions, providing real-time agent assistance and actionable insights driven by intelligent reporting and analytics tools.

Security is our long-held commitment. Our solutions possess enterprise-grade security capabilities. In 2015, we were the first customer contact solution provider to receive the Trusted Cloud Services Certification (TRUCS) ("可信雲服務認證") from institutions accredited by the MIIT, according to the CIC Report, which embodies our undertakings to clients in relation to data security, data privacy, failure recovery ability and service availability. In 2019, we received the Multi-Layer Protection Scheme (MLPS) Level III Certification ("信息系統安全等級保護三級") awarded by the Ministry of Public Security, the highest level achievable for non-financial institutions, which endorses our capability in system operation and information security.

With our relentless pursuit of excellence, we have built a broad, high-quality and loyal client base across diverse industries, including technology, education, insurance, automobile, travel, housing and healthcare, to name a few. In 2021, we served over 3,100 clients, among whom 57 were key accounts whose annual purchase amount exceeds RMB1.0 million. We strive to cultivate long-term relationships with our clients and evaluate our performance using client retention rate and dollar-based net retention rate on a regular basis. In 2019, 2020 and 2021, our SaaS client retention rate was 73.7%, 77.9% and 78.4%, respectively. During the same periods, our dollar-based net retention rate for all SaaS clients was 112.9%, 105.0% and 103.5%, respectively, and for SaaS clients which were our key accounts was 112.6%, 114.6% and 108.3%, respectively.

We are the preferred choice of clients who are market leaders in their industries. We believe our popularity among top market players demonstrates our ability to address complex business and operational requirements and helps us to increase penetration in relevant sectors, which were the top three contributors to our total revenue during the Track Record Period. Today, we have achieved a prominent market position in technology, education and insurance sectors. In 2021, we served 13, 11 and 8 of the Top 20 Players in each of China's technology, education and insurance sectors as measured by revenue, respectively, among which 28 had been in business relationship with us for more than three consecutive years. Our total revenue generated from the clients who are the Top 20 Players in these three sectors increased from RMB122.6 million in 2019 to RMB194.8 million in 2021, at a CAGR of 26.0%. Our total revenue generated from all clients in these three sectors increased from RMB234.0 million in 2019 to RMB308.4 million in 2021, at a CAGR of 14.8%.

We achieved steady growth during the Track Record Period. Our total revenue increased at a CAGR of 9.6% from RMB334.8 million in 2019 to RMB401.9 million in 2021, of which 97.2% and 92.2% were generated from our SaaS solutions that are of a recurring nature. Our gross profit increased at a CAGR of 8.3% from RMB155.9 million in 2019 to RMB182.7 million in 2021. Our profit for the year increased by 18.6% from RMB59.1 million in 2019 to RMB70.2 million in 2020, and decreased substantially to RMB17.8 million in 2021. As of December 31, 2020, we had achieved profitability for seven consecutive years.

BASIS OF PRESENTATION

The historical financial information of our Group has been prepared in accordance with International Financial Reporting Standard, or IFRS, issued by International Accounting Standards Board. The historical financial information has been prepared under the historical cost convention, except for equity investments designated at fair value through other comprehensive income and financial investments at fair value through profit or loss which have been measured at fair value.

The preparation of the historical financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying our Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the historical financial information are disclosed in Note 3 to the Accountants' Report included in Appendix I to this document.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATION

Our results of operations have been, and are expected to continue to be, materially affected by a number of factors, many of which are outside of our control. These factors include but are not limited to the following:

General Factors

Our business and results of operations are impacted by general factors affecting cloud-based software solutions adopted across industries in China, including:

- China's overall economic growth;
- adoption and acceptance of cloud-based software solutions across different industries in China;
- digitalization and transformation of industries in China;
- advancement of technology and development of cloud infrastructure;
- business growth and spending of enterprises amid cloud transformation; and
- governmental policies, initiatives and incentives affecting the cloud-based software solutions adopted across industries in China.

Company Specific Factors

Our results of operations are also affected by certain company-specific factors, including the following major factors:

Our ability to leverage our core capabilities to capture and capitalize on emerging opportunities

We are at an inflection point with evolving technology in the customer contact solution industry. Driven by our deep belief in cloud technology, we completed cloud migration as early as 2015, being one of the first customer contact solution providers taking such actions, according to the CIC Report. Our cloud-native architecture, coupled with our cutting-edge networking infrastructure and AI capabilities, has set solid foundation for our future success. To capture opportunities arising from the digital transformation across industries, we plan to devote more resources to developing our Agile Agent Solutions and virtual private cloud solutions, or VPC solutions, in the near future.

- Our Agile Agent Solutions, designed to embrace the mobile concept, are able to serve various use cases that are unserved by the legacy on-premise customer contact systems. Since its launch in 2017, our Agile Agent Solutions have been warmly welcome by the market, as evidenced by its robust revenue growth. During the Track Record Period, revenue from our Agile Agent Solutions increased at a CAGR of 76.6% from RMB16.5 million in 2019 to RMB51.3 million in 2021. These solutions have been adopted by education companies to manage day-to-day communications with students and their parents, and by digital advertising platforms to better monitor advertising activities and evaluate performance. We believe our Agile Agent Solutions have great potential to serve many more use cases, and thus plan to invest more in developing additional features and functions for more industries, such as automobile and consumer good, unleashing their growth potential.

- Additionally, we plan to invest in our VPC solutions to both expand into new markets and further penetrate existing markets. Having recognized the increasing awareness and emphasis of data security during the business world's digital transformation, we developed VPC solutions for the companies with particular security requirements, such as large SOEs and international companies, to help these clients deploy customer contact functions on the virtual private cloud, a more secured environment than public cloud. Since we started to offer VPC solutions in 2019, we have experienced a fast growth in number of clients from one in 2019 to 24 in 2021. Revenue from our VPC solutions increased rapidly from RMB708 thousand in 2019 to RMB21.3 million in 2021. As of the Latest Practicable Date, unearned revenue from client contracts amounted to RMB13.7 million. We expect VPC solutions be one of driving forces of our revenue growth in the foreseeable future.

The growth of our revenue also depends on our ability to expand coverage of industries. While maintaining our leadership in technology, education and insurance sectors, we plan to tap into underserved sectors with sizable market opportunities, such as banking, automobile and consumer goods sectors. These sectors are concentrated with large companies with high customer interaction demand. To this end, we intend to continue building our sales and marketing team and work with third-party sales agents to reach prospective clients.

Our ability to expand our client base

Our success depends on our ability to grow our client base. We have adopted a go-to-market strategy to tap into a new sector by serving top-tier enterprises and winning their endorsement that we believe will effectively help increase our penetration in the relevant sector. So far, the strategy has been proven effective. Through our working with the industry leaders, we have successfully established our reputation of being a reliable service provider among the industry players, which help us to further expand our client base and deepen our reach in the industry. In 2021, we served 13, 11 and 8 of the Top 20 Players in each of China's technology, education and insurance sectors as measured by revenue, respectively, among which 28 had been in business relationship with us for more than three consecutive years. We intend to keep focusing on engaging our prospective clients mainly through our direct sales team to deepen penetration, which we believe will help strengthen our brand and reputation, thereby attracting more clients through word-of-mouth referral in a cost-effective manner.

Our revenue growth is also driven by our ability to continuously expand our market share among large enterprises, who typically have the potential to subscribe for higher contract value. We assess our performance in this area by tracking the growth of our key accounts. We define key accounts as clients whose revenue contribution in a given year reached RMB1.0 million. In 2019, 2020 and 2021, we had 62, 61 and 57 key accounts, with an annual purchase amount exceeding RMB1 million. During the same period, revenue attributable to our key accounts grew by 9.7% from RMB247.6 million in 2019 to RMB271.7 million in 2020, and further grew by 10.3% to RMB299.6 million in 2021. In 2019, 2020 and 2021, revenue from our key accounts accounted for 74.0%, 76.8% and 74.5% of our total revenue. We have a dedicated sales team specialized by client region, size, and vertical sector. We intend to continue the efforts in growing our key accounts.

Our ability to improve client retention and expand client lifetime value

Our ability to maintain long-term revenue growth and improve profitability is dependent on our ability to retain and grow subscription to our SaaS solutions from our existing clients. We believe that such an ability strengthens the stability and predictability of our revenue and is reflective of the value we deliver to our clients. We assess our performance in this regard using two key metrics: client retention rate and dollar-based net retention rate.

- Client retention rate is an indicator helping us assess client loyalty. We calculate the client retention rate for a given period as a percentage of our existing clients in the immediately preceding period who remain our clients in the current period. In 2019, 2020 and 2021, our SaaS client retention rate was 73.7%, 77.9% and 78.4%, respectively.

- Dollar-based net retention rate indicates our ability to increase revenue from our existing clients. To calculate this rate for a given period, or the benchmark period, we first identify the clients who subscribed to our SaaS solutions in both the benchmark period and the period before. We then calculate the dollar-based net retention rate for the benchmark period using the total revenue attributable to the identified clients in the benchmark period as the numerator and the total revenue attributable to the same group of clients in the preceding period as the denominator. We believe that this rate provides meaningful insight into revenue contribution from our existing clients over periods, indicating our ability to drive their lifetime value. To the extent our SaaS solutions are concerned, in 2019, 2020 and 2021, our dollar-based net retention rate for all SaaS clients was 112.9%, 105.0% and 103.5%, respectively, and for SaaS clients which were our key accounts was 112.6%, 114.6% and 108.3%, respectively.

Our ability to maintain and improve our performance on these key metrics depends on our ability to add value throughout the client lifecycle as they scale and expand their usage of our product portfolio. We are committed to providing superior product capabilities and solutions to foster strong client loyalty. We offer 24/7/365 client support with a full range of client services, committed to responding to client requests within a few minutes and solving any system issues within 24 hours. As a result of these efforts over the years, we have built a solidbase of loyal clients. Among our key accounts in 2021, 47.4% of them had been subscribing to our solutions for more than five years as of December 31, 2021. Additionally, our ability to expand lifetime value of our clients also depends on our ability to successfully upsell, driving clients' spending on our solutions. To this end, we intend to continue upgrading our solutions, enhancing product functions, and introducing new features. We will also continue building our client support network to enhance client satisfaction and lifetime value.

Our ability to enhance technology and product development capabilities

To capitalize on the market opportunities from cloud transformation across industries, we believe it is critical to continually promote innovation, master state-of-the-art technology and enhance product functioning. We intend to continue to invest in our research and development capabilities and develop more innovative product features to maintain our strong reputation among the top industry players. We have been and will continue upgrading and optimizing our products to address our clients' evolving business needs. We will also relentlessly enhance our product capabilities that satisfy evolving business needs and complex working environments and invest in expanding our product offerings that cater to use cases for clients from new industries, such as banking, automobile and consumer goods industries.

Leveraging our cloud-native software platform, we will continue to make our products intelligent, secure, reliable and scalable. The foregoing endeavors may result in the increase of our research and development expenses.

Our ability to manage costs and improve operational efficiency

The profitability of our business depends largely on our ability to enhance the operational efficiency of our solutions. We primarily sell subscriptions to our products through direct sales team. Prudently managing our client acquisition costs is important to our overall profitability. As we continue to grow our business scale, we plan to adopt a more aggressive approach for client acquisition, which will lead to increased spending on online marketing.

We incurred increases in selling and distribution expenses and research and development expenses in 2021 to implement our business plan. Our selling and distribution expenses substantially increased in 2021 both in absolute amount and as a percentage of the corresponding revenue, reflecting the change from a conservative expansion strategy to a more progressive expansion strategy to further drive our revenue growth. The increase was primarily driven by recruitment of additional salespersons to capture more business opportunities, and increased investments in online and offline marketing activities to enhance our brand name and generate more sales leads from small and medium clients. Our research and development expenses also increased in 2021 both in absolute amount and as a percentage of the corresponding revenue, primarily driven by increased R&D headcount and salary per headcount to further our efforts in strengthening R&D capabilities.

As we continue to grow our business, we expect to benefit from economies of scale and achieve additional cost savings. We have been leveraging our technology capabilities to standardize procedures for more established business lines and increase the automation level of our operations and optimize efficiency in various aspects.

Strategic expansion, investment and acquisitions

Leveraging our versatile solutions, advanced technologies and operational expertise accumulated in the Chinese market, we intend to explore business opportunities overseas to unlock new growth potential. As an increasing number of China-based companies are setting a footprint in overseas markets, we intend to capture the tremendous opportunities to serve these China-based companies on overseas markets, help them establish relationships with local customers and create positive customer interactions.

We believe acquisitions, investments and strategic alliance provide alternative ways of business expansion in a relatively short period. If executed successfully, such expansion will help strengthen our technology capabilities, further solidify our leadership position, enhance our brand image, and increase our bargaining power with suppliers and clients. Hence, we intend to selectively pursue strategic acquisitions and investments that are complementary to our growth strategies to solidify our current market presence, and selectively pursue strategic alliances to further enhance our product offerings and strengthen our competitiveness.

IMPACT OF COVID-19

Since the end of December 2019, the outbreak of a novel strain of coronavirus, or COVID-19, has materially and adversely affected the Chinese and global economy. In response to COVID-19, including the resurgence of COVID-19 in China since the second half of 2021, the PRC government has imposed mandatory quarantine, closure of workplaces and facilities, travel restriction and other related measures in various regions at different times. These measures caused a decline in the business activities in China in general, which in turn has had a negative impact on the demand of businesses for customer contact solutions, particularly during the lockdown in the first half of 2020.

COVID-19 has caused temporary disruptions to our business operations to varying degrees:

- During the lockdowns in 2020, we had to temporarily close certain of our office facilities for a few days following the Chinese New Year holidays, control the number of employees working onsite, restrict employee travel, switch to online virtual meetings or even cancel meetings with existing or prospective clients, all of which have temporarily restrained our operating activities, including our sales efforts. To combat COVID-19, we adopted a work plan and formed a special working group led by our administration director and Mr. WU Qiang (吴强), our chief executive officer. The special working group is responsible for overseeing the implementation of our remedial measures. Under the leadership of this special working group, we have employed various measures to ensure the safety of our office facilities and employees. The measures we have implemented include, among other things, regularly sterilizing and ventilating our offices, monitoring the body temperature of our employees, requiring employees attending the office to wear face masks, adopting flexible remote working arrangements, introducing reporting policy of the travel history and health conditions of our employees and their immediate family members, minimizing in-person meetings and encouraging company-wide use of online virtual meeting software and applications. As a result of these measures, we had not had any suspected or confirmed COVID-19 cases at our premises since the outbreak and up to the Latest Practicable Date. The measures we took also enabled us to carry out our business operations without any material disruption. Since May 2020, except for certain quarantine policies that reduced the number of business trips, our business operations have turned to the pre-outbreak levels. To the extent physical meetings were required or preferred or on-site technical support was needed, our operations, sales and marketing activities and client support had been affected.

- In 2020, we have experienced a temporary decrease in the demand for our solutions by small- and medium- sized enterprises, or SMEs, primarily due to closures and reduced business activities of SMEs. This effect, coupled with our strategy to serve industry-leading clients, enlarged the portion of revenue contributed by large, established enterprises. In 2020, revenue from our key accounts accounted for 76.8% of our total revenue, as compared to 74.0% in 2019. While being more financially sustainable, large clients tend to have stronger bargaining power in terms of pricing and credit terms. As a result, we saw an increase in turnover days of our trade receivables from 52 in 2019 to 64 in 2020.

- While all industries have been affected by the COVID-19 pandemic, some industries, including travel and used car, were hit harder than others. Since 2020, we have witnessed a significant drop in usage of our services by clients from travel and used car industries, which directly brought down the revenue contribution from clients of these industries. On the other hand, revenue attributable to players operating online businesses has experienced a robust growth as a result of the increases in both number of clients and the average subscription amount. Overall, our revenue growth slowed down in 2020 as compared to 2019.

In general, due to the cloud nature of our solutions, our ability to provide services was not hindered by the lockdown and travel restrictions implemented to combat the COVID-19. Since the outbreak, we have not encountered any disruption in our IT infrastructure and have been and expect to be able to discharge our obligations under contracts with clients. Thanks to the preventive measures we have implemented, we successfully kept our business operations from material disruption during the outbreak and avoided any materials impact on the implementation of our business plans. In response to the fact that the travel restriction slowed down the pace of our client acquisition in 2020, we have been proactively mobilizing internal resources and leveraging our strong technological capabilities to mitigate the impact of COVID-19. We supported our clients and helped them tackle the challenges presented by the pandemic by providing reliable, quality solutions and services. For example, faced explosive customer demand in 2020, companies from online education industry were in urgent needs for solutions that could help them manage the surge in business volume remotely during the pandemic. To meet such needs, we quickly developed features and added functionalities to our Agile Agent Solution, helping increase their operational transparency and efficiency. As a result, we had a healthy growth of revenue from our key accounts in 2020, achieving a dollar-based net retention rate of 114.6% for key accounts. Such growth was partially offset by the decreases in revenues from clients in travel and used car industries and from certain small- and medium-sized clients. Hence, despite the temporary disruption caused by COVID-19, we are able to sustain a steady growth in 2020. Our revenue increased by 5.7% from RMB334.8 million in 2019 to RMB353.7 million in 2020, and our profit for the year increased by 18.6% from RMB59.1 million in 2019 to RMB70.2 million 2020. Also, from February to December 2020, we enjoyed certain exemptions from making employer contribution to employee social security schemes, with a total amount of approximately RMB7.8 million exempted.

Since the second half of 2021, certain regions in China have experienced a resurgence of COVID-19 and the commercial activities in these regions have been negatively impacted at varying degrees. Stringent social distancing restrictions have been imposed in cities where we or our clients have operations, including Shanghai, Beijing and Shenzhen. In particular, a city-wide lock-down policy was in place in Shanghai, where our third largest office is located, between late March and late May of 2022. The stringent quarantine measures imposed by the government included home isolation for all residents, cancellation of all public transport and mandate of temporary shutdown of business operations. Further, the authorities in Beijing, where our headquarters are located, have tightened the restrictions on social activities since early May 2022, requiring residents in the city's worst-hit districts to work from home, suspending public transportation in certain areas and carrying out multiple daily mass testings. Owing to the cloud-based nature of our solutions and the recurring nature of our SaaS revenue, generally our business was not negatively impacted by the recent COVID-19 resurgence, except for a small percentage of our clients whose business activities were negatively affected, leading to their reduced usage of our solutions. For clients with offices in the affected areas, travel restrictions and stay-at-home orders may prevent their customer service agents from working at physical contact centers. For clients such as those in the logistics and transportation industry, transportation restrictions in the affected areas may hinder their ability to conduct normal operating activities, and their frequency of using our solutions to provide notifications and customer services reduced in line with lower business volume. Further, as of the Latest Practicable Date, in accordance with the social distancing policies, some of our employees, including 3% of our employees based in Shanghai and 9% of our employees in Beijing, worked from home, and business travels were restricted in the affected areas, which adversely affected our business development activities. Based on our unaudited management accounts, for the four months ended April 30, 2022, while our revenue generated from the education industry substantially decreased due to the impact of the Opinion, our revenue generated from other industries achieved steady growth when compared to the same period in 2021.

We believe that the value of our cloud-based customer contact solutions, and the convenience, efficiency and reliability they deliver, are heightened throughout the pandemic. In the view of CIC, the outbreak of COVID-19 has amplified advantages of cloud-based customer contact solutions, as compared to the traditional centralized operation of customer service centers which was hit heavily during the outbreak due to the concerns over the risks of infection. As a result, an increasing number of enterprises have shown their willingness to shift to or start to use the cloud-based customer contact solutions to take advantage of their mobility and flexibility. Such demand is expected to accelerate the digitalization and cloudification process across various industries. We operate a SaaS model, which not only reduces the burden of on-premise implementation, but also provides clients and partners with the flexibility needed to tackle unexpected disruptions and challenges caused by the pandemic. We expect this trend to persist post-pandemic as the could transformation continues in the long run.

Nevertheless, there remains significant uncertainties associated with COVID-19, including with respect to the ultimate spread of the virus, the severity and duration of the pandemic and further actions that may be taken by governmental authorities around the world to contain the virus, and the full extent to which the COVID-19 pandemic will directly or indirectly impact our business, results of operations, cash flows and financial condition will depend on future developments that are highly uncertain and cannot be accurately predicted. If prolonged COVID-19 restrictions are imposed at a large scale in China, our ability to develop new clients and maintain relationships with existing clients will be adversely impacted. If such restrictions lead to a general decline in economic conditions and commercial activities, the business of our clients will be negatively affected and our business performance will suffer as a result. Based on the present situation and the information currently available to us, we expect our revenue growth in 2022 to slow down as compared to the growth rate we achieved in 2021. See "Risk Factors – Risks Related to Our Business and Industry – The effects of the COVID-19 pandemic have materially affected how we and our clients are operating, and the duration and extent to which this will impact our future results of operations and overall financial performance remains uncertain."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Set forth below are accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Our significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in further details in Notes 2 and 3 to the Accountants' Report included in Appendix I to this document.

Revenue Recognition

Revenue is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which we will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between us and the customer at contract inception. When the contract contains a financing component which provides us with a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(a) Rendering of services

Revenue from SaaS solutions is measured on a transactional basis and is recognized over time, using an output method to measure the value to the customer of the services rendered to date, with no rights of return once consumed, because the customer simultaneously receives and consumes the benefits provided by us. In particular, revenue on usage-based service contracts with a specified rate but an unspecified quantity is recognized utilizing the right to invoice practical expedient resulting in revenue being recognized in the amount for which we have the right to invoice as service is rendered. Our SaaS solutions are billed to clients mostly on a monthly basis.

Our virtual private cloud solutions, or VPC solutions, included customization services and provision of software licenses. Revenue from customization services is recognized over time, using an input method to measure progress towards complete satisfaction of the service, because our performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognizes revenue from customization services based on the basis of the actual labor hours expended relative to the total expected hours to complete the services. Revenue from software license fees is recognized at the point in time because we provide the client with a right to use our license as it exists at the point in time that it is granted. We recognize revenue from software license fees upon acceptance of software by clients.

Revenue from other miscellaneous services is recognized over time, using an output method to measure customers' usages of services, because the customer simultaneously receives and consumes the benefits provided by us.

(b) Sale of products

Revenue from the sale of products is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the products.

Impairment for financial assets

We recognize an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that we expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At the end of each year during the Track Record Period, we assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, we compare the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

We consider a financial asset in default when contractual payments are 90 days past due. However, in certain cases, we may also consider a financial asset to be in default when internal or external information indicates that we are unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by us. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortized cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach under certain circumstances as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs.

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs.

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs.

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when we apply the practical expedient of not adjusting the effect of a significant financing component, we apply the simplified approach in calculating ECLs. Under the simplified approach, we do not track changes in credit risk, but instead recognize a loss allowance based on lifetime ECLs at each reporting date. We have established a provision matrix that is based on our historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Fair value of financial assets

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. We use our judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. For details of the key assumptions used and the impact of changes to these assumptions, see Notes 2.4 and 34 to the Accountants' Report included in Appendix I to this document.

Our Group's financial instruments carried at fair value as of December 31, 2019, 2020 and 2021, by level of the inputs to valuation techniques used to measure fair value.

Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Our Directors and responsible officers review the fair value measurements of our financial assets categorized within level 3 instruments of which no quoted prices in an active market exist, taking into account the valuation techniques and assumptions of unobservable inputs and determine if the fair value measurements of level 3 instruments is in compliance with the applicable IFRS. In relation to the valuation of level 3 instruments, our Directors adopted the following procedures: (i) reviewed the terms of agreements relating to the instruments; (ii) reviewed the valuation working papers and results prepared by the finance team; (iii) carefully considered all information especially those non-market related information input, such as the asset under management, the discount rate and the underlying of the unlisted equity, which required management assessment and estimates; and (iv) analyzed and discussed with the finance team regarding the contents of the valuation analysis including but not limited to, the basis of computation, assumptions and valuation methodologies on which the valuation is based, the basis of the discount rates. Based on the above procedures and the professional advice received, our Directors are of the view that the valuation analysis performed on level 3 instruments is fair and reasonable and the financial statements of our Group are properly prepared. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of the level 3 instruments.

The details on the fair value measurement of the financial instruments, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs and the relationship of the unobservable inputs to the fair values, are disclosed in Note 34 to the Appendix I to this document.

The Reporting Accountant has carried out necessary audit works in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants for the purpose of expressing an opinion on the Group's Historical Financial Information for the Track Record Period as a whole in Appendix I to this document. The Reporting Accountant's opinion on the Historical Financial Information of the Group for the Track Record Period as a whole is set out on page I-2 of Appendix I to this document.

In relation to the valuation of our financial instruments at fair value, the Sole Sponsor has conducted relevant due diligence work, including but not limited to, (i) reviewed relevant notes in the Accountants' Report and the unqualified opinion on the historical financial information of the Group as contained in Appendix I to this document; (ii) reviewed the relevant agreements; and (iii) discussed with our Company and the Reporting Accountant in relation to the valuation works performed especially the key basis and assumptions adopted in the valuation of level 3 financial assets. Having considered the work done by the Directors and the Reporting Accountant and the relevant due diligence work done as stated above, nothing has come to the Sole Sponsor's attention that would cause the Sole Sponsor to disagree with the Directors' view on the valuation of level 3 financial assets.

Recognition of share-based compensation expenses

We had a share award arrangement and adopted a share incentive plan during the Track Record Period, both of which aim at providing incentives to provide our directors, officers and employees of our Group and optimizing our remuneration structure. The maximum number of ordinary shares underlying the share incentive plan is 26,550,000 ordinary shares of our company. Upon the effectiveness of our share incentive plan on May 13, 2021, all the share awards previously granted were transferred to the share incentive plan as restricted shares. All the restricted shares are to be released and converted into the ordinary shares of the Company in three equal tranches on the 6-month, 18-month and 30-month anniversaries of the [**REDACTED**], respectively. On May 13, 2021, as approved by our Board of Directors, certain employees of our Group were granted 501,080 restricted share units under the share incentive plan. All the restricted share units are to be vested, released and converted into the ordinary shares of our company in three equal tranches on the 6-month, 18-month and 30-month anniversaries of the [**REDACTED**] of our company (except for one employee whose restricted share units are subject to five-equal tranches on the 6-month, 18-month, 30-month, 42-month and 54-month anniversaries of the [**REDACTED**]), respectively.

Under the share award arrangement and the share incentive plan, participants receive remuneration in the form of share-based payments, whereby they render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value is determined using discontinued cash flow method. For details, see Note 28 to the Accountants' Report included in Appendix I to this document.

The cost of equity-settled transactions is recognized in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each year during the Track Record Period until the vesting date reflects the extent to which the vesting period has expired and our best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The following table sets forth a summary of our consolidated statements of comprehensive income, with line items in absolute amounts and as percentages of our revenue for the periods indicated.

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except percentages)					
Summary Consolidated Statements of Comprehensive Income Data:						
Revenue	334,813	100.0	353,744	100.0	401,897	100.0
Cost of sales	(178,930)	(53.4)	(178,305)	(50.4)	(219,194)	(54.5)
Gross profit	155,883	46.6	175,439	49.6	182,703	45.5
Other income and gains	8,845	2.6	14,062	4.0	8,287	2.1
Selling and distribution expenses	(44,163)	(13.2)	(50,360)	(14.2)	(71,335)	(17.7)
Administrative expenses	(16,151)	(4.8)	(18,776)	(5.3)	(42,977)	(10.7)
Research and development expenses	(37,066)	(11.1)	(38,523)	(10.9)	(53,840)	(13.4)
Impairment losses on financial assets	(812)	(0.2)	(1,883)	(0.5)	(3,423)	(0.9)
Other expenses and losses	(283)	(0.1)	(627)	(0.2)	(293)	(0.1)
Finance costs	(757)	(0.2)	(677)	(0.2)	(636)	(0.2)
Profit before tax	65,496	19.6	78,655	22.2	18,486	4.6
Income tax expenses	(6,351)	(1.9)	(8,488)	(2.4)	(668)	(0.2)
Profit for the year	59,145	17.7	70,167	19.8	17,818	4.4
Earnings per share						
Basic and diluted *(RMB)*	N/A	N/A	N/A	N/A	N/A	N/A
Profit for the year	59,145	17.7	70,167	19.8	17,818	4.4
Other comprehensive income						
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:						
Equity investments designated at fair value through other comprehensive income:						
Changes in fair value	519	0.2	108	0.0	–	–
Income tax effect	(78)	(0.0)	(16)	(0.0)	–	–
Exchange differences on translation of the financial statements of the Company	–	–	–	–	153	0.0
Other comprehensive income for the year, net of tax	441	0.1	92	0.0	153	0.0
Total comprehensive income for the year	59,586	17.8	70,259	19.9	17,971	4.5

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

Revenue by Businesses

During the Track Record Period, we derived our revenue from providing (i) SaaS solutions, (ii) VPC solutions and (iii) other services and product sales. The following table sets forth a breakdown of our revenue by businesses for the periods indicated.

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except percentages)					
Revenue:						
SaaS solutions	325,328	97.2	341,197	96.4	370,738	92.2
VPC solutions	708	0.2	5,927	1.7	21,298	5.3
Other services and product sales	8,777	2.6	6,620	1.9	9,861	2.5
Total	334,813	100.0	353,744	100.0	401,897	100.0

SaaS solutions

SaaS solutions consist of three types of scenario-tailored offerings: Intelligent Contact Center Solutions, Agile Agent Solutions and ContactBot Solutions.

Intelligent Contact Center Solutions. Designed to replace legacy on-premise systems, our Intelligent Contact Center Solutions help businesses migrate their contact center functions to the cloud. The solutions allow contact center agents hired by our clients and seated in physical contact centers to efficiently interact with clients across multiple channels using desktops. Benefiting from our cloud-native architecture, our clients can greatly reduce implementation costs, easily scale their usage in response to changing business needs and effortlessly receive software upgrades.

Agile Agent Solutions. Our Agile Agent Solutions are designed to facilitate customer contact activities outside physical contact centers, which are unserved by pureplay contact center solutions. Our Agile Agent Solutions, designed as a mobile application, empower clients' employees other than contact center agents (such as car salespersons, retail store assistants and after-school program tutors) to contact customers at any time in any location. It enables businesses to track and manage each interaction, which significantly increases visibility of business activities and uses data-based analytics to support decision-making.

ContactBot Solutions. Our ContactBot Solutions utilize practical AI capabilities to automate duties traditionally handled by clients' human agents. Combining real-time automatic speech recognition and natural language processing, our ContactBot Solutions are able to engage in text- and voice-based intelligent interactions. Human agents are freed from repetitive, administrative tasks and can instead focus on tasks that require more personalized, engaging services.

Revenue from our Intelligent Contact Center Solutions consists of subscription fees to access our products and services, including (i) fees charged based on the number of agent seats used, (ii) usage-based services fees based on voice minutes, and (iii) fees for subscribing to add-on function not included in our base packages, such as certain AI-powered functions. We typically bill our clients on a monthly basis with payments due within 90 days from the billing date, except for small-sized enterprises for which we typically require the payment of the subscription fees at the beginning of our services.

The following table sets forth a breakdown of our revenue from SaaS solutions by type of solutions in absolute amounts and as a percentage of our revenue from SaaS solutions for the periods indicated.

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except percentages)					
Revenue from SaaS Solutions:						
Intelligent Contact Center Solutions	300,903	92.5	313,257	91.8	319,958	86.3
Agile Agent Solutions	16,457	5.1	22,978	6.7	43,050	11.6
ContactBot Solutions	7,968	2.4	4,962	1.5	7,730	2.1
Total	325,328	100.0	341,197	100.0	370,738	100.0

VPC solutions

VPC solutions are a fast-growing business that only started to generate revenue in 2019. Revenue from our VPC solutions consists of (i) software licensing fees and (ii) revenue from customization services.

Software Licensing. We license our customer contact solutions pursuant to licensing agreements with clients who opt to receive our solutions in virtual private clouds, which are secured areas in a public cloud. We charge a one-time licensing fee for our solutions primarily based on factors including the number and type of solutions subscribed for by our clients. Revenue from software licensing is recognized upon the acceptance of software by the client. While the licensing fee is typically due within 30 days from the date of acceptance, a certain percentage of payment may be retained by clients until the end of the retention period as a security for service quality.

Customization services. We provided customization services to help clients to realize tailor-made cloud-based customer contact functionalities in virtual private clouds. Revenue from customization services is recognized over time as services are rendered. While payment is typically due within 30 days from the date of acceptance, a certain percentage of payment may be retained by clients until the end of the retention period as a security for service quality.

Revenue from VPC solutions increased rapidly in 2019 from RMB708 thousand to RMB21.3 million in 2021. We expect our VPC solutions to continue to grow at a fast pace with increased revenue contribution in the foreseeable future.

Other Services and Product Sales

In the Track Record Period, other services and product sales revenue consisted of revenue from provision of services and sale of goods ancillary to our customer contact solutions to satisfy certain ad hoc request from our existing clients. Services provided primarily included certain telecommunication services, and goods sold primarily included telecommunication equipment. We expect other revenue to remain as an immaterial portion of our total revenue in the foreseeable future.

Revenue by Clients' Industry

We serve clients across diverse industries. The following table sets forth a breakdown of our revenue by clients industry in absolute amounts and as a percentage of our total revenue for the periods indicated.

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Revenue:						
Technology	87,054	26.0	92,930	26.3	118,591	29.5
Education	89,451	26.7	104,448	29.5	107,802	26.8
Insurance	57,468	17.2	73,742	20.8	81,994	20.4
Automobile	28,849	8.6	15,795	4.5	24,589	6.1
Fintech	20,149	6.0	20,684	5.9	14,744	3.7
Other Industries	51,842	15.5	46,145	13.0	54,177	13.5
Total	334,813	100.0	353,744	100.0	401,897	100.0

Our revenue from clients in an industry may fluctuate due to different reasons, many of which are out of our control. Such reasons may include factors affecting our clients' industries such as market conditions, development in regulatory requirements and release of new government policies. For example,

- *Education industry*. During the Track Record Period, clients in education industry contributed to a significant portion of our revenue. In 2019, 2020 and 2021, revenue from these clients amounted to RMB89.5 million, RMB104.4 million and RMB107.8 million, respectively, accounting for 26.7%, 29.5% and 26.8% of our total revenue. The increases were primarily driven by the robust growth of the business of education companies prior to June 30, 2021. However, recent development in PRC laws and regulations has materially and adversely affected the business performance of our clients who are Academic AST Institutions, which in turn has materially and adversely affected our revenue from such clients. For details, see "Risk Factors – Risks Related to Our Business and Industry – Recent regulatory changes have lead to a significant decrease in our revenue from clients in the education industry."

- *Automobile industry*. Revenue contributed by clients from automobile industry declined from RM28.8 million in 2019 to RMB15.8 million in 2020, primarily due to the decreases in revenue from clients operating the used car business as a result of their shrinking businesses amid a cold market condition, which was exacerbated by the COVID-19. In 2021, we saw a significant increase in revenue generated from the automobile industry, mainly driven by the increase in revenue from our provision of VPC solutions to certain automobile clients.

- *Fintech industry*. Revenue generated from clients in the fintech industry decreased by 26.9% from RMB20.1 million in 2019 to RMB14.7 million in 2021, primarily due to a decrease in the number of small- or medium-sized fintech clients as a result of the government's policies to tighten the requirements for fintech companies. While large fintech clients continue to subscribe to our solutions, their revenue contribution was affected by their flat or shrinking business activities.

While our revenue may be affected by fluctuations of certain industries, we benefit from a diverse client base. During the Track Record Period, technology and insurance together contributed over 40% of our total revenue. We expect revenues from companies in these two industries to continue to grow in the foreseeable future.

Cost of Sales

Our cost of sales primarily consists of cost of services provided and cost of products sold. Cost of services provided primarily consists of expenses incurred in connection with the set-up, operation and maintenance of our platform deployed in public clouds, such as telecommunication infrastructure expenses, cloud infrastructure expenses, internet data center lease expenses, depreciation expenses of hardware equipment, and personnel-related costs associated with equipment installation, implementation services and customization services as part of our VPC solutions. Cost of products sold primarily consists of the cost of the telecommunication equipment sold to clients. In 2019, 2020 and 2021, telecommunication infrastructure expenses, consisting of expenses relating to voice services, internet broadband, and dedicated leased lines, accounted for 93.1%, 90.9% and 88.0% of our total cost of sales, respectively. During the same periods, cloud infrastructure expenses, consisting of expenses relating to cloud computing, storage and networking resources, accounted for 5.0%, 5.5% and 4.5% of our total cost of sales, respectively. According to the CIC Report, our cost structure is typical for a cloud-based customer contact solutions provider since clients use our platform to make a high volume of phone calls, which lead to high telecommunication infrastructure expenses. Upon consulting industry experts and reviewing publicly available information regarding the cost structure of our industry peers, CIC advises that our cost structure is in line with industry norm.

The following table sets forth our cost of sales by nature both in absolute amount and as a percentage of our total cost of sales for the periods indicated.

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except percentages)					
Cost of Sales:						
Cost of services provided	178,612	99.8	178,125	99.9	216,535	98.8
Telecommunication infrastructure expenses	166,539	93.1	162,085	90.9	192,976	88.0
Cloud infrastructure expenses(1)	8,913	5.0	9,862	5.5	9,912	4.5
Internet data center lease expenses	2,724	1.5	3,084	1.7	3,458	1.6
Depreciation expenses	–	–	367	0.2	344	0.2
Employee benefit expenses(2)	436	0.2	2,680	1.5	6,752	3.1
Subcontract fee(3)	–	–	–	–	2,744	1.3
Others	–	–	47	0.1	349	0.1
Cost of products sold	318	0.2	180	0.1	2,659	1.2
Total	178,930	100.0	178,305	100.0	219,194	100.0

(1) We started to implement active-active dual cloud deployment in 2019, which required us to purchase more cloud computing and networking resources, in particular transmission bandwidth, to realize real-time data synchronization between the two cloud computing platforms. As a result, our cloud infrastructure expenses increased during the Track Record Period.

(2) We incur employee benefit expenses in connection with our VPC model, for which we employ implementation personnel to help clients customize, deploy and test our solutions on VPCs. Our employee benefit expenses increased along with the increase in our revenue generated from the VPC model.

(3) We subcontracted the development of an AI-related function in connection with certain VPC contracts to a third-party developer.

The following table sets forth our cost of sales by businesses both in absolute amount and as a percentage of our total revenue for the periods indicated.

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except percentages)					
Cost of Sales:						
SaaS solutions	173,088	51.6	171,753	48.5	203,503	50.6
VPC solutions	200	0.1	2,680	0.8	9,845	2.4
Other services and product sales	5,642	1.7	3,872	1.1	5,846	1.5
Total	178,930	53.4	178,305	50.4	219,194	54.5

Gross Profit and Gross Margin

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

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except percentages)					
Gross Profit and Gross Margin:						
SaaS solutions	152,240	46.8	169,444	49.7	167,235	45.1
VPC solutions	508	71.8	3,247	54.8	11,453	53.8
Other services and product sales	3,135	35.7	2,748	41.5	4,015	40.7
Total	155,883	46.6	175,439	49.6	182,703	45.5

Our overall gross margin increase from 46.6% in 2019 to 49.6% in 2020 primarily attributable to higher pricing level applied to certain newly acquired clients in 2020. As our key accounts deepen their business relationships with us and increase their purchases from us, they typically request to lower our service price. Therefore, the pricing level applied to newly acquired clients is usually higher than those applied to clients with which we have a long cooperation history. To a lesser extent, the increase in gross margin in 2020 was also attributable to the growth of revenue from our VPC solutions in 2020. Due to their different revenue and cost model, our VPC solutions on average have a higher gross margin compared to our SaaS solutions and other services and product sales. During the Track Record Period, our VPC clients primarily purchased cloud and telecommunications services directly from cloud service providers and telecommunications companies, respectively. Therefore, these services were not included in our cost of sales. Our overall gross margin decreased from 49.6% in 2020 to 45.5% in 2021, primarily because we purchased a larger pool of telecommunication resources, including telephone numbers, dedicated leased lines and internet broadband, in anticipation of increasing client demand in the second half of the year, which lowered the average utilization rate and increased our cost of sales. However, the client demand in the second half of 2021 was lower than expected due to the recent development in the PRC laws and regulations that affected the business performance of our clients who are Academic AST Institutions. We may adjust our price offered for clients from time to time based on various considerations, including, among other things, the market conditions, competition landscape and strategic value of the contracts in question. While such adjustments may affect our gross profit margin, we expect our overall gross profit margin to remain stable in the foreseeable future as we continue to enlarge and diversify our client base.

Other Income and Gains

Other income consists primarily of (i) bank interest income, (ii) investment income from financial investments at fair value through profit or loss, representing income from our investments in wealth management products, (iii) dividend income from equity investments at fair value through other comprehensive income, (iv) government grants, which mainly represented financial assistance from local governments and preferential tax treatment, and (v) others, primarily including rewards from business partners for our joint marketing efforts.

Other gains consist primarily of (i) fair value gains on financial investment at fair value through profit or loss, and (ii) gain on disposal of property, plant and equipment.

The following table sets forth a breakdown of the components of our other income and gains in absolute amounts and as a percentage of our total other income and gains for the periods indicated.

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except percentages)					
Other Income:						
Bank interest income	667	7.5	159	1.1	819	9.9
Investment income from financial investments at fair value through profit or loss	3,568	40.3	4,806	34.2	2,211	26.7
Dividend income from equity investments at fair value through other comprehensive income	121	1.4	–	–	–	–
Government grant	3,613	40.9	7,986	56.8	4,689	56.6
Others	68	0.8	23	0.2	10	0.1
Gains:						
Fair value gains on financial investments at fair value through profit or loss	808	9.1	1,088	7.7	474	5.7
Gain on disposal of equity investments designated at fair value through other comprehensive income	–	–	–	–	81	1.0
Gain on disposal of property, plant and equipment	–	–	–	–	3	0.0
Total	8,845	100.0	14,062	100.0	8,287	100.0

Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of (i) employee benefit expenses associated with our sales and marketing staff, which include share-based compensation expenses associated with our sale and marketing staff, (ii) commission expenses, which represent sales commissions we paid to our third-party sales agents for client referrals, (iii) promotion and advertising expenses, which represent expenses for online and offline marketing activities to promote our brand, and (iv) others, mainly including office lease expenses, travelling expenses and hospitality expenses for our sales and marketing activities.

The following table sets forth a breakdown of the major components of our selling and distribution expenses both in absolute amount and as a percentage of revenue for the periods indicated.

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except percentages)					
Selling and Distribution Expenses:						
Employee benefit expenses	30,528	9.0	36,736	10.3	51,768	12.9
Commission expenses	6,866	2.1	4,981	1.4	4,574	1.1
Promotion and advertising expenses	1,868	0.6	3,118	0.9	6,337	1.6
Others	4,901	1.5	5,525	1.6	8,656	2.1
Total	44,163	13.2	50,360	14.2	71,335	17.7

Administrative Expenses

Our administrative expenses primarily consist of (i) employee benefit expenses relating to our management and administrative staff, which include share-based compensation expenses for our management and administrative staff, (ii) travelling and office expenses, representing travelling expenses incurred by our administrative staff and lease and property management expenses incurred for the office space of our administrative staff, (iii) professional service fees, representing costs associated with third-party consulting and professional services, and (iv) others, mainly including recruitment and training expenses associate with our administrative staff, depreciation expenses and water and electricity charges that are relating to our administrative activities.

The following table sets forth a breakdown of the components of our administrative expenses both in absolute amount and as a percentage of revenue for the periods indicated.

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except percentages)					
Administrative Expenses:						
Employee benefit expenses	10,130	3.0	11,147	3.1	13,919	3.5
Travelling and office expenses	2,681	0.8	2,797	0.8	3,780	0.9
Professional service fees	1,019	0.3	3,512	1.0	23,974(1)	6.0
Others	2,321	0.7	1,320	0.4	1,304	0.3
Total	16,151	4.8	18,776	5.3	42,977	10.7

(1) The increase in professional service fees in 2021 as compared to the 2020 was primarily due to an increase in consulting fees and fees associated with accounting and legal services in relation to the Proposed Listing on the ChiNext Board and the [**REDACTED**].

Research and Development Expenses

Our research and development expenses primarily consist of (i) employee benefit expenses relating to our research and development staff responsible for the development of our software solutions, which include share-based compensation for our research and development staff, (ii) depreciation of property, plant and equipment allocated to our research and development activities, (iii) outsourcing expenses, primarily representing labor cost relating to our outsourced research and development activities, and (iv) others, which mainly include lease and property management expenses allocated to our research and development activities and travelling expenses incurred by our research and development staff.

The following table sets forth a breakdown of the major components of our research and development expenses both in absolute amount and as a percentage of revenue for the periods indicated.

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except percentages)					
Research and Development Expenses:						
Employee benefit expenses	29,298	8.7	33,513	9.5	48,318	12.0
Depreciation of property, plant and equipment	2,901	0.9	1,837	0.5	1,292	0.3
Outsourcing expenses	2,545	0.8	610	0.2	–	–
Others	2,322	0.7	2,563	0.7	4,230	1.1
Total	37,066	11.1	38,523	10.9	53,840	13.4

Impairment Losses on Financial Assets

Impairment losses on financial assets consist of impairment of trade receivables and impairment of financial assets included in prepayments, other receivables and other assets. We determine the provision for impairment of financial assets on a forward-looking basis and the expected lifetime losses are recognized from initial recognition of the assets by credit risks of our clients in accordance with IFRS 9. We performed an impairment analysis at the end of each period to determine the provision for impairment of trade receivables using a provision matrix to measure expected credit losses. The provision rates are based on the ageing for groupings of various client segments with similar loss patterns. When accessing the credit risks of a particular client, we consider, on a reasonable basis, available supporting information regarding the business and financial background of such client and its ultimate beneficial shareholders and our historical business relationship (including disputes, if any) with such client and its ultimate beneficial shareholders.

We recorded net impairment losses on financial assets of RMB812 thousand, RMB1.9 million and RMB3.4 million in 2019, 2020 and 2021, respectively. For further details, see "Note 17 Trade Receivables" and "Note 19 Prepayments, other receivables and other assets" as set out in the Accountants' Report included in Appendix I to this document.

Other Expenses and Losses

Other expenses and losses consists primarily of (i) loss on disposal or write-off of property, plant and equipment that are no longer used, (ii) loss on disposal or write-off of intangible assets that are no longer used, (iii) donations, representing a donation of RMB552 thousand in 2020 to Hubei province in aid of fight against the COVID-19, (iv) penalties and late fees, primarily including an early termination fee of RMB198 thousand for the early termination of a lease in 2019, (v) net foreign exchange differences, and (vi) write-off of prepayments for which products and/or services had been provided but invoices were not received.

The following table sets forth a breakdown of the components of our other expenses and losses for the periods indicated.

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except percentages)					
Other Expenses and Losses:						
Loss on disposal or write-off of property, plant and equipment	–	–	49	7.8	–	–
Loss on disposal or write-off of intangible assets	81	28.6	–	–	–	–
Donations	–	–	552	88.1	–	–
Penalties and late fees	202	71.4	26	4.1	54	18.4
Foreign exchange differences, net	–	–	–	–	55	18.8
Write-off of prepayments	–	–	–	–	184	62.8
Total	283	100.0	627	100.0	293	100.0

Finance Costs

Our finance costs represent interest expenses on our lease liabilities and bank borrowings. Our finance costs amounted to RMB757 thousand, RMB677 thousand and RMB636 thousand in 2019, 2020 and 2021, respectively.

Profit Before Tax

As a result of the foregoing, our profit before tax was RMB65.5 million, RMB78.7 million and RMB18.5 million in 2019, 2020 and 2021, respectively.

Income Tax Expenses

Our income tax expenses were RMB6.4 million, RMB8.5 million, and RMB0.7 million in 2019, 2020 and 2021, respectively. As of the Latest Practicable Date, we did not have any material dispute with any tax authority.

We are subject to various rates of income tax under different jurisdictions. The following summarizes major factors affecting our applicable tax rates in the Cayman Islands, the British Virgin Islands, Hong Kong and the PRC.

Cayman Islands

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

Hong Kong

No provision for Hong Kong profits tax was made as we did not have any assessable income subject to Hong Kong profits tax during the Track Record Period.

PRC

Corporate income tax provision was made on the estimated assessable profits of entities within our Group incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC corporate income tax rate is 25% in 2019, 2020 and 2021.

Enterprises that qualify as high and new technology enterprises are entitled to a preferential income rate of 15% for three years. On October 31, 2018, T&I Net Communication was qualified as a high and new technology enterprise under the relevant PRC laws and regulations. Accordingly, T&I Net Communication enjoyed a preferential income tax rate of 15% during the period January 1, 2018 to December 31, 2020. T&I Net Communication renewed the status on December 17, 2021, which has an effective term of three years.

Our PRC subsidiaries, other than T&I Net Communication, were entitled to preferential tax rates of 5%, 5% and 2.5% of the taxable income within RMB1,000,000, and 10%, 10% and 10% of the taxable income between RMB1,000,000 and RMB3,000,000, in 2019, 2020 and 2021, respectively, because they were regarded as "small-scaled minimal profit enterprises," one of the criteria of which is with an annual taxable income of no more than RMB3,000,000 during the corresponding period.

In addition, companies may claim 175% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the period from January 1, 2019 to December 31, 2021. All of our PRC entities are qualified for the foregoing preferential treatment.

Pursuant to the Enterprise Income Tax Law and the Enterprise Income Tax Implementation Regulations of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors who are non-resident enterprises as defined under PRC law. The withholding tax rate may be lowered to a minimum of 5% if there is a tax arrangement between China and the jurisdiction of the foreign investors. However, the 5% withholding tax rate does not automatically apply and certain requirements must be satisfied. Dividends paid by our wholly owned subsidiary in China to our intermediary holding company in Hong Kong will be subject to a withholding tax rate of 10%, unless they qualify for treaty benefit. If our Hong Kong subsidiary is qualified as a Hong Kong tax resident and satisfies all other requirements under the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income, then dividends paid by our wholly foreign owned subsidiary in China will be subject to a reduced withholding tax rate of 5% instead.

Profits for the Year

As a result of the foregoing, our profits for the year were RMB59.1 million, RMB70.2 million and RMB17.8 million in 2019, 2020 and 2021, respectively.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Revenue

Our total revenue increased by 13.6% from RMB353.7 million in 2020 to RMB401.9 million in 2021, primarily due to the increases in revenues generated from both of our SaaS solutions and VPC solutions as a result of our continuous business expansion described below.

SaaS solutions

Revenue from our SaaS solutions increased by 8.7% from RMB341.2 million in 2020 to RMB370.7 million in 2021, primarily due to (i) an increase in revenue derived from our agile agents solutions by 87.4% from RMB23.0 million in 2020 to RMB43.1 million in 2021, primarily attributable to the adoption of our agile agents solutions for an increased number of business scenarios, such as by large companies to support and monitor customer contact activities, and (ii) an increase in revenue derived from our ContactBot solutions by 55.8% from RMB5.0 million in 2020 to RMB7.7 million in 2021, primarily attributable to the increased demand for our ContactBot solutions from technology companies. The revenue derived from our intelligent contact center solutions remained relatively stable, increasing by 2.1% from RMB313.3 million in 2020 to RMB320.0 million in 2021.

VPC solutions

Revenue from our VPC solutions increased by 259.3% from RMB5.9 million in 2020 to RMB21.3 million in 2021. Since we started to offer VPC solutions in May 2019, we have experienced a fast growth. In 2021, we had 24 clients for VPC solutions, compared to 8 in 2020.

Other services and product sales

Revenue from other services and product sales increased by 49.0% from RMB6.6 million in 2020 to RMB9.9 million in 2021, primarily due to the increased sales of telecommunication equipment.

Cost of Sales

Our cost of sales increased by 22.9% from RMB178.3 million in 2020 to RMB219.2 million in 2021. The increase was partially driven by the growth of our revenue for the same period, and partially because we purchased a larger pool of telecommunication resources in anticipation of increasing client demand in the second half of 2021. However, the client demand in the second half of 2021 was lower than expected. As a result, the average utilization rate of our telecommunication resources suffered and our cost of sales increased. In 2021, the cost of sales for our SaaS solutions amounted to RMB203.5 million, up by 18.5% from RMB171.8 million in 2020, and the cost of sales for our VPC solutions amounted to RMB9.8 million, compared to RMB2.7 million in 2020.

Gross Profit

As a result of the foregoing, our overall gross profit increased by 4.1% from RMB175.4 million in 2020 to RMB182.7 million in 2021. Gross profit from our SaaS solutions decreased by 1.3% from RMB169.4 million in 2020 to RMB167.2 million in 2021. Gross profit from our VPC solutions increased by 252.7% from RMB3.2 million in 2020 to RMB11.5 million in 2021. Gross profit from other services and product sales increased by 46.1% from RMB2.7 million in 2020 to RMB4.0 million in 2021.

Other Income and Gains

We recorded other income and gains of RMB8.3 million in 2021, as compared to other income and gains of RMB14.1 million in 2020. The decrease was primarily attributable to a decrease by 41.3% in government grant from RMB8.0 million in 2020 to RMB4.7 million in 2021, a decrease by 54.0% in investment income from financial investments at fair value through profit or loss from RMB4.8 million in 2020 to RMB2.2 million in 2021, and a decrease by 56.4% in fair value gains on financial investments at fair value through profit or loss from RMB1.1 million in 2020 to RMB0.5 million in 2021.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 41.7% from RMB50.4 million in 2020 to RMB71.3 million in 2021, primarily attributable to (i) an increase in employee benefit expenses by 40.9% from RMB36.7 million in 2020 to RMB51.8 million in 2021, primarily due to an increase in sales and marketing staff headcount from 121 as of December 31, 2020 to 136 as of December 31, 2021 and the fact that we were no longer exempt from making employer contribution to employee social security schemes in 2021, and (ii) an increase in promotion and advertising expenses by 103.2% from RMB3.1 million in 2020 to RMB6.3 million in 2021, primarily due to increased online advertising activities in 2021.

Administrative Expenses

Our administrative expenses increased by 128.9% from RMB18.8 million in 2020 to RMB43.0 million in 2021, primarily due to (i) a significant increase in professional service fees by 582.6% from RMB3.5 million in 2020 to RMB24.0 million in 2021, primarily due to an increase in consulting fees and fees associated with accounting and legal services in relation to the Proposed Listing on the ChiNext Board and the [**REDACTED**], and (ii) an increase in employee benefit by 24.9% from RMB11.1 million in 2020 to RMB13.9 million in 2021, primarily because we were exempt from making certain employer contribution to employee social security schemes in 2020 and recorded an increasing amount of share-based compensation expenses in 2021.

Research and Development Expenses

Our research and development expenses increased by 39.8% from RMB38.5 million in 2020 to RMB53.8 million in 2021, mainly due to an increase in employee benefit by 44.2% from RMB33.5 million in 2020 to RMB48.3 million in 2021, primarily due to an increase in our R&D headcount from 156 as of December 31, 2020 to 211 as of December 31, 2021. The newly hired research and development personnels primarily devoted their time to (i) further developing and enhancing our Agile Agent Solutions, which enjoyed robust growth in 2021 and required more R&D resources to support a larger user base and more diversified user applications; (ii) launching a sCRM platform in 2021, which connected our platform with WeCom, desktops and mobile devices, and continuing to improve its function; (iii) strengthening our ASR and NLP capabilities to support our fast-growing ContactBot Solutions; and (iv) strengthening our real-time video communication capabilities, launching and optimizing relevant functional modules. To a lesser extent, the increase was also due to the fact that we were exempt from making certain employer contribution to employee social security schemes in 2020.

Impairment Losses on Financial Assets

We had an impairment loss on financial assets of RMB3.4 million in 2021, compared to an impairment loss on financial assets of RMB1.9 million in 2020. The increase was primarily due to an increase in the loss allowance of RMB1.5 million as a special provision made against an aggregate gross amount of trade receivables from clients in the education industry.

Other Expenses and losses

In 2021, we recorded other expenses and losses of RMB0.3 million as a result of the early termination of a lease, foreign exchange differences and write-off of prepayments. In 2020, we had other expenses and losses of RMB0.6 million, primarily due to the Company's donation of RMB552 thousand in 2020 to Hubei Province in aid of the fight against the COVID-19.

Finance Costs

Our finance costs decreased by 6.1% from RMB0.7 million in 2020 to RMB0.6 million in 2021.

Profit Before Tax

As a result of the foregoing, we had profit before tax of RMB18.5 million in 2021, compared to a profit before tax of RMB78.7 million in 2020.

Income Tax Expenses

We had an income tax expenses of RMB0.7 million in 2021, and an income tax expense of RMB8.5 million in 2020.

Profit for the Year

As a result of the foregoing, we reported a profit of RMB17.8 million in 2021, compared to a profit of RMB70.2 million in 2020. Our net profit margin decreased from 19.8% in 2020 to 4.4% in 2021, mainly attributable to (i) a lower-than-expected revenue from education clients whose businesses were adversely affected by the recently promulgated regulations that crack down on after-school tutoring services on academic subjects in China's compulsory education system, coupled with an increased cost of sales, (ii) a significant increase in professional service fees in relation to the Proposed Listing on the ChiNext Board and the [**REDACTED**], (iii) the increases in selling and distribution expenses and research and development expenses incurred in 2021 to implement our business plan, and (iv) an increase in employee benefit expenses as we were no longer exempt from making employer contribution to employee social security schemes in 2021.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenue

Our total revenue increased by 5.7% from RMB334.8 million in 2019 to RMB353.7 million in 2020, primarily due to the increases in revenues generated from both of our SaaS solutions and VPC solutions as a result of our continuous business expansion described below.

SaaS solutions

Revenue from our SaaS solutions increased by 4.9% from RMB325.3 million in 2019 to RMB341.2 million in 2020, primarily due to (i) an increase in revenue derived from our Intelligent Contact Center Solutions by 4.1% from RMB300.9 million in 2019 to RMB313.3 million in 2020, which was attributable to the increased revenue contribution from our key accounts, especially those from online education and insurance industries, driven by the demand of their own business growth, and (ii) an increase in revenue derived from our Agile Agent Solutions by 39.6% from RMB16.5 million in 2019 to RMB23.0 million in 2020, primarily attributable to the adoption of our Agile Agent Solutions for an increased number of business scenarios to support customer contacts of frontline employees, such as car salespersons, retail store assistants and after-school program tutors. The increases in revenues from Intelligent Contact Center Solutions and Agile Agent Solutions were partially offset by a decrease in revenue from ContactBot Solutions by 37.7% from RMB8.0 million in 2019 to RMB5.0 million in 2020, which primarily due to our strategy to control the scale of ContactBot Solutions business while optimizing user experience through research and development efforts.

VPC solutions

Revenue from our VPC solutions increased by 737.1% from RMB708 thousand in 2019 to RMB5.9 million in 2020, primarily attributable to a significant demand for the deployment of customer contact functions on the virtual private cloud, a more secured environment than public cloud, from clients who have particular security requirements. Since we started to offer VPC solutions in 2019, we have experienced a fast growth in number of clients from one in 2019 to eight in 2020.

Other services and product sales

Revenue from other services and product sales decreased by 24.6% from RMB8.8 million in 2019 to RMB6.6 million in 2020, primarily due to a decreased demand for telecommunication services and equipment in 2020, which are of an ad hoc nature.

Cost of Sales

Our cost of sales decreased slightly by 0.3% from RMB178.9 million in 2019 to RMB178.3 million in 2020. Our cost of services largely remained flat but decreased slight by 0.3% from RMB178.6 million in 2019 to RMB178.1 million in 2020. This was primarily due to the relatively stable telecommunication usage in 2020 compared to 2019. Our cost of products decreased by 43.4% from RMB318 thousand in 2019 to RMB180 thousand in 2020, which was due to the decreased demand for telecommunication equipment in 2020.

Gross Profit

As a result of the foregoing, our overall gross profit increased by 12.5% from RMB155.9 million in 2019 to RMB175.4 million in 2020. Gross profit from our SaaS solutions increased by 11.3% from RMB152.2 million in 2019 to RMB169.4 million in 2020. Gross profit from our VPC solutions increased by 539.2% from RMB0.5 million in 2019 to RMB3.2 million in 2020. Gross profit from other services and product sales decreased by 12.3% from RMB3.1 million in 2019 to RMB2.7 million in 2020.

Other Income and Gains

We recorded other income and gains of RMB14.1 million in 2020, as compared to other income and gains of RMB8.8 million in 2019. The increase was primarily attributable to (i) a significant increase in government grant by 121.0% from RMB3.6 million in 2019 to RMB8.0 million in 2020, which primarily resulting from a subsidy of RMB5.4 million from local government in 2020, and (ii) an increase by 34.7% in investment income from financial investments at fair value through profit or loss from RMB3.6 million in 2019 to RMB4.8 million in 2020, representing the income from our investments in financial instruments such as wealth management products.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 14.0% from RMB44.2 million in 2019 to RMB50.4 million in 2020, primarily attributable to (i) an increase in employee benefit expenses by 20.3% from RMB30.5 million in 2019 to RMB36.7 million in 2020, primarily due to an increase in sales and marketing staff headcount, and to a lesser extent, an increase of compensation levels for our sales and marketing staff, and (ii) an increase in promotion and advertising expenses by 66.9% from RMB1.9 million in 2019 to RMB3.1 million in 2020, primarily due to our use of search engines as additional online marketing channels in 2020. The foregoing increase were partially offset by a decrease in commission expenses from RMB6.9 million in 2019 to RMB5.0 million in 2020, primarily due to the reduced cooperation with third-party sales agents as we increased direct sales efforts in 2020.

Administrative Expenses

Our administrative expenses increased by 16.3% from RMB16.2 million in 2019 to RMB18.8 million in 2020, primarily due to (i) an increase in employee benefit expenses by 10.0% from RMB10.1 million in 2019 to RMB11.1 million in 2020, mainly due to the increase in average salaries and benefits of our administrative staff, and (ii) an increase in professional service fees by 244.7% from RMB1.0 million in 2019 to RMB3.5 million in 2020, mainly attributable to an increase in consulting fees and fees associated with accounting and legal services we received in 2020 in connection with our Proposed Listing on the ChiNext Board. The foregoing increases were partially offset by (i) a decrease in other expenses by 43.1% from RMB2.3 million in 2019 to RMB1.3 million in 2020 primarily due to a decrease in office expenses resulting from fewer meetings and conferences in 2020 as a result of the COVID-19 pandemic and a decrease in recruitment and training expenses caused by reduced number of training activities and less cooperation with headhunters in 2020.

Research and Development Expenses

Our research and development expenses increased by 3.9% from RMB37.1 million in 2019 to RMB38.5 million in 2020, mainly due to an increase in employee benefit expenses by 14.4% from RMB29.3 million 2019 to RMB33.5 million in 2020, primarily as a result of the increases of research and development staff headcount, which was partially offset by (i) a decrease in depreciation of property, plant and equipment by 36.7% from RMB2.9 million in 2019 to RMB1.8 million in 2020, primarily because a number of fixed assets were fully depreciated in 2019, (ii) a decrease in outsourcing expenses by 76.0% from RMB2.5 million in 2019 to RMB610 thousand in 2020, primarily because an increased amount of research and development work was conducted by our in-house team in 2020.

Impairment Losses on Financial Assets

We had an impairment loss on financial assets of RMB1.9 million in 2020 compared to an impairment loss on financial assets of RMB812 thousand in 2019. The increase was primarily due to an increase in impairment losses of trade receivables by 182.7% from RMB666 thousand in 2019 to RMB1.9 million in 2020 as a result of an increase in the expected credit losses allowance from RMB2.2 million in 2019 to RMB4.1 million in 2020.

Other Expenses and losses

Our other expenses and losses increased by 121.6% from RMB283 thousand in 2019 to RMB627 thousand in 2020, primarily due to a donation of RMB552 thousand in 2020 to Hubei province in aid of fight against the COVID-19, and a loss on disposal or write-off of property, plant and equipment of RMB49 thousand in 2020. We recorded an early termination fee of RMB198 thousand in 2019 for the early termination of a lease, and an early termination fee of RMB19 thousand in 2020 in connection with the early termination of another lease. We recorded a loss on disposal or write-off of intangible assets of RMB81 thousand in 2019 whereas we did not incur such type of loss in 2020.

Finance Costs

Our finance costs decreased by 10.6% from RMB757 thousand in 2019 to RMB677 thousand in 2020, primarily due to a decrease in interest expenses on lease liabilities.

Profit Before Tax

As a result of the foregoing, we had profit before tax of RMB78.7 million in 2020, compared to a profit before tax of RMB65.5 million in 2019.

Income Tax Expenses

We had an income tax expenses of RMB8.5 million in 2020, and an income tax expense of RMB6.4 million in 2019. The increase was primarily due to the increase in taxable income in 2020.

Profit for the Year

As a result of the foregoing, we reported a profit of RMB70.2 million in 2020, compared to a profit of RMB59.1 million in 2019.

DISCUSSION OF CERTAIN KEY BALANCE SHEET ITEMS

The table below sets forth selected information from our consolidated statements of financial position as of the dates indicated, which have been extracted from our audited consolidated financial statements included in Appendix I to this document.

	As of December 31,		
	2019	2020	2021
	(RMB in thousands)		
Selected Consolidated Statements of Financial Position Data:			
Total non-current assets	28,086	26,930	15,070
Total current assets	231,625	266,601	286,648
Total assets	259,711	293,531	301,718
Total non-current liabilities	8,462	6,378	2,709
Total current liabilities	63,853	59,151	77,538
Total liabilities	72,315	65,529	80,247
Share capital	–	–	98
Reserves	187,396	228,002	221,373
Total equity	187,396	228,002	221,471
Total equity and liabilities	259,711	293,531	301,718

The following table sets forth our assets and liabilities as of the dates indicated.

	As of December 31,		
	2019	2020	2021
	(RMB in thousands)		
Non-current assets:			
Property, plant and equipment	4,484	3,139	3,611
Right-of-use assets	12,717	12,305	7,781
Other intangible assets	2,816	2,778	2,971
Prepayments for property, plant and equipment	–	347	–
Equity investments designated at fair value through other comprehensive income	8,069	8,177	–
Deferred tax assets	–	184	707
Total non-current assets	28,086	26,930	15,070
Current assets:			
Trade receivables	48,353	75,218	64,388
Contract assets	–	277	2,214
Prepayments, other receivables and other assets	6,247	6,916	12,695
Prepaid tax	3,476	–	2,286
Financial investments at fair value through profit or loss	155,808	151,237	31,227
Cash and cash equivalents	17,741	32,953	152,545
Pledged deposits	–	–	21,293
Total current assets	231,625	266,601	286,648
Non-current liabilities:			
Lease liabilities	8,444	6,378	2,709
Deferred tax liabilities	18	–	–
Current liabilities:			
Interest-bearing bank borrowings	–	–	10,520
Trade payables	20,483	13,924	15,740
Contract liabilities	22,740	18,133	22,716
Other payables and accruals	15,550	19,646	22,862
Lease liabilities	4,630	6,513	5,281
Tax payable	450	935	419
Total current liabilities	63,853	59,151	77,538
Net current assets	167,772	207,450	209,110

The following table sets forth our current assets and current liabilities as of the dates indicated:

	As of December 31,			As of April 30,
	2019	2020	2021	2022
	(RMB in thousands)			
				(unaudited)
Current assets:				
Trade receivables	48,353	75,218	64,388	81,314
Contract assets	–	277	2,214	12,695
Prepayments, other receivables and other assets	6,247	6,916	12,695	13,249
Prepaid tax	3,476	–	2,286	2,848
Financial investments at fair value through profit or loss	155,808	151,237	31,227	109,021
Cash and cash equivalents	17,741	32,953	152,545	63,329
Pledged deposit	–	–	21,293	21,448
Total current assets	231,625	266,601	286,648	303,904
Current liabilities:				
Interest-bearing bank borrowings	–	–	10,520	10,919
Trade payables	20,483	13,924	15,740	27,928
Contract liabilities	22,740	18,133	22,716	24,142
Other payables and accruals	15,550	19,646	22,862	28,338
Lease liabilities	4,630	6,513	5,281	6,617
Tax payable	450	935	419	417
Total current liabilities	63,853	59,151	77,538	98,361
Net current assets	167,772	207,450	209,110	205,543

We had net current assets of RMB167.8 million, RMB207.5 million and RMB209.1 million as of December 31, 2019, 2020 and 2021, respectively. Our net current assets position as of each of these dates was primarily attributable to our large balance of cash and cash equivalents, financial investments at fair value through profit or loss and trade receivables, partially offset by our contract liabilities and other payables and accruals.

Our net current assets increased from RMB167.8 million as of December 31, 2019 to RMB207.5 million as of December 31, 2020, primarily due to an increase of RMB26.9 million in trade receivables, an increase of RMB15.2 million in cash and cash equivalents, a decrease of RMB6.6 million in trade payables and a decrease of RMB4.6 million in contract liabilities, which were partially offset by a decrease of RMB4.6 million in financial investments at fair value through profit or loss in 2020.

Our net current assets changed slightly from RMB207.5 million as of December 31, 2020 to RMB209.1 million as of December 31, 2021, primarily due to an increase in cash and cash equivalents of RMB119.6 million and an increase in prepayments, other receivables and other assets of RMB5.8 million, which was partially offset by a decrease in financial investments at fair value through profit or loss of RMB120.0 million, mainly as a result of our disposal of certain wealth management products and structured deposits.

Assets

Property, Plant and Equipment

Our property, plant and equipment primarily consist of motor vehicles, computer equipment, telecommunication equipment, office equipment, furniture and leasehold improvements.

The following table sets forth our property, plant and equipment as of the dates indicated.

	As of December 31,		
	2019	2020	2021
	(RMB in thousands)		
Property, Plant and Equipment:			
Leasehold improvements	972	1,096	1,136
Office equipment	666	697	697
Electronics equipment	18,272	17,707	19,949
Motor vehicles	1,057	1,057	1,057
Less: accumulated depreciation	(16,483)	(17,418)	(19,228)
Net book value of property, plant and equipment	4,484	3,139	3,611

The gross book value of our property, plant and equipment increased from RMB20.6 million as of December 31, 2020 to RMB22.8 million as of December 31, 2021, primarily due to an increase in electronics equipment purchased.

The gross book value of our property, plant and equipment decreased from RMB21.0 million as of December 31, 2019 to RMB20.6 million as of December 31, 2020, primarily due to the decrease in electronic equipment as a result of our disposal of certain old worn out electronic equipment, which was partially offset by additions of leasehold improvements and acquisition of office equipment during 2020.

Accumulated depreciation increased from RMB16.5 million as of December 31, 2019 to RMB17.4 million as of December 31, 2020, and further increased to RMB19.2 million as of December 31, 2021.

Right-of-use Assets

Our right-of-use assets represent our leased buildings and data centers.

Our right-of-use assets decreased by 36.8% from RMB12.3 million as of December 31, 2020 to RMB7.8 million as of December 31, 2021, primarily due to depreciation charge of RMB6.2 million, which was partially offset by additions of RMB1.6 million.

Our right-of-use assets decreased by 3.1% from RMB12.7 million as of December 31, 2019 to RMB12.3 million as of December 31, 2020, primarily due to depreciation charge of RMB5.3 million, which was partially offset by additions of RMB4.9 million.

Equity Investments Designated at Fair Value Through Other Comprehensive Income

During the Track Record Period, our equity investments designated at fair value through other comprehensive income represented our equity investment in Neunit Communication Technology (Beijing) Co., Ltd. On March 24, 2021, we disposed of our entire equity interest in this company for a cash consideration of approximately RMB8.3 million and recognized a disposal gain of RMB0.1 million.

Trade Receivables

Trade receivables represent outstanding amounts due from our clients for software licensing or services performed in the ordinary course of business. A trade receivable is recorded when we have an unconditional right to consideration and upon invoicing the client based on the payment schedule provided in the relevant agreements. Trade receivables are generally due for settlement within one year and therefore are all classified as current. The following table sets forth our trade receivables as of the dates indicated.

	As of December 31,		
	2019	2020	2021
	(RMB in thousands)		
Trade Receivables:			
Trade receivables from contracts with clients	50,560	79,308	69,381
Less: allowance for impairment of trade receivables	(2,207)	(4,090)	(4,993)
Total	48,353	75,218	64,388

Our trade receivables increased from RMB48.4 million as of December 31, 2019 to RMB75.2 million as of December 31, 2020, primarily due to the combined effect of our business growth and the increased revenue contribution from our large clients who typically request a longer credit period. Our trade receivables decreased to RMB64.4 million as of December 31, 2021, primarily because we strengthened the management of trade receivables, which accelerated receivable turnover.

For our VPC model, we typically provide a credit term of no more than 30 days. For our SaaS model, we require a majority of our clients, which are primarily small and medium-sized enterprises, to prepay for our services; we typically provide our large clients a credit term between 15 and 90 days. Large clients to which we grant a credit period primarily consist of our key accounts, which are clients with an annual purchase amount over RMB1.0 million. In 2019, 2020 and 2021, revenue from our key accounts accounted for 74.0%, 76.8% and 74.5% of our total revenue, respectively. As of December 31, 2019, 2020 and 2021, trade receivables attributable to our key accounts amounted to RMB44.3 million, RMB70.0 million and RMB54.0 million, respectively, accounting for 87.6%, 88.2% and 77.8% of our trade receivables from contracts with clients.

We apply the simplified approach permitted by IFRS 9, which requires the expected lifetime losses to be recognized from initial recognition of the assets. This provision matrix is determined based on historical observed default rates over the expected life of the contract assets and trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. As of December 31, 2019, 2020 and 2021, our allowance for impairment of trade receivables were RMB2.2 million, RMB4.1 million and RMB5.0 million, respectively.

Ageing analysis of trade receivables based on date of recognition is as follows:

	As of December 31,		
	2019	2020	2021
	(RMB in thousands)		
Trade Receivables:			
Up to three months	40,781	60,041	50,790
Four months to one year	7,450	15,231	14,744
One to two years	2,219	3,129	3,070
Over two years	110	907	777
	50,560	79,308	69,381
Less: allowance for impairment of trade receivables	(2,207)	(4,090)	(4,993)
Total	48,353	75,218	64,388

The following table sets forth the turnover days of our trade receivables for the periods indicated.

	As of December 31,		
	2019	2020	2021
	(Days)		
Trade receivables turnover days[(1)]	52	64	63

Note:

(1) Trade receivables turnover days for a period equals the average of the opening and closing trade receivables balance divided by revenue for the relevant period and multiplied by the number of days in the relevant period.

Our trade receivables turnover days increased from 52 in 2019 to 64 in 2020, primarily because over the years a growing portion of revenue was generated from credit sale to large clients, who typically request longer credit period, while the percentage of revenue from small- and medium sized enterprises, who typically agree to prepay the price, became lower. In addition, the launch and growth of our VPC model also contributed to the increases in our trade receivables turnover days. For the VPC model, revenue from customization services is recognized over time as services are rendered, while payment is typically due within 30 days from the date of acceptance of the system. As a result, our VPC model generates higher trade receivables. Our trade receivables turnover days decreased slightly from 64 in 2020 to 63 in 2021, primarily because we strengthened the management of trade receivables, which accelerated receivable turnover.

As of the Latest Practicable Date, RMB52.2 million, or 75.2% of our trade receivables outstanding (before impairment) as of December 31, 2021, had been subsequently settled. As of the same date, the impairment amount of the remaining portion of our trade receivables was RMB3.9 million. As of the same date, the unsettled amount of trade receivables (before impairment) was RMB17.2 million, or 24.8% of our trade receivables outstanding (before impairment) as of December 31, 2021. These primarily represent trade receivables from listed companies and SOEs, who have relatively low credit risks.

Contract Assets

Our contract assets represent our rights to receive consideration for obligations partially performed and not yet billed under our licensing agreements with the clients for our VPC solutions as such rights are conditioned on our future performance of our remaining obligations under such licensing agreements. Upon the completion of the services rendered and acceptance by the clients, the amount recognized as contract assets will be reclassified to trade receivables.

The following table sets forth our contract assets as of the dates indicated.

	As of December 31,		
	2019	2020	2021
	(RMB in thousands)		
Contract assets arising from VPC solutions	–	277	2,534
Impairment	–	–	(320)
	–	277	2,214

The increases in contract assets in 2020 and 2021 both resulted from the increase in the ongoing provision of VPC solutions at December 31, 2020 and 2021, respectively.

The following table sets forth the expected timing of recovery or settlement for contract assets as of the date indicated.

	As of December 31,		
	2019	2020	2021
	(RMB in thousands)		
Within one year	–	277	2,214

The following table sets forth the turnover days of our trade receivables and contract assets for the periods indicated.

	As of December 31,		
	2019	2020	2021
	(Days)		
Turnover days of trade receivables and contract assets[1]	52	64	65

(1) Turnover days of trade receivables and contract assets for a period equals the average of the opening and closing trade receivables and contract assets balance divided by revenue for the relevant period and multiplied by the number of days in the relevant period.

During the Track Record Period, the turnover days of our trade receivables and contract assets increased from 52 in 2019 to 64 in 2020 and further to 65 in 2021, primarily because over the years a growing portion of revenue was generated from credit sale to large clients, who typically request longer credit period, while the percentage of revenue from small- and medium-sized enterprises, who typically agree to prepay the price, became lower.

Prepayments, Other Receivables and Other Assets

Prepayments and other receivables primarily consist of (i) prepayments to telecommunication companies, (ii) rental deposits, (iii) other receivables representing prepayments for employee benefits, and (iv) prepaid other tax. Our prepayments and other receivables are partially offset by allowance for impairment of other receivables.

The following table sets forth our prepayments and other receivables as of the dates indicated.

	As of December 31,		
	2019	2020	2021
	(RMB in thousands)		
Prepayments, Other Receivables and Other Assets:			
Prepayments	2,338	4,572	9,408
Deposits	2,938	2,712	3,122
Other receivables	733	151	538
Prepaid other tax	918	161	384
	6,927	7,596	13,452
Less: allowance for impairment	(680)	(680)	(757)
Total	6,247	6,916	12,695

Our prepayments and receivables increased from RMB6.2 million as of December 31, 2019 to RMB6.9 million as of December 31, 2020, primarily due to an increase in prepayments to telecommunication companies, which was partially offset by the decreases in other receivables and prepaid other tax.

Our prepayments and other receivables increased from RMB6.9 million as of December 31, 2020 to RMB12.7 million as of December 31, 2021, primarily due to an increase in prepayments of certain expenses in connection with the [**REDACTED**].

Financial Investments at Fair Value Through Profit or Loss

During the Track Record Period, our Group's financial investments at fair value through profit or loss comprised (i) investments in certain wealth management products issued by major and reputable commercial banks in China, (ii) investments in certain structured deposits issued by major and reputable commercial banks in China, (iii) trust plan issued by licensed trust management companies in China, and (iv) investments in funds issued by licensed fund management companies operating in China. As the returns on all of these investments are not solely payments of principals and interest, we designated the whole instruments as financial assets at fair value through profit or loss.

We manage cash pursuant to our investment policy. Our investment policy is focused on the preservation of capital and supporting our liquidity needs with the following principles that provide guidance for our investment activities:

- *Ensure legitimacy*. All investments of the Company should comply with applicable laws and regulations. Investments must be submitted to our chief executive officer Mr. WU Qiang (吳強) for approval. Mr. Wu has gained extensive investment experience from his three-decade-long career, during which he assumed leadership role of multiple entities for more than two decades. Mr. Wu received a master's degree in business administration from Tsinghua University (清華大學) in June 2000. Please see the section headed "Directors and Senior Management – Executive Directors" for more qualifications of Mr. Wu.

- *Cautionary use of funds*. Investment must not hinder any use of funds for business operations.

- *Ensure the safety of funds*. Investments are generally limited to (i) currency funds issued by mutual funds, (ii) wealth management products and structured deposits offered by large state-owned commercial banks or national joint-stock commercial banks, and (iii) trust products. Investment in stock for trading or speculative purposes is not permitted.

- *Provide liquidity*. The investment portfolio is managed to remain sufficiently liquid to meet funding demands. The term of an investment should generally not be more than one year.

- *Generate income*. Investment portfolio is managed to maximize income on invested funds in a manner that is consistent with the Company's overall financial goals and risk considerations.

Day-to-day activities pertaining to the investment portfolio are conducted by our finance department under the supervision of our chief executive officer Mr. WU Qiang (吳強). We actively monitor our investments to identify any material changes in our mix of securities and review our securities for potential impairment on an ongoing basis.

During the Track Record Period, the wealth management products purchased by us were generally described as having low or middle levels of risks in the product description manuals published by the issuing banks. The underlying assets of the wealth management products were mainly investments in various types of assets that meet regulatory requirements and are highly liquid and with higher market credit rating, including but not limited to bonds, inter-bank deposits, bond funds and other money market instruments.

The following table sets forth a breakdown of our financial investments at fair value through profit or loss as of the dates indicated.

	As of December 31,		
	2019	2020	2021
	(RMB in thousands)		
Financial Investments at Fair Value Through Profit or Loss:			
Wealth management products	30,394	30,107	–
Structured deposits	60,265	100,378	–
Trust plans	40,000	–	–
Funds	25,149	20,752	31,227
Total	155,808	151,237	31,227

The following table sets forth the detailed information of our financial investments at fair value through profit or loss as of the dates indicated, including the product type, issuer, initial cost, balance and the underlying assets.

As of December 31, 2019

No.	Type	Issuer	Initial Cost	Balance	Underlying Assets
			(RMB in thousands)	(RMB in thousands)	
1.	Structured deposits	Bank of Communications Co., Ltd.	10,000	10,143	Structured deposits linked with exchange rates of EUR/USD
2.	Structured deposits	Bank of Communications Co., Ltd.	20,000	19,992	Structured deposits linked with exchange rates of EUR/USD
3.	Structured deposits	China Citic Bank Corporation Limited	10,000	10,057	Structured deposits linked with three-month USD LIBOR at 11:00 am on February 13, 2020 (London time)
4.	Structured deposits	China Merchants Bank Co., Ltd.	15,000	15,059	Structured deposits linked with the afternoon fixed price on the observation day issued by the London Gold and Silver Market Association
5.	Structured deposits	China Merchants Bank Co., Ltd.	5,000	5,013	Structured deposits linked with the afternoon fixed price on the observation day issued by the London Gold and Silver Market Association

No.	Type	Issuer	Initial Cost	Balance	Underlying Assets
			(RMB in thousands)	(RMB in thousands)	
6.. . . .	Financial products	China Merchants Bank Co., Ltd.	10,000	10,000	Financial assets and instruments with high credit ratings and better liquidity in interbank and exchange markets
7.. . . .	Financial products	China Merchants Bank Co., Ltd.	20,000	20,395	Financial instruments with medium credit ratings and above in the interbank and exchange markets
8.. . . .	Fund	HuaAn Fund Management Company Ltd.	25,000	25,149	Financial instruments with good liquidity, including but not limited to cash, bank deposits with a term of less than 1 year, bond repurchases, central bank notes, etc.
9.. . . .	Trust	Zhongrong International Trust Co., Ltd.	30,000	30,000	Equity interests and debt interests
10.. . .	Trust	Zhongrong International Trust Co., Ltd.	5,000	5,000	Equity interests and debt interests
11.. . .	Trust	CITIC Trust Co., Ltd.	5,000	5,000	Loan claims
			155,000	155,808	

As of December 31, 2020

No.	Type	Issuer	Initial Cost	Balance	Underlying Assets
			(RMB in thousands)	(RMB in thousands)	
1.. . . .	Structured deposits	Bank of Communications Co., Ltd.	20,000	20,186	Structured deposits linked the closing price for AU99.99 contracts on the observation day in Shanghai Gold Exchange
2.. . . .	Structured deposits	Bank of Communications Co., Ltd.	10,000	10,067	Structured deposits linked with exchange rates of EUR/USD
3.. . . .	Structured deposits	Bank of Communications Co., Ltd.	10,000	10,046	Structured deposits linked with exchange rates of EUR/USD

No.	Type	Issuer	Initial Cost	Balance	Underlying Assets
			(RMB in thousands)	(RMB in thousands)	
4.. . . .	Structured deposits	China Merchants Bank Co., Ltd.	30,000	30,056	Structured deposits linked with the afternoon fixed price on the observation day issued by the London Gold and Silver Market Association
5.. . . .	Structured deposits	China Merchants Bank Co., Ltd.	20,000	20,022	Structured deposits linked with the afternoon fixed price on the observation day issued by the London Gold and Silver Market Association
6.. . . .	Structured deposits	China Merchants Bank Co., Ltd.	10,000	10,000	Structured deposits linked with the afternoon fixed price on the observation day issued by the London Gold and Silver Market Association
7.. . . .	Financial products	China Merchants Bank Co., Ltd.	30,000	30,107	Financial assets and instruments with high credit ratings and better liquidity in interbank and exchange markets
8.. . . .	Fund	China Life AMP Asset Management Co., Ltd.	10,000	10,046	Financial instruments with good liquidity, including but not limited to cash, bank deposits with a term of less than 1 year, bond repurchases, central bank notes, etc.
9.. . . .	Fund	HuaAn Fund Management Company Ltd.	10,000	10,707	Financial instruments with good liquidity, including but not limited to cash, bank deposits with a term of less than 1 year, bond repurchases, central bank notes, etc.
			150,000	151,237	

As of December 31, 2021

No.	Type	Issuer	Initial Cost	Balance	Underlying Assets
			(RMB in thousands)	(RMB in thousands)	
1	Fund	China Life Amp Asset Management Co., Ltd.	10,000	10,289	Financial instruments with good liquidity, including but not limited to cash, bank deposits with a term of less than 1 year, bond repurchases, central bank notes, etc.
2	Fund	HuaAn Fund Management Company Ltd.	20,000	20,938	Financial instruments with good liquidity, including but not limited to cash, bank deposits with a term of less than 1 year, bond repurchases, central bank notes, etc.
			30,000	31,227	

Our financial investments at fair value through profit or loss decreased from RMB155.8 million as of December 31, 2019 to RMB151.2 million as of December 31, 2020, primarily due to our disposing of the trust plans and certain funds while increasing investments in structured deposits in 2020.

Our financial investments at fair value through profit or loss decreased from RMB151.2 million as of December 31, 2020 to RMB31.2 million as of December 31, 2021, primarily due to our disposal of structured deposits and wealth management products.

After [**REDACTED**], our financial investments at fair value through profit or loss will be subject to compliance with Chapter 14 of the Listing Rules.

Pledged deposits

We had pledged deposits of RMB21.3 million as of December 31, 2021. The deposits were made on May 18, 2021 with a term of one year and an annual interest rate of 2.25%. The deposits are used as the pledge for a line of credit of US$3 million we obtained in June 2021. For details, see "– Indebtedness – Borrowings."

Liabilities

Trade Payables

Our trade payables represent liabilities for services provided to us by telecommunication companies and cloud infrastructure providers prior to the end of each financial year which are unpaid. Trade payables are recognized initially at their fair value and are subsequently measured at amortized cost using the effective interest method. The trade payables are non-interest-bearing and are normally settled on ninety-day terms.

Our trade payables decreased from RMB20.5 million as of December 31, 2019 to RMB13.9 million as of December 31, 2020, primarily due to our increased cooperation with telecommunication companies that required prepayment or a shorter credit period.

Our trade payables increased from RMB13.9 million as of December 31, 2020 to RMB15.7 million as of December 31, 2021, primarily because we reduced the amount of pre-payments made to suppliers.

The following table sets forth the ageing analysis of the trade payables as of the dates indicated.

	As of December 31,		
	2019	2020	2021
	(RMB in thousands)		
Trade Payables:			
Up to three months	19,789	12,106	15,048
Four to 12 months	637	1,818	460
One to two years	57	–	232
Total	20,483	13,924	15,740

As of the Latest Practicable Date, RMB13.6 million, or 86.4%, of our trade payables outstanding as of December 31, 2021 had been settled.

Contract Liabilities

Contract liabilities primarily reflect payments received in advance of revenue recognition in relation to subscription to our solutions. They are recognized as revenue upon transfer of control to our clients of the promised products and services and do not involve any cash outflow.

Our contract liabilities decreased from RMB22.7 million as of December 31, 2019 to RMB18.1 million as of December 31, 2020, primarily due to the decrease in short-term advances received from clients in relation to the provision of SaaS solutions at the end of 2020.

Our contract liabilities increased from RMB18.1 million as of December 31, 2020 to RMB22.7 million as of December 31, 2021, primarily due to the increase in short-term advances received from clients in relation to the provision of SaaS solutions in 2021.

As of the Latest Practicable Date, RMB14.2 million, or 62.4%, of our contract liabilities as of December 31, 2021 had been recognized as revenue.

Other Payables and Accruals

Other payables and accruals primarily consist of (i) accrued payroll and welfare payables, (ii) VAT and personal income tax payable, and (iii) other payables representing the provision of payable [**REDACTED**] and operating expenses advanced by employees.

The following table sets forth our other payables and accruals as of the dates indicated.

	As of December 31,		
	2019	2020	2021
	(RMB in thousands)		
Other Payables and Accruals:			
Payroll and welfare payables	12,089	12,646	12,500
Other tax payables	2,221	6,160	3,254
Other payables	1,240	840	7,108
Total	15,550	19,646	22,862

Our other payables and accruals further increased from RMB15.6 million as of December 31, 2019 to RMB19.6 million as of December 31, 2020, primarily due to the increase in other tax payables resulting from a RMB3.0 million withholding tax in connection with our declaration of dividend in 2020.

Our other payables and accruals increased from RMB19.6 million as of December 31, 2020 to RMB22.9 million as of December 31, 2021, primarily due to the increase in other payables resulting from the provision of payable [**REDACTED**], which is partially offset by the decrease in other tax payables resulting from the payment of withholding tax in connection with our declaration of dividend in 2020.

As of the Latest Practicable Date, RMB17.2 million, or 75.2%, of our other payables and accruals as of December 31, 2021 had been settled.

Lease liabilities

Lease liabilities represent the present value of outstanding lease payments under our lease agreements.

The following table sets forth our lease liabilities as of the dates indicated:

	As of December 31,			As of April 30,
	2019	**2020**	**2021**	**2022**
	(RMB in thousands)			(unaudited)
Lease liabilities				
Current	4,630	6,513	5,281	6,617
Non-current	8,444	6,378	2,709	3,930
Total	13,074	12,891	7,990	10,547

We recorded lease liabilities of RMB13.1 million, RMB12.9 million and RMB8.0 million as of December 31, 2019, 2020 and 2021, respectively. Our lease liabilities decreased as we made lease payments during the Track Record Period. We recorded lease liabilities of RMB10.5 million as of April 30, 2022.

LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our cash requirements principally from cash generated from our business operations. After the [**REDACTED**], we intend to finance our future capital requirements through cash generated from our business operations, the [**REDACTED**] from the [**REDACTED**], and other future equity or debt financings. We currently do not anticipate any changes to the availability of financing to fund our operations in the near future. We had cash and cash equivalents of RMB17.7 million, RMB33.0 million and RMB152.5 million as of December 31, 2019, 2020 and 2021, respectively.

Cash Flows

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

	For the Year Ended December 31,		
	2019	2020	2021
	(RMB in thousands)		
Selected Cash Flow Data:			
Cash generated from operations	71,639	44,663	41,304
Interest paid	(757)	(677)	(636)
Corporate income tax paid	(15,360)	(4,745)	(3,993)
Net cash flows generated from operating activities	55,522	39,241	36,675
Net cash flows (used in)/generated from investing activities	(112,394)	9,013	128,788
Net cash flows used in financing activities	(24,703)	(33,042)	(45,870)
Net increase/(decrease) in cash and cash equivalents	(81,575)	15,212	119,593
Cash and cash equivalents at beginning of year	99,316	17,741	32,953
Effect of foreign exchange rate changes, net	–	–	(1)
Cash and cash equivalents at end of year	17,741	32,953	152,545

Net Cash Generated from Operating Activities

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

In 2021, net cash generated from operating activities was RMB36.7 million, which was primarily attributable to our profit before tax of RMB18.5 million, as adjusted by (i) non-cash items, which primarily comprised of depreciation of right-of-use assets of RMB6.2 million, impairment of financial assets of RMB3.4 million, depreciation of property, plant and equipment of RMB1.8 million, and equity-settled share-based payment expense of RMB1.2 million, and (ii) changes in working capital, which primarily comprised of (a) an increase in trade receivables of RMB7.8 million, primarily in line with our business growth, (b) an increase in other payables and accruals of RMB6.2 million, which was primarily due to the provision of payable [**REDACTED**], and (c) an increase in prepayments, other receivables and other assets of RMB5.9 million, which was primarily due to prepayments of certain expenses in connection with the [**REDACTED**].

In 2020, net cash generated from operating activities was RMB39.2 million, which was primarily attributable to our profit before tax of RMB78.7 million, as adjusted by (i) non-cash items, which primarily comprised of depreciation of right-of-use assets of RMB5.3 million, investment income of RMB4.8 million, depreciation of property, plant and equipment of

RMB2.1 million, and (ii) changes in working capital, which primarily comprised of (a) an increase in trade receivables of RMB28.7 million, primarily resulting from the combined effect of business growth and greater revenue contribution from large clients who typically request a longer credit period, (b) a decrease in trade payables of RMB6.6 million, primarily resulting from our increased cooperation with telecommunication companies that required prepayment or a shorter credit period, and (c) a decrease in contract liabilities of RMB4.6 million, which was primarily due to the decrease in short-term advances received from clients in relation to the provision of SaaS solutions at the end of 2020.

In 2019, net cash generated from operating activities was RMB55.5 million, which was primarily attributable to our profit before tax of RMB65.5 million, as adjusted by (i) non-cash items, which primarily comprised of depreciation of right-of-use assets of RMB4.6 million, investment income of RMB3.6 million and depreciation of property, plant and equipment of RMB3.1 million, and (ii) changes in working capital, which primarily comprised of (a) an increase in prepayments, other receivables and other assets of RMB2.3 million, primarily due to increases in prepayments to telecommunication companies in line with the business growth and prepayments for employee benefits, (b) an increase in other payables and accruals of RMB2.2 million, primarily due to the increase in accrued payroll and employee benefit expenses as a result of increases in number of employees and salaries paid to our employees, and (c) an increase in trade receivables of RMB1.2 million, which was generally in line with the overall growth of our business during this period.

Net Cash (Used in)/Generated from Investing Activities

Our cash used in investing activities consists primarily of purchase of financial investments at fair value through profit or loss, purchase of property, plant and equipment and purchase of other intangible assets. Our cash generated from investing activities consists primarily of proceeds from disposal/maturity of financial investments at fair value through profit or loss, interest received and proceeds from disposal of property, plant and equipment.

In 2021, net cash generated from investing activities was RMB128.8 million, which was primarily attributable to the proceeds of RMB552.7 million from disposal/maturity of financial investments at fair value through profit or loss, which were partially offset by payments of RMB430.0 million for purchase of financial investments at fair value through profit or loss.

In 2020, net cash generated from investing activities was RMB9.0 million, which was primarily attributable to proceeds of RMB420.5 million from disposal/maturity of financial investments at fair value through profit or loss, which were partially offset by payments of RMB410.0 million for purchase of financial investments at fair value through profit or loss.

In 2019, net cash used in investing activities was RMB112.4 million, which was primarily attributable to the payments of RMB368.0 million for purchase of financial assets at fair value through profit or loss, which were partially offset by proceeds of RMB256.9 million from disposal/maturity of financial investments at fair value through profit or loss.

Net Cash Used in Financing Activities

Our cash used in financing activities consists primarily of dividend paid to the then shareholders and principal elements of lease payments.

In 2021, net cash used in our financing activities was RMB45.9 million, which was primarily attributable to dividend of a subsidiary paid to the then shareholders of RMB28.9 million and increase in pledged time deposits for bank borrowings of RMB21.0 million, partially offset by new bank borrowings of RMB10.5 million.

In 2020, net cash used in our financing activities was RMB33.0 million, which was attributable to dividend of a subsidiary paid to the then shareholders of RMB28.0 million and payments of principal portion of lease payments of RMB5.1 million.

In 2019, net cash used in our financing activities was RMB24.7 million, which was attributable to dividend of a subsidiary paid to the then shareholders of RMB20.7 million and payments of principal portion of lease payments of RMB4.0 million.

INDEBTEDNESS

Borrowings

In June 2021, we entered into an agreement with a commercial bank in China for a line of credit of US$3 million, with RMB21 million of deposited cash as pledge. We utilized US$1.65 million under the credit facility at the interest rate of 120 basis points over three-month LIBOR to pay for certain expenses in relation to the [**REDACTED**] denominated in U.S. dollars, and fully repaid the amount on May 31, 2022. As of the Latest Practicable Date, we did not have any banking facilities.

Lease Liabilities

The following table sets forth our lease liabilities as of the dates indicated:

	As of December 31,			As of April 30,
	2019	**2020**	**2021**	**2022**
	(RMB in thousands)			(unaudited)
Lease liabilities:				
Current	4,630	6,513	5,281	6,617
Non-current	8,444	6,378	2,709	3,930
Total	13,074	12,891	7,990	10,547

Except as disclosed above, as of April 30, 2022, being the indebtedness date for the purpose of the indebtedness statement, we did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, hire purchase commitments, guarantees, capital commitments or other material contingent liabilities. Our Directors have confirmed that there is no material change in our indebtedness since April 30, 2022 and up to the Latest Practicable Date.

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios for the periods indicated.

	For the Year Ended December 31,		
	2019	2020	2021
Total revenue growth (%)	N/A	5.7	13.6
SaaS solutions (%)	N/A	4.9	8.7
VPC solutions (%)	N/A	737.1	259.3
Other services and product sales (%)	N/A	(24.6)	49.0
Gross margin (%)	46.6	49.6	45.5
SaaS solutions (%)	46.8	49.7	45.1
VPC solutions (%)	71.8	54.8	53.8
Other services and product sales (%)	35.7	41.5	40.7

During the Track Record Period, we recorded a significant revenue growth of our VPC solutions by 737.1% from RMB708 thousand in 2019 to RMB5.9 million in 2020, and further increased by 259.3% to RMB21.3 million in 2021. This growth was primarily driven by the growing demand for deployment of customer contact solutions on virtual private cloud from clients with stricter security requirements during their digital and cloud transformation. For details, see "– Description of Major Components of Our Results of Operations."

Our overall gross margin increase from 46.6% in 2019 to 49.6% in 2020 primarily attributable to higher pricing level applied to certain newly acquired clients in 2020. To a lesser extent, the increase in gross margin in 2020 was also attributable to the growth of revenue from our VPC solutions in 2020. Due to their different revenue and cost model, our VPC solutions on average have a higher gross margin compared to our SaaS solutions and other services and product sales. During the Track Record Period, our VPC clients primarily purchased cloud and telecommunications services directly from cloud service providers and telecommunications companies, respectively. Therefore, these services were not included in our cost of sales. Our overall gross margin decreased from 49.6% in 2020 to 45.5% in 2021, primarily because we purchased a larger pool of telecommunication resources, including telephone numbers, dedicated leased lines and internet broadband, in anticipation of increasing client demand in the second half of the year, which lowered the average utilization rate and increased our cost of sales. However, the client demand in the second half of 2021 was lower than expected due to the recent development in the PRC laws and regulations that affected the business performance of our clients who are Academic AST Institutions. We may adjust our price offered for clients from time to time based on various considerations, including, among other things, the market conditions, competition landscape and strategic value of the contracts in question. While such adjustments may affect our gross profit margin, we expect our overall gross profit margin to remain stable in the foreseeable future as we continue to enlarge and diversify our client base.

CAPITAL EXPENDITURES

Our historical capital expenditures primarily included purchase of property and equipment and intangible assets. The following table sets forth our capital expenditures for the periods indicated.

	For the Year Ended December 31,		
	2019	2020	2021
	(RMB in thousands)		
Purchase of property, plant and equipment	1,673	810	2,282
Purchase of intangible assets	454	460	759
Total	2,127	1,270	3,041

CONTRACTUAL OBLIGATIONS

Capital Commitments

We mainly have capital commitments with respect to telecommunication equipment. The following table sets forth our capital commitments as of the dates indicated.

	As of December 31,		
	2019	2020	2021
	(RMB in thousands)		
Electronics equipment	8	154	–

RELATED PARTY TRANSACTIONS

Other than the compensation of key management personnel of the Group disclosed in Note 32 to the Accountants' Report included in Appendix I to this document, we did not have any related party transactions during the Track Record Period. Our Directors are of the view that each of the related party transactions set out in Note 32 to the Accountants' Report included in Appendix I to this document was conducted in the ordinary course of business on an arm's length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or cause our historical results to become non-reflective of our future performance.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we did not have any material off-balance sheet commitments or arrangements.

FINANCIAL RISKS DISCLOSURE

Our activities expose us to a variety of financial risks: market risk (including fair value interest rate risk), credit risk and liquidity risk. Our overall risk management procedures focus on the unpredictability of financial markets and seek to minimize potential adverse effects on our financial performance.

Market Risk

We have no significant variable interest-bearing assets or liabilities except for the bank balances and bank borrowings, of which the interest rates are not expected to change significantly.

Credit Risk

We are exposed to credit risk primarily in relation to our cash and cash equivalents, wealth management products, structured deposits, trust plans and funds, as well as trade and other receivables and contract assets. The carrying amount of each class of the above financial assets represents our maximum exposure to credit risk in relation to the corresponding class of financial assets.

For cash and cash equivalents, management manages the credit risk by placing deposits in state-owned financial institutions in the PRC or reputable banks, financial institutions having high-credit-quality in the PRC.

For trade and other receivables and contract assets, we have policies in place to ensure that sale of products and services are made to clients with an appropriate credit history. We also have other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, our management reviews regularly the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts.

Liquidity Risk

To manage the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by the senior management to finance our operations and mitigate the effects of fluctuations in cash flows.

For an analysis of our financial liabilities into relevant maturity grouping based on the remaining period at the end of each reporting period to the contractual maturity date, see Note 35 to the Accountants' Report included in Appendix I to this document. The table below analyzes our financial liabilities into relevant maturity grouping based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	On demand or less than one year	One to five years	Total
	(RMB in thousands)		
As of December 31, 2019			
Trade payables	20,483	–	20,483
Financial liabilities included in other payables and accruals	1,240	–	1,240
Lease liabilities	4,959	10,296	15,255
	26,682	10,296	36,978
As of December 31, 2020			
Trade payables	13,924	–	13,924
Financial liabilities included in other payables and accruals	840	–	840
Lease liabilities	6,683	8,077	14,760
	21,447	8,077	29,524
As of December 31, 2021			
Trade payables	15,508	232	15,740
Financial liabilities included in other payables and accruals	7,108	–	7,108
Interest-bearing bank borrowings	10,605	–	10,605
Lease liabilities	5,436	3,508	8,944
	38,657	3,740	42,397

DIVIDENDS

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

No dividends have been paid or declared by our Cayman holding company since its incorporation. T&I Net Communication, our variable interest entity in the PRC, had declared dividends of RMB20,664,000, RMB30,996,000 and RMB25,830,000 to its then shareholders in 2019, 2020 and 2021, respectively. The dividends were fully paid in cash in July 2019, November 2020 and May 2021, respectively. Currently, we do not have a formal dividend policy or a fixed dividend distribution ratio.

WORKING CAPITAL SUFFICIENCY

Our Directors are of the opinion that, taking into account the estimated [**REDACTED**] from the [**REDACTED**] and the expected cash generated from operating activities, we have sufficient working capital for our present requirements and for the next 12 months from the date of this document.

DISTRIBUTABLE RESERVES

As of December 31, 2021, the Company did not have any distributable reserves.

[REDACTED]

[**REDACTED**]

UNAUDITED [REDACTED] ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited [**REDACTED**] statement of our adjusted consolidated net tangible assets prepared in accordance with paragraph 4.29 of the Listing Rules is to illustrate the effect of the [**REDACTED**] on our consolidated net tangible assets as of December 31, 2021 as if the [**REDACTED**] had taken place on that date.

The unaudited [**REDACTED**] statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not provide a true picture of our consolidated net tangible assets had the [**REDACTED**] been completed as of December 31, 2021 or at any future date.

	Audited consolidated net tangible assets as at 31 December 2021	Estimated [REDACTED] from the [REDACTED]	Unaudited [REDACTED] adjusted consolidated net tangible assets	Unaudited [REDACTED] adjusted consolidated net tangible assets per Share	Unaudited [REDACTED] adjusted consolidated net tangible assets per Share
	(RMB'000)	**(RMB'000)**	**(RMB'000)**	**(RMB)**	**(HK$)**
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
Based on an [**REDACTED**] of HK$[**REDACTED**] per Share	218,500	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Based on an [**REDACTED**] of HK$[**REDACTED**] per Share	218,500	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]

Notes:

(1) The consolidated net tangible assets as of December 31, 2021 is arrived at after deducting other intangible assets of RMB2,971,000 from the audited net assets of RMB221,471,000 as of December 31, 2021, as shown in the Accountants' Report, the text of which is set out in Appendix I to this document.

(2) The estimated [**REDACTED**] from the [**REDACTED**] are based on estimated low end and high end [**REDACTED**] of HK$[**REDACTED**] or HK$[**REDACTED**] per Share after deduction of the [**REDACTED**] and other related expenses to be incurred by the Group and do not take into account any share which may be sold and offered upon exercise of the [**REDACTED**].

(3) The unaudited [**REDACTED**] adjusted consolidated net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that [**REDACTED**] Shares are in issue assuming the [**REDACTED**] has been completed on December 31, 2021, excluding any share which may be sold and offered upon exercise of the [**REDACTED**].

(4) The unaudited [**REDACTED**] adjusted consolidated net tangible assets per Share are converted into Hong Kong dollars at an exchange rate of RMB0.8558 to HK$1.00.

(5) No adjustment has been made to the unaudited [**REDACTED**] adjusted consolidated net tangible assets to reflect any trading results or other transactions entered into subsequent to December 31, 2021.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since December 31, 2021, being the end date of our latest audited financial statements, and there has been no event since December 31, 2021 that would materially affect the information shown in the Accountants' Report set out in Appendix I.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that as of the Latest Practicable Date, there are no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.