

FINANCIAL INFORMATION

You should read the following discussion and analysis with our consolidated financial information, including the notes thereto, included in the Accountant's Report in Appendix I hereto. Our consolidated financial information has been prepared in accordance with HKFRS.

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, many of which we cannot control or foresee. In evaluating our business, you should carefully consider all of the information provided herein, including the sections headed "Risk Factors" and "Business".

For the purpose of this section, unless the context otherwise requires, references to 2019, 2020 refer to our financial years ended 31 December, of such years. Unless the context otherwise requires, financial information referred to in this section is described on a consolidated basis.

OVERVIEW

According to the Frost & Sullivan Report, we were the largest domestic intelligent CRM services provider in the PRC with market share of 15.9% in 2020 in terms of revenue. Our comprehensive intelligent CRM services can be grouped into two categories: (i) CRM PaaS services; and (ii) CRM SaaS services. With cPaaS platform as a service at the core, our CRM PaaS services encompass various composable functional modules to empower our clients with consolidated communications capabilities mainly in the form of easily-deployed APIs and SDKs. Our CRM SaaS services comprise Marketing Cloud solution, Sales Cloud solution and Service Cloud solution, which integrate the traditional CRM functions with cloud, upgraded and encapsulated communication capabilities as well as AI and DI capabilities to offer our client with a one-stop cloud-based intelligent CRM services throughout their entire business cycle, from initial marketing to after-sales services.

With decade-long in-depth industry knowledge and expertise, as well as our well developed product development platform, we can quickly respond to the complex and evolving clients' demands and develop new solutions and enhance features to meet their needs and have established our brand reputation especially in FMCG, financial, TMT and Government-related industries. We strive to help our clients to achieve customer acquisition and to enhance the connection between our clients and their customers. According to the Frost & Sullivan Report, we were ranked first, first and third in financial, TMT and Government-related industries, respectively, in terms of revenue in 2020 in the intelligent CRM services industry. Our high-quality client base includes leading players across many large scale and high-growth industries. For FMCG industry, we covered 22 and 20 of the top 100 players in the food and beverage segments, and 16 and 10 of the top 100 in the commodity and Chinese liquor segments, respectively, in 2020. For the financial industry, we covered 26 of the top 100 players in the banking segment and 21 of the 138

FINANCIAL INFORMATION

regulated security companies in 2020. For the TMT industry, we covered 21 and 14 of the top 100 players in the internet and software segments, respectively, in 2020.

During the Track Record Period, we strategically focus on developing our business by expanding and retaining core clients. For the three years ended 31 December 2021, our core clients amounted to 231, 266 and 325, respectively, and the revenue from our core clients accounted for 91.1%, 92.8% and 94.6%, respectively, of our revenue during the same period.

Our revenue increased by 32.7% from RMB600.2 million for the year ended 31 December 2019 to RMB796.8 million for the year ended 31 December 2020, and further increased by 24.5% to RMB991.9 million for the year ended 31 December 2021. Our net profit amounted to RMB13.5 million, RMB29.3 million and RMB15.4 million for the three years ended 31 December 2021, respectively. Our adjusted net profit, a non-HKFRS measure defined as net profit excluding the impacts of [REDACTED] expenses, was RMB[REDACTED] million for the year ended 31 December 2021. For details, please refer to the paragraph headed "Non-HKFRS measure: Adjusted net profit" in this section.

BASIS OF PREPARATION

The historical financial information of our Group (the "**Historical Financial Information**") has been prepared in accordance with the Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss ("**FVPL**"), which are carried at fair value.

The preparation of Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates and judgements. It also requires management to exercise its judgement in the process of applying our 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 4 to the Accountant's Report included in Appendix I to this [REDACTED].

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

General Factors

Our business performance is affected by a pool of general factors, which are simultaneously affecting other intelligent CRM services providers in the PRC. These factors include:

- The overall economic growth in the PRC;
- The growth of the internet industry and the general development of digitalisation across various industries in the PRC;

FINANCIAL INFORMATION

- The transformation from traditional localised CRM services to cloud-based intelligent CRM services across different industries in the PRC;
- The aggregate expenditure on intelligent CRM services across different industries in the PRC and their respective expansions; and
- The technological developments in the fields of AI, DI and cloud computing and the respective applications in the field of CRM.

Specific Factors

Our ability to expand our client base

Our success depends on our ability to grow our client base. Throughout our history, we have established our brand reputation especially in large scale and high-growth industries such as FMCG, financial, TMT and Government-related industries and have been offering our intelligent CRM services to the leading enterprises in these industries. For details on our clients' information in the above industries, please refer to the paragraph headed "Business — Overview" in this [REDACTED].

According to the Frost & Sullivan report, the TAM of the intelligent CRM service industry in the PRC is expected to grow at a CAGR of 35.1% from RMB50.0 billion in 2020 to RMB224.8 billion in 2025. Large-sized enterprises generally have stronger purchasing power with higher demands of communications and CRM services, as well as a larger customer base, and the number of small- and medium-sized enterprises whom will adopt intelligent CRM services is expected to increase with the digital transformation and rising market acceptance of intelligent CRM services. Based on our leading position and advanced technologies, we believe that our business will be benefited from the strong growth of the intelligent CRM services industry in the PRC.

We also believe that our leading position and growing core client base would enable us to further strengthen our leading market position in the intelligent CRM services industry in the PRC. We define core client as a client whose revenue contribution reached RMB300,000 in a given year. The number of our core clients increased from 231 in 2019 to 266 in 2020 and further to 325 in 2021 due to our business strategy to reinforce the cooperations with core clients, and the revenue from our core clients accounted for 91.1%, 92.8% and 94.6%, respectively of our revenue during the same period. The increase in contribution of revenue from our core clients from 2020 to 2021 was attributable to the increase in demands in our services from core clients in both CRM PaaS and SaaS services.

During the Track Record Period, we expanded our client base mainly through our direct sales team. Our dedicated in-house direct sales forces consist of 216 employees as at the Latest Practicable Date, each with extensive knowledge in our services and related technologies. We intend to further expand our direct sales team and continue the efforts in growing our client base. By leveraging our industry expertise, we will continue to cultivate and expand our presence in the key industries and we intend to serve more clients from other industries with similar characteristics to lower the additional costs in industry-related customisation as we scale (i.e. healthcare and manufacturing industries).

FINANCIAL INFORMATION

Our ability to improve client's retention

Our ability to maintain long-term revenue growth and improve profitability largely depends on our ability to retain our existing clients. In the past, we have been extending our existing services by enriching the features, functions and interfaces, as well as improving the abilities of our services by way of continuous innovation and iteration. Therefore, we were able to provide and improve our CRM services to meet the evolving clients' needs with comprehensive services matrix throughout their entire business cycle. We were also committed to providing our clients with various system maintenance and after-sale services so as to respond to clients' requests in a timely and responsive manner.

We believe client's retention rate is an indicator helping us in assessing client loyalty, and we calculate the client's retention rate for a given year as a percentage of our existing clients in the immediately preceding year who remain our clients in the current year. We also believe client's net dollar retention rate indicates our ability to increase revenue from our existing clients. To calculate this rate for current year, we first identify the clients who subscribed to our CRM services in both the current year and immediately preceding year. We then calculate the client's net dollar retention rate for the current year using the revenue attributable to the identified group of clients in the current year as the numerator and the revenue attributable to the same group of clients in the immediately financial preceding year 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.

We consider our client's net dollar retention rate is more meaningful to our business operations given we have been strategically making continuous efforts in driving the lifetime value of our clients while we continue to optimise our client base. We achieved a client's net dollar retention rate of 107.0%, 123.1% and 120.1%, respectively in 2019, 2020 and 2021. With regard to our core clients, core client's net dollar retention rate was 99.9%, 113.2% and 102.2%, respectively in 2019, 2020 and 2021. We believe such high and fast-increasing client's net dollar retention rate during the years not only demonstrated clients' satisfaction with our intelligent CRM services but also our ability to continuously grow revenue from our existing clients.

Our client's retention rate was 68.5% and 66.6%, respectively in 2020 and 2021. With regard to our core clients, core client's retention rate was 91.3% and 86.1%, respectively in 2020 and 2021. The relatively high client's retention rate and the change during the years were generally in line with our strategy of increasing the lifetime value of our clients while optimising and increasing our client base.

To continue growing our business, we intend to further increase our client's net dollar retention rate and improve our client's retention rate by making more cross-selling among our clients with different solutions, and increase our client base by deepening our existing industries and tapping into other new industries with similar characteristics.

FINANCIAL INFORMATION

Our ability to create value for clients across their entire business cycle

Our business development is based on our ability to create value for clients throughout their entire business cycle. Our revenue streams primarily consist of clients' usage based fees, subscription fees and implementation fees for engaging our intelligent CRM services.

Our intelligent CRM services enable our clients to manage their entire business cycle's operations digitally and intelligently, which comprises our CRM PaaS services that integrate our communication capabilities and also form the base and core of our CRM SaaS services that includes (i) Marketing Cloud provides clients with digital tool which enables them to market their product to the targeted customers, attract targeted customers' attention and maintain the relationship between them and their customers through enhanced online campaign; (ii) Sales Cloud provides clients with comprehensive sales management solution which helps to simplify and automate their work flow and help them to achieve customer acquisition and enhance their sales performance; and (iii) Service Cloud enables clients to improve their customer service quality, through a unified single back-end platform that serves products display, order fulfilment, all-channels marketing, customer relationship management, membership programme management, and business analytics and reporting.

Our CRM SaaS services also cover clients' all channels, especially our Sales Cloud solutions enable them to distribute their products via online channels (e.g. e-commercial platform, WeChat store) or offline channels (e.g. convenience stores, retail stores, supermarkets) to their end customers. As our CRM SaaS services are cloud-based and can be accessed anytime and anywhere through any network devices or online portals, this helps to reduce the time and costs associated with implementation and upgrade of the system, thus delivering streamlined user experience. For details, please refer to the paragraph headed "Business — Our services" in this [REDACTED].

As we are strategically focusing on core clients who typically have higher demand for intelligent CRM services in terms of both volume and complexity, our revenue growth is also driven by our ability to create value for core clients by providing comprehensive, all-channel and multi-touch CRM services covering their entire business cycle which meet their ever-changing needs in various business scenarios. During the three years ended 31 December 2021, the revenue per core client amounted to RMB2.4 million, RMB2.8 million and RMB2.9 million, respectively. We experienced increasing trend in terms of the number of our core clients and the revenue per core client as we are able to offer comprehensive intelligent CRM services which resulted in rising usage based fees, subscription fees and implementation fees from clients. Together with our in-depth understanding of our clients' needs, our services remain closely relevant to and useful for our clients as they run their businesses. As our services can assist our clients in enhancing their operational efficiency and profitability, we have achieved stable and organic growth in terms of revenue in our business.

We believe that we would remain competitive in providing intelligent CRM services as we continue to create value for our clients across their entire business cycle. This ultimately allows our business to thrive in the long run.

FINANCIAL INFORMATION

Our ability to explore new business opportunities

During the Track Record Period, we had been exploring new business opportunities with existing clients through implementation of our cross-selling strategy. Leveraging our comprehensive, intelligent CRM services and development ability, we were able to develop and expand business scenario coverage accommodating to our clients' evolving needs, and thus promote sales of our diversified service matrix, which sets down a solid foundation for our cross-selling ability.

We believe our ability in cross-selling is critical in driving sales growth as well as increasing clients' stickiness. For the three years ended 31 December 2021, 345, 357 and 345 of our clients purchased more than one type of services (i.e. cPaaS, Marketing Cloud, Sales Cloud or Service Cloud) which accounted for 12.3%, 13.3% and 13.1%, respectively, of our total number of clients during the same year. Through implementing our cross-selling strategy, the number of clients and the percentage of revenue contributed by the clients to which we cross-sold had been generally going up during the three years ended 31 December 2021.

We intend to continue capturing new business opportunity through implementation of cross-selling strategy in order to achieve sustainable growth and future success of our business as we strive to diversify our service matrix and provide our clients with more intelligent CRM services which meet clients' evolving needs.

Our ability to manage costs and improve operational efficiency

We believe our ability in cost management is critical in improving our profitability. By leveraging our replicable technology infrastructure and experience in expanding and enhancing our intelligent CRM services, we can acquire new client at a lower cost and to deliver our services efficiently due to economies of scale and spread of overhead costs alongside with our business expansion. As a result, both of our selling and distribution expenses, and administrative expenses as a percentage of our revenue have seen an overall declining trend during the three years ended 31 December 2021. Our selling and distribution expenses for the three years ended 31 December 2021 amounted to RMB93.4 million, RMB77.1 million and RMB91.0 million, respectively, accounting for 15.6%, 9.7% and 9.2%, respectively of the revenue during the same period as we have been primarily relying on a relatively small number of in-house direct sales force to sell and market our intelligent CRM services with a focus on leading enterprises in large scale and high-growth industries such as FMCG, financial, TMT and Government-related industries, and adopted various policies to enhance our sales and distribution capability. Our administrative expenses for the three years ended 31 December 2021 amounted to RMB45.8 million, RMB39.8 million and RMB68.5 million, respectively, accounting for 7.6%, 5.0% and 6.9%, respectively of the revenue during the same year. As we continue to grow our business, we expect to benefit from economies of scale and achieve higher operation efficiency.

FINANCIAL INFORMATION

Continuous investment in research and development and ability to innovate

Our future growth also hinges on our continuous investment in research and development and our ability to innovate. Through our technological advancement and services innovation, we have been successful in conferring multi-touch communication capability and providing all-channel CRM PaaS and CRM SaaS services to our clients across various industries, including FMCG, financial, TMT and Government-related industries.

We continued to invest in research and development in order to remain at the forefront of the intelligent CRM services industry, and drive the digital and intelligent transformation of our clients' business systems. Our research and development expenditures continued to grow and amounted to RMB50.6 million, RMB53.0 million and RMB66.1 million, respectively for the three years ended 31 December 2021.

To maintain our competitive market share and solidify our leading position in the market, we plan to extend our existing services by enriching the features, functions and interfaces of our services by continuous innovation. To attain this, we strive to attract and retain top talents to expand our research and development team.

Strategic investments and acquisitions

Leveraging our comprehensive suite of intelligent CRM services and operational expertise accumulated in the PRC market, we intend to explore business opportunities in other related industries to unlock new growth points and diversify our services matrix. Through selective investments and acquisitions, we intend to capture opportunities in serving potential clients in other industries in assisting them in maintaining relationships allowing efficient interaction with their end customers.

We believe strategic investments and acquisitions can further solidify our leading position in the market and strengthen our competitiveness by expanding our client base as well as extending our diversified services matrix.

IMPACT OF COVID-19

Since the end of December 2019, the outbreak of a novel strain of coronavirus, commonly known as COVID-19, has materially and adversely affected the PRC and global economy. Under fast-paced global economic development, many enterprises across different industries are gradually conducting digital transformation among which intelligent CRM services plays an important role in helping enterprises achieving their goals. Under the COVID-19 pandemic, more companies have turned to online customer acquisition and online customer management, whilst intelligent CRM services have been shown to be a powerful digital tool. Remote collaboration, online meetings, and online customer service based on cloud computing technology have been more commonly used in commercial world than ever with the help of the capable intelligent CRM services. The digital transformation of enterprises, even under the COVID-19 epidemic, is ever-going.

FINANCIAL INFORMATION

As intelligent CRM services industry continues to evolve to accommodate to connectivity, mobility, big data, social networking and other abilities, it is expected to better help enterprises connect both internally and externally with their end clients, which ultimately further fosters the progress of digitalisation.

The COVID-19 pandemic and government policies to control its spread have significantly curtailed the movement of people, goods and services worldwide, which has had an adverse impact on the businesses of some industries such as tourism, aviation and catering, whereas other businesses in certain markets such as e-commerce have seen an increase in client demand. Such increased demands have promoted more advanced technologies to be applied in intelligent CRM services system.

During the COVID-19 pandemic, we are able to sustain our strong growth momentum and managed to deliver robust revenue growth in 2020 and 2021. Our revenue and adjusted net profit (non-IFRS measure) increased from RMB796.8 million and RMB29.3 million, respectively, for the year ended 31 December 2020 to RMB991.9 million and RMB[REDACTED] million, respectively, for the year ended 31 December 2021.

We believe that the value of our cloud and communication-based technology services, and the convenience, efficiency and reliability they deliver, are heightened throughout the pandemic. We offered CRM SaaS services, which not only reduces the burden of on-premise implementation, but also provides clients with the flexibility they need in order to tackle unprecedented disruptions and challenges caused by the epidemic. We have supported our clients by helping them tackle the challenges along the way through the provision of reliable and high-quality services and solutions. In addition, our administrative expenses decreased in 2020 attributable to partial exemption of social security expenses granted by the local PRC government in 2020 attributable to the impact of COVID-19, and our selling and distribution expenses decreased in 2020 due to less face-to-face selling activities performed by our direct sales force due to the impact of COVID-19.

Having considered the above, our Directors are of the view that COVID-19 does not have material impact on our business operation.

There remains significant uncertainties insofar as the COVID-19 epidemic prevails: continued outspread of the virus, unpredictable severity and duration of the pandemic, further restrictive actions taken by governmental authorities, and the full extent to which the COVID-19 pandemic will directly or indirectly affect and disrupt our businesses, results of operations, cash flows and financial condition, and other issues including disruption to project delivery and collection of trade receivables which could all pose risks to our business. For details, please refer to the paragraph headed "Risk Factors — Risks related to our business and industry — Any future occurrence of force majeure events, natural disasters or outbreaks of contagious diseases in the PRC, including the COVID-19 outbreak, may materially and adversely affect our business, results of operations and financial condition" in this [REDACTED].

FINANCIAL INFORMATION

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Some of the accounting policies require us to apply estimates and assumptions as well as complex judgments relating 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 results of operations. Our management continually evaluates such estimates, assumptions and judgments based on past experiences and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances. There has not been any material deviation between 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 in these estimates and assumptions in the foreseeable future.

Set forth below are discussions of the accounting policies which we believe are critically important to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Other significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in details in Notes 2 and 4 to the Accountant's Report in Appendix I to this [REDACTED].

Revenue recognition

Revenue is measured when or as the control of the goods or services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods and services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods and services.

FINANCIAL INFORMATION

Contracts with customers may include multiple performance obligations. For such arrangements, the Group allocates revenue to each performance obligation based on its relative standalone selling price. The Group generally determines standalone selling prices based on the prices charged to customers. If the standalone selling price is not directly observable, it is estimated using expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information. Assumptions and estimations have been made in estimating the relative selling price of each distinct performance obligation, and changes in judgements on these assumptions and estimates may impact the revenue recognition.

When either party to a contract has performed, the Group presents the contract in the consolidated statement of financial position as a contract asset or a contract liability, depending on the relationship between the Group's performance and the customer's payment.

The determination of whether revenue should be reported on a gross or net basis is based on an assessment of whether we are acting as the principal or an agent in the transactions. In determining whether we acts as the principal or an agent, we follows the accounting guidance for principal-agent considerations in HKFRS 15 to assess whether we controls the specified service before it is transferred to the end customer, the indicators of which including but not limited to (i) whether the entity is primarily responsible for fulfilling the promise to provide the specified service; (ii) whether the entity has inventory risk before the specified service has been transferred to a customer; and (iii) whether the entity has discretion in establishing the prices for the specified goods or service. Such determination involves judgment and is based on an evaluation of the terms of each arrangement.

A contract asset is the Group's right to consideration in exchange for goods and services that the Group has transferred to a customer. A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of the consideration is due.

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the Group presents the contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due from the customer).

Contract fulfilment costs are stated at the lower of cost and net realisable value. Cost mainly comprises direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

FINANCIAL INFORMATION

Costs to fulfil a contract comprise the implementation cost including direct labour and an appropriate proportion of variable and fixed overhead expenditure related to an existing contract that will be used to satisfy performance obligations in the future. The costs to fulfil a contract are recorded in contract fulfilment costs if they are expected to be recovered.

The Group generates revenues separately or in combination, from providing CRM PaaS and CRM SaaS services to customers.

CRM PaaS services

We mainly provides cPaaS to encapsulate messaging communication capabilities of the three major telecommunication network operators for the customers to be integrated into the customer's business systems, thereby enabling the customers to access and utilise the communication capabilities as a service.

We purchases text messages from telecommunication network operators and then combined with its services to provide a integrated communication service to customers via our own platform. Therefore, we controls the specified service before it is transferred to customer and is acting as a principal in the transaction.

CRM PaaS services revenues primarily consist of usage of text message fees provided to end customers, which is recognised at a point in time. Our service fees are determined by applying the contractual unit price to the monthly usage volume of text messages sent.

CRM SaaS services

CRM SaaS services are cloud-based and primarily categorised into three cloud solutions, namely marketing cloud, sales cloud and service cloud covering customers' entire business cycle to meet the aforesaid requests. The cloud and the encapsulated communication capability of the major telecommunication network operators, which consolidate the cPaaS platform, as well as CRM functions, altogether form the integrated and comprehensive CRM SaaS services of us.

Marketing cloud primarily offers a range of modules to customers, which consolidate the cPaaS platform, e.g. UMP solution - a private cloud-based solution that allows dissemination of marketing messages; MOS solution - a public cloud-based solution that allows dissemination of marketing message; and ICC solution - a solution that allows clients to manage comprehensive communication channels for intra- and extra- organisational purposes. Revenue of marketing cloud primarily generates from fees based on usage of text messages, which is recognised at a point in time by applying the contractual unit price to the monthly usage volume of text messages sent.

FINANCIAL INFORMATION

Sales cloud provides a comprehensive sales management solutions including U-Client 100 and Smart Sales 100 to customers by introducing a streamlined operation model and automated workflow to customers' sales management cycle. Customers generally subscribe to our sales management solution at a fixed annually or monthly fee granting them the access to one or more of the cloud applications, which is identified as a separate performance obligation. We also provides implementation services to customers, including customised configuration and development of specific applications, which is identified as a separate performance obligation. Total consideration is mainly allocated to subscription service fees and implementation service fees based on their stand alone selling price determined based on the observable contractual prices charged to customers. Revenue from subscription service is recognised over the service contract period. Revenue from implementation service is recognised at a point in time upon completion of the implementation service and acceptance by customers of the promised products and services.

Service cloud provides customers with a range of post-sales customer services-related solutions which offers in Cloud Call Centre - a customer service solution that brings the traditional call centre onto the cloud. Revenue from service cloud primarily generates from fees based on usage of voice call, which is recognised at a point in time by applying the contractual unit price to monthly usage minutes of voice calls placed, and subscription fees, which is recognised over the service period.

We also provides product support service to customers, which is identified as a separate performance obligation and is provided mainly in the form of fixed-price contracts. Revenue from product support service is recognised ratably over the service contract period.

Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those CGU or groups of CGU that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

FINANCIAL INFORMATION

Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Please refer to "Note 3 Financial risk management" to the Accountant's Report set out in Appendix I to this [REDACTED] for details as to how the Group determines whether there has been a significant increase in credit risk.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

For trade receivables and contract assets, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Impairment on other receivables from third parties and related parties are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

Trade receivables

Trade receivables are amounts due from clients for products sold or services performed in the ordinary course of business. If collection of trade receivables is expected in one year or less (or in the normal operating cycle of the business if longer, they are classified as current assets). If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Please refer to "Notes 20 Trade, bill and other receivables and prepayments" and "3.1.2 Credit risk" for further information about the Group's accounting for trade receivables and description of the Group's impairment policies.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The following table sets forth our consolidated statements of comprehensive income with line items in absolute amounts for the periods indicated, which is extracted from the Accountant's Report set out in Appendix I to this [REDACTED]:

	For the year ended 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	600,201	796,762	991,941
Cost of sales	<u>(403,507)</u>	<u>(602,969)</u>	<u>(759,549)</u>
Gross profit	196,694	193,793	232,392
Selling and distribution expenses	(93,430)	(77,149)	(91,024)
Administrative expenses	(45,819)	(39,754)	(68,515)
Research and development expenses	(50,580)	(53,022)	(66,126)
Net impairment losses on financial assets	(2,888)	(4,342)	(5,370)
Other income	7,378	9,671	12,557
Other gains – net	<u>601</u>	<u>466</u>	<u>393</u>
Operating profit	11,956	29,663	14,307
Finance income	379	706	750
Finance costs	<u>(1,754)</u>	<u>(3,011)</u>	<u>(2,577)</u>
Finance income – net	(1,375)	(2,305)	(1,827)
Profit before income tax	10,581	27,358	12,480
Income tax credit	<u>2,897</u>	<u>1,949</u>	<u>2,871</u>
Profit and total comprehensive income for the year	<u><u>13,478</u></u>	<u><u>29,307</u></u>	<u><u>15,351</u></u>
Profit/(loss) and total comprehensive income/(loss) for the year attributable to:			
– Owners of the Company	14,398	27,748	14,513
– Non-controlling interests	<u>(920)</u>	<u>1,559</u>	<u>838</u>
	<u><u>13,478</u></u>	<u><u>29,307</u></u>	<u><u>15,351</u></u>

FINANCIAL INFORMATION

NON-HKFRS MEASURE: ADJUSTED NET PROFIT

To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also use adjusted net profit (defined below) as an additional financial measure, which is not required by, or presented in accordance with HKFRS. We believe that the presentation of this non-HKFRS measure facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance such as [REDACTED] expenses. We believe that this measure provides useful information to investors in understanding and evaluating our Group's consolidated results of operations in the same manner as they do for our Group's management. However, the use of non-HKFRS measure has limitations as an analytical tool, and you should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial conditions as reported under HKFRS. In addition, the non-HKFRS financial measure may be defined differently from similar terms used by other companies.

We define "adjusted net profit" (non-HKFRS measures) as profit for the year or period and adding back [REDACTED] expenses because such expenses are one-off in nature. During the Track Record Period, our [REDACTED] expenses referred to expenses we incurred in connection with the [REDACTED].

The following table set forth the reconciliations of our non-HKFRS financial measure for the three years ended 31 December 2021 to the nearest measure prepared in accordance with HKFRS:

	Year ended 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net profit	13,478	29,307	15,351
Adjust for:			
[REDACTED] expenses	—	—	[REDACTED]
Adjusted net profit (non-HKFRS measures)	13,478	29,307	[REDACTED]

FINANCIAL INFORMATION

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

During the Track Record Period, we generated revenue from two operating segments: CRM PaaS services and CRM SaaS services. CRM PaaS services are currently the slightly larger segment, which accounted for 55.9% of our revenue for the year ended 31 December 2021.

The following table sets forth segment revenue both in absolute amount and as a percentage of our revenue for the periods presented.

	For the year ended 31 December					
	2019		2020		2021	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
CRM PaaS services	301,518	50.2	460,847	57.8	554,643	55.9
CRM SaaS services	298,683	49.8	335,915	42.2	437,298	44.1
Total:	600,201	100.0	796,762	100.0	991,941	100.0

During the Track Record Period, our total revenue generated from FMCG, financial, TMT and Government-related industries increased from RMB578.3 million in 2019 to RMB772.1 million in 2020 and further to RMB962.2 million in 2021.

The percentages of our revenues from FMCG, financial, TMT and Government-related industries have seen an increasing trend during the Track Record Period, accounting for 96.4%, 96.9% and 97.0%, respectively of our total revenues for the three years ended 31 December 2021, primarily as we strategically focused on and established brand reputation in these four industries.

CRM PaaS services

Our CRM PaaS services comprise cPaaS platform and the AI and DI capabilities. Our cPaaS platform encompasses various composable functional modules (e.g. voice and text verification code module, notification text and call module, hidden-number module) to empower our clients with consolidated communication capabilities mainly in the form of easily-deployed APIs and SDKs, thus enabling them to utilise our communication capabilities as a service in an easy, efficient and flexible way. Our CRM PaaS services are also integrated with AI and DI capabilities which we have developed for the purposes of our intelligent CRM services. For details on our CRM PaaS services, please refer to the paragraph headed "Business — Our services — CRM PaaS services" in this [REDACTED].

FINANCIAL INFORMATION

During the Track Record Period, revenue from our CRM PaaS services were RMB301.5 million, RMB460.8 million and RMB554.6 million, respectively, representing 50.2%, 57.8% and 55.9% of our revenue in the same periods.

Operating data

CRM PaaS services	For the year ended 31 December		
	2019	2020	2021
Number of clients	1,871	1,632	1,438
Number of core clients ^(Note 1)	110	130	146
Average price per client ^(Note 2)	RMB161,200	RMB282,400	RMB385,700
Average price per core clients ^(Note 1 and 2)	RMB2,496,700	RMB3,343,700	RMB3,627,900

Notes:

- (1) For the three years ended 31 December 2021, core clients are defined as clients contributing RMB300,000 or above of revenue for the year.
- (2) For the three years ended 31 December 2021, the average price per client refers to the average revenue generated per client for the year.

During the Track Record Period, our average price per client increased RMB161,200 to RMB385,700 in 2021, and our total number of clients decreased during the Track Record Period primarily due to (i) our optimisation of client base of CRM PaaS services as we focused on core clients with relatively larger revenue contribution and which we have stable relationship with; and (ii) our strategic focus on our CRM SaaS services and expanding our CRM SaaS client base.

Due to our optimisation of client portfolio of CRM PaaS services, both our average price per core client and number of core clients increased during the Track Record Period as a result. The increase in average price per core clients from 2020 to 2021 was attributable to the increase in demands in our services. We also maintained organic growth during the Track Record Period as we were able to secure increasing revenue from our core clients, which accounted for 91.1%, 94.3% and 95.5%, respectively of our revenue from CRM PaaS services for the three years ended 31 December 2021.

CRM SaaS services

Our CRM SaaS services comprise Marketing Cloud, Sales Cloud and Service Cloud, which integrate the traditional CRM functions with cloud, upgraded and encapsulated communication capabilities as well as AI and DI capabilities to offer our clients a one-stop intelligent CRM services throughout their entire business cycle, from initial marketing to after-sales services. For details on our CRM SaaS services and their respective fee models, please refer to the paragraph headed "Business — Our services — CRM SaaS service" in this [REDACTED].

During the Track Record Period, revenues from our CRM SaaS services amounted to RMB298.7 million, RMB335.9 million and RMB437.3 million, respectively for the three years ended 31 December 2021.

FINANCIAL INFORMATION

Operating data

CRM SaaS services	For the year ended 31 December		
	2019	2020	2021
Number of clients	1,258	1,379	1,509
Number of core clients ^(Note 1)	128	147	193
Average price per client ^(Note 2)	RMB237,400	RMB243,600	RMB289,800
Average price per core client ^(Note 1 and 2)	RMB2,091,000	RMB2,038,800	RMB2,079,000

Notes:

- (1) For the three years ended 31 December 2021, core clients are defined as clients contributing RMB300,000 or above of revenue for the year.
- (2) For the three years ended 31 December 2021, the average price per client refers to the average revenue generated per client for the year.

For the three years ended 31 December 2021, we continued to strategically focus on CRM SaaS services and expanded our CRM SaaS services client base. As a result, our total number of clients increased from 1,258 in 2019 to 1,509 in 2021, and our number of core clients increased from 128 in 2019 to 193 in 2021.

Our average price per client remained relatively stable at RMB237,400, RMB243,600 and RMB289,800 and our average price per core client remained relatively stable at RMB2.1 million, RMB2.0 million and RMB2.1 million, respectively, for the three years ended 31 December 2021.

Along with our enlarged client base, we were able to record organic growth during the Track Record Period as revenue from our core clients accounted for 89.6%, 89.2% and 91.8%, respectively of our revenue from CRM SaaS services for the three years ended 31 December 2021.

Set forth below is a breakdown of revenue from CRM SaaS services by solutions during the Track Record Period.

	For the year ended 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
CRM SaaS services			
Marketing Cloud	233,234	256,684	347,618
Sales Cloud	30,998	44,664	66,163
Service Cloud	34,451	34,567	23,517
	<hr/>	<hr/>	<hr/>
Total	298,683	335,915	437,298
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

FINANCIAL INFORMATION

Revenues from our CRM SaaS services increased from RMB298.7 million in 2019 and to RMB437.3 million in 2021 primarily due to the effect of increase in revenues from Marketing Cloud and Sales Cloud in line with our business expansion during the same period. Revenues from Marketing Cloud increased to RMB256.7 million in 2020 primarily attributable to sales of relatively newly introduced SaaS services including cloud communication, internet of things and ICC. Revenue from our CRM SaaS services increased to RMB437.3 million for the year ended 31 December 2021 primarily due to the increase in revenue from Marketing Cloud and Sales Cloud in line with our business expansion during the same period, partially offset by decrease in revenue from Service Cloud mainly due to (i) structural adjustment of our service matrix in Service Cloud as we plan to gradually optimise our revenue composition by increasing the percentage of revenue contribution from services with relatively higher gross profit margin and (ii) structural adjustment of our client portfolios in Service Cloud as we intend to gradually shift our focus to clients from relatively stable industries, such as financial and Government-related industries, so as to reduce the financial impact of revenue fluctuation.

Cost of sales

Our cost of sales primarily consists of costs of telecommunication resources, employee benefit expenses, and infrastructure and equipment expenses. Costs of telecommunication resources represent fees we paid to telecommunication network operators in relation to the channel resources. We usually enter into annual contracts with telecommunication network operators. During the three years ended 31 December 2021, costs of telecommunication resources accounted for the largest portion of our cost of sales, representing 95.4%, 95.6% and 95.9%, respectively of our cost of sales in the same period. As the telecommunication network operators commenced general increase in their fees charged in the fourth quarter of 2019, the average service fees of telecommunication resources have increased by 22.6% in 2020 and stayed relatively stable from 2020 to 2021 with an increase of 5.3%. According to Frost & Sullivan, the service fees of telecommunication resources charged by telecommunication network operators increased gradually since the fourth quarter of 2019 and further in 2020, and are expected to remain relatively stable primarily because the gaps of the service fees charged by the three major telecommunication network operators have converged gradually from the previous price adjustment, which was evidenced by the relatively stable average service fees of telecommunication resources with an increased of 5.3% from 2020 to 2021 after the surge in 2020. The service fees are expected to remain relatively stable. For details, please refer to the paragraph headed "Risk Factors — We rely on major telecommunication network operators for their provision of telecommunication resources. If we fail to maintain our collaborations with these telecommunication network operators or they keep increasing their service fees level, our business, results of operations and financial condition will be materially and adversely affected." in this [REDACTED] and the paragraph headed "Period-to-period comparison of results of operators — The year ended 31 December 2019 compared to the year ended 31 December 2020 — Cost of sale" in this section. The Sole Sponsor has conducted the following due diligence in this regard:

- interviewed with the telecommunication network operators to understand the historical trend of the service fees in recent years;

FINANCIAL INFORMATION

- obtained and reviewed the breakdown on the historical trend of the service fees paid by the Group during the Track Record Period; and
- obtained and reviewed samples of underlying records and supporting documents in respect of the service fees paid by the Group during the Track Record Period.

Based on the above due diligence performed, nothing has come to the Sole Sponsor's attention which would cause the Sole Sponsor to disagree with the Directors that the service fees are expected to remain relatively stable.

Infrastructure and equipment expenses mainly represent the costs of operation of servers and costs of hardware and equipment to support our solutions. Employee benefit expenses mainly represent wages, salaries, social security and bonuses paid to employees.

The following table sets forth our cost of sales by nature for the periods indicated:

	For the year ended 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Costs of telecommunication resources	384,934	576,702	728,366
Employee benefit expenses	7,406	14,820	16,555
Infrastructure and equipment expenses	4,686	4,304	6,143
Outsourcing implementation costs	2,761	2,980	1,426
Taxes and other levies	1,760	1,546	2,270
Depreciation and amortisation expenses	1,301	1,338	1,452
Outsourcing customer service expenses	659	1,279	3,146
Others	–	–	191
	403,507	602,969	759,549
Total	403,507	602,969	759,549

FINANCIAL INFORMATION

The following table sets forth our cost of sales by segment, both in absolute amount and as a percentage of our cost of sales for the periods indicated:

	For the year ended 31 December					
	2019		2020		2021	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
CRM PaaS services	226,448	56.1	396,863	65.8	494,056	65.0
CRM SaaS services	177,059	43.9	206,106	34.2	265,493	35.0
–Marketing Cloud	140,504	34.8	169,808	28.2	233,308	30.7
–Sales Cloud	10,560	2.6	15,703	2.6	20,573	2.7
–Service Cloud	25,995	6.5	20,595	3.4	11,612	1.6
Total	<u>403,507</u>	<u>100.0</u>	<u>602,969</u>	<u>100.0</u>	<u>759,549</u>	<u>100.0</u>

Gross profit and gross profit margin

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

	For the year ended 31 December					
	2019		2020		2021	
	<i>gross</i>	<i>gross</i>	<i>gross</i>	<i>gross</i>	<i>gross</i>	<i>gross</i>
	<i>profit</i>	<i>profit</i>	<i>profit</i>	<i>profit</i>	<i>profit</i>	<i>profit</i>
	<i>RMB'000</i>	(<i>%)</i>	<i>RMB'000</i>	(<i>%)</i>	<i>RMB'000</i>	(<i>%)</i>
CRM PaaS services	75,070	24.9	63,984	13.9	60,587	10.9
CRM SaaS services	121,624	40.7	129,809	38.6	171,805	39.3
–Marketing Cloud	92,730	39.8	86,876	33.8	114,310	32.9
–Sales Cloud	20,438	65.9	28,961	64.8	45,590	68.9
–Service Cloud	8,456	24.5	13,972	40.4	11,905	50.6
Total	<u>196,694</u>	<u>32.8</u>	<u>193,793</u>	<u>24.3</u>	<u>232,392</u>	<u>23.4</u>

The decrease in overall gross profit margin during the Track Record Period was primarily due to the decrease in the gross profit margin in our CRM PaaS services during the same period, which was mainly attributable to the general increase of service fees charged by telecommunication network operators which commenced in the fourth quarter of 2019. According to Frost & Sullivan, the service fees charged by (a) three telecommunication network operators in same region; and (b) same telecommunication network operator in different regions, differ largely prior to 2019. As such, the telecommunication network operators started to increase their service fees in the fourth quarter in 2019 in order to adjust and unify the service fees charged in certain regions. As a result, in our cost of sales, the average service fees of the telecommunication resources surged for 22.6% from 2019 to 2020.

FINANCIAL INFORMATION

According to Frost & Sullivan, and our Directors concur that, the three major telecommunication network operators started to raise the service fees of telecommunication resources in the fourth quarter of 2019 mainly due to synchronisation of relatively lower service fees charged by such telecommunication network operators in some regions in the PRC in accordance with relevant regulatory policies and reports issued in 2019 and 2020. The service fees of telecommunication resources increased gradually since the fourth quarter of 2019 and further in 2020, and are expected to remain relatively stable, primarily because the gaps of the resource fees charged by the three major telecommunication network operators have converged gradually from the previous price adjustment and currently the services fee charged by three telecommunications operators are similar, which was evidenced by the relatively stable average service fees of the telecommunication resources with an increase of 5.3% from 2020 to 2021 as compared to the surge of 22.6% from 2019 to 2020. As a result, our Directors are of the view, and Frost & Sullivan concurs, that the increase of service fees of the telecommunication resources charged by telecommunication network operators may not have adverse material impact on our financial performance, as the service fees of telecommunication resources is expected to remain relatively stable in the forecast period.

The gross profit margin in our CRM SaaS services remained relatively stable at 40.7%, 38.6% and 39.3% for the three years ended 31 December 2021. The slight decrease of the gross profit margin of our CRM SaaS services to 38.6% in 2020 was primarily due to the decrease in gross profit margin in Marketing Cloud mainly attributable to the general increase of service fee charged by telecommunication network operators which commenced in the fourth quarter of 2019. The gross profit margin in our CRM SaaS services increased to 39.3% in 2021, primarily due to economies of scale achieved during the same period.

The gross profit margin for our Service Cloud was in an increasing trend since 2019, amounting to 40.4% and 50.6% for the two years ended 31 December 2021 respectively, primarily due to optimisation of purchase channel mainly attributable to (i) improved bargaining power, as (a) Dejiu was able to leverage our reputation and platform when conducting its voice message business after its consolidation into our Group in 2018, and (b) contributed by the overall revenue growth and business expansion of our Group; and (ii) change in our revenue structure. The gross profit margin for our Sales Cloud remained relatively stable for the two years ended 31 December 2020 and increased by 4.1% from 64.8% in 2020 to 68.9% in 2021 due to improvement in our Sales Cloud solutions and enhancement in service delivery.

For a more detailed discussion of the gross profit margins of our two segments, please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section.

FINANCIAL INFORMATION

Selling and distribution expenses

Our selling and distribution expenses primarily consist of (i) employee benefit expenses associated with our sales and marketing employees, (ii) travel and entertainment expenses incurred by our sales and marketing employees, (iii) outsourcing customer service expenses in relation to provision of after-sales maintenance services, (iv) depreciation and amortisation expenses and (v) marketing and promotion expenses. As we assess and identify new business opportunities, the growth of our selling and distribution expenses may accelerate opportunistically, and we continue to dedicate selling and marketing efforts to further promote and expand our business. We will also leverage our networking effects to increase selling and marketing efficiency and we expect the proportion of selling and distribution expenses to the revenue to decline as a result.

The following table sets forth our selling and distribution expenses, sorted by nature, for the periods indicated:

	For the year ended 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefit expenses	60,915	50,464	58,730
Travel and entertainment expenses	12,260	11,578	13,722
Outsourcing customer service expenses	7,827	6,220	8,545
Marketing and promotion expenses	4,622	2,815	4,072
Depreciation and amortisation expenses	4,612	3,951	4,010
Conference and office expenses	1,723	742	1,002
Others ^(Note)	1,471	1,379	943
	<u>93,430</u>	<u>77,149</u>	<u>91,024</u>
Total	93,430	77,149	91,024

Note:

Others mainly include lease payments on short term leases, communication expenses, property management fee and courier service expenses.

FINANCIAL INFORMATION

Administrative expenses

Our administrative expenses primarily consist of (i) employee benefit expenses; (ii) travel and entertainment expenses; (iii) conference and office expenses, all of which being associated with our employees in general and administrative purposes; (iv) professional service fees, (v) depreciation and amortisation expenses and (vi) [REDACTED] expenses for the year ended 31 December 2021. We expect the proportion of administrative expenses (excluding [REDACTED] expenses) to the revenue to decline as we drive significant operating leverage.

The following table sets forth our administrative expenses, sorted by nature, for the periods indicated:

	For the year ended 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefit expenses	34,211	29,699	38,002
Depreciation and amortisation expenses	3,745	3,917	4,829
Professional service fees	1,863	1,600	3,854
Conference and office expenses	1,567	914	1,256
Travel and entertainment expenses	1,685	1,339	2,266
Auditors' remuneration — Audit services	365	401	310
[REDACTED] expenses	–	–	[REDACTED]
Others ^(Note)	2,383	1,884	2,381
	45,819	39,754	[REDACTED]
Total	45,819	39,754	[REDACTED]

Note:

Others mainly represent recruiting costs, property management fee and utilities expenses.

Research and development expenses

Our research and development efforts are mainly focused on enhancing our core capabilities and developing new products and solutions. Our research and development expenses primarily consist of (i) employees benefit expenses for those engaging in research and development activities; (ii) depreciation and amortisation expenses, and (iii) infrastructure and equipment expenses for research and development. We expect to continue to invest significant human and financial resources to further enhance our leadership in the intelligent CRM services market.

FINANCIAL INFORMATION

The following table sets forth our research and development expenses, sorted by nature, for the periods indicated:

	For the year ended 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefit expenses	44,484	45,825	57,672
Depreciation and amortisation expenses	3,121	3,263	3,297
Infrastructure and equipment expenses	1,766	1,442	2,129
Travel and entertainment expenses	315	116	550
Conference and office expenses	123	70	84
Professional service fees ^(Note)	417	1,918	1,816
Others	354	388	578
	50,580	53,022	66,126
Total	50,580	53,022	66,126

Note: Professional service fees mainly represent technology consulting fees in relation to development consulting and strategic guidance on cPaaS platform, AI capabilities and DI capabilities, and patent application expenses.

Net impairment losses on financial assets

Our net impairment losses on financial assets primarily represent provision for losses arising from our trade and other receivables in the ordinary course of business.

We recorded net impairment losses on financial assets of RMB2.9 million, RMB4.3 million and RMB5.4 million for the three years ended 31 December 2021, respectively. For details, please refer to "Note 3.1.2 Credit risk" to the Accountant's Report set out in Appendix I to this [REDACTED].

Other income

Other income consist primarily of (i) government grants, which mainly relate to subsidies received from relevant government authorities, (ii) value-added tax refund mainly relating to sales of our CRM SaaS services in accordance with the relevant tax regulations, and (iii) additional deduction of value-added input tax, which relates to the permitted deduction of VAT in accordance with new tax policies¹ effective from April 2019. For details on value-added tax refund and additional deduction of value-added input tax, please refer to "Note 9 Other income" to the Accountant's Report set out in Appendix I to this [REDACTED].

¹ Announcement of Ministry of Finance, the General Administration of Taxation and the General Administration of Customs on deepening policies related to VAT reformation (Announcement of Ministry of Finance, the General Administration of Taxation and the General Administration of Customs [2019] No. 39 財政部稅務總局海關總署公告[2019年]第39號)

FINANCIAL INFORMATION

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

	For the year ended 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	1,463	1,914	480
Value-added tax refund	2,802	2,833	4,096
Additional deduction of value-added input tax	3,041	4,655	7,814
Others	72	269	167
Total	7,378	9,671	12,557

Other gains – net

Our other gains – net primarily consist of net fair value gain on investments in financial assets at fair value through profit or loss.

Our other gains – net amounted to RMB0.6 million, RMB0.5 million and RMB0.4 million for the three years ended 31 December 2021, respectively.

Finance income

Our finance income comprise interest income from our bank deposits. Our finance income amounted to RMB0.4 million, RMB0.7 million and RMB0.8 million for the three years ended 31 December 2021, respectively.

Finance costs

Our finance costs primarily comprise of (i) interest expenses of lease liabilities and (ii) interest expenses of borrowings. Our finance costs amounted to RMB1.8 million, RMB3.0 million and RMB2.6 million for the three years ended 31 December 2021, respectively.

Income tax credit

We had (i) income tax credit of RMB2.9 million, RMB1.9 million and RMB2.9 million for the three years ended 31 December 2021, respectively, primarily due to the recognition of deferred income tax assets in respect of the tax losses incurred and the super deduction of research and development expenses entitled during the relevant periods. For details on super deduction of research and development expenses, please refer to "Note 12 income tax credit" to the Accountant's Report set out in Appendix I to this [REDACTED]. As at the Latest Practicable Date, we did not have any disputes with any tax authority.

FINANCIAL INFORMATION

Cayman Islands

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

British Virgin Islands

Under the current laws of the British Virgin Islands, entities incorporated in the British Virgin Islands as exempted companies are not subject to tax on income or capital gain. In addition, the British Virgin Islands does not impose a withholding tax on payments of dividends to shareholders.

Hong Kong

Hong Kong profits tax rate is 16.5%. No provision for Hong Kong profits tax was provided as our Group did not have assessable profit in Hong Kong during the Track Record Period.

PRC

Income tax provision of our Group in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the year/period, based on the existing legislation, interpretations and practices in respect thereof. The general corporate income tax rate in PRC is 25%.

According to Cai Shui [2012] No. 27 (財稅[2012]27號), key software enterprises that have not benefited from the preferential treatment of tax exemption in the current year may be subject to a lower income tax rate of 10%. In 2016, Cai Shui [2016] No. 49 (財稅[2016]49號, "Circular 49"), is released in order to further clarify the criteria for enterprises to qualify as key software enterprises. Xuan Wu met requirements in Circular 49 for the years ended 31 December 2019.

Xuan Wu had also applied to the relevant tax bureau and was granted the qualification as High and New Technology Enterprise ("HNTE") in 2012 and it has renewed the qualification of HNTE in 2021, which will expire in 2024. It is subject to a preferential income tax rate of 15%. Based on management's assessment, it is highly probable that Xuan Wu will continue to meet the requirements of High-tech Enterprise.

As a result, Xuan Wu was subject to a preferential income tax rate of 10% in 2019, and 15% in 2020 and 2021.

FINANCIAL INFORMATION

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

The year ended 31 December 2020 compared to the year ended 31 December 2021

Revenues

Our revenues increased by 24.5% from RMB796.8 million for the year ended 31 December 2020 to RMB991.9 million for the year ended 31 December 2021, primarily due to the revenue increase of both of our CRM PaaS services and CRM SaaS services.

CRM PaaS services: Our revenue from CRM PaaS services increased by 20.4% from RMB460.8 million for the year ended 31 December 2020 to RMB554.6 million for the year ended 31 December 2021, primarily due to (i) clients' rising demand for our CRM PaaS services enhanced cPaaS platform empowered by AI and DI capabilities, (ii) the increase in numbers of our core clients from CRM PaaS services, and (iii) increase in revenue per core client from CRM PaaS services due to the reinforcement of our cooperations with the core clients.

CRM SaaS services: Our revenue from CRM SaaS services increased by 30.2% from RMB335.9 million for the year ended 31 December 2020 to RMB437.3 million for the year ended 31 December 2021, primarily due to (i) clients' rising demand for our CRM SaaS services, (ii) enhanced features in solutions provided by us, (iii) increase in numbers of our core clients from CRM SaaS services, (iv) increase in revenue per core client from CRM SaaS services; and (v) the offering of innovative services such as video messaging which is of higher gross profit margin than traditional message services.

Cost of sales

Our cost of sales increased by 26.0% from RMB603.0 million for the year ended 31 December 2020 to RMB759.5 million for the year ended 31 December 2021. The increase was in line with our business expansion in each of CRM PaaS services and CRM SaaS services for the year ended 31 December 2021.

CRM PaaS services: Our cost of sales from CRM PaaS services increased by 24.5% from RMB396.9 million for the year ended 31 December 2020 to RMB494.1 million for the year ended 31 December 2021, primarily due to (i) the increase in costs of telecommunication resources in relation to CRM PaaS services which was generally in line with our stable business growth and (ii) changes in our structure of procurement from different telecommunication network operators as we purchased a larger amount of telecommunication resources from Client-supplier E primarily due to increasing demand from our clients for such telecommunication resources from Client-supplier E and the increased average service fees charged by Client-supplier E during the same period.

CRM SaaS services: Our cost of sales from CRM SaaS services increased by 28.8% from RMB206.1 million for the year ended 31 December 2020 to RMB265.5 million for the year ended 31 December 2021, primarily due to (i) the increase in costs of telecommunication resources in relation to CRM SaaS services, which was generally in line with our business expansion in CRM SaaS services during the same period, (ii) increase in employee benefit expenses in line with our revenue growth and number of

FINANCIAL INFORMATION

employees and (iii) increase in infrastructure and equipment expenses in relation to cloud server storage in line with our business expansion during the same period. Due to high integration and inseparability of our CRM PaaS and CRM SaaS services, the core technological infrastructures of our CRM SaaS services are based on our CRM PaaS services and therefore the provision of our CRM SaaS services also incurs costs of telecommunication as a result.

Gross profit and gross profit margin

As a result of the foregoing, our overall gross profit increased for 19.9% from RMB193.8 million for the year ended 31 December 2020 to RMB232.4 million for the year ended 31 December 2021, while our overall gross profit margin stayed relatively stable at 24.3% and 23.4%, respectively.

CRM PaaS services: Our gross profit margin in CRM PaaS services decreased from 13.9% for the year ended 31 December 2020 to 10.9% for the year ended 31 December 2021, primarily due to changes in our structure of procurement from different telecommunication network operators.

CRM SaaS services: Our gross profit margin in CRM SaaS services slightly increased from 38.6% for the year ended 31 December 2020 to 39.3% for the year ended 31 December 2021, primarily due to economies of scale achieved during the same period attributable to our strategic focus on developing CRM SaaS services.

Selling and distribution expenses

As we primarily sell and market our intelligent CRM services through our in-house direct sales force, our selling and distribution expenses primarily consist of employee benefit expenses which amounted to 65.2%, 65.4% and 64.5% for the three years ended 31 December 2021, respectively. Our selling and distribution expenses were also attributable to (i) expenses relating to our policies adopted for enhancing the efficiency of the sales and distribution ability including hiring of talented manpower, providing trainings to employees, adoption of evaluation program and compensation scheme; and (ii) the increasing number of clients which we cross-sold over for the three years ended 31 December 2021. Our selling and distribution expenses increased by 18.0% from RMB77.1 million for the year ended 31 December 2020 to RMB91.0 million for the year ended 31 December 2021, primarily due to (i) increase in employee benefit expenses by RMB8.2 million or 16.2%, from RMB50.5 million to RMB58.7 million, mainly resulting from the expansion of our business where we recorded 24.5% increase in revenue and reduction in the amount of exemption of social security expenses by the relevant PRC government authorities granted in 2020 due to the impact of COVID-19, which indicated that there was an increase in productivity of our in-house direct sales force, (ii) increase in travel and entertainment expenses by RMB2.1 million or 18.1%, from RMB11.6 million to RMB13.7 million, primarily attributable to the expansion of our business, and (iii) increase in outsourcing customer service expenses by RMB2.3 million or 37.1%, from RMB6.2 million to RMB8.5 million which was in line with our business growth and the increase in number of core clients.

FINANCIAL INFORMATION

Selling and distribution expenses as a percentage of revenue declined from 9.7% for the year ended 31 December 2020 to 9.2% for the year ended 31 December 2021 as our revenue grew at a faster rate and we have leveraged our networking efforts to increase our selling and marketing efficiency.

Administrative expenses

Our administrative expenses increased by 72.1% from RMB39.8 million for the year ended 31 December 2020 to RMB68.5 million for the year ended 31 December 2021, primarily due to (i) incurrance of [REDACTED] expenses in the amount of RMB[REDACTED] million, and (ii) increase in employee benefit expenses by RMB8.3 million or 27.9% from RMB29.7 million to RMB38.0 million, mainly due to the combined effect of (i) increase in the number of employees in administrative function and (ii) reduction in the amount of exemption of social security expenses granted in 2020 due to the impact of COVID-19.

Administrative expenses as a percentage of revenue slightly increased from 5.0% for the year ended 31 December 2020 to 6.9% for the year ended 31 December 2021 primarily due to the one-off [REDACTED] expenses.

Research and development expenses

Our research and development expenses increased by 24.7% from RMB53.0 million in the year ended 31 December 2020 to RMB66.1 million for the year ended 31 December 2021, primarily due to increase in the employee benefit expenses by RMB11.9 million or 26.0% from RMB45.8 million to RMB57.7 million, which were generally in line with the increase in the number of employees in research and development function, as we continued investment in research and development in order to enhance our competitiveness and meet the everchanging demand from our clients.

Net impairment losses on financial assets

Our net impairment losses on financial assets increased by 25.6% from RMB4.3 million for the year ended 31 December 2020 to RMB5.4 million for the year ended 31 December 2021, primarily due to increase in our trade receivables for the year ended 31 December 2021.

Other income

Our other income increased by 29.9% from RMB9.7 million for the year ended 31 December 2020 to RMB12.6 million for the year ended 31 December 2021, primarily due to (i) increase in value-added tax refund from RMB2.8 million to RMB4.1 million and (ii) increase in additional deduction of value added input tax from RMB4.7 million to RMB7.8 million, and was in line with our business expansion.

Income tax credit

Our income tax credit increased by 52.6% from RMB1.9 million for the year ended 31 December 2020 to RMB2.9 million for the year ended 31 December 2021 primarily due to recognition on deferred income tax assets.

FINANCIAL INFORMATION

Total comprehensive income for the period

As a result of the foregoing, we recorded a total comprehensive income of RMB29.3 million for the year ended 31 December 2020 and RMB15.4 million for the year ended 31 December 2021.

The year ended 31 December 2019 compared to the year ended 31 December 2020

Revenues

Our revenues increased by 32.7% from RMB600.2 million for the year ended 31 December 2019 to RMB796.8 million for the year ended 31 December 2020. The increase was primarily attributable to the revenue increase of our CRM PaaS services, and to a lesser extent, the revenue increases in CRM SaaS services.

CRM PaaS services: Revenue from CRM PaaS services increased by 52.8% from RMB301.5 million for the year ended 31 December 2019 to RMB460.8 million for the year ended 31 December 2020, primarily due to increase in revenue from CRM PaaS services as a result of the combined effect of (i) clients' rising demand for our CRM PaaS services, (ii) the increase in numbers of our core clients from CRM PaaS services, and (iii) increase in revenue per core client from CRM PaaS services.

CRM SaaS services: Revenue from CRM SaaS services increased by 12.5% from RMB298.7 million for the year ended 31 December 2019 to RMB335.9 million for the year ended 31 December 2020, primarily due to (i) clients' rising demand for our CRM SaaS services, (ii) enhanced features in SaaS services and revenue contribution from ICC modules commenced in 2020, (iii) increase in numbers of our clients from CRM SaaS services and (iv) increase in revenue per client from CRM SaaS services.

Cost of sales

Our cost of sales increased by 49.4% from RMB403.5 million for the year ended 31 December 2019 to RMB603.0 million for the year ended 31 December 2020. The increase was primarily caused by business expansion in each of CRM PaaS and CRM SaaS services for the year ended 31 December 2020.

CRM PaaS services: Cost of sales from CRM PaaS services increased by 75.3% from RMB226.4 million for the year ended 31 December 2019 to RMB396.9 million for the year ended 31 December 2020, primarily due to the substantial increase in costs of telecommunication resources in relation to CRM PaaS services, resulting from both our business growth and the general increase of service fee charged by telecommunication network operators during the same period, and was generally in line with our business expansion in CRM PaaS services during the same period. The impact of increase in costs of telecommunication resources was relatively larger in 2020 compared to that of 2019, as the general increase of service fees charged by telecommunication network operators commenced in the fourth quarter of 2019.

FINANCIAL INFORMATION

CRM SaaS services: Cost of sales from CRM SaaS services increased by 16.4% from RMB177.1 million for the year ended 31 December 2019 to RMB206.1 million for the year ended 31 December 2020, primarily due to (i) the substantial increase in costs of telecommunication resources in relation to CRM SaaS services, resulting from both our business growth and the general increase of service fee charged by telecommunication network operators during the same period and (ii) increase in employee benefit expenses mainly attributable to increase in the number of operational staff in line with our business expansion in 2020. Due to high integration and inseparability of our CRM PaaS and CRM SaaS services, the provision of our CRM SaaS services also incurs costs of telecommunication. The impact of increase in costs of telecommunication resources was relatively larger in 2020 compared to that of 2019, as the general increase of service fees charged by telecommunication network operators commenced in the fourth quarter of 2019.

Gross profit and gross profit margin

As a result of the foregoing our overall gross profit for the two years ended 31 December 2020 were RMB196.7 million and RMB193.8 million, respectively, and our overall gross profit margin were 32.8% and 24.3%, respectively. The decrease in our overall gross profit margin was a result of higher growth rate of cost of sale in comparison to that of revenue.

CRM PaaS services: Our gross profit margin in CRM PaaS services decreased from 24.9% for the year ended 31 December 2019 to 13.9% for the year ended 31 December 2020, primarily due to the general increase of service fees charged by telecommunication network operators.

CRM SaaS services: Our gross profit margin in CRM SaaS services remained relatively stable at 40.7% for the year ended 31 December 2019 and 38.6% for the year ended 31 December 2020, primarily due to the increase, in relation to CRM SaaS services, in (i) costs of telecommunication resources and (ii) employee benefit expenses, partially offset by increase in revenue per client from CRM SaaS services resulting from increase in selling price of our CRM SaaS services in 2020.

Selling and distribution expenses

Our selling and distribution expenses decreased by 17.5% from RMB93.4 million for the year ended 31 December 2019 to RMB77.1 million for the year ended 31 December 2020, primarily attributable to (i) decrease in the employee benefit expenses from RMB60.9 million to RMB50.5 million, which was in line with the decrease in the number of employees in selling and marketing function due to structure optimisation of our selling and distribution team and (ii) decrease in both marketing and promotion expenses and travel and entertainment expenses attributable to the impact of COVID-19 in 2020.

Selling and distribution expenses as a percentage of revenue declined from 15.6% for the year ended 31 December 2019 to 9.7% for the year ended 31 December 2020 as our revenue grew at a faster rate.

FINANCIAL INFORMATION

Administrative expenses

Our administrative expenses decreased by 13.1% from RMB45.8 million for the year ended 31 December 2019 to RMB39.8 million for the year ended 31 December 2020, primarily attributable to (i) decrease in the employee benefit expenses from RMB34.2 million to RMB29.7 million, which was in line with the decrease in the number of employees in administrative function and (ii) partial exemption of social security expenses by the relevant PRC government authorities due to impact of COVID-19 in 2020.

As a percentage of revenue, administrative expenses declined from 7.6% for the year ended 31 December 2019 to 5.0% for the year ended 31 December 2020 as our revenue grew at a faster rate.

Research and development expenses

Our research and development expenses increased slightly by 4.7% from RMB50.6 million for the year ended 31 December 2019 to RMB53.0 million for the year ended 31 December 2020, primarily attributable to the slight increase in the employee benefit expenses from RMB44.5 million to RMB45.8 million in line with the expansion of our research and development team as we continued our investment in research and development so as to expand our CRM SaaS services and improve the service quality of our CRM PaaS and CRM SaaS services, including the continuous development of our ICC module and the development of our Smart Sales 100 module.

Research and development expenses as a percentage of revenue declined from 8.4% for the year ended 31 December 2019 to 6.7% for the year ended 31 December 2020 as our revenue outgrew our investment in research and development in the same period.

Net impairment losses on financial assets

Our net impairment losses on financial assets increased by 48.3% from RMB2.9 million for the year ended 31 December 2019 to RMB4.3 million for the year ended 31 December 2020, primarily due to the disruption to our collection process of trade receivables in 2020 attributable to the impact of COVID-19.

Other income

Our other income increased by 31.1% from RMB7.4 million for the year ended 31 December 2019 to RMB9.7 million for the year ended 31 December 2020, primarily due to (i) increase in additional deduction of value added input tax and (ii) increase in government grants.

Operating profit

As a result of the foregoing, our operating profit increased from RMB12.0 million for the year ended 31 December 2019 to RMB29.7 million for the year ended 31 December 2020.

FINANCIAL INFORMATION

Income tax credit

Our income tax credit decreased from RMB2.9 million for the year ended 31 December 2019 to RMB1.9 million for the year ended 31 December 2020, primarily due to the recognition and utilization of deferred income tax assets.

Total comprehensive income for the year

As a result of the foregoing, our total comprehensive income increased by 117.0% from RMB13.5 million for the year ended 31 December 2019 to RMB29.3 million for the year ended 31 December 2020.

DISCUSSION OF CERTAIN KEY BALANCE SHEET ITEMS

The following table sets out details of our current assets and current liabilities as at the dates indicated:

	As at 31 December			As at
	2019	2020	2021	31 January
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
				<i>(unaudited)</i>
Current assets				
Contract fulfilment costs	7,787	7,624	5,587	[5,707]
Contract assets	120	361	95	[95]
Financial assets at fair value through profit or loss	–	30,200	21,476	[21,517]
Trade, bill and other receivables and prepayments	240,567	299,303	369,312	[362,187]
Restricted cash	9	38	1	[1]
Cash and cash equivalents	43,070	97,077	88,256	[90,587]
	291,553	434,603	484,727	[480,094]
Current liabilities				
Borrowings	39,935	39,512	58,480	[68,628]
Contract liabilities	29,278	34,021	31,924	[33,685]
Trade and other payables	66,352	115,071	138,375	[127,904]
Lease liabilities	7,129	7,391	7,644	[7,780]
Current income tax liabilities	81	93	122	[124]
	142,775	196,088	236,545	[238,121]
Net current assets	148,778	238,515	248,182	[241,973]

FINANCIAL INFORMATION

Our net current assets increased from RMB148.8 million as at 31 December 2019 to RMB238.5 million as at 31 December 2020, primarily due to the increase of RMB58.7 million in our trade, bill and other receivables and prepayments generally in line with our growth in credit sales and business expansion and the increase of RMB54.0 million in our cash and cash equivalents, which was partially offset by the increase of RMB48.7 million in our trade and other payables primarily due to (i) the increase in telecommunication expenses payable resulting from our increased procurement in line with our business expansion and (ii) the extension of reconciliation cycle of certain telecommunication network operators by one month in December 2020. Our net current assets remained relatively stable at RMB238.5 million and RMB248.2 million, respectively as at 31 December 2020 and 2021.

Current Assets

Contract fulfilment costs

Contract fulfilment costs represent implementation costs recognised in respect of employee benefit expenses and appropriate proportion of variable and fixed overhead expenditure of ongoing projects in relation to our CRM SaaS services.

Our contract fulfilment costs decreased from RMB7.8 million as at 31 December 2019, to RMB7.6 million as at 31 December 2020 and further decreased to RMB5.6 million as at 31 December 2021, primarily attributable to shortened project delivery cycle time due to our increased manpower during the relevant periods.

Contract assets

Contract assets mainly represent our right to consideration in exchange for goods or services which we have transferred to our clients.

Our contract assets increased from RMB120,000 as at 31 December 2019 to RMB361,000 as at 31 December 2020 and decreased to RMB95,000 as at 31 December 2021. The amount of contracts asset mainly depends on the contract terms which vary from case to case.

Trade and bill receivables

Trade and bill receivables primarily represent amounts due from third-party clients for our services performed in the ordinary course of business.

FINANCIAL INFORMATION

The following table sets forth our trade and bill receivables as at the dates indicated:

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables from third parties	166,087	248,592	278,303
Less: Allowance for impairment of trade receivables	<u>(5,150)</u>	<u>(9,345)</u>	<u>(14,050)</u>
Trade receivables – net	<u>160,937</u>	<u>239,247</u>	<u>264,253</u>
Bill receivables from third parties	<u>354</u>	<u>572</u>	<u>–</u>
Total trade and bill receivables	<u><u>161,291</u></u>	<u><u>239,819</u></u>	<u><u>264,253</u></u>

Our trade and bill receivables increased from RMB161.3 million as at 31 December 2019 to RMB239.8 million as at 31 December 2020, and further to RMB264.3 million as at 31 December 2021, primarily due to our growth in credit sales generally in line with our business expansion.

We apply the simplified approach permitted by HKFRS 9, which requires the expected lifetime losses to be recognised from initial recognition of the assets. This provision matrix is determined based on historical observed default rates over the expected life of trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. During the three years ended 31 December 2021, the increase in allowance for impairment of trade receivables from RMB5.2 million as at 31 December 2019 and to RMB9.3 million as at 31 December 2020 and further to RMB14.1 million as at 31 December 2021 was primarily attributable to the increase in gross trade receivables from RMB166.1 million as at 31 December 2019 to RMB248.6 million as at 31 December 2020 and further to RMB278.3 million as at 31 December 2021. The increase in our gross trade receivables was generally in line with the expansion of our business activities that resulted in increase in revenue for the three years ended 31 December 2021 and the disruption to our collection process of trade receivables in 2020 attributable to the impact of COVID-19 resulting in an increase in our gross trade receivables as at 31 December 2020 where such collection process has been resumed to normal.

FINANCIAL INFORMATION

The credit terms given to trade clients are determined on an individual basis with normal credit period mainly more than 30 days. The aging analysis of the trade receivables based on recognition date is as follows:

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Up to three months	120,822	188,826	218,343
Three to six months	25,543	35,483	34,833
Six months to one year	13,519	10,889	14,303
One to two years	2,391	8,157	2,901
Over two years	3,812	5,237	7,923
	<u>166,087</u>	<u>248,592</u>	<u>278,303</u>

Our trade receivables turnover days increased from 86.5 days for the year ended 31 December 2019 to 91.7 days for the year ended 31 December 2020, and further to 92.6 days for the year ended 31 December 2021, primarily due to (i) the increase in credit sales during the same period and (ii) we offered longer credit terms of generally around 90 days, to clients who are of strategic importance usually from CRM PaaS services and from Marketing Cloud in CRM SaaS services as we expect to generate relatively larger revenue from our strategic cooperation with such clients during the same period and (iii) the increase in trade receivables during the three years ended 31 December 2021 from telecommunication network operators which generally have longer credit terms resulting from our long-term cooperation relationship and their good credit history. Trade receivables turnover days for a given period are equal to the average net trade receivables from contracts with clients, at the beginning and at the end of the period divided by revenues during the period and multiplied by 365 days. According to Frost & Sullivan, major clients, such as the telecommunication network operators, banks and state-owned enterprises generally enjoy longer credit terms of approximately 90 days and have better creditability.

We have assessed the recoverability of the relevant outstanding trade receivables by taking into account of financial position of our clients, credit rating, credit history of our clients, years of relationship between our Group and clients, existence of forecast changes in market or environment that have a significant adverse effect on our clients' ability to meet their payment obligation to us and other factors. Our trade receivables aged over one year from clients was RMB6.2 million, RMB13.4 million and RMB10.8 million accounting for 3.7%, 5.4% and 3.9% of our total trade receivables as at 31 December 2019, 2020 and 2021, respectively. The decrease in the amount of trade receivables aged over one year from clients from 31 December 2020 to 2021 was an evidence of our efforts in strengthening of our management of trade receivables during the same period. We have established legal department in 2021 to strengthen the management of trade receivables and improve the collection rate. We have also adopted the internal policies to (i) strengthen the management and supervision of contract; (ii) provide guidance on contract signing and handling change of contractual terms; and (iii) deal with abnormal

FINANCIAL INFORMATION

circumstances. Furthermore, our inhouse legal professionals would provide legal advice on a timely basis where there are long standing trade receivables or when dispute arises. In addition, we also undertake to further enhance our internal measures in order to control and assess the counterparty risks during the course of business.

We will continue to strengthen our management in trade receivables and improve the collection rate in the future and our Directors are of the view that sufficient provision has been made to trade receivables and the risk of not being able to recover the remaining trade receivables, net of provision, in particular for those aged over one year, is relatively low based on our evaluation of the historical credit standing and the credit records of these clients as most of our trade receivables are contributed by state-owned or reputable large-scale enterprises. For further information about our accounting for trade receivables and description of our impairment policies, please refer to "Note 3.1.2 Credit risk" to the Accountant's Report set out in Appendix I to this [REDACTED].

Furthermore, in view of the recent press reports on the financial difficulties of property developers in the PRC, despite our outstanding trade receivables balance in relation to property developers in the PRC is immaterial to our overall outstanding trade receivables, we have put into place a number of measures to safeguard our interests: (i) we have been negotiating with one of our property developer clients in the PRC, which contributed most of our outstanding trade receivables balance in relation to property developers in the PRC, regarding its outstanding trade receivables balance; (ii) we have designated sales staff to follow up on the progress of the settlement through telephone and text messages on periodic basis with the aforesaid client; and (iii) we are in the course of communicating with the aforesaid client for a concrete payment plan.

As at 31 December 2021, the total outstanding trade receivables balance in relation to property developers in the PRC was only RMB257,940 which accounted for only 0.1% of our outstanding trade receivables. Furthermore, property developers does not form part of our key clients and they only contributed 0.04%, 0.01% and 0.006% of our revenue, and 0.23%, 0.13% and 0.1% of our trade receivables during the Track Record Period. Therefore, our Directors are of the view that our outstanding trade receivables and financial position and performance would not be materially affected in this regard.

RMB[76.7] million, or [27.6]% of our trade and bill receivables as at 31 December 2021, were subsequently settled as at 31 January 2022.

Other receivables and prepayments

Other receivables mainly represent amount due from third parties including deposits and tender deposits which mainly represent security deposits paid to tenderers in the tendering process, which may be either refunded or kept as performance security depending on the tender results. Prepayments primarily represent amount prepaid to suppliers including telecommunication expenses and other prepaid expenses.

FINANCIAL INFORMATION

The following table sets forth our other receivables and prepayments as at the dates indicated:

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other receivables			
– Third parties	9,182	10,599	15,957
Allowance for impairment of other receivables	(125)	(143)	(174)
	9,057	10,456	15,783
Net amount			
Prepayment to suppliers			
– Current portion	68,026	47,206	86,330
– Non-current portion	535	565	336
	68,561	47,771	86,666
Total prepayments			
	68,561	47,771	86,666
Total amount of other receivables and prepayments	77,618	58,227	102,449

Our other receivables increased by 15.4% from RMB9.1 million as at 31 December 2019 to RMB10.5 million as at 31 December 2020 and further by 50.5% to RMB15.8 million as at 31 December 2021, which was in line with our business expansion and growth in revenue during the relevant periods. All the non-trade balances with related parties have been settled.

Our prepayment decreased by 30.3% to RMB47.8 million as at 31 December 2020, primarily due to relatively less attractive prepayment offers provided by suppliers in 2020. Our prepayment increased by 81.4% from RMB47.8 million as at 31 December 2020 to RMB86.7 million as at 31 December 2021, primarily due to increase in prepayment in relation to telecommunication resources costs.

RMB[1.7] million, or [10.5]% of our other receivables as at 31 December 2021, were subsequently settled as at 31 January 2022. RMB[11.7] million, or [13.5]% of our prepayments as at 31 December 2021, were subsequently settled as at 31 January 2022.

Financial assets at fair value through profit or loss

During the Track Record Period, our financial assets at fair value through profit or loss comprised investments in certain wealth management products issued by major and reputable commercial banks in the PRC — Level 3 financial assets. Our financial assets at fair value through profit or loss amounted to nil, RMB30.2 million and RMB21.5 million as at the three years ended 31 December 2021, respectively.

FINANCIAL INFORMATION

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 primarily low-risk fixed income instrument and principal-guaranteed financial instruments, and can be redeemed at our preference.

To monitor and control the investment risks associated with our wealth management product portfolio, we have adopted a comprehensive set of internal policies and guidelines to manage our investment in wealth management products. Supervised by Mr. Chen Yonghui, our Chairman, Chief Executive Officer and Executive Director, Mr. Huang Fangjie, our Executive Director and Senior Vice President, and Ms. Ge Ping, our Chief Financial Officer, Vice President and Joint Company Secretary, who were highly involved in our historical investments, our finance department will propose, analyse and evaluate potential investment in wealth management products based on our financial liquidity and recommendations of our relationship and account managers at reputable banks in China, taking into account factors including risk rating, rate of return and risk of return of wealth management products. Prior to making any material investments in wealth management products or modifying our existing investment portfolio, the proposal shall be approved by Mr. Chen Yonghui, Mr. Huang Fangjie, Ms. Ge Ping and their designated senior member of our management. Our investment strategy related to wealth management products focuses on minimising the financial risks by reasonably and conservatively matching the maturities of the portfolio to anticipated operating cash needs, while generating desirable investment returns for the benefits of our shareholders. We primarily invest in wealth management products issued by major commercial banks in China with relatively low risks and a short to mid-term of no more than one year. We make investment decisions related to wealth management products on a case-by-case basis after thoroughly considering a number of factors, including but not limited to macro-economic environment, general market conditions, risk control and credit of issuing banks, our own working capital conditions, and the expected profit or potential loss of the investment. In relation to the valuation of the wealth management products — Level 3 financial assets, our management has established and implemented the following rules and procedures relating to, including but not limited to: (i) reviewing the terms of underlying agreements of the wealth management products; (ii) performing assessment on the investment target, investment amount, expected return rate, investment return analysis and investment risk analysis; (iii) carefully considered all information which require management assessments and estimates; and (iv) carefully reviewed the valuation model prepared by the finance department in determining the fair value of the wealth management products and the valuation related policies, methodologies and techniques. In light of the above, our Directors are satisfied with the valuation for the Company's financial assets categorised within Level 3 of fair value measurement in the historical financial information for the purpose of the preparation of the Accountant's Report as referred to in Appendix I to the [REDACTED]. Such investment in wealth management products will be subject Chapter 14 requirements after [REDACTED].

FINANCIAL INFORMATION

Details of the fair value measurement of financial assets at fair value through profit or loss, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value are disclosed in Note 19 of the Accountant's Report in Appendix I to this [REDACTED] which was issued by the Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountant's opinion on the Historical Financial Information, as a whole, of the Group for the Track Record Period is set out on page 2 of Appendix I to this [REDACTED].

The Sole Sponsor has performed the following due diligence work in respect of the valuation analysis on our Group's Level 3 financial assets:

- (i) discussed with our Directors to understand the nature and details of the financial assets, the internal policies and guidelines for the management of the Level 3 financial assets and the key basis and assumptions for the valuation of the Level 3 financial assets;
- (ii) reviewed the relevant notes in the Accountant's Report as set out in Appendix I;
- (iii) discussed with the Reporting Accountant to understand the work they have performed in relation to the valuation of the Level 3 financial assets for the purpose of reporting on the historical financial information of our Group as a whole; and
- (iv) obtained and reviewed the relevant underlying documents concerning the corresponding Level 3 financial assets during the Track Record Period.

Based on the due diligence work conducted as described above and taking into account the work performed by the management of our Company and the unqualified opinion on the historical financial information of our Group as a whole issued by the Reporting Accountant as set out in Appendix I, nothing has come to the attention of the Sole Sponsor that would cause any disagreement with the valuation of the Level 3 financial assets.

FINANCIAL INFORMATION

The following table sets forth our financial assets at fair value through profit or loss as at the dates indicated:

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Wealth management products			
– Level 3 ^{Note 1}	–	30,200	21,476
	<u> </u>	<u> </u>	<u> </u>

Notes:

- (1) If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. We use estimated discounted cash flows to make assumptions.

The following table sets forth the changes in level 3 instruments for the three years ended 31 December 2021.

	Year ended 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Opening balance	25,667	–	30,200
Additions	15,200	111,000	152,500
Gains for the year recognised in profit or loss	599	539	1,112
Disposal	<u>(41,466)</u>	<u>(81,339)</u>	<u>(162,336)</u>
Closing balance	<u> </u>	<u> </u>	<u> </u>

Our financial assets at fair value through profit or loss increased from nil as at 31 December 2019 to RMB30.2 million as at 31 December 2020, primarily due to relatively larger amount of our purchase of certain wealth management products in 2020. Our financial assets at fair value through profit or loss decreased to RMB21.5 million as at 31 December 2021, primarily due to our redemption of wealth management products.

For details on fair value measurements of the level 3 financial instruments we purchased during the Track Record Period, please refer to "Note 19 Financial assets at fair value through profit or loss" to the Accountant's Report set out in Appendix I to this [REDACTED].

FINANCIAL INFORMATION

Current Liabilities

Trade and other Payables

Trade and other payables primarily consist of trade payables and other payables. Trade payables mainly represent telecommunication expenses and server rental fees for services provided to us that remain unpaid. Other payables to related parties are non-trade in nature, unsecured, interest-free and repayable on demand. Other payables to third parties primarily consist of accrued expenses. The following table sets forth our trade and other payables as at the dates indicated:

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables			
– Third parties	33,454	83,091	94,133
Other payables			
– Related parties	–	5	–
– Third parties	5,880	6,653	14,828
	5,880	6,658	14,828
Accrued payroll	25,096	21,496	25,621
Other tax payables	1,922	3,826	3,793
	27,018	25,322	29,414
	66,352	115,071	138,375

Our trade and other payables increased by 73.3% from RMB66.4 million as at 31 December 2019 to RMB115.1 million as at 31 December 2020, primarily due to (i) increase in telecommunication expenses payable resulting from our increased procurement in line with our business expansion and (ii) the extension of reconciliation cycle of certain telecommunication network operators by one month in December 2020. Our trade and other payables further increased by 20.2% from RMB115.1 million as at 31 December 2020 to RMB138.4 million as at 31 December 2021, primarily due to increase in trade payables resulting from our increased procurement in line with our business expansion. We have nil balances of other payables to related parties as at Latest Practicable Date.

FINANCIAL INFORMATION

Our suppliers usually offer a credit period of approximately 30 days to us. Our trade payable turnover days remained relatively stable at 29.3, 35.3 and 42.6 days for the three years ended 31 December 2021. During the Track Record Period, the general increase in our turnover days was mainly due to the increase in our bargaining power with suppliers. Trade payable turnover days for a given period are equal to average trade payable balances at the beginning and at the end of the period, divided by the sum of cost of sales during the period, and then multiplied by 365 days.

The following table sets forth the aging analysis of our trade payables based on recognition date:

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Aging			
Up to three months	29,425	76,775	86,604
Three to six months	2,457	3,950	899
Over six months	1,572	2,366	6,630
	33,454	83,091	94,133
	33,454	83,091	94,133

Approximately RMB[30.7] million, or [32.6]% of our trade payables as at 31 December 2021, were subsequently settled as at 31 January 2022.

Contract liabilities

Contract liabilities represent our obligation to transfer services to a client for which we have received consideration from the client or the payment is due, but the transfer of services has not yet been completed. Our contract liabilities increased from RMB29.3 million as at 31 December 2019 to RMB34.0 million as at 31 December 2020 which was generally in line with our expanded business and increased revenue during the same period. Our contract liabilities decreased to RMB31.9 as at 31 December 2021 primarily due to less prepayment from clients during the same period.

Borrowings

As at 31 December 2019, 2020 and 2021 and 31 January 2022, we had bank borrowings amounting to RMB39.9 million, RMB39.5 million, RMB58.5 million and RMB[68.6] million, respectively. All bank borrowings were guaranteed by certain shareholders of our Company and such guarantee will be replaced by corporate guarantee before or upon the [REDACTED].

FINANCIAL INFORMATION

The following table sets forth the effective interest rates of our borrowings as at the dates indicated:

	As at 31 December			As at
	2019	2020	2021	31 January 2022
				<i>(unaudited)</i>
Bank borrowings	<u>4.08%</u>	<u>2.79%</u>	<u>3.29%</u>	<u>[3.09]%</u>

As at the dates indicated, borrowings were repayable as follows:

	As at 31 December			As at
	2019	2020	2021	31 January 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>
Within one year	<u>39,935</u>	<u>39,512</u>	<u>58,480</u>	<u>[68,628]</u>

The amounts of unutilised bank facilities as at 31 December 2019, 2020 and 31 December 2021 and 31 January 2022 were nil, RMB20.0 million, RMB65.0 million and RMB[125.0] million.

We have sufficient (i) cash and cash equivalents and (ii) financial assets at fair value through profit or loss in the form of wealth management products which can be redeemed anytime at our discretion should such need arise to cover repayment of bank borrowings at the respective due date.

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 at the dates indicated:

	As at 31 December			As at
	2019	2020	2021	31 January 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>
Lease liabilities				
Current	7,129	7,391	7,644	[7,780]
Non-current	<u>6,191</u>	<u>269</u>	<u>24,236</u>	<u>[23,730]</u>
	<u>13,320</u>	<u>7,660</u>	<u>31,880</u>	<u>[31,510]</u>

FINANCIAL INFORMATION

We recorded lease liabilities of RMB13.3 million, RMB7.7 million, RMB31.9 million and RMB[31.5] million as at 31 December 2019, 2020 and 2021 and 31 January 2022, respectively. The decrease from 2019 to 2020 was primarily attributable to our settlement of rental expenses whereas the increase from 2020 to 2021 was primarily attributable to the entering of new lease agreement during 2021.

Non-Current Assets/Liabilities

The following table sets forth our non-current assets and non-current liabilities as at the dates indicated.

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment	5,660	4,952	8,374
Right-of-use assets	13,498	7,435	31,953
Intangible assets	14,537	15,107	14,113
Deferred income tax assets	3,613	5,577	8,464
Prepayments	535	565	336
	<u>37,843</u>	<u>33,636</u>	<u>63,240</u>
Non-current liabilities			
Lease liabilities	6,191	269	24,236
Deferred income tax liabilities	150	113	32
	<u>6,341</u>	<u>382</u>	<u>24,268</u>

Property, plant and equipment

Property, plant and equipment are stated at the historical cost less accumulated depreciation and any impairment loss. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs for bringing the asset to its working condition and location for its intended use.

Our property, plant and equipment primarily consist of computers and electronic equipment, office furniture and equipment, and leasehold improvements. Our property, plant and equipment decreased from RMB5.7 million as at 31 December 2019 to RMB5.0 million as at 31 December 2020 primarily due to a relatively larger amount of depreciation charge during the same period. Our property, plant and equipment increased to RMB8.4 million as at 31 December 2021 primarily due to a relatively larger amount of leaseholds improvements incurred during the same period.

FINANCIAL INFORMATION

Right-of-use assets

Our right-of-use assets relate primarily to leases of office space at our Guangzhou headquarters and other branches. Our right-of-use assets decreased from RMB13.5 million as at 31 December 2019 to RMB7.4 million as at 31 December 2020 primarily due to relatively larger amount of depreciation charge during the same period. Our right-of-use assets increased to RMB32.0 million as at 31 December 2021 primarily due to the addition of right-of-use assets from entering a new lease agreement during the same period.

Intangible assets

Our intangible assets primarily comprise (i) software we purchased for use in our ordinary course of business and (ii) platform and goodwill acquired through our acquisition of Dejiu. For details of acquisition of Dejiu, please refer to the paragraph headed "History and Reorganisation — Corporate development — Our major subsidiaries and Consolidated Affiliated Entities — Xuan Wu — (5) Acquisition of Dejiu" in this [REDACTED]. Our intangible asset (other than goodwill) increased from RMB4.0 million as at 31 December 2019 to RMB4.6 million as at 31 December 2020, primarily due to our purchase of additional computer system software. Our intangible asset (other than goodwill) decreased to RMB3.6 million as at 31 December 2021, primarily due to amortisation charge in the same period.

Goodwill

Goodwill arising from the acquisition of a subsidiary through business combinations is stated as below:

	Dejiu RMB'000
As at 31 December 2019, 2020 and 2021	
Goodwill	<u>10,490</u>

The goodwill of RMB10.5 million represents the excess of the acquisition consideration transferred and amount of non-controlling interests in Dejiu over the fair value of the net identifiable assets acquired as at the relevant acquisition date. For details of acquisition of Dejiu, please refer to the paragraph headed "History and Reorganisation — Corporate development — Our major subsidiaries and Consolidated Affiliated Entities — Xuan Wu — (5) Acquisition of Dejiu" in this [REDACTED].

Goodwill is monitored by our management at the level of voice and video communication capabilities business cash generation units ("CGU") related to Dejiu. Goodwill has been assessed based on the related CGU for impairment testing.

FINANCIAL INFORMATION

Impairment test for goodwill

Goodwill is monitored by our management at the level of voice and video communication capabilities business CGU related to Dejiu. Goodwill has been assessed based on the related CGU for impairment testing.

The following table sets forth each key assumption on which management has based its 5 years cash flow projections to undertake impairment testing of goodwill as at 31 December 2019, 2020 and 2021:

	As at 31 December		
	2019	2020	2021
Annual growth rate of revenue during the projection period	5% – 15%	5% – 15%	5% – 15%
Gross margin during the projection period (% of revenue)	40% – 45%	45%	50% – 51%
Long term growth rate	3%	3%	3%
Pre-tax discount rate	22%	20%	20%

As at 31 December 2019, 2020 and 2021, the recoverable amount of the CGU in Dejiu is estimated to exceed the carrying amount of the CGU by RMB15.6 million, RMB53.9 million and RMB32.2 million. Such recoverable amount of the CGU is determined based on VIU calculations. The calculation requires our Group to estimate the future cash flows expected to arise from CGU and a suitable discount rate in order to calculate the present value.

As at 31 December 2019, 2020 and 2021, the percentage of headroom in the goodwill impairment test is 18%, 67% and 35% respectively.

Our management has undertaken sensitivity analysis on the impairment test of goodwill. The following table sets forth the possible changes to the key assumptions of the impairment test and the changes taken in isolation in the VIU calculations that would remove the remaining headroom respectively as at 31 December 2019, 2020 and 2021:

	As at 31 December		
	2019	2020	2021
Annual growth rate of revenue during the projection period	-6%	-85%	-29%
Pre-tax discount rate	+10%	+122%	+41%

FINANCIAL INFORMATION

Except for the above changes, our management considers that there is no other reasonably possible change in key parameters that would cause the carrying amount of the CGU to exceed its recoverable amount.

By reference to the recoverable amount assessed as at 31 December 2019, 2020 and 2021, our Directors determined that no impairment provision on goodwill was required as at 31 December 2019, 2020 and 2021. For details on impairment assessment of goodwill, please refer to "Note 16(a) Impairment test for goodwill" to the Accountant's Report set out in Appendix I to this [REDACTED].

Accumulated Losses

We recorded accumulated losses in the amount of RMB0.5 million as at 31 December 2019 primarily due to the provision of substantial share-based payments expenses in 2015 and 2016 in the amount of RMB57.6 million. We recorded retained earnings of RMB36.0 million as at 31 December 2021 primarily due to our business growth and net profit of RMB13.5 million, RMB29.3 million and RMB15.4 million for the three years ended 31 December 2021, respectively.

KEY FINANCIAL RATIOS/METRICS

The following table sets forth our key financial ratios/metrics for the periods indicated:

	For the year ended 31 December		
	2019	2020	2021
	%	%	%
Revenue growth:			
CRM PaaS services	49.7	52.8	20.4
CRM SaaS services	(5.9)	12.5	30.2
Total	15.7	32.7	24.5
Gross Margin:			
CRM PaaS services	24.9	13.9	10.9
CRM SaaS services	40.7	38.6	39.3
Total	32.8	24.3	23.4
Net profit margin	2.2	3.7	1.5
Adjusted net profit margin (non-HKFRS measures)	2.2	3.7	3.1

FINANCIAL INFORMATION

We recorded relatively stable adjusted net profit margin (non-HKFRS measures) for the two years ended 31 December 2021. For the purpose of maintaining/improving the profitability of our Group, we intend to (i) improve standardisation of our CRM services, (ii) reduce customisation cost by leveraging our aPaaS platform, (iii) reduce the time of development, implementation and delivery of our services, (iv) speed up introduction and promotion of new services, such as 5G services, video messages, and AIoT equipment and related application and (v) enhance efficiency of organisation and operation.

Below detailed how the implementation of initiatives improved/will improve our profitability:

(i) improve standardisation of our CRM services, (ii) reduce customisation cost by leveraging its aPaaS platform and (iii) reduce the time of development, implementation and delivery of its services

We have attained increase in its operational efficiency as evidenced in (a) the increase in productivity of our employees responsible for the development and implementation of our Sales Cloud solutions, as we recorded increasing average revenue per our Sales Cloud implementation employee during the Track Record Period; (b) the general decrease in time needed for development, implementation and delivery of services leveraging our experience in catering different clients' needs with different business models over the years; and (c) the decrease in necessary timeframe for the Smart Sales 100 — SFA module projects from 2019 to 2021.

(iv) speed up introduction and promotion of new services, such as 5G services, video messages, and AIoT equipment and related application

We expect to achieve higher gross profit margin in the provision of 5G services, video messages and AIoT equipment and related application as compared to the traditional message services. We recorded a higher gross profit margin in video messaging than traditional message services during the year ended 31 December 2021. According to Frost & Sullivan, new services such as 5G services, video messaging, AIoT equipment and related applications normally enjoy high profit margin. We also expect to change our product mix by gradually increasing the proportion of sales of these new services with higher gross profit margin and to achieve a higher gross profit margin in the future.

FINANCIAL INFORMATION

(v) enhance efficiency of organisation and operation

We have been adopting different policies to enhance efficiency of organization and operations. Over the years, we have been exploring for potential employees from colleges and, as at 31 December 2021, employees with bachelor or master degree accounted for around 80% of our Group's total number of employees. We have also set up evaluation regimes to keep the employees in good shape. There are monthly or annually evaluations and around 10% of the employees with unsatisfactory evaluation results will be eliminated each year. Trainings are also provided to the employees to keep them equipped with updated skills to enhance work efficiency. Further, employees will be rewarded accordingly taking into account their performances in terms of profit generated, management effectiveness and/or research and development achievements so to keep them motivated and to exploit their potentials.

By serving clients of different needs, we have accumulated extensive experience enabling it to build up features, function, modules and solutions which are tailored to the needs of its clients. With years of experience in serving and tailor-making various features, function, modules and solutions towards different types of clients, we have now equipped with various reusable standardised features, function, modules and solutions to fulfill the customisation of clients' needs. As such, we will be continuously improving its capability in customisation along with more and more experience in catering for different clients' needs so to further lower relevant costs and enhance the profitability as a whole.

Please refer to the paragraphs headed "Period-to-period comparison of results of operations — the year ended 31 December 2020 compared to the year ended 31 December 2021", "Period-to-period comparison of results of operations — the year ended 31 December 2019 compared to the year ended 31 December 2020" in this section for a discussion of the factors affecting our results of operations during the respective periods in this section.

LIQUIDITY AND CAPITAL RESOURCES

We had historically funded our working capital from capital contribution from shareholders and borrowings. We had cash and cash equivalents and restricted cash of RMB43.1 million, RMB97.1 million and RMB88.3 million as at 31 December 2019, 2020 and 2021, respectively.

Moving forward, we believe that our liquidity requirements will be satisfied by using a combination of cash generated from operating activities, other funds raised from the capital markets from time to time and the [REDACTED] received from the [REDACTED]. We currently do not have any plans for material additional external financing.

Taking into account the financial resources available to us, including our cash and cash equivalents, our available banking facilities, and the estimated [REDACTED] from the [REDACTED], our Directors are of the view that we have sufficient working capital to meet our present needs and for the next 12 months from the date of this [REDACTED].

FINANCIAL INFORMATION

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

	Year ended 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating cashflows before			
movements in working capital	27,005	45,911	32,969
Movements in working capital	(67,176)	(9,656)	(51,079)
Interest received	379	706	750
Income tax paid	(101)	(12)	(99)
Net cash (used in)/generated			
 from operating activities	<u>(39,893)</u>	<u>36,949</u>	<u>(17,459)</u>
Net cash generated from/(used			
 in) investing activities	<u>23,209</u>	<u>(33,593)</u>	<u>2,977</u>
Net cash (used in)/generated			
 from financing activities	<u>(14,424)</u>	<u>50,651</u>	<u>5,661</u>
Net (decrease)/increase in cash			
 and cash equivalents	(31,108)	54,007	(8,821)
Cash and cash equivalents at			
beginning of the year	<u>74,178</u>	<u>43,070</u>	<u>97,077</u>
Cash and cash equivalents at the			
 end of the year	<u>43,070</u>	<u>97,077</u>	<u>88,256</u>

Net cash (used in)/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 amortisation, and (ii) the effects of changes in our working capital.

FINANCIAL INFORMATION

We recorded net cash used in operating activities of RMB39.9 million and RMB17.5 million in 2019 and for the year ended 31 December 2021, respectively, as compared to net cash generated from operating activities of RMB36.9 million in 2020. The negative cash flow from operating activities for the year ended 31 December 2019 was primarily attributable to our trade receivables while the negative cash flow from operating activities for the year ended 31 December 2021 was primarily attributable to decrease in trade and other payables and increase in trade, bill and other receivables and prepayments. We also enhance our cash flow position through continuous efforts to collect payments and receivables, accelerate delivery of our solutions and relevant prescribed services.

For the year ended 31 December 2021, net cash used in operating activities was RMB17.5 million, which was primarily attributable to our profit before income tax of RMB12.5 million, as adjusted by (i) non-cash items, which primarily comprised depreciation of property, plant and equipment of RMB1.9 million and right-of-use assets of RMB9.8 million, amortisation of intangible assets of RMB1.8 million and net impairment losses on financial assets of RMB5.4 million, and (ii) changes in working capital, which primarily comprised of (a) a decrease in trade and other payables of RMB25.8 million primarily due to a decrease in trade payables as we settled some trade payables in 2021, and (b) an increase in trade, bill and other receivables and prepayments of RMB11.3 million, primarily because (i) we made large amount of prepayment to suppliers due to attractive prepayment offers provided by suppliers in 2021, and (ii) our trade receivables increased in line with our business expansion.

For 2020, net cash generated from operating activities was RMB36.9 million, which was primarily attributable to our profit before income tax of RMB27.4 million, as adjusted by (i) non-cash items, which primarily comprised of depreciation of property, plant and equipment of RMB1.9 million and right-of-use assets of RMB8.5 million, net impairment losses on financial assets of RMB4.3 million, net finance costs of RMB2.3 million and amortisation of intangible assets of RMB2.0 million, and (ii) changes in working capital, which primarily comprised of (a) an increase in trade, bill and other receivables and prepayments of RMB63.0 million, primarily due to an increase in trade receivables mainly attributable to our growth in credit sales in line with our business expansion and (b) an increase in trade and other payables of RMB48.7 million primarily due to the increase in telecommunication expenses payable mainly attributable to our increased procurement in line with our business expansion in 2020.

For 2019, net cash used in operating activities was RMB39.9 million, which was primarily attributable to our profit before income tax of RMB10.6 million, as adjusted by (i) non-cash items, which primarily comprised of depreciation of property, plant and equipment of RMB2.0 million and right-of-use assets of RMB9.2 million, net impairment losses on financial assets of RMB2.9 million, net finance costs of RMB1.4 million and amortisation of intangible assets of RMB1.6 million, and (ii) changes in working capital, which primarily comprised of (a) an increase in trade, bill and other receivables and prepayments of RMB73.8 million, primarily due to the an increase in trade receivables mainly attributable to our growth in credit sales in line with our business expansion and (b) an increase in trade and other payables of RMB5.4 million primarily due to the increase in procurement which was in line with our business growth in 2019.

FINANCIAL INFORMATION

To improve our net operating cash outflows position, we intend to adopt measures as follows:

- (1) to expedite the cycle of recovering trade receivables and to lift up the amount of prepayments payable by our clients. We have taken several steps to improve the collection rate including (i) established a legal department that could provide legal advice on a timely basis when there are long outstanding trade receivables or when dispute arises and (ii) formulated internal policies to strengthen management on contracts and provide guidance on relevant contractual terms;
- (2) to optimise our revenue structure by increasing the proportion of revenue derived from CRM SaaS services, which have relatively higher gross profit margin and thereby a lower proportion of cost, as we have been strategically focusing on CRM SaaS services and expanding our CRM SaaS client base during the Track Record Period; and
- (3) to obtain more prepayments from clients as we increase our sales in Sales Cloud solutions, given we generally charge prepayments from our Sales Cloud clients.

Net cash generated from/(used in) investing activities

Our cash used in investing activities consists primarily of purchase of property, plant and equipment, purchase of intangible assets, acquisition of financial assets at fair value through profit or loss, acquisition of a subsidiary (net of cash and cash equivalents acquired). Our cash generated from investing activities consists primarily of proceeds from disposal of financial assets at fair value through profit or loss.

For the year ended 31 December 2021, net cash generated from investing activities was RMB3.0 million, which was primarily attributable to proceeds from disposal of financial assets at fair value through profit or loss of RMB173.4 million, and was partially offset by acquisition of financial assets at fair value through profit or loss of RMB163.5 million.

For 2020, net cash used in investing activities was RMB33.6 million, which was primarily attributable to acquisition of financial assets at fair value through profit or loss of RMB111.0 million, and was partially offset by proceeds from disposal of financial assets at fair value through profit or loss of RMB81.3 million.

For 2019, net cash generated from investing activities was RMB23.2 million, which was primarily attributable to proceeds from disposal of financial assets at fair value through profit or loss of RMB41.5 million and was partially offset by acquisition of financial assets at fair value through profit or loss of RMB15.2 million.

FINANCIAL INFORMATION

Net cash (used in)/generated from financing activities

Our cash from financing activities consists primarily of capital contributions from shareholders, proceeds from borrowings and advances from related parties. Our cash used in financing activities consists primarily of repayments of borrowings, interest paid for borrowings, dividend paid to shareholders, principal elements and interest elements of lease payments, capital withdraw from shareholders, [REDACTED] expenses paid as financing activities.

For the year ended 31 December 2021, net cash generated from our financing activities was RMB5.7 million, which was primarily attributable to proceeds from borrowings of RMB88.3 million, and was partially offset by repayments of borrowings of RMB69.2 million and principal elements and interest elements of lease payments of RMB10.8 million.

For 2020, net cash generated from our financing activities was RMB50.7 million, which was primarily attributable to proceeds from borrowings of RMB102.2 million and capital contributions from shareholders of RMB62.2 million, and was partially offset by repayment of borrowings of RMB102.9 million and principal elements and interest elements of lease payments of RMB8.7 million.

For 2019, net cash used in our financing activities was RMB14.4 million, which was primarily attributable to capital withdraw from shareholders of RMB31.4 million, repayment of borrowings of RMB20.0 million, dividends paid to shareholders of RMB10.2 million, and was partially offset by proceeds from borrowings of RMB59.9 million.

INDEBTEDNESS

Borrowings

For details of our borrowings, please refer to the paragraph headed "Discussion of certain key balance sheet items — Borrowings" in this section.

Lease liabilities

For details of our lease liabilities, please refer to the paragraph headed "Discussion of certain key balance sheet items — Lease liabilities" in this section.

FINANCIAL INFORMATION

CONTINGENT LIABILITIES

As at 31 December 2019, 2020 and 2021 and 31 January 2022 we did not have any material contingent liabilities.

Except as discussed above, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees or other contingent liabilities as at 31 December 2021 and 31 January 2022.

UNEARNED REVENUE FROM CLIENT CONTRACTS

During the Track Record Period, our unearned revenue from client contracts in relation to our SaaS services increased from RMB57.3 as at 31 December 2019 to RMB61.6 million as at 31 December 2020 which was primarily due to our revenue growth and business expansion during the same period. Our unearned revenue decreased to RMB56.2 million as at 31 December 2021 which was primarily due to the acceleration in delivery in our solutions.

CAPITAL EXPENDITURES

The following table sets forth our capital expenditures, primarily related to the cash paid for the purchase of property and equipment and intangible assets, for the periods indicated:

	For the year ended 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Purchase of property, plant and equipment	2,602	1,362	6,153
Purchase of intangible assets	455	2,570	803
Total	3,057	3,932	6,956

CONTRACTUAL OBLIGATIONS

We did not have any material capital commitments or operating leases commitments as at 31 December 2019, 2020 and 31 December 2021.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

FINANCIAL INFORMATION

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into a number of related party transactions in relation to (i) key management compensation, (ii) other payable due to related parties which are non-trade in nature, unsecured, interest-free and repayable on demand, and (iii) financial guarantees provided by shareholders of our Company in respect of all bank borrowings. Save as the above related party transactions disclosed in Note 32 Related party transactions as set out in the Accountant's Report in Appendix I to this [REDACTED], we have not entered into any other transactions with our related parties.

For details about our related party transactions, please refer to "Note 32 Related party transactions" to the Accountant's Report set out in Appendix I to this [REDACTED].

Our Directors believe that our transactions with related parties during the Track Record Period were conducted on an arm's length basis, and they did not distort our results of operations or make our historical results non-exhaustive of our future performance.

FINANCIAL RISK MANAGEMENT

The major financial risks arising from our Group's normal course of business include market risk, credit risk and liquidity risk. For details, please refer to "Note 3 Financial risk management" to the Accountant's Report set out in Appendix I to this [REDACTED].

DIVIDENDS

We declared dividends to our then shareholders in 2018 and settled the payment in 2018 and 2019. We did not declare any dividend during the Track Record Period. We do not currently have a pre-determined dividend payout ratio.

Subject to the Cayman Companies Act, through a general meeting, we may declare dividends, but no dividend may be declared unless out of either profit or share premium account and no dividend shall exceed the amount recommended by our Board. Any declaration of dividends will be at the absolute discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. Our Board may also from time to time pay interim dividends as our Board believes to be justified by the profits of our Company, as well as special dividends on shares of any class of such amounts and on such dates as it deems fit. We cannot guarantee in what form dividends will be paid in the future. In accordance with the Cayman Companies Act and our Articles of Association, dividends may be declared and paid out of our profits and reserves lawfully available for distribution.

FINANCIAL INFORMATION

As our Company is a holding company, our ability to declare and pay dividends will also depend on the availability of dividends received from our PRC subsidiaries. PRC laws require that dividends be paid only out of the net profit for the year calculated according to the PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including HKFRSs. PRC laws also require foreign invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

WORKING CAPITAL CONFIRMATION

We had positive cash flows from operations of RMB36.9 million for the year ended 31 December 2020 and negative cash flows from operations of RMB39.9 million and RMB17.5 million, respectively for the year ended 31 December 2019 and the year ended 31 December 2021. Our Directors confirm that we had no material default in payment of trade and non-trade payables and borrowings during the Track Record Period.

Taking into account the financial resources available to us, including our cash and cash equivalents, our available banking facilities, and the estimated [REDACTED] from the [REDACTED], our Directors are of the view that we have sufficient working capital to meet our present needs and for the next 12 months from the date of this [REDACTED].

DISTRIBUTABLE RESERVES

As at 31 December 2021, our Company did not have any distributable reserves.

[REDACTED] EXPENSE

Based on the mid-point [REDACTED] of HK\$[REDACTED] and assuming [REDACTED] not exercised, the total estimated [REDACTED] in relation to the [REDACTED] is RMB[REDACTED] million including estimated [REDACTED] expenses of RMB[REDACTED] million and [REDACTED] expenses consisting of (i) estimated fees and expenses of legal advisor(s) and accountant(s) of RMB[REDACTED] million, (ii) estimated other fees and expenses of RMB[REDACTED] million and (iii) miscellaneous including estimated out of pocket expenses of RMB[REDACTED] million, estimated [REDACTED] expenses of RMB[REDACTED] million, and estimated other professional fees of RMB[REDACTED] million. During the Track Record Period, [REDACTED] expenses of RMB[REDACTED] million were incurred of which RMB[REDACTED] million were charged to our consolidated statements of comprehensive income and RMB[REDACTED] million were recognised to our consolidated statements of financial position. We estimate that we will further incur [REDACTED] expenses of RMB[REDACTED] million of which RMB[REDACTED] million will be charged to our consolidated statements of comprehensive income and RMB[REDACTED] million, which mainly includes [REDACTED] commission, is expected to be accounted for as a deduction from equity upon the completion of [REDACTED] and the [REDACTED].

FINANCIAL INFORMATION

[REDACTED] STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

For details on [REDACTED] statement of adjusted net tangible assets, please refer to the section headed "[REDACTED] Financial Information" set out in Appendix II to this [REDACTED].

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, the Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since 31 December 2021, which is the end date of the periods reported on in the Accountant's Report included in Appendix I to this [REDACTED], and there is no event since 31 December 2021 that would materially affect the information as set out in the Accountant's Report included in Appendix I to this [REDACTED].

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this document, as at the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.