ANNUAL REPORT 2019

Renrui Human Resources Technology Holdings Limited

人瑞人才科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 6919

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Jianguo *(Chairman and Chief Executive Officer)*
Mr. Zhang Feng
Ms. Zhang Jianmei

Non-executive Directors

Mr. Chen Rui
Mr. Chow Siu Lui

Independent Non-executive Directors

Ms. Chan Mei Bo Mabel
Mr. Shen Hao
Mr. Leung Ming Shu

JOINT COMPANY SECRETARIES

Mr. Li Wenjia
Ms. Siu Pui Wah

AUTHORIZED REPRESENTATIVES

Mr. Zhang Feng
Ms. Siu Pui Wah

AUDIT COMMITTEE

Mr. Leung Ming Shu *(Chairman)*
Mr. Chow Siu Lui
Ms. Chan Mei Bo Mabel

REMUNERATION COMMITTEE

Ms. Chan Mei Bo Mabel *(Chairman)*
Mr. Zhang Jianguo
Mr. Shen Hao

NOMINATION COMMITTEE

Mr. Zhang Jianguo *(Chairman)*
Ms. Chan Mei Bo Mabel
Mr. Shen Hao

INDEPENDENT AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor
22/F, Prince's Building
Central
Hong Kong

HONG KONG LEGAL ADVISOR

Deacons
5/F Alexandra House
18 Chater Road
Central
Hong Kong

PRC LEGAL ADVISOR

Commerce & Finance Law Offices
6/F NCI Tower
A12 Jianguomenwai Avenue
Chaoyang District
Beijing
PRC

COMPLIANCE ADVISOR

Founder Securities (Hong Kong) Capital Company Limited
Room 1710-1719
Jardine House
1 Connaught Place
Central
Hong Kong

INDUSTRY CONSULTANT

China Insights Industry Consultancy Limited
10F, Block B
Jing'an International Center
88 Puji Road, Jing'an District
Shanghai
PRC

CORPORATE HEADQUARTERS

No. 601, 602, 603, 6/F, Block 3
No. 688 Mid-Section Tianfu Avenue
Chengdu High-tech Zone
Free Trade Pilot Zone
Sichuan
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

14/F, Golden Centre
188 Des Voeux Road Central
Hong Kong

COMPANY WEBSITE

www.renruihr.com

STOCK CODE

6919

REGISTERED OFFICE

Maples Corporate Services Limited
P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

PRINCIPAL SHARE REGISTRAR IN CAYMAN ISLANDS

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman
KY1-1102
Cayman Islands

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKS

BNP Paribas Hong Kong Branch
China Merchants Bank Co., Ltd., Shanghai, Baoshan Branch
Bank of China Limited, Chengdu, Chenghua Branch

Financial Summary

CONDENSED CONSOLIDATED INCOME STATEMENT

	For the year ended 31 December			
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Revenue	2,287,601	1,615,891	776,247	376,288
Gross profit	240,885	154,956	87,748	41,067
Operating profit/(loss)	118,269	57,527	13,357	(42,409)
Loss before income tax	(763,671)	(140,563)	(43,433)	(47,195)
Loss for the year attributable to equity holders of the Company	(779,831)	(136,935)	(44,005)	(35,420)
Loss per share (expressed in RMB per share)				
– Basic and diluted loss per share	(12.42)	(2.36)	(0.76)	(0.61)
Non-HKFRS measures				
Adjusted net profit/(loss)[(1)]	134,262	67,690	9,870	(33,498)

CONDENSED CONSOLIDATED BALANCE SHEET

	For the year ended 31 December			
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Assets				
Non-current assets	106,207	93,404	54,023	66,079
Current assets	1,378,154	379,793	178,666	106,314
Total assets	1,484,361	473,197	232,689	172,393
Equity/(deficit)				
Total equity/(deficit)	1,067,371	(299,412)	(151,162)	(113,369)
Liabilities				
Non-current liabilities	54,381	443,790	195,058	145,941
Current liabilities	362,609	328,819	188,793	139,821
Total liabilities	416,990	772,609	383,851	285,762
Total equity/(deficit) and liabilities	1,484,361	473,197	232,689	172,393

KEY FINANCIAL RATIO

	For the year ended 31 December			
	2019	2018	2017	2016
Gross margin (%)	**10.5**	9.6	11.3	10.9
Adjusted net margin (%)(2)	**5.9**	4.2	1.3	N/A
Adjusted trade receivables turnover days (days)(3)	**46**	46	42	49
Adjusted current ratio (times)(4)	**1.4**	1.2	0.9	0.8

Note:

(1) Adjusted net profit/(loss) refers to the net loss for the year excluding fair value losses on hybrid financial instruments and listing expenses. Adjusted net profit/(loss) for the year is not a measure required by or presented in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**"). The use of this non-HKFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results or operations or financial condition as reported under HKFRS.

(2) Adjusted net margin is calculated as the adjusted net profit as a percentage of the revenue for the year.

(3) Calculated as the average balance of trade receivables (excluding the labour costs arising from provision of labour dispatch services) at the beginning and end of a year divided by revenue in the year then multiplied by the number of days in the year.

(4) Adjusted current ratio is calculated as the adjusted current assets divided by the current liabilities at the end of each financial year. The adjusted current assets is defined as the current assets excluding the Net Proceeds received, where applicable.

Chairman's Statement

Renrui Human Resources Technology Holdings Limited is a fast growing pioneer in HR solutions in China. The Company is devoted to becoming a strategic HR partner of a large number of fast-growing new economy companies and industry-leading enterprises.

Zhang Jianguo
Executive Director, Chairman & CEO

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") and the management of Renrui Human Resources Technology Holdings Limited (the "**Company**" or "**Renrui**"), I am pleased to present the annual report for the financial year ended 31 December 2019 to our shareholders (the "**Shareholders**").

According to an industry report issued by China Insights Industry Consultancy Limited ("**CIC**"), our industry consultant, we ranked the first among all flexible staffing services providers in China in terms of the number of flexible staffing employees hired as at 31 December 2019, and annual flexible staffing revenue in 2019. After nine years of development, we were successfully listed (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 13 December 2019 (the "**Listing Date**"). As of 31 December 2019, we had employed more than 25,000 flexible staffing employees. The number of flexible staffing employees who serve new economy clients accounts for approximately 82.1% of the total number of flexible staffing employees. Our services cover 30 provinces and over 150 cities across China. For many years, we have been growing with leading enterprises in the new economy of China. Our service model of focusing on large clients enables us to maintain 100% contract renewal rate for clients whose annual service fees or premium charged exceed RMB one million. Benefiting from our solid and long-term cooperation with these clients, our growth is sustainable and rapid.

The Listing of our Company is one of the milestones of our development journey. Our services and the fighting spirit in our management team remain unchanged. The only change is that we have an improved brand image and development platform after the Listing. The flexible staffing market in mainland China remains at an early stage of development and so the potential for development is enormous. Although we are in a leading position in the flexible staffing industry in China, we will continue to strive to accelerate the growth of the Company and further consolidate our leading position in the flexible staffing industry.

Business Review

Looking back at 2019, in the first half of the year, the growth rate of the macroeconomy in China became slower being affected by the US-China trade war. Many enterprises slowed down their expansion and became more cautious in staffing. In the second half of the year, as the trend of economic development became clearer, enterprises in the new economy with rapid growth resumed their demand in staffing. Therefore, there was a growth in the headcount of flexible staffing. The number of flexible staffing employees employed increased from 19,464 as at 31 December 2018 to 25,118 as at 31 December 2019.

Our results in 2019 were highlighted by the rapid development of our business process outsourcing ("**BPO**") services. We achieved a significant growth in our BPO services after October 2019. The number of seats rose from approximately 880 as at 31 October 2019 to approximately 1,727 as at 31 December 2019. The rapid growth was mainly attributable to BPO opportunities brought by our long-term clients of flexible staffing services, particularly those which are engaged in the new economy and the Internet business. Among our BPO clients, approximately 67.6% of them were our long-term existing clients of flexible staffing services and human resources ("**HR**") services such as professional recruitment and training services. This also reflects that we have substantial room for growth with our long-term existing clients.

We are committed to developing technology-driven HR services and so we have maintained investing more than ten million in research and development for our information system. According to the changes in market and the increasing needs of our clients, we constantly optimise our existing systems and platforms, for example, new functions were added to the Rui Home Platform (瑞家園, our proprietary management platform) for our contract employees to apply for benefits online (including reimbursement of expenses, and business insurance, etc.). At the same time, we constantly introduce new systems to support our business development, for example, we launched the Ruijie system (瑞傑系統) in October 2019 to promote process in standardisation of services, through which our senior consulting team can monitor the project process on a real-time basis. This system also helps us to guide onsite teams and recruit project managers, and optimise our services using Plan-Do-Check-Action (PDCA) management methods.

Operating Results

In 2019, we achieved an income of approximately RMB2,287.6 million, of which the income from flexible staffing amounted to approximately RMB2,151.0 million. Our adjusted net profit (excluding fair value losses on hybrid financial instruments and listing expenses) amounted to approximately RMB134.3 million. Net free cash inflow from operation amounted to approximately RMB150.5 million. Although the growth rate of the macroeconomy became slower, we still managed to achieve a year-on-year increase in adjusted net profit by approximately 98.3%. Net cash inflow from operating activities increased by approximately 260.6% year-on-year. Such results were not easy to be achieved. Adjusted net sales margin rose from approximately 4.2% in 2018 to approximately 5.9% in 2019. Operating leverage benefits have become more significant.

Awards and Recognitions

Over the past year, we have been adhering to the "customer-oriented and result-oriented" service philosophy. Through the joint efforts of all employees, we have won a number of awards from customers and industry associations, such as "2019 Top 100 Private Enterprises in Chengdu" (2019成都民營企業100強). I was awarded the "2019 'Best CEO' of Human Resources Technology in China" (2019年度中國人力資源科技最佳CEO) by HR Tech China (中國人力資源科技). While providing professional HR services to clients, every staff of Renrui and I have relentlessly exported our HR management philosophy and flexible staffing service model to the HR industry. In 2019, we successively published numerous publications, including the "Manager's Thought — Winning in Strategic Human Resource Management" (《經營者思維—贏在戰略人力資源管理》) and a white paper on the development of flexible staffing in China with Sino Foreign Management (中外管理), which can enable more enterprises to understand the new thinking of HR management and the commercial value of flexible staffing and help promote the healthy and rapid development of the HR industry in China.

Chairman's Statement

Future Prospects

According to CIC's report, the overall flexible staffing industry in China is expected to grow at a CAGR of 23.3% from 2019 to 2024. Besides, China's new economy industries grow at a CAGR of 21.8% from 2019 to 2024, which is more than three times that of the nominal gross domestic product ("**GDP**") growth rate and is expected to reach a nominal GDP of 33.2% in 2024. As such, the flexible staffing market in the HR industry in China will continue to experience a period of rapid growth in the future. In the future, we will continue to focus on providing flexible staffing services to companies in the new economy and continue to serve leading unicorn companies in China with a large client-focused service model, and grow with them.

The coronavirus disease 2019 ("**COVID-19**") outbreak in early 2020 has affected our recruitment business and the growth of our flexible staffing business to a certain extent. After the suspension of offline recruitment events, we launched online recruitment events and interviews on 3 February 2020. Although there were a number of short-term adverse factors leading to the slowdown in the growth rate of our operational and financial results in the first quarter, such as the delay in the resumption of work by clients and the failure of candidates to report duties at our clients' workplace during the isolation period. The PRC government actively advocated the resumption of work and stabilisation of employment rate after the epidemic was brought under control in March, our recruitment business thereby resumed and our flexible staffing business will soon return to growth. Client's understanding and recognition to the strategic value of flexible staffing will be greatly enhanced in the mid-term and long-run.

Despite the difficulties at the beginning of 2020, we will continue to adhere to the concept of technology-driven HR services to progress our research and development on technology platforms without spare efforts. According to the intended use of proceeds from our initial public offering as disclosed in the prospectus of our Company dated 3 December 2019 (the "**Prospectus**"), approximately 22% of our net proceeds from the Listing (the "**Net Proceeds**") will be used to enhance our integrated HR ecosystem and build up our capabilities in artificial intelligence and data mining technology. Therefore, we will launch the research and development of online interview system, headhunter alliance platform and home seat management system for the outsourcing of distributed business (分布式業務外包家庭坐席管理系統). These systems will help improve our number of onboarding, recruitment efficiency and the number of BPO seats (業務流程外包坐席數量) in the future.

Appreciation

Although the slowdown of economic growth in mainland China in 2019 has had certain impact on the financial market, the share price of our Company have maintained strong growth in the market after the Listing and the world's renowned long-term fund, T. Rowe Price Associates, Inc. and its Affiliates, have increased their shareholdings in our Company within the first month after the Listing. According to the data of the Stock Exchange, as at 31 March 2020, T. Rowe Price Associates, Inc. and its Affiliates held approximately 5.24% of the total share capital of the Company. On behalf of the entire staff of the Company, I would like to express my sincere gratitude to our Shareholders, customers and business partners for their long-term support. We are confident in the Company's business prospects, competitive advantages, growth capabilities, good cash flow and continuous technological drivers.

The Listing is not the destination of the development history of Renrui, but a new starting point. We will adhere to the core value of "customer-oriented, striver-oriented, long-term commitment to hard work and self-judgment" and strive to become a world-class HR service company. Striving for the best return for the Shareholders of Renrui!

Zhang Jianguo
Chairman and Executive Director

PRC, 31 March 2020

Management Discussion and Analysis

Management Discussion and Analysis

MARKET REVIEW

Looking back at 2019, according to an industry report issued by CIC, the growth rate of the macroeconomy in China became slower as a result of the US-China trade war. As compared to the growth rate of GDP of approximately 6.6% in 2018, the GDP growth rate in 2019 was only approximately 6.1%, which was still significantly higher than the global economic growth rate. The talent demand-to-supply ratio for talents in China's public labour market has reached 1.24 in the second half of 2019. The annual growth rate of China's HR services market in 2019 was approximately 19.3% in terms of revenue, of which the annual growth rate of the flexible staffing services market was approximately 24.7% in terms of revenue, and the number of flexible staffing employees as at 31 December 2019 increased by approximately 13.2%.

As at 31 December 2019, the HR services industry in China remained highly fragmented with approximately over 36,000 market participants and competition is intense. According to CIC's report, the Group ranked the first among all flexible staffing services providers in China in terms of the number of flexible staffing employees hired as at 31 December 2019, with a market share of approximately 1.7%, and we were also the largest flexible staffing services provider in China in terms of annual flexible staffing revenue, with a market share of approximately 2.9% in 2019. According to CIC's report, we were the fastest growing flexible staffing services provider out of the top five players in China in terms of the compound annual growth rate of revenue generated from flexible staffing services between 2017 and 2019.

POLICIES AND REGULATIONS REVIEW

After 3 December 2019, being the date of the Prospectus, the Chinese government issued certain regulations applicable to HR industry.

On 13 December 2019, the State Council issued the Opinions of the State Council on Further Improving Employment Stability (Guo Fa [2019] No. 28) (《國務院關於進一步做好穩就業工作的意見》(國發[2019]28 號)) to support flexible employment and the new employment patterns, and support the labour force to get employed through various flexible means such as temporary, part-time, seasonal and flexible work.

On 27 December 2019, six government authorities, including but not limited to the National Development and Reform Commission, jointly issued the Notice on Printing and Publishing the General Plan for Improving the Employment Security Fund System for the Disabled to Promote the Employment of Disabled People (Fa Gai Jiage Gui [2019] No. 2015) (關於印發《關於完善殘疾人就業保障金制度更好促進殘疾人就業的總體方案》的通知 (發改價格規 [2019] 2015 號)) to enhance the incentives for employers to arrange jobs for the disabled and promote the setting up of positions for the disabled by employers.

On 31 December 2019, the Ministry of Human Resources and Social Security issued the Decision of the Ministry of Human Resources and Social Security on the Amendments to Certain Regulations (Order of the Ministry of Human Resources and Social Security No. 43 of the People's Republic of China) (《人力資源社會保障部關於修改部分規章的決定》(中華人民共和國人力資源和社會保障部令第43號)) (the "**Amendment Decision**"), pursuant to which the name of the "Interim Administrative Provisions for Sino-Foreign Equity Joint Venture Talent Intermediary Service Agencies" (《中外合資人才中介機構管理暫行規定》) was changed to the "Interim Administrative Provisions for Foreign Invested Talent Intermediary Service Agencies" (《外商投資人才中介機構管理暫行規定》). Pursuant to the Amendment Decision, "foreign invested talent intermediary service agency" was defined as a talent intermediary service agency wholly or partly invested by foreign investors and registered and licensed within the territory of China in accordance with the PRC law. Furthermore, pursuant to the Amendment Decision, the requirements for the talent intermediary services agencies that "the proportion of capital contribution of foreign investors shall not be less than 25%; while the proportion of capital contribution of domestic investors shall not be less than 51%", and that "all investors should have been providing such services for at least three years and possess good reputations" were removed. The name of the "Interim Administrative Provisions on Establishing Sino-foreign Equity Joint Ventures and Sino-Foreign Cooperative Employment Agencies" (《中外合資中外合作職業介紹機構設立管理暫行規定》) was changed to the "Interim Administrative Provisions on Establishing Foreign Invested Employment Agencies" (《外商投資職業介紹機構設立管理暫行規定》), and a "foreign invested employment agency" was defined as an employment agency wholly or partly invested by foreign investors and registered and licensed within the territory of China in accordance with the PRC law. These will bring no substantial impact on our operations, as pursuant to the Supplementary Provisions on the Interim Administrative Provisions for Sino-Foreign Equity Joint Venture Talent Intermediary Service Agencies (關於《中外合資人才中介機構管理暫行規定》的補充規定) and the Mainland and Hong Kong Closer Economic Partnership Arrangement and its supplemental agreement(s)(《內地與香港關於建立更緊密經貿關係的安排》及其補充協議), a qualified Hong Kong company could directly or indirectly hold 100% equity interest in PRC companies providing talent intermediary services, and we have already been conducting the relevant businesses through PRC companies held by Renrui Education (Hong Kong) Limited ("**Renrui (HK)**"), which is a qualified Hong Kong company pursuant to the above requirements. Having said that, we believe that the above amendments to the relevant regulations have more far-reaching implications for our industry and demonstrate that the establishment of wholly-owned talent intermediary agencies and employment agencies in China has now been completely open to foreign investors, which we believe is a policy that is advantageous for us as a HR service provider listed in Hong Kong.

BUSINESS REVIEW

We operate the largest scale of flexible staffing services in China in terms of the number of flexible staffing employees hired by the end of 2019 and revenue generated from flexible staffing services in 2019, according to CIC's report. The number of our flexible staffing employees increased from 19,464 as at 31 December 2018 to 25,118 as at 31 December 2019. We recruited a total of 74,735 employees for all of the Group's business segments during the year ended 31 December 2019, representing an increase of approximately 11.9% in our total number of employees as compared to that of 2018. The revenue for the year ended 31 December 2019 amounted to approximately RMB2,287.6 million, representing an increase of approximately 41.6% as compared to that for the year ended 31 December 2018. The Group's revenue and operating results by respective business segments for the year ended 31 December 2019 are as follows:

	For the year ended 31 December					
	2019		2018		2017	
	Revenue RMB' 000	% to total revenue	Revenue RMB' 000	% to total revenue	Revenue RMB' 000	% to total revenue
Flexible staffing	2,150,950	94.0	1,514,950	93.7	706,232	91.0
Professional recruitment						
• Recruitment	57,629	2.5	62,434	3.9	51,291	6.6
• Paid membership	5,880	0.3	5,935	0.4	7,354	1.0
Other HR solutions						
• BPO	51,753	2.3	22,964	1.4	1,676	0.2
• Corporate training	1,616	0.1	965	0.1	1,583	0.2
• Labour dispatch	7,067	0.3	8,643	0.5	8,111	1.0
• Other miscellaneous services	12,706	0.5	—	—	—	—
Total	2,287,601	100.0	1,615,891	100.0	776,247	100.0

New economy companies have always been the focus of our services. The annual growth rate of the new economy industries in China in 2019 was approximately 22.7%. According to CIC's report, our revenue generated from clients in new economy industries accounted for approximately 85.4% of our overall revenue for the year ended 31 December 2019, and unicorn companies in particular contributed approximately 46.9% to our total revenue. Among the 211 unicorn companies listed in the survey report for 2019 in relation to the unicorn companies in China issued by CIC, approximately 33.2% of the number of the total unicorn companies were our clients in 2019. We continued to adhere to our strategy to serve large clients. Revenue generated from our five largest clients amounted to approximately RMB1,236.9 million, accounting for approximately 54.1% of our total revenue for the year ended 31 December 2019, of which our largest client contributed approximately 34.3% to our total revenue for the year ended 31 December 2019. In 2019, approximately 76.3% of our total revenue was generated from the recurring clients.

Management Discussion and Analysis

Flexible Staffing

Revenue generated from flexible staffing services for the year ended 31 December 2019 amounted to approximately RMB2,151.0 million, representing an increase of approximately 42.0% as compared to approximately RMB1,515.0 million for the year ended 31 December 2018. The number of flexible staffing employees increased from 19,464 as at 31 December 2018 to 25,118 as at 31 December 2019. We recruited 34,967 flexible staffing employees during the year ended 31 December 2019.

Our flexible staffing clients consist of companies operating in a wide range of industries and of different sizes. As at 31 December 2019, we had deployed over 20,600 flexible staffing employees for new economy company clients, accounting for approximately 82.0% of our total number of flexible staffing employees deployed.

In 2019, the average service premium pricing of our flexible staffing projects accounted for approximately 11.0% of the total service fee (or a markup of approximately 12.3% of total labour costs), which remained stable as compared to approximately 10.7% in 2018, which was due to the similar composition of our clients in 2018 and 2019.

The turnover rate of flexible staffing employees decreased from approximately 10.6% in 2018 to approximately 9.9% in 2019, which was mainly due to (i) the formation of a senior consultation team for flexible staffing in September 2019; (ii) the utilisation of the Ruijie System which was established in October 2019, through which our senior consultation team could track the progress of plans and monitor the completion of each measure of our flexible staffing projects services improvement plan in real time; and (iii) the further standardisation of the services provided by our onsite teams.

The table below sets forth a breakdown of our placements by the type of clients as at the dates indicated:

	As at 31 December					
	2019		2018		2017	
	Number of contract employees (1)	% of total contract employees (1)	Number of contract employees (1)	% of total contract employees (1)	Number of contract employees (1)	% of total contract employees (1)
New Economy (2)	20,623	82.1	17,054	87.6	11,468	84.6
Financial institutions	1,240	4.9	1,255	6.4	1,396	10.3
Real estate	527	2.1	257	1.3	111	0.8
Others (3)	2,728	10.9	898	4.7	584	4.3
Total	25,118	100	19,464	100.0	13,559	100.0

Notes:

(1) Contract employees represent only flexible staffing employees.

(2) New economy generally refers to industries that rely inherently on technological advancements, such as the internet, business services, hardware and software technologies, media and entertainment industries, and traditional industries that are being transformed as a result of innovations, such as retail, healthcare, finance and new energy industries, according to the latest CIC's report issued in 2020.

(3) Others mainly include offline education, retail, logistics and manufacturing.

Professional Recruitment

For the year ended 31 December 2019, revenue generated from professional recruitment amounted to approximately RMB63.5 million, representing a slight decrease of approximately 7.1% as compared to approximately RMB68.4 million for the year ended 31 December 2018. Among which, recruitment revenue amounted to approximately RMB57.6 million, representing a decrease of approximately 7.7% as compared to approximately RMB62.4 million for the year ended 31 December 2018. The decrease in recruitment revenue was mainly due to the impact of the slowdown in the macro-economic growth in 2019, leading to a decrease in the recruitment demand from our clients as a result of prudent business expansion. In 2019, we recruited only 39,768 employees for our clients, representing a decrease of approximately 18.0% as compared to approximately 48,500 employees recruited in 2018. Since the first half of 2019, we have formulated measures to deal with the reduced recruitment demand from our clients, and actively explored high-value clients and openings for positions with higher recruitment fee.

With the improvement of our integrated HR ecosystem on recruitment efficiency, the conversion rate from offer to on-boarding increased from over approximately 40% in 2018 to approximately 54.6% in 2019. As at 31 December 2019, the number of registered candidates on the Xiang Recruitment Platform (香聘, our proprietary recruitment platform) reached approximately 1,910,000, and we had over 1,420,000 followers from our WeChat and Weibo social media accounts. The number of new registered individual users in 2019 amounted to approximately 540,000, with an average number of monthly active users of over 125,000 and average daily visits of over 15,000 times. In addition, we held approximately 36,000 recruitment events in 2019. Our recruitment events run on a daily basis, seven days a week, and across more than 20 cities in China. On average, more than 1,500 potential candidates participate in these recruitment events every day.

Other HR Solutions

BPO

Clients sometimes choose to outsource the entire business operation unit to us in order to further streamline their administrative burden, including the staffing requirement and the obligation to supervise these contract employees. Different from flexible staffing solution, contract employees on BPO assignments often work under our own supervision and at our own office site. For the year ended 31 December 2019, revenue generated from BPO services amounted to approximately RMB51.8 million, representing an increase of approximately 125.4% as compared to approximately RMB23.0 million for the year ended 31 December 2018, and we were appointed by clients to provide client service representative, information verification and telemarketing services. The significant growth in BPO services was mainly due to (i) the business opportunities on BPO services brought by our long-term clients who engaged us for the provision of flexible staffing services, especially those in the new economy and Internet sectors. Approximately 67.6% of our BPO clients have engaged us for our flexible staffing services and HR services such as professional recruitment and training services; and (ii) the relocation of our BPO service center in Yingkou in October 2019 to a new office premise with approximately 2,200 seats, and the setting up of new BPO service centers to meet the requirements of new clients in addition to Yingkou and Shangrao. As at 31 December 2019, our BPO service centers in Yingkou, Shangrao and other cities can accommodate more than 3,200 seats in total.

Corporate Training

We provide training and development courses which are tailored to the specific situations and needs of our clients. For the year ended 31 December 2019, the total revenue generated from corporate training amounted to approximately RMB1.6 million, representing an increase of approximately 67.5% as compared to approximately RMB1.0 million for the year 31 December 2018. Most of our clients of corporate training services are also clients of our flexible staffing or professional recruitment services. In 2019, we provided 433 training courses to over 201 clients, of which approximately 178 clients also engaged us for our flexible staffing or professional recruitment services.

Labour Dispatch Services

Unlike typical flexible staffing arrangement where the labour contract arrangement and labour relations are between us and the contract employee, our labour dispatch services involve a tripartite legal relationship among the contract employees, our clients and us, in which the client has a legal relationship with the contract employees while we only charge a lower service fee for administrative matters. Comparing to flexible staffing services, labour dispatch services are of lower value and are not our principal business for future development. For the year ended 31 December 2019, the total revenue generated from labour dispatch services amounted to approximately RMB7.1 million, representing a decrease of approximately 18.2% as compared to approximately RMB8.6 million for the year ended 31 December 2018.

Management Discussion and Analysis

Other Miscellaneous Services

Other miscellaneous services include HR services consultation, talent assessment and tailored employee management solutions, all of which were first offered in 2019 to our clients, in particular, those who recognise our expertise in managing flexible staffing employees and projects with services of assisting in the management of their existing flexible staffing projects. We are engaged, generally for a term of one year, to design and implement training programs, management and dispute resolution policies, daily management proposals and employee work plans for flexible staffing employees on certain projects. We may also provide professional recruitment services for a number of their flexible staffing projects if requested. For the year ended 31 December 2019, revenue generated from other miscellaneous services amounted to approximately RMB12.7 million.

Research and Development ("R&D") of Integrated HR Ecosystem

We have dedicated R&D teams based in Shanghai and Beijing. As at 31 December 2019, our R&D teams had 36 members - mainly software engineers with university or college degrees, with an average of over seven years of R&D experience in internet and technologies related industry. During the year, we incurred approximately RMB13.4 million in R&D for the followings:

(a) Optimisation of existing systems and platforms:

(i) new features were added to the Xiang Recruitment Platform to facilitate candidates' interaction to enhance our recruitment process;

(ii) a new interview module was introduced for our clients through the Rui Recruitment System (瑞聘, our proprietary recruitment process management system) to satisfy the increasing needs of our clients;

(iii) new functions were added to the Rui Home Platform (瑞家園, our proprietary management platform) for our contract employees to handle their benefits, including reimbursement of expenses, and insurance-related matters; and

(iv) enhancement was made to the Rui Cloud Management System (瑞雲, our proprietary management system) based on the unique business features of different clients.

(b) Launch of the Ruijie System to promote process in standardisation of services:

We serve our flexible staffing clients from more than 30 provinces across China. As we expand, we aim at maintaining our competitiveness by providing services with consistent quality and evaluation standard in different cities and regions. In October 2019, we introduced the Ruijie System, through which our senior consulting team can monitor the project process on a real-time basis. This system also helps us to guide onsite teams and recruitment project managers, and optimise our services using Plan-Do-Check-Action (PDCA) management methods.

(c) Application of five software copyrights:

In 2019, we applied for a total of five software copyrights based on the newly developed system functions, with the cumulative number of our software copyrights reaching 57.

By utilising our Integrated HR ecosystem, our per capita efficiency has improved. The net profit per capita generated by our internal staff in the last three years sets out as follows:

	2019	2018	2017
Adjusted net profit (RMB'000)	134,262	67,690	9,870
Average number of internal employees (Note)	623	579	551
Net profit per capita for the year (RMB'000/person)	215.5	116.9	17.9

Note: The average number of internal employees for a year was calculated by adding the number of internal employees at the end of a given year with the number of internal employees at the end of the previous year and divided by two.

Our Suppliers

We source certain services from third-party suppliers and service providers, which mainly include social insurance and housing provident fund processing agents, call center and technical support for BPO services, transportation services, other HR solutions providers for candidate sourcing, and subcontractors for flexible staffing or BPO services. For the year ended 31 December 2019, the amount of purchases from our five largest suppliers accounted for approximately 3.5% of our total cost of revenue.

Human Resources

As at 31 December 2019, we had a total of 31,675 employees based in various cities in China. Among which, we had 645 internal employees, representing an increase of 45 employees, or approximately 7.5%, as compared to that in 2018. The average age of our internal employees was less than 29 years old, and approximately 99.5% of our internal employees had a university degree or above. Young employees provide more energy and motivation to our entire team, and their good education background enables us to provide clients with more professional HR services. The table below sets forth the total number of employees by function as at 31 December 2019:

Function	Number of Employees	% of total Employees
Internal Employees		
— Senior management	4	0.0
— R&D	36	0.1
— Sales and marketing (1)	113	0.4
— Headhunting	15	0.0
— Project management/execution	407	1.3
— Others (2)	70	0.2
Subtotal	**645**	**2.0**
Contract Employees		
— Flexible staffing employees	25,118	79.3
— Labour dispatch employees	4,185	13.2
— BPO employees	1,727	5.5
Subtotal	**31,030**	**98.0**
Total	31,675	100.0

Notes:

(1) Our sales and marketing employees include our major client sales team of approximately 61 sales personnel.

(2) Others mainly include back-office support staff, such as legal department, finance department, and HR department.

Management Discussion and Analysis

The Group offers competitive remuneration packages to its internal employees, which are determined in accordance with the relevant laws and regulations in the places where the Group operates and the individual qualifications, experience, performance of the employees concerned, as well as market salary levels. In addition, the Group provides employees with other comprehensive benefits, including social insurance and housing provident funds, in accordance with the regulations of the labour contract signing companies and the applicable laws of the cities where the employees are actually based. For the year ended 31 December 2019, the Group's labour costs amounted to approximately RMB2,029.7 million, of which internal labour costs amounted to approximately RMB112.4 million, representing an increase of approximately RMB10.7 million or approximately 10.5% as compared to that in 2018, which was mainly due to the increase in the number of internal employees, the enhancement in remuneration packages and a number of newly engaged mid-level management personnel with competitive remunerations to enhance our professional capabilities in terms of flexible staffing services and recruitment skills.

Pursuant to the two pre-IPO share option schemes adopted by the Group on 12 March 2019 (namely, the mid-senior level management pre-IPO share option scheme (the "**Mid-senior Level Management Pre-IPO SOS**") and the non-managerial employee pre-IPO share option scheme (the "**Non-managerial Employee Pre-IPO SOS**")), a total of 22,904,600 share options were granted, of which 40,000 share options were lapsed in December 2019 and 22,864,600 share options remained unvested as at 31 December 2019. The Group also adopted the post-IPO share option scheme (the "**Post-IPO Share Option Scheme**") and the post-IPO share award scheme (the "**Post-IPO Share Award Scheme**") on 26 November 2019. For further details, please refer to the section headed "Report of the Directors — Share Option Schemes and — Share Award Scheme" in this annual report. As at 31 December 2019, no share options nor share awards had been granted under these two schemes.

In respect of further enhancing our professional service capabilities, we organised a number of staff training courses for 645 internal employees in 2019, among which: (i) 43 training courses were organised for the sales teams of our major client to enhance their capabilities for obtaining new clients; (ii) 61 training courses were organised for recruitment team members to enhance their professional skills on fast recruitment; (iii) 15 training courses were organised for flexible staffing service team members to enhance the professional service capabilities of our onsite teams in respect of HR management; and (iv) 23 training courses were organised for our BPO employees to help them understand clients' products and master the knowledge involved in service providing process, for instance, contract employees who provide client service representative services should be familiar with the product promotion policies of our clients.

Awards and Recognitions

Recognitions received by the Company for the year ended 31 December 2019:

March 2019

- Renrui Human Resources Technology Holdings Limited received the title of Excellent Services Provider at the 2nd Beijing-Tianjin-Hebei HR Summit (第二屆京津冀人力資源高峰論壇優秀服務商) issued by the Beijing-Tianjin-Hebei Branch of China HRD Club (中國HRD俱樂部京津冀分會)

May 2019

- Renrui Human Resources Technology Holdings Limited was awarded the Beijing Top 50 Human Resources Service Brand Award (北京地區人力資源服務品牌50強「京人獎」) issued by Beijing Human Resources Service Award Organizing Committee (北京人力資源服務京人獎組委會)

July 2019

- Renrui Human Resources Technology Holdings Limited was awarded the Top 12 Flexible Staffing Service Institutions in China 2019 (2019 中國靈活用工服務機構12強) issued by the HR Excellence Center (HR智享會)

September 2019

- Renrui Human Resources Technology Group Limited (人瑞人才科技集團有限公司) (formerly known as Chengdu Xinan Renrui Human Resources Service Co., Ltd. (成都西南人瑞人力資源服務有限公司)) (“**Renrui HR Group**”) was awarded the Chengdu Top 100 Private Enterprises and Top 100 Enterprises in Service Industry (成都民營企業100強、服務業100強)

- Renrui HR Group was awarded the Best Partner Award for Best Delivery Guarantee (頒發的最佳合作夥伴之最佳交付保障獎) issued by client WELSEND (萬聲通訊)

- Shanghai Renhui Human Resources Service Co., Ltd. (上海人惠人力資源服務有限公司) was award the Summer Battlefield – Award for Close Cooperation of Employees (夏季戰役—員工緊密之神獎) issued by client VIP Peilian (VIP陪練)

November 2019

- Renrui Human Resources Technology Holdings Limited was awarded the Top 100 Best Recruitment Service Providers in China (中國TOP100最佳招聘服務商) issued by MeetHR

- Renrui HR Group received the title of Civilized Women Post for the Construction of International Business Environment in Chengdu High-tech Zone 2019 (成都高新區2019年國際化營商環境建設巾幗文明崗) issued by the Party-Mass Work Department of Chengdu High-tech Zone (成都高新區黨群工作部)

- Renrui Human Resources Technology Holdings Limited received the title of Top 30 Brand Institutions of “Excellent HR Service in China” 2019 (2019年度「中國HR好服務」TOP 30 品牌機構) jointly issued by the Organizing Committee of the 10th China (Beijing) HR Expo Conference (第十屆中國 (北京) 人力資源博覽會大會組委會), Beijing Youth Human Resources Service Chamber of Commerce (北京青年人力資源服務商會) and Three-Person HR Charity Service Alliance (三人行HR公益服務聯盟)

- Renrui Human Resources Technology Holdings Limited received the title of Top 10 Integrity Institutions of HR Service in “Flexible Staffing” Category 2019 (2019年度「靈活用工」類十佳HR服務誠信機構) jointly issued by the Organizing Committee of the 10th China (Beijing) HR Expo Conference (第十屆中國 (北京) 人力資源博覽會大會組委會), Beijing Youth Human Resources Service Chamber of Commerce (北京青年人力資源服務商會) and Three-Person HR Charity Service Alliance (三人行HR公益服務聯盟)

December 2019

- Renrui Human Resources Technology Holdings Limited was awarded the “Hongyi Product Innovation Award” in China region 2019 (2019年中國區「弘毅•產品創新獎」) issued by the HR Research Network (HR研究網)

- Guangzhou Renrui Human Resources Service Co., Ltd. (廣州人瑞人力資源服務有限公司) received the honorable title of “Best Recruitment Team” (「最佳招聘團隊」) issued by our client, Tencent Advertising and Marketing Center (騰訊廣告營銷中心)

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the total revenue of the Group amounted to approximately RMB2,287.6 million, representing an increase of approximately RMB671.7 million or approximately 41.6% as compared to approximately RMB1,615.9 million for the year ended 31 December 2018, as a result of the increase in the revenue generated from flexible staffing services and BPO services, of which revenue from flexible staffing services increased by approximately RMB636.0 million, and revenue from BPO services increased by approximately RMB28.8 million. The increase in the revenue from these two business segments was mainly due to the increase in the number of contract employees deployed to flexible staffing projects and the increase in the number of BPO seats.

Cost of Revenue

Our cost of revenue primarily comprises employee benefit expenses, traveling expenses, other taxes and surcharges and others, which mainly comprise depreciation and amortisation, interview related communication costs, and rental and property management fees.

For the year ended 31 December 2019, the Group's total cost of revenue amounted to approximately RMB2,046.7 million, representing an increase of approximately RMB585.8 million or approximately 40.1% as compared to approximately RMB1,460.9 million for the year ended 31 December 2018. The increase in cost of revenue was mainly due to the increase in the cost of employee benefit expenses along with the increased number of flexible staffing employees. In addition, the average labour cost of the flexible staffing employees managed by us was approximately RMB7,600 per month in 2019.

Gross Profit and Gross Profit Margin

The change in our overall gross profit margin was affected by our business mix. The table below sets forth a breakdown of our gross profit and gross profit margin by segments for the years indicated:

	Year ended 31 December			
	2019		2018	
	RMB'000	%	RMB'000	%
Flexible staffing	192,078	8.9	113,119	7.5
Professional recruitment	22,536	35.5	31,053	45.4
Other HR solutions	26,271	35.9	10,784	33.1
Total	240,885	10.5	154,956	9.6

Our gross profit margin for the year ended 31 December 2019 was 10.5%, representing an increase from 9.6% for the year ended 31 December 2018, which was mainly due to the increase in revenue from flexible staffing projects with a higher gross profit margin in 2019. The gross profit margin of flexible staffing services increased from approximately 7.5% in 2018 to approximately 8.9% in 2019, and such increase was mainly because we served more flexible staffing projects with higher profit margin in 2019. The gross profit margin of professional recruitment services decreased from approximately 45.4% in 2018 to approximately 35.5% in 2019, and such decrease was mainly because we launched a headhunting business in 2019. Our headhunting business is still at an early stage with relatively lower revenue generated. Besides, in 2019, to facilitate our future recruitment process, we relocated to better office premises to carry out our business in places such as Beijing, Shanghai and Guangzhou, leading to a higher rental cost. The gross profit margin of other HR solutions (comprising BPO services, corporate training, labour dispatch services and other miscellaneous services) increased from approximately 33.1% in 2018 to approximately 35.9% in 2019, such increase was mainly due to fact that as a result of the improvement in our management capabilities, the gross profit margin of BPO services, which accounted for approximately 29.8% of the gross profit margin of other HR solutions, increased from approximately 9.6% in 2018 to approximately 15.1% in 2019. At the same time, BPO services expanded significantly in 2019, with an increase in the number of seats and therefore further expanding the share of revenue in other HR solutions.

Selling and Marketing Expenses

Our selling and marketing expenses primarily comprise employee benefit expenses, marketing and promotion expenses, travelling and entertainment expenses and others (which mainly comprise depreciation and amortisation, utilities and office expenses and rental and property management fees).

Our selling and marketing expenses for the year ended 31 December 2019 amounted to approximately RMB42.9 million, representing a slight increase of approximately RMB0.5 million or 1.2% as compared to approximately RMB42.4 million for the year ended 31 December 2018, which was mainly due to (i) our belief that the most effective brand building tool is to continuously strengthen our services that increase stickiness of our clients through recurring businesses, and (ii) the fact that our visionary management team regularly delivers speeches at various industry association events and publishes articles in well-recognised HR industry magazines to boost our brand name and attract potential clients and individual job-seeking talents. A series of brand promotion talks focusing on HR management concepts introduced in "Manager's Thought – Winning in Strategic Human Resources Management"(《經營者思維-贏在戰略人力資源管理》) jointly written and published by Mr. Zhang Jianguo (the Chairman of the Board, the Chief Executive Officer of our Group and our executive Director) and Professor Peng Jianfeng in 2019. The marketing strategies above lead operational efficiency in our selling and marketing expenses. Our selling and marketing expenses as a percentage of revenue decreased from approximately 2.6% for the year ended 31 December 2018 to approximately 1.9% for the year ended 31 December 2019.

R&D Expenses

Our R&D expenses primarily comprise employee benefit expenses, utilities and office expenses, depreciation and amortisation and other expenses incurred in connection with the research and development of our platform, software and technologies.

The R&D expenses for the year ended 31 December 2019 amounted to approximately RMB13.4 million, representing an increase of approximately RMB0.3 million or approximately 2.2% as compared to approximately RMB13.1 million for the year ended 31 December 2018, which was mainly due to the increase of approximately RMB0.2 million in the employee benefit expenses for R&D personnel as compared to that of the previous year as a result of the increase in salary of R&D personnel, while the number of R&D personnel remained stable.

Administrative Expenses

Our administrative expenses primarily comprise employee benefit expenses, listing expenses, depreciation and amortisation, professional service fees and other expenses.

Our administrative expenses for the year ended 31 December 2019 amounted to approximately RMB89.8 million, representing an increase of approximately RMB41.7 million or approximately 86.7% as compared to approximately RMB48.1 million for the year ended 31 December 2018, which was mainly due to (i) the listing expenses for the year ended 31 December 2019 increased by approximately RMB27.8 million to approximately RMB35.9 million in 2019 as compared to approximately RMB8.1 million in 2018, as most of our listing expenses were incurred in 2019 as our preparation for the Listing of the Shares of the Company (the "**Shares**") commenced in September 2018 and was completed in December 2019; (ii) the employee benefit expenses for our management personnel increased by approximately RMB8.7

Management Discussion and Analysis

million as compared to approximately RMB23.3 million in 2018, of which approximately RMB5.2 million was used mainly for the hiring of number of additional management personnel and department heads, with an increase in the salary of management personnel. Also, the issuance of the last two batches of share options under our pre-IPO share option schemes was completed in 2019, therefore generating an expenditure of share-based payment of approximately RMB5.0 million, representing an increase of approximately RMB3.5 million as compared to approximately RMB1.5 million in 2018; and (iii) the increase in annual fees to our auditor incurred after the Listing as compared to those incurred before the Listing, as the charges for audit and non-audit services amounted to approximately RMB2.4 million in total, representing an increase of approximately RMB2.0 million as compared to that for 2018. At the same time, the professional services providers such as legal advisors, compliance advisor and company secretary engaged after the Listing contributed to the increase in professional service fees by approximately RMB1.2 million as compared to that of 2018. In summary of the above, our administrative expenses as a percentage of revenue increased from approximately 3.0% for the year ended 31 December 2018 to approximately 3.9% for the year ended 31 December 2019, which was primarily due to the listing expenses incurred in 2019.

Other Income

Other income for the year ended 31 December 2019 amounted to approximately RMB21.2 million, representing an increase of approximately RMB11.8 million or approximately 125.5% as compared to approximately RMB9.4 million for the year ended 31 December 2018. Other income primarily comprises income derived from government grants and tax reduction. The government grants mainly represent financial support funds from certain government authorities as an incentive to encourage HR companies providing services to local enterprises and investing in research and development of company software and systems. There were no specific conditions or other contingencies attached to these grants, and therefore, we recognised the grants upon receipts. In respect of the tax reduction, according to the "Announcement on Relevant Policies for Deepening the Value-added Tax Reform" (Cai Shui Haiguan [2019] No.39) (「關於深化增值税改革有關政策的公告」(財税海關[2019]第39號)) jointly issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs, the Company's certain subsidiaries qualified for an additional 10% deduction of input VAT (as defined below) from output VAT from 1 April 2019 to 31 December 2021.

Other Gains/(Losses), Net

For the year ended 31 December 2019, other gains amounted to approximately RMB2.2 million.For the year ended 31 December 2018, other losses amounted to approximately RMB0.3 million. Such change was mainly due to the exchange gains from the Net Proceeds.

Operating Profit

Our operating profit increased from approximately RMB57.5 million for the year ended 31 December 2018 to approximately RMB118.3 million for the year ended 31 December 2019, representing an increase of approximately 105.6%.

Net Finance Costs

Our net finance costs for the year ended 31 December 2019 amounted to approximately RMB3.8 million, representing an increase of approximately RMB2.3 million or approximately 153.3% as compared to approximately RMB1.5 million for the year ended 31 December 2018, which was mainly due to the increase of approximately RMB3.6 million in interest expenses of lease liabilities, which was partially offset by the increase of approximately RMB1.3 million in interest income as compared to that of 2018, given that upon receipt of the Net Proceeds in December 2019, the Net Proceeds temporarily unutilised were saved as fixed deposits.

Fair Value Losses on Hybrid Financial Instruments

For the year ended 31 December 2019, hybrid financial instruments are the preferred shares of our Company invested by our pre-IPO investors. The fair value at respective reporting dates was determined using valuation techniques, and the fair value losses on hybrid financial instruments were charged at changes in fair value through profit or loss. Upon the completion of the Listing on 13 December 2019, all the preferred shares were automatically converted into ordinary shares of our Company on an one-to-one basis at an offer price of HK$26.60 per share, and there would no longer be such fair value losses on hybrid financial instruments. For the year ended 31 December 2019, fair value losses on hybrid financial instruments amounted to approximately RMB878.2 million, increased by approximately RMB681.7 million or approximately 346.9% as compared to that of last year, resulting from the changes in the valuation of the preferred shares. Details are set out in Note 25 to the audited consolidated financial statements.

Loss before Income Tax

Our loss before income tax increased from approximately RMB140.6 million for the year ended 31 December 2018 to approximately RMB763.7 million for the year ended 31 December 2019, representing an increase of approximately 443.2%.

Loss for the Year

Our loss increased from approximately RMB136.9 million for the year ended 31 December 2018 to approximately RMB779.8 million for the year ended 31 December 2019, representing an increase of approximately 469.5%.

Non-HKFRS Measures

To supplement our consolidated financial statements which are presented in accordance with the HKFRS, we also presented adjusted net profit as an additional financial measure, which is not required by, nor presented in accordance with, the HKFRS. The following table reconciles our adjusted net profit in each year presented to the most directly comparable financial measure calculated and presented in accordance with HKFRS:

	For the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Loss for the year	(779,831)	(136,935)
Add: Fair value losses on hybrid financial instruments	878,151	196,542
Listing expenses	35,942	8,083
Adjusted net profit (unaudited)	134,262	67,690

We define our adjusted net profit as net loss for the year excluding fair value losses on hybrid financial instruments and listing expenses. Our adjusted net profit increased from approximately RMB67.7 million for the year ended 31 December 2018 to approximately RMB134.3 million for the year ended 31 December 2019, representing an increase of approximately 98.3%. Such substantial increase was mainly due to (i) the increase in our revenue; and (ii) the decline in selling and marketing expenses and administrative expenses (net of listing expenses) as percentages of total revenue as a result of a better operating efficiency leverage by utilising our integrated HR ecosystem.

We believe that the non-HKFRS measure of adjusted net profit may facilitate the comparison of our financial performance by eliminating the impact of items that we do not consider indicative of the actual performance of our business. Adjusted net profit eliminates the effect of our listing expenses, which are not related to our ordinary course of business and are non-recurring in nature, and non-cash fair value losses on hybrid financial instruments as non-cash payments, which would cease to affect our consolidated financial statements after the Listing. We present this additional financial measure as it is used by our management to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the actual performance of our business. We also believe that this non-HKFRS measure provides more useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across periods. However, our presentation of adjusted net profit may not be comparable to similarly titled measures presented by other companies. The use of this non-HKFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results or operations or financial condition as reported under HKFRS.

Management Discussion and Analysis

Net Current Assets

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Total current assets	1,378,154	379,793
Total current liabilities	(362,609)	(328,819)
Net current assets	1,015,545	50,974

Our net current assets increased from approximately RMB51.0 million as at 31 December 2018 to approximately RMB1,015.5 million as at 31 December 2019, which was primarily due to (i) the amount of Net Proceeds received, resulting in an increase of approximately RMB989.2 million in the balance of cash and cash equivalents to approximately RMB1,029.5 million as at 31 December 2019, from approximately RMB40.3 million as at 31 December 2018; (ii) the increase in our trade and notes receivables of approximately RMB10.0 million; and (iii) the decrease in the balance of borrowings from approximately RMB10.0 million as at 31 December 2018 to nil as at 31 December 2019 due to the full settlement of our borrowings in the second half of 2019.

Trade and Notes Receivables

Our trade and notes receivables as at 31 December 2019 increased by approximately RMB10.0 million as compared to approximately RMB331.4 million as at 31 December 2018. Although our revenue in 2019 increased by approximately 41.6% as compared to that in 2018, considering the slowdown of the overall economic growth, we strengthened the recovery of trade receivables in the second half of 2019 by limiting the actual recovery period to within the 10 days to 70 days credit period granted to customers. As at 31 December 2019, the loss allowance provision for trade receivables was approximately RMB5.9 million, representing a decrease of approximately RMB0.2 million as compared to approximately RMB6.1 million as at 31 December 2018. The following table sets forth the turnover days of trade receivables for the years indicated:

	As at 31 December	
	2019	2018
Trade receivables turnover days(1)	54	55
Adjusted trade receivables turnover days(2)	46	46

Notes:

(1) Calculated as the average balance of trade receivables at the beginning and end of a year divided by revenue in the year then multiplied by the number of days (i.e. 365 days in a year).

(2) Calculated as the average balance of trade receivables (excluding the labour costs arising from provision of labour dispatch services) at the beginning and end of a year divided by revenue in the year then multiplied by the number of days in the year.

For the year ended 31 December 2019, our trade receivables turnover days was 54 days, and the adjusted trade receivables turnover days was 46 days, which was basically the same as that in 2018, mainly because we have strengthened our efforts in the collection of trade receivables in addition to the growth in revenue. Our credit period granted to clients is generally within 10 to 70 days.

Prepayments, Deposits and Other Receivables

Prepayment, deposits and other receivables primarily consist of rental deposits, prepayments to third-party suppliers including those providing promotional services, insurance and utilities expenses.

As at 31 December 2019, our prepayments, deposits and other receivables amounted to approximately RMB7.2 million, representing a decrease of approximately RMB0.8 million or approximately 10.0% as compared to approximately RMB8.0 million as at 31 December 2018, where all listing expenses had been settled with intermediaries following the completion of the Listing in December 2019, and there was no more prepayment for listing expenses, resulting in the decrease of prepaid listing expenses, which were partially offset by the increase in the balance of our prepaid property fees, Internet service charges, short message fees, and so on.

Trade and Other Payables

As at 31 December 2019, our trade and other payables amounted to approximately RMB316.9 million, representing an increase of approximately RMB37.2 million or approximately 13.3% as compared to approximately RMB279.7 million as at 31 December 2018, which was primarily due to (i) the decrease in the number of labour dispatch employees was offset by the increase in the number of flexible staffing employees, leading to the increase of approximately 3,739 in the overall number of contract employees as at 31 December 2019 as compared to that as at 31 December 2018. As such, the balance of accrued payroll and welfare as at 31 December 2019 increased by approximately RMB20.7 million as compared to that as at 31 December 2018; and (ii) the completion of the Listing in December 2019, where all listing expenses had been settled with intermediaries, and therefore the remaining listing expenses payable as at 31 December 2019 increased by approximately RMB13.9 million as compared to that as at 31 December 2018.

Our suppliers usually grant credit periods of less than one month to us and invoices received are to be settled monthly.

Property, Plant and Equipment

As at 31 December 2019, the carrying value of our property, plant and equipment amounted to approximately RMB84.5 million, representing an increase of approximately RMB22.4 million or approximately 36.1% as compared to approximately RMB62.1 million as at 31 December 2018, which was mainly due to (i) the relocation of offices in 2019 to facilitate our future recruitment process as set out in more detail under the paragraph headed "Financial Review – Gross Profit and Gross Profit Margin" above, which resulted in an increase in the right-of-use assets and leasehold improvement in relation to our new offices by approximately RMB14.1 million and approximately RMB2.8 million, respectively; and (ii) the procurement of a large amount of computer equipments after our BPO service center in Yingkou moved to a new office, leading to an increase of approximately RMB3.3 million in computer equipments.

Other Non-current Assets

Other non-current assets are deposits with recovery periods of more than one year, mainly comprise deposits for house leases. As at 31 December 2019, our other non-current assets amounted to approximately RMB6.0 million, representing an increase of approximately RMB1.4 million as compared to the amount as at 31 December 2018, which was mainly due to the relocation of offices in 2019 to facilitate our future recruitment process as set out in more detail under the paragraph headed "Financial Review – Gross Profit and Gross Profit Margin" above, with higher rental deposits charged by the landlords for the new office premises than the original offices.

Deferred Income Tax Assets

As at 31 December 2019, the carrying amount of our deferred income tax assets was approximately RMB14.9 million, representing a decrease of approximately RMB11.2 million or approximately 42.9% as compared to approximately RMB26.1 million as at 31 December 2018, which was due to the reversal of deferred income tax assets generated from cumulative loss as a result of gains.

Management Discussion and Analysis

KEY FINANCIAL RATIO

The table below sets forth our key financial ratios for the years indicated:

	For the year ended 31 December		
	2019	2018	2017
Total revenue growth	41.6%	108.2%	106.3%
Adjusted net profit growth (non-HKFRS)(1)	98.3%	585.8%	N/A
Gross margin(2)	10.5%	9.6%	11.3%
Adjusted net margin (non-HKFRS)(3)	5.9%	4.2%	1.3%
Adjusted current ratio (times)(4)	1.4	1.2	0.9

Notes:

(1) Adjusted net profit (non-HKFRS) is defined as the net loss for the year excluding non-operational fair value losses on hybrid financial instruments and listing expenses, where applicable.

(2) Gross margin equals gross profit divided by revenue for the year and multiplied by 100%.

(3) Adjusted net margin (non-HKFRS) is calculated as the adjusted net profit as a percentage of the revenue for the same year.

(4) Adjusted current ratio is calculated as the adjusted current assets divided by the current liabilities at the end of each financial year. The adjusted current assets is defined as the current assets excluding the Net Proceeds received, where applicable.

Adjusted Net Profit

Adjusted net profit for the year ended 31 December 2019 amounted to approximately RMB134.3 million, representing an increase of approximately 98.3% as compared to that for the year ended 31 December 2018, primarily due to (i) the utilisation of our integrated HR ecosystem in our daily flexible staffing services and professional recruitment business, making our operating leverage benefits more obvious, while the increase in selling and marketing expenses was less substantial as compared to the growth in our revenue; and (ii) the recurring effects to both revenue and gross profit brought by the growth in flexible staffing business.

Adjusted Net Margin

Adjusted net margin increased from approximately 4.2% for the year ended 31 December 2018 to approximately 5.9% for the year ended 31 December 2019. This was mainly due to (i) the same reason as the adjusted net profit growth of approximately 98.3%, the utilisation of our integrated HR ecosystem in our daily flexible staffing services and professional recruitment business which made our operating leverage benefits more obvious, while the increase in selling and marketing expenses and administrative expenses were less significant as compared to the growth in our revenue; and (ii) the gross profit margin for the year ended 31 December 2019 was approximately 10.5%, representing an increase as compared to approximately 9.6% of the previous year, mainly brought by the increase in flexible staffing projects with a higher gross profit margin in 2019.

Adjusted Current Ratio

As at 31 December 2019, our current ratio increased significantly to approximately 3.8 from approximately 1.2 as at 31 December 2018. The increase was mainly due to the receipt of Net Proceeds of approximately RMB877.5 million, net of other fees and expenses settled in 2019. After excluding the Net Proceeds received, the adjusted current ratio was approximately 1.4, which was still higher than approximately 1.2 as at 31 December 2018, mainly because we had strengthened the recovery of trade receivables in addition to the growth in sales revenue, leading to a slight increase in the balance of trade and notes receivbales and an increase in the closing balance of cash and cash equivalents.

Liquidity and Capital Resources

In 2019, we funded our cash requirements principally from our business operations and bank borrowings.

As at 31 December 2019, we had cash and cash equivalents of approximately RMB1,029.5 million, representing a significant increase of approximately RMB989.2 million or approximately 2,454.6% as compared to approximately RMB40.3 million as at 31 December 2018, which was mainly due to (i) the Net Proceeds of approximately RMB877.5 million received, net of other fees and expenses settled in 2019; and (ii) the strengthened recovery of trade receivables in the fourth quarter of 2019, leading to an increase in the closing balance of cash and cash equivalents.

CASH FLOWS

Net Cash Generated from Operating Activities

For the year ended 31 December 2019, net cash generated from operations was approximately RMB150.5 million, representing an increase of approximately RMB108.8 million or approximately 260.9% as compared to approximately RMB41.7 million in 2018, which was mainly due to the increase in revenue in 2019 and, at the same time, our strengthened recovery management of trade receivables to accelerate the recovery of trade receivables.

Net Cash Used in Investing Activities

For the year ended 31 December 2019, net cash used in investing activities was approximately RMB10.8 million, representing an increase of approximately RMB7.8 million or approximately 260.0% as compared to approximately RMB3.0 million for the year ended 31 December 2018, such increase was mainly due to the payment of approximately RMB4.7 million for renovation works for our newly leased offices and the expense of approximately RMB2.8 million for purchasing office furnitures and approximately RMB4.6 million for the procurement of a batch of computer equipments mainly in the new BPO operation center, which was partially offset by the interest income of approximately RMB1.5 million received by us.

Net Cash Generated from Financing Activities

For the year ended 31 December 2019, net cash generated from financing activities was approximately RMB847.3 million, while the net cash used in financing activities for the year ended 31 December 2018 was approximately RMB19.5 million. The change was mainly due to the receipt of the Net Proceeds in December 2019.

CAPITAL STRUCTURE

Indebtedness

As at 31 December 2019, we had no outstanding borrowings. The borrowings as at 31 December 2018 were approximately RMB10.0 million, and we further obtained approximately RMB70.4 million of borrowings in aggregate during 2019, all of which were settled within 2019. The annual interest rate of the borrowings obtained during 2019 was 5.57%, which was guaranteed by certain subsidiaries within the Group.

Our bank facility is subject to the fulfilment of certain covenants, as are commonly found in lending arrangements with financial institutions. If we breach any covenants, the remaining unutilised amount may be reduced and the drawn down facilities and interest may become payable on demand. During the year, all these covenants had been complied with by the Group.

As at 31 December 2019, we had unutilised banking facilities of approximately RMB23.2 million.

As at 31 December 2019, our lease liabilities in respect of our leased properties amounted to approximately RMB73.4 million, representing an increase of approximately RMB19.6 million as compared to approximately RMB53.8 million as at 31 December 2018, which was mainly due to the relocation of offices in 2019 to facilitate our future recruitment process as set out in more detail under the paragraph headed “Financial Review – Gross Profit and Gross Profit Margin” above, and the entering into of new lease contracts with a validity period of three to five years.

As at 31 December 2019, we had no hybrid financial instrument balance, representing a decrease of approximately RMB402.2 million as compared to approximately RMB402.2 million as at 31 December 2018, which was mainly because we were listed in December 2019, and the preferred shares held by pre-IPO investors were transferred into ordinary shares (i.e. the Shares) pursuant to certain pre-IPO investment agreements.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (exclude hybrid financial instruments) less cash and cash equivalents. Total capital is calculated as total equity plus net debt. As at 31 December 2019 and 2018, the Group was in a net cash position (i.e. cash and cash equivalents is higher than borrowing), hence it is not meaningful to present the gearing ratio.

Management Discussion and Analysis

CAPITAL EXPENDITURE

For the year ended 31 December 2019, our capital expenditure amounted to approximately RMB12.2 million, among which approximately RMB4.7 million on renovation works for our new offices leased, approximately RMB2.8 million was used for purchasing office furniture, and approximately RMB4.6 million was used for the procurement of a batch of computer equipments mainly in our new BPO operation center in Yingkou.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at 31 December 2019, we had not entered into any material off-balance sheet commitments or arrangements.

OUTLOOK AND FUTURE STRATEGIES

Looking forward to 2020, it is expected that the COVID-19 would impair the macroeconomy, causing significant impacts on various industries such as catering, tourism and entertainment. According to CIC's report, the actual GDP growth rate in 2020 is expected to experience a set back compared with approximately 5.8% as estimated by the International Monetary Fund in October 2019 before the COVID-19 outbreak, and the annual growth rate of flexible staffing market in China for 2020 is estimated to be reduced to 20.3% as compared to 24.2% in earlier forecast made before the COVID-19 outbreak. The PRC government proposed a delay in the resumption of work from January to February 2020 when the epidemic was in the most severe situtation. Employees were encouraged to work from home and a 14-days voluntary travel quarantine policy was issued across provinces and cities, while all offline recruitment events were temporarily suspended. Such a series of epidemic prevention and control measures greatly affected our recruitment events in January and February 2020 as well as the growth rate of flexible staffing business. After the epidemic became largely under control in China in March 2020 and pursuant to the Notice on Further Streamlining, Approving and Optimising Services to Precisely and Steadily Promote the Resumption of Work and Production of Enterprises (《關於進一步精簡審批優化服務精準穩妥推進企業復工復產的通知》) issued by the General Office of the State Council (國務院辦公廳), local governments have actively requested enterprises to resume work and production and provided advices to solve the recruitment difficulties arising from the mass-scale resumption of work. After the suspension of offline recruitment events, we started to organise online recruitment events and interviews in early February 2020. With the gradual resumption of work by our clients since March 2020, candidates who received job offers after attending online interviews started to report duties at our clients' workplace.

Considering the great variety of industries that our clients work in such as online live platforms, online education, e-commerce, travelling, finance, real estate and retail, the impact of the COVID-19 outbreak on the staffing needs of our clients in different industries varies. As a result, our operational and financial results for the first quarter of 2020 did not experience a significant decline due to the combined effect brought by the increase or decrease in the staffing needs of our clients in different industries.

According to CIC's report, the annual growth rate of flexible staffing market in China for 2020 is still estimated at 20.3% considering the impact of the COVID-19 outbreak. In addition, Premier Li Keqiang raised at the executive meeting of the State Council held on 10 March 2020 that "the impact of the epidemic on China's economy should not be underestimated. The country must do its best to secure employment under any circumstances. It is not sufficient to rely on only one or two departments of the Chinese governments to stabilise employment. All relevant departments should give priority to stabilising employment when they plan their work ahead for the entire year." Considering the rapid growth of the flexible staffing industry in China and the government's emphasis on stable employment in 2020, the management of the Group believes that despite the tough opening for 2020 and the expected difficulties ahead, 2020 will still be a year full of opportunities and the Group will use its best endeavours to solve all challenges while maintaining a rapid growth in respective business of the Group.

Focusing on Serving New Economy Companies

Although the COVID-19 outbreak has adversely affected the overall macroeconomy, new economy companies such as online live platforms, online education and telecommuting have benefited from the epidemic, and their business volumes were significantly increased in the first quarter of 2020. In addition, as the consumers in the abovementioned industries have developed new consumption habits, these new economy companies will also have opportunities to maintain sustainable growth in the future. During 2019, we established a strategic customer department and designated the clients of our long-standing online live streaming platform and online education as strategic clients in order to fully meet their staffing needs and provide them with flexible staffing solutions.

According to CIC's report, the estimated annual growth rate of the number of flexible staff serving the new economy will be approximately 21.8% in 2020. In 2020, we will continue to focus on serving fast-growing new economy clients and concentrate our resources on providing quality flexible staffing and recruitment services to our top clients as we have been adhering to our major client strategy. Thus, the revenue of our flexible staffing is expected to continue to grow rapidly in 2020.

It is pleased to note that the news reports during the epidemic about staffing methods have greatly enhanced the understanding and recognition of the strategic value of flexible staffing by our clients. At the same time, we will also utilise the Net Proceeds to further promote our brand and organise marketing and promotional activities in relation to our flexible staffing services in accordance with the intended use of proceeds as disclosed in the Prospectus. In the medium-to-long term, such promotions will facilitate new economy companies with rapid business growth to understand that flexible staffing service is a comprehensive HR solution provided for them to solve their staffing problems.

Increasing Investment in R&D

We always adhere to the concept of technology-driven HR services and therefore, we put in a lot of effort in the R&D of our integrated HR ecosystem. According to the intended use of the proceeds as disclosed in the Prospectus, approximately 22% of the total amount of the Net Proceeds will be used to further enhance our integrated HR ecosystem and to build up our capabilities in artificial intelligence and data mining technology.

To cope with the COVID-19 outbreak, in 2020, we launched online recruitment events and interviews which allowed us to remove the geographical constraints of traditional offline recruitment events, and hence more job applicants were attracted to participate in the recruitment events. For example, we recorded more than 1,000 job applicants participating in one online recruitment event. Going forward in 2020, we will further improve the live streaming online platform and we plan to commence the R&D for an online interview system.

The COVID-19 outbreak also enabled our BPO employees to provide BPO services at home for our clients for the first time, including customer service representatives, information verification and telemarketing. The quality of such services was not affected as a result of non-centralisation of provision of services. The demand for telecommuting has accelerated the R&D of the home seat management system for the outsourcing of distributed business. In 2020, we will first adopt such system in the recruitment process of our recruitment department and flexible staffing department. At the same time, in response to the Notice on Printing and Publishing the "General Plan for Improving the Employment Security Fund System for the Disabled to Promote the Employment of Disabled People" (Fa Gai Jiage Gui [2019] No. 2015), (關於印發《關於完善殘疾人就業保障金制度更好促進殘疾人就業的總體方案》的通知) (發改價格規[2019]2015號), we have hired disabled people to perform jobs such as job seeker community operations, candidate telephone invitations and online interview coordination via the home seat management system for the outsourcing of distributed business. The home seat management system will be used into our BPO services in the future.

Management Discussion and Analysis

Enlarge the Scale of BPO Services

Our BPO services achieved a rapid growth in 2019. As at 31 December 2019, the total revenue generated from BPO services amounted to approximately RMB51.8 million, representing an increase of approximately 125.4% as compared to that of 2018, and the number of seats increased significantly from approximately 880 as at 31 October 2019 to 1,727 as at 31 December 2019. While providing flexible staffing services to our customers, we have also discovered business opportunities from BPO services and have made certain achievements with more than two years of efforts. According to the intended use of the proceeds as disclosed in the Prospectus, a portion of the Net Proceeds will be used for the expansion of our BPO services in the next three years.

Enhance the Professional Service Capabilities of Our Team

As a group providing professional HR services, we will continue to strengthen the introduction of high-level talents to enhance professional service capabilities of the Group. For example, we started to form a senior consultant team of flexible staffing in September 2019, where our senior consultants visited the front line of key projects to work with clients and design exclusive flexible staffing services for our clients, reducing the turnover rate of contract employees and improving the accuracy of recruitment. The turnover rate of our flexible staffing employees decreased from approximately 10.6% in 2018 to approximately 9.9% in 2019, which we believe is the best indicator for the improvement in the professional service capability of the team. We will further establish a talent training mechanism to continuously strengthen the talent base of the Group. In 2020, we will provide more professional trainings for employees in different departments, in particular, the recruitment and flexible staffing services teams should continuously optimise and update their knowledge and improve their service skills and service capabilities through various means such as learning, training and practice.

In the future, the Group will continue to take advantage from the rapid development of flexible staffing market and new economy companies in China, and adhere to our business development direction, “Flexible staffing as our key business and recruitment as our core competence”, and our service philosophy of “Client-oriented and results-driven”. Leveraging on our technology-driven HR services, we will be able to cope with clients’ difficulties in staffing and personnel management and at the same time, continue to create higher returns for the equity holders.

FUTURE PLANS ON SIGNIFICANT INVESTMENTS

To strengthen our position as the largest flexible staffing services provider in China, we plan to utilise the Net Proceeds to carry out certain expansion projects.

Details for the expansion projects are set out in the paragraph headed “Use of Net Proceeds from the Listing” in this annual report and the section headed “Future Plans on Use of Proceeds” in the Prospectus.

Biographies of Directors and Senior Management

The biographical details of the Directors and senior management are set out as follows:

Executive Directors

Mr. Zhang Jianguo（張建國）
Executive Director,
the Chairman and the Chief Executive Officer
Aged 56

Mr. Zhang Jianguo is also the chairman of the nomination committee of the Board (the "**Nomination Committee**"). He was appointed as a Director in October 2011 and was re-designated as an executive Director and appointed as the Chairman of our Board in March 2019. Mr Zhang Jianguo is also a director, an executive director or a general manager of various subsidiaries of the Group. Mr. Zhang Jianguo has more than 20 years of experience in the HR management sector and he is responsible for the overall strategic planning and business direction, operation and management of our Group while overseeing our flexible staffing services. Prior to joining our Group, Mr. Zhang Jianguo was the chief executive officer of ChinaHR.com (中華英才網), a provider of HR services based in the PRC, from July 2004 to January 2009, where he was responsible for overall management. From January 2003 to July 2004, Mr. Zhang Jianguo was the general manager of China Stone Management Consulting Ltd. (北京華夏基石企業管理諮詢公司), a management consulting company, where he was responsible for overall day-to-day management. From June 2001 to December 2002, Mr. Zhang Jianguo was the general manager of Shenzhen Yihua Times Management Consulting Ltd. (深圳市益華時代管理諮詢有限公司), where he was responsible for overall day-to-day management. From April 1990 to June 2000, Mr. Zhang Jianguo held various positions at Huawei (華為), a provider of information and communications technology infrastructure and smart devices. He served as the vice president before his departure, and was responsible for overseeing HR matters.

Mr. Zhang Jianguo is currently the vice president of Beijing Human Resources Consulting Association (北京市人才行業協會), Shanghai Human Resources Consulting Association (上海人才服務行業協會), Sichuan Human Resources Services Consulting Association (四川省人力資源服務行業協會) and the council members of the professional committee of China Association of Trade in Services (中國服務貿易協會專家委員會). Mr. Zhang Jianguo was awarded the 2019 Asia-Pacific Human Resources Development and Service Fair Most Influential Award (2019亞太人力資源開發與服務博覧會最具影響力獎) and the "2019 'Best CEO' of Human Resources Technology in China" (2019年度中國人力資源科技最佳CEO). Mr. Zhang Jianguo was named as one of the Top Ten Persons of the Year of the PRC HR services industry in 2018 (2018中國人力資源服務業年度十大人物之一), in recognition of his achievement in the HR industry in China. In April 2007, he received the 2nd China HR Management the Top Ten Persons Award (第二屆中國人力資源管理大獎"十佳人物"). He received the 2015 Guangdong Service Outsourcing Outstanding Achievement Person Award (2015年度廣東服務外包傑出貢獻人物) and the 2015-2016 China Service Outsourcing Innovative Person Certificate (2015-2016年度中國服務外包創新人物). Mr. Zhang Jianguo was an author of numerous publications, namely Compensation System Design (《薪酬體系設計》), Performance System Design (《績效體系設計》), Professional Process Design (《職業化進程設計》), Flexible Employment (《靈活用工－人才為我所有到為我所用》), a white paper on the development of flexible staffing in China with Sino Foreign Management (中外管理), and "Manager's Thought — Winning in Strategic Human Resource Management" (《經營者思維－贏在戰略人力資源管理》).

Mr. Zhang Jianguo received a master degree in engineering from Lanzhou Jiaotong University (蘭州交通大學) (formerly known as Lanzhou Railway Institute (蘭州鐵道學院)) in January 1987. He also obtained a master degree in business administration from Beijing University in July 2015.

Biographies of Directors and Senior Management

Mr. Zhang Feng（張峰）
Executive Director and the Chief Operating Officer
Aged 46

Mr. Zhang Feng (former names: Zhang Haifeng (張海峰) and Zhang Feng (張鋒)), was appointed as a Director in October 2011, and was re-designated as an executive Director and appointed as the Chief Operating Officer of our Group in March 2019. Mr. Zhang Feng is also a director and/or a general manager of various subsidiaries of the Group. He is responsible for overseeing the research and development of our information system (including the Xiang Recruitment Platform) and the operation infrastructure of our professional recruitment services, and devising the overall product development strategy of our Group. Mr. Zhang Feng has more than 18 years of experience in the HR management sector. Prior to joining our Group, Mr. Zhang Feng worked as a regional general manager at ChinaHR.com (中華英才網), from August 2004 to June 2011, where he was responsible for overseeing sales, operation and management. From July 2000 to August 2004, he held various positions at Datang Telecom Technology Co., Ltd. (大唐電信科技股份有限公司) (a company listed on The Shanghai Stock Exchange (stock code: 600198)), which is engaged in the development of telecommunication standard and manufacture of telecommunication equipment. He served as the HR manager before his departure, and was responsible for HR management.

Mr. Zhang Feng received a master degree in business administration from Xi'an Shiyou University (西安石油學院) in July 2000. He obtained the vocational qualification of an enterprise HR management officer (企業人力資源管理人員) from the Vocational Skills Identification (Guidance) Center (職業技能鑒定(指導)中心) in January 2004 and the professional qualification of a talent agent (人才中介) from the Shanghai Vocational Testing Authority (上海市職業能力考試院) in April 2013.

Ms. Zhang Jianmei（張健梅）
Executive Director and the Sales Vice-President
Aged 40

Ms. Zhang Jianmei was appointed as a Director in September 2018, and was re-designated as an executive Director in March 2019. Ms. Zhang Jianmei is also a director or a supervisor of various subsidiaries of the Group. She is responsible for overseeing overall sales and business development of our Group. Ms. Zhang Jianmei has more than 16 years of experience in the HR management sector. Prior to joining our Group, Ms. Zhang Jianmei worked as a vice general manager of the western region of China and a general manager of the Chengdu subsidiary of ChinaHR.com (中華英才網), from July 2004 to March 2011, where she was responsible for the operation and management of its business in the western region of China. From August 2002 to July 2004, she worked as a vice general manager of the Chengdu subsidiary of Times Bright China (時代光華), a company in the education and training industry, where she was responsible for the operation and management of its Chengdu subsidiary.

In September 2013, Ms. Zhang Jianmei completed a part-time practical business management president course (實戰型高級工商管理總裁研究生課程進修班) at Southwestern University of Finance and Economics (西南財經大學). Ms. Zhang Jianmei is currently attending a part-time Strategic Human Officer (SHO) advanced management course (戰略人力資源官(SHO)高級管理課程班) at Renmin University of China (中國人民大學).

Biographies of Directors and Senior Management

Non-Executive Directors

Mr. Chen Rui (陳瑞), aged 46, has been appointed as our non-executive Director. He was appointed as a Director in April 2012 and was re-designated as a non-executive Director in March 2019. As confirmed by Mr. Chen, he is a Director nominated by LC Fund V, L.P. (our substantial shareholder) and LC Parallel Fund V, L.P..

Mr. Chen has been a supervisor of Beijing Urban Construction Design & Development Group Co., Limited (北京城建設計發展集團股份有限公司) (a joint stock company listed on the Stock Exchange (stock code: 1599)) since October 2013. From February 2005 up to present, he has held various positions at Legend Capital Management Co., Ltd. (君聯資本管理股份有限公司), a venture capital company, and he currently serves as the managing director, where he is primarily responsible for overseeing investments. Mr. Chen served as an engineer at Shenzhen Lingke Electronic Communication Appliances Co., Ltd. (深圳市靈科電訊器材有限公司), which is primarily engaged in development and production of electronic communication appliances, from February 1998 to May 1999. From June 1999 to November 2002, he worked as an engineer, the manager and the vice general manager of the engineering technical department of Shenzhen Linker Industrial Co., Ltd. (深圳市菱科實業有限公司), which is primarily engaged in research, development and production of numbering machines.

Mr. Chen obtained a bachelor of science in electronics and information system from Shanxi University (山西大學) in July 1997. He obtained a MBA degree from Fordham University of America in February 2005.

Mr. Chow Siu Lui (鄒小磊), aged 59, has been appointed as our non-executive Director. He was appointed as a Director in July 2018, and was re-designated as a non-executive Director in March 2019. He is also a member of the audit committee of the Board (the "**Audit Committee**"). Mr. Chow is a Director nominated by VMS Strategic Investment Fund, L.P. (our substantial shareholder). Mr. Chow has been a partner of VMS Investment Group (HK) Ltd. since January 2016.

Mr. Chow joined KPMG in July 1983, and was a partner in KPMG from July 1995 to December 2011. Mr. Chow was a council member of the Hong Kong Institute of Chartered Secretaries from 2010 to 2016, the chairman of its professional development committee from 2014 to 2015, and the chairman of its audit committee in 2016. He was the chairman of the Mainland Development Strategies Advisory Panel of the Hong Kong Institute of Certified Public Accountants from 2016 to 2017.

Mr. Chow is currently (i) an independent non-executive director of Fullshare Holdings Limited (stock code: 607), Genertec Universal Medical Group Company Limited (formerly known as Universal Medical Financial & Technical Advisory Services Company Limited) (stock code: 2666), Shanghai Dazhong Public Utilities (Group) Co., Ltd. (stock code: 1635), Futong Technology Development Holdings Limited (stock code: 465), China Everbright Greentech Limited (stock code: 1257) and China Tobacco International (HK) Company Limited (stock code: 6055), the shares of which are listed on the Stock Exchange; and (ii) an independent non-executive director of Global Cord Blood Corporation (NYSE stock code: CO), the shares of which are listed on the New York Stock Exchange. He was also an independent non-executive director of NWS Holdings Limited (stock code: 659) from March 2012 to June 2012, Shi Shi Services Limited (formerly known as Shum Union Property Management (Holding) Limited (stock code: 8181)) from February 2015 to October 2015, and Sinco Pharmaceuticals Holdings Limited (stock code: 6833) from February 2016 to November 2018, the shares of which are listed on the Stock Exchange.

In November 1983, Mr. Chow obtained the professional diploma in accountancy from the Hong Kong Polytechnic University. Mr. Chow became qualified as a member of the Hong Kong Society of Accountants (now renamed as the Hong Kong Institute of Certified Public Accountants) in October 1986 and a chartered certified accountant with the Association of Chartered Certified Accountants in July 1991. Mr. Chow was admitted as a fellow member of the Association of Chartered Certified Accountants in September 1991 and a fellow member of the Hong Kong Society of Accountants in December 1993.

Independent Non-Executive Directors

Ms. Chan Mei Bo Mabel (陳美寶), aged 48, is our independent non-executive Director and joined our Group in November 2019. She is also the chairman of the remuneration committee of the Board (the "**Remuneration Committee**") and member of the Audit Committee and the Nomination Committee. She established Mabel Chan & Co. (陳美寶會計師事務所) (an accounting firm, formerly known as Mabel M.B. Chan Certified Public Accountant) in February 1999 and became the deputy managing partner of Grant Thornton Hong Kong Limited following their merger in January 2016. Ms. Chan has been serving as an independent non-executive director of Kingmaker Footwear Holdings Ltd. (stock code: 1170) and Bank of Zhengzhou Co., Ltd. (stock code: 6196), the shares of which are listed on the Stock Exchange. Ms. Chan was also an independent non-executive director of Code Agriculture (Holdings) Limited (formerly known as China Chief Cable TV Group Limited (stock code: 8153)) from October 2009 to April 2012, Hong Kong Education (Int'l) Investments Ltd. (formerly known as Modern Education Group Limited (stock code: 1082)) from July 2011 to September 2012, China Weaving Materials Holdings Limited (stock code: 3778) from December 2011 to December 2014, and South China Land Limited (stock code: 8155) from May 2013 to March 2017, the shares of which are listed on the Stock Exchange.

Ms. Chan served as the president of the Society of Chinese Accountants and Auditor in 2010, a member of the Council of Hong Kong Baptist University from January 2013 to December 2018, a member of the Appeal Panel (Housing) of Hong Kong from April 2014 to March 2018, a member of the Council of Hong Kong Institute of Certified Public Accountants from 2008 to 2018 and the president of the aforesaid Institute in 2017, a member of Barristers Disciplinary Tribunal Panel of Hong Kong since May 2010, a member of the Export Credit Insurance Corporation Advisory Board of HKSAR since July 2017, a member of the Air Transport Licensing Authority of HKSAR since August 2017, a member of the Securities and Futures Appeals Tribunal of HKSAR since April 2017, a member of the Small and Medium Enterprises Committee of HKSAR since January 2015, a member of the Trade and Industry Advisory Board of HKSAR since September 2017.

Ms. Chan obtained a master's degree in business administration from Hong Kong University of Science and Technology (Hong Kong) in November 2000. She is a member of the Association of Chartered Certified Accountants, Hong Kong Institute of Certified Public Accountants, the Society of Chinese Accountants & Auditors, the Institute of Chartered Accountants in England and Wales, CPA Australia. She is also currently a certified public accountant (practising) accredited by the Hong Kong Institute of Certified Public Accountants.

Mr. Shen Hao (沈浩), aged 48, is our independent non-executive Director and joined our Group in November 2019. He is also a member of the Remuneration Committee and the Nomination Committee. Mr. Shen has been an independent director of NCH Hua Yang Ltd. (華陽一恩賽有限公司), which is a Sino-USA joint venture providing industrial and commercial maintenance products and services, since November 2013, where he has been responsible for providing independent opinion and judgment to the directors. He was a managing director of H&Q Asia Pacific from November 2010 to July 2013, where he was responsible for investment management in China. He was a vice general manager of China International Capital Corporation Limited (stock code: 3908), the shares of which were listed on the Stock Exchange, from April 2007 to February 2008 where he was responsible for general management. He was an assistant to the chief executive officer of GF Securities Co., Ltd. from September 2001 to August 2006. He was the head of executive education client services in Harvard University from April 1997 to August 2001, where he was responsible for the design and deployment of technology support services and training, and during around the same time from June 1997 to August 2001, he was also the lead advisor of the Asian programme development in the same university.

In May 1995, Mr. Shen obtained his bachelor degree of arts in Gustavus Adolphus College in the United States. In June 1997, Mr. Shen obtained his master degree of education from Harvard University.

Biographies of Directors and Senior Management

Mr. Leung Ming Shu (梁銘樞), aged 44, is our independent non-executive Director and joined our Group in November 2019. He is also the chairman of the Audit Committee. Mr. Leung founded internet private equity fund Harmony Capital as the founding partner in January 2018. Mr. Leung has been the company secretary of China ITS (Holdings) Co., Ltd. (stock code: 1900), the shares of which are listed on the Stock Exchange, since January 2008 and the chief financial officer of this company from January 2008 to January 2018. He has also been an independent non-executive director of Comtec Solar Systems Group Limited (stock code: 712), Sun. King Power Electronics Group Limited (stock code: 580) and Cabbeen Fashion Limited (stock code: 2030), the shares of which are listed on the Stock Exchange as well as an independent director of Glory Star New Media Group Holdings Limited (NASDAQ: GSMG), the shares of which are listed on NASDAQ.

Mr. Leung has over 20 years' experience in corporate finance and accounting. Mr. Leung started his professional career at PricewaterhouseCoopers in Hong Kong as an auditor in 1998, where he was responsible for performing statutory audit work on listed companies in Hong Kong. He then worked at the global corporate finance division of Arthur Andersen & Co. in Hong Kong, which subsequently merged with PricewaterhouseCoopers, until December 2000, where he was responsible for conducting financial advisory services for government bodies and due diligence exercises for corporate clients. From July 2001 to February 2003, Mr. Leung also worked as a business consultant in Market Catalyst International (Hong Kong) Limited, where he was responsible for advising companies on issues of strategy, organization and operations. Mr. Leung then spent approximately three years from February 2003 to January 2006 at CDC Corporation, a NASDAQ listed company, as a senior manager in the mergers and acquisitions department, and as the chief financial officer of China.com Inc. (now renamed as Sino Splendid Holdings Limited), a subsidiary of CDC Corporation (stock code: 8006), the shares of which are listed on the Stock Exchange, where he was responsible for overseeing the entire finance operations, mergers & acquisitions, investors relationship, and other capital market activities of that company. From February 2006 to October 2006, Mr. Leung served as the chief financial officer of Beijing Xinwei Telecom Technology Co., Ltd., a related party of 大唐電信科技股份有限公司 (Datang Telecom Technology Co., Ltd., the shares of which are listed on The Shanghai Stock Exchange (stock code: 600198)) which is engaged in the development of telecommunication standard and manufacture of telecommunication equipment, where he was responsible for driving a proposed initial public offering process of that company. From November 2006 to January 2008, he served as the chief financial officer of Beijing Lingtu Spacecom Technology Co., Ltd. (北京靈圖星訊科技有限公司), a subsidiary of Beijing Lingtu Software Co., Ltd. (北京靈圖軟件技術有限公司), a PRC digital mapping and navigation software company, where he was responsible for conducting equity fund raising, and overseeing the finance operations of that company.

Mr. Leung obtained his bachelor degree in arts with first class honours in accountancy from the City University of Hong Kong in November 1998 and a master degree in accountancy from the Chinese University of Hong Kong in November 2001. He was admitted as a fellow member of the Association of Chartered Certified Accountants in February 2007 and a fellow member of the Hong Kong Institute of Certified Public Accountants in June 2010.

Senior Management

Mr. Li Wenjia (李文佳), aged 36, is the Vice President and Chief Financial Officer of our Group. He also acts as one of the joint company secretaries of the Company. He joined our Group in January 2015. He is responsible for overseeing the finance management and regulatory compliance of our Group, and managing investor relationships of our Group. Mr. Li has more than seven years of experience in the auditing and finance sector. Immediately prior to joining our Group, Mr. Li worked at PricewaterhouseCoopers Zhong Tian (普華永道中天會計師事務所), from January 2011 to December 2014, where he was responsible for handling the auditing projects for renowned Chinese state-owned enterprises, China A-Share companies and multinational corporations. He worked at Shanghai Mazha'er Certified Public Accountants' Firm (上海瑪澤會計師事務所), from February 2008 to January 2011, where he was responsible for handling the auditing projects for French corporations investing in China. He worked at Shanghai Certified Public Accountants (上海上會會計師事務所), from September 2007 to January 2008, where he was responsible for handling the auditing projects for China A-Share companies.

Mr. Li received a bachelor degree, majoring in econometrics and business management from Shanghai University of Finance and Economics (上海財經大學) in July 2007. He became a PRC certified public accountant in September 2010, a PRC registered tax agent in August 2011 and a PRC certified public valuer in November 2011.

Report of the Directors

The Board is pleased to present its report together with the audited consolidated financial statements of the Company for the year ended 31 December 2019.

GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 14 October 2011 as an exempted company with limited liability under the laws of the Cayman Islands. The Shares were listed on the Main Board of The Stock Exchange on 13 December 2019.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in the provision of one-stop HR solutions comprising flexible staffing services, professional recruitment services, BPO services, corporate training services, labour dispatch services and other miscellaneous services in more than 150 cities in China. Details of the principal activities of the Group are set out in Note 1 to the audited consolidated financial statements.

Business Review and Outlook

A review of the business of the Group and a discussion and analysis of the Group's performance using financial key performance indicators are provided in the section headed "Management Discussion and Analysis" on pages 9 to 28 in this annual report.

Events after the Reporting Period

Particulars of important events affecting the Group that have occurred since the year ended 31 December 2019 are disclosed in Note 35 to the audited consolidated financial statements.

As disclosed in item (ii) under Note 35 to the audited consolidated financial statements, subsequent to 31 December 2019, the Group subscribed for certain financial products which were measured as financial assets at fair value through profit or loss in the Group's consolidated financial statements: (i) with the Net Proceeds, to mainly hedge against the RMB/HKD exchange rate fluctuation risk; and (ii) with the Net Proceeds not immediately applied to the specific purposes as disclosed in the Prospectus as well as the idle cash generated from the Group's business operations in the PRC, to generate better investment returns as compared to interests generated by fixed-term deposit placed with banks or licensed financial institutions. The Company is in the process of assessing its obligations under the Listing Rules in respect of the above subscriptions and will notify the Shareholders of further details of the above subscriptions as required by the Stock Exchange and the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as soon as reasonably practicable.

Principal Risks and Uncertainties

There are certain key risks and uncertainties in relation to our business and our industry as set out below: (i) a considerable portion of our revenue was generated from our clients in the fast-growing new economy industries which we anticipate will continue to be the case in near future, and any slowdown in their growth or significant reduction in these clients' staffing needs may materially and adversely affect our business, results of operations and prospects; (ii) any significant decrease in revenue generated from our five largest clients would materially and adversely affect our business, results of operations and financial condition; (iii) our inability to rapidly source adequate candidates who meet the requirements of our clients may adversely affect our reputation, business prospects and future financial performance; (iv) we have a limited operating history in a dynamic market and we may not be able to successfully manage our current and potential future growth; (v) we face significant competition from other HR services providers and may suffer from a loss of clients, registered individual users and contract employees as a result, and we also have to keep up with rapid changes in the HR services industry; and (vi) if we fail to improve our user experience or respond to changes in user or client preferences, we may not be able to attract and retain registered individual users and clients. However, this is non-exhaustive as there may be other risks and uncertainties arising, resulting from changes in the economy and other conditions over time.

For risks in relation to the Modified Contractual Arrangements (as defined below), please refer to the paragraph headed "Connected and continuing connected transactions – Risks relating to the Contractual Arrangements" on pages 43 to 44 in this annual report. The Group is also exposed to certain financial risks which are set out in Note 3 to the audited consolidated financial statements in this annual report.

Environmental Performance and Policies

The Group is committed to fulfilling social responsibility, promoting employee benefits and development, protecting the environment and giving back to community and achieving sustainable growth. Details of such are set out in the section headed "Environmental, Social and Governance Report" on pages 70 to 97 in this annual report.

Compliance with Laws and Regulations

During the year ended 31 December 2019, to efficiently administer the contributions to social insurance and housing provident fund in certain cities in the PRC where our contract employees prefer to participate in their place of residency and we do not maintain a subsidiary or branch office due to our extensive service coverage, we engaged third-party agents to assist with social insurance and housing provident fund payment for some of our contract employees, but such arrangement is not in strict compliance with the relevant PRC laws and regulations since the obligation to make contributions to social insurance and housing

Report of the Directors

provident fund rests on us and should not be delegated to a third party agent. Further, we had not made full contributions for social insurance and housing provident fund based on the actual salary levels of our employees (including those paid by the agents as described above). On the basis of, among others, our communication with the competent authorities and the confirmations received from them, the views of our PRC legal advisor and the remote possibility of being ordered to settle a material portion of the shortfall of contributions for social insurance and housing provident fund for the year ended 31 December 2019, we consider that the above non-compliance issues would not have a material adverse effect on our business, financial condition or results of operation. For further details, please refer to pages 248 to 250 of the Prospectus.

Save as disclosed above, the Group was not aware of any non-compliance under the laws and regulations in jurisdiction where the Group operates during the year ended 31 December 2019 that could have a material adverse impact on the Group's business, financial condition and operating results.

Relationship with Stakeholders

The Group is of the view that its employees, customers and business partners are important to its sustainable development. The Group is committed to maintaining close relationship with its employees, providing quality services to customers and strengthening the cooperation with its business partners. The Group provides competitive remuneration and benefits and career development opportunities to the staff based on their merits and performance. The Group provides trainings and development resources to its employees so that they can keep abreast of the latest development of the market and the industry, and at the same time, improve their performance and self-fulfillment in their positions.

The Group understands that it is important to maintain good relationship with customers and provide the services in a way that satisfies needs and requirements of the customers. The Group enhances the relationship by continuous interaction with customers to gain insight on the changing market demand for the services so that the Group can respond proactively. The Group has also established procedures in place for handling customers' complaints to ensure customers' complaints are dealt with promptly.

The Group is also dedicated to develop good relationship with suppliers and contractors as long-term business partners to ensure stability of the Group's business. The Group reinforces business partnerships with suppliers and contractors by ongoing communication in a proactive and effective manner so as to ensure quality and timely delivery.

FINANCIAL RESULTS

The financial results of the Group for the year ended 31 December 2019 are set out in the audited consolidated financial statements on pages 102 to 164 in this annual report.

FINAL DIVIDENDS

The Board has resolved not to recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

FINANCIAL SUMMARY

A summary of the Company's results, assets and liabilities for the last four financial years are set out on page 4 in this annual report. This summary does not form part of the audited consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2019 are set out in Note 23 to the audited consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year ended 31 December 2019 are set out on page 105 in the consolidated statement of changes in equity in this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company has distributable reserves of approximately RMB2,170.6 million in total available for distribution (2018: Nil).

BANK LOANS AND OTHER BORROWINGS

As at 31 December 2019, the Group had no bank loans and other borrowings.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2019 are set out in Note 16 to the audited consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this annual report and based on the information publicly available to the Company and to the best knowledge of the Directors, the Company has maintained the minimum public float of 25% as required under the Listing Rules.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the articles of association of the Company (the "**Articles**") or the laws of the Cayman Islands that would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Shares.

DIRECTORS

The Directors during the year ended 31 December 2019 and up to the date of this annual report are:

Executive Directors:

Mr. Zhang Jianguo *(Chairman of the Board and Chief Executive Officer)*
Mr. Zhang Feng
Ms. Zhang Jianmei

Non-executive Directors:

Mr. Chen Rui
Mr. Chow Siu Lui

Independent Non-executive Directors:

Ms. Chan Mei Bo Mabel
Mr. Shen Hao
Mr. Leung Ming Shu

In accordance with article 16.2 of the Articles, any Director appointed by the Board either to fill a casual vacancy or as an addition to the existing Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting. Accordingly, all Directors of the existing Board shall retire by rotation, and being eligible, have offered themselves for re-election at the forthcoming annual general meeting (the "**AGM**") of the Company.

The biographical details of the Directors to be re-elected at the AGM will be set out in the relevant circular to the Shareholders.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 29 to 34 in this annual report.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the executive Directors has entered into a service contract with the Company under which they agreed to act as executive Directors for an initial term of three years commending from the Listing Date, which may be terminated by not less than three months' notice in writing served by either the executive Director or the Company.

Each of the non-executive Directors and the independent non-executive Directors has signed an appointment letter with the Company for a term of one year commencing from the Listing Date (in respect of non-executive Directors) and 29 November 2019 (in respect of independent non-executive Directors), which may be terminated by not less than one month's notice in writing served by either the respective Director or the Company. The appointment of Directors is subject to the provisions of retirement and rotation of Directors under the Articles.

None of the Directors proposed for re-election at the AGM has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation (other than statutory compensation).

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors (being Ms. Chan Mei Bo Mabel, Mr. Shen Hao and Mr. Leung Ming Shu), and the Company considers such Directors to be independent from the date of their appointment to 31 December 2019 and remain so as at the date of this annual report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "**SFO**")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules were as follows:

Report of the Directors

Interests in Shares and underlying Shares of the Company

Name of Director	Capacity/Nature of interest	Total number of Shares/ underlying Shares held	Approximate percentage of shareholding interest in the Company （%）
Zhang Jianguo	Interest of controlled corporation (1)	46,368,000	30.80%
	Interests held jointly with other persons (4)	12,976,600	8.62%
Zhang Feng	Interest of controlled corporation (2)	5,796,000	3.85%
	Interests held jointly with other persons (4)	53,092,800	35.27%
	Beneficial owner (2)	455,800	0.30%
Zhang Jianmei	Interest of controlled corporation (3)	5,796,000	3.85%
	Interests held jointly with other persons (4)	52,619,800	34.95%
	Beneficial owner (3)	928,800	0.62%

Notes:

(1) Ming Feng Holdings Limited ("**Ming Feng**") is wholly owned by Mr. Zhang Jianguo and under the SFO, Mr. Zhang Jianguo is deemed to be interested in the 46,368,000 Shares held by Ming Feng.

(2) Wu Fu Min Feng Holdings Limited ("**Wu Fu Min Feng**") is wholly owned by Mr. Zhang Feng and under the SFO, Mr. Zhang Feng is deemed to be interested in the 5,796,000 Shares held by Wu Fu Min Feng. In addition, Mr. Zhang Feng was granted options under the Mid-senior Level Management Pre-IPO SOS which entitle him to subscribe for 455,800 Shares.

(3) Lin Feng Holdings Limited ("**Lin Feng**") is wholly owned by Ms. Zhang Jianmei and under the SFO, Ms. Zhang Jianmei is deemed to be interested in the 5,796,000 Shares held by Lin Feng. In addition, Ms. Zhang Jianmei was granted options under the Mid-senior Level Management Pre-IPO SOS which entitle her to subscribe for 928,800 Shares.

(4) Mr. Zhang Jianguo, Mr. Zhang Feng and Ms. Zhang Jianmei have entered into an acting in concert deed dated 18 January 2019 according to which, among other things, they acknowledged and confirmed that they will act in concert with each other in respect of all major management matters, business decisions (including but not limited to financial and operational matters), and all matters being the subject matters of any shareholders' resolution of Ming Feng and any of the members of our Group. As such, each of Mr. Zhang Jianguo, Mr. Zhang Feng and Ms. Zhang Jianmei is deemed to be interested in the Shares and/or underlying Shares held by the other parties as they are parties acting in concert.

Interests in associated corporation of the Company

Name of Director	Associated Corporation	Capacity/Nature of interest	Amount of registered capital subscribed (RMB)	Approximate percentage of shareholding interest in the associated corporation (%)
Zhang Jianguo	Chengdu Tianfu Renrui Education Consultation Co., Ltd.	Beneficial owner	4,000,000	80.00%
Zhang Feng	Chengdu Tianfu Renrui Education Consultation Co., Ltd.	Beneficial owner	500,000	10.00%
Zhang Jianmei	Chengdu Tianfu Renrui Education Consultation Co., Ltd.	Beneficial owner	500,000	10.00%

Note:

As Chengdu Tianfu Renrui Education Consultation Co., Ltd. is a limited liability company established in the PRC, the total number of issued shares represents the total registered capital. The percentage of shareholding is determined with reference to the percentage of subscribed registered capital of each shareholder.

Save as disclosed above, as at 31 December 2019, none of the Directors or the chief executives of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required to be recorded in the register to be kept by the Company under section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, to the best knowledge of the Directors or chief executives of the Company, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Interests in Shares and underlying Shares of the Company

Name of Shareholder	Capacity/Nature of interest	Total number of Shares/underlying Shares held	Approximate percentage of shareholding interest （%）
Wang Fen (1)	Interest of spouse	59,344,600	39.42%
Wu Qi (2)	Interest of spouse	59,344,600	39.42%
Chen Bin (3)	Interest of spouse	59,344,600	39.42%
Ming Feng	Beneficial owner	46,368,000	30.80%
LC Fund V, L.P. (4)	Beneficial owner	27,254,544	18.10%
LC Fund V GP Limited (4)	Interest of controlled corporation	29,250,495	19.43%
VMS Strategic Investment Fund, L.P. (5)	Beneficial owner	16,747,481	11.13%
VMS Strategic Investment GP Limited (5)	Interest of controlled corporation	16,747,481	11.13%
VMS Investment Management Inc. (5)	Interest of controlled corporation	16,747,481	11.13%
VMS Financial Services Group Limited (5)	Interest of controlled corporation	16,747,481	11.13%
VMS Holdings Limited (5)	Interest of controlled corporation	16,747,481	11.13%
Mak Siu Hang Viola (5)	Interest of controlled corporation	16,747,481	11.13%

Notes:

(1) Ms. Wang Fen is the spouse of Mr. Zhang Jianguo and under the SFO, Ms. Wang Fen is deemed to be interested in the 59,344,600 Shares/underlying Shares in which Mr. Zhang Jianguo is interested.

(2) Ms. Wu Qi is the spouse of Mr. Zhang Feng and under the SFO, Ms. Wu Qi is deemed to be interested in the 59,344,600 Shares/underlying Shares in which Mr. Zhang Feng is interested.

(3) Mr. Chen Bin is the spouse of Ms. Zhang Jianmei and under the SFO, Mr. Chen Bin is deemed to be interested in the 59,344,600 Shares/underlying Shares in which Ms. Zhang Jianmei is interested.

(4) As LC Fund V GP Limited is the general partner of both of LC Fund V, L.P. and LC Parallel Fund V, L.P., LC Fund V GP Limited is deemed to be interested in the 27,254,544 Shares and 1,995,951 Shares held by LC Fund V, L.P. and LC Parallel Fund V, L.P., respectively.

(5) VMS Strategic Investment Fund, L.P. holds 16,747,481 Shares and under the SFO, VMS Strategic Investment GP Limited, which is the general partner of VMS Strategic Investment Fund, L.P., is deemed to be interested in the 16,747,481 Shares held by VMS Strategic Investment Fund, L.P. VMS Strategic Investment GP Limited is wholly owned by VMS Investment Management Inc. VMS Investment Management Inc. is wholly owned by VMS Financial Services Group Limited. VMS Financial Services Group Limited is wholly owned by VMS Holdings Limited. VMS Holdings Limited is owned as to 92% by Ms. Mak Siu Hang Viola. As such, each of VMS Investment Management Inc., VMS Financial Services Group Limited, VMS Holdings Limited and Ms. Mak Siu Hang Viola is deemed to be interested in the 16,747,481 Shares held by VMS Strategic Investment Fund, L.P..

Report of the Directors

Save as disclosed above, as at the date 31 December 2019, the Directors and the chief executives of the Company were not aware of any other persons (other than the Directors or chief executives of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered in the register required to be kept by the Company pursuant to section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the year, was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

ISSUANCE OF DEBENTURES

During the year ended 31 December 2019, no debentures was issued by the Company.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Since February 2018, Mr. Chen Rui has been a director of Shanghai KNX Human Resources Technology Co., Ltd. ("**KNX**"), a non-listed company incorporated in the PRC. As confirmed by Mr. Chen, he was nominated by Beijing Legend Capital Huicheng Equity Investment L.P., a venture capital fund launched by Legend Capital, to be its board representative in KNX following its investment in KNX. The business focus of KNX is the provision of recruitment and training services via its cloud computing/SaaS platform. As further confirmed by Mr. Chen, Beijing Legend Capital Huicheng Equity Investment L.P. is merely a financial investor with a minority interest in KNX, and his role in KNX is non-executive in nature. In light of the above and given that our Group's business focus is the provision of flexible staffing services, our Directors consider that our businesses and those of the businesses carried out by KNX are different in terms of business focus, and hence, do not believe that any direct or indirect competition is or is likely to be material in nature.

Save as disclosed above, none of the Directors or their associates had any interests in any business which competes or is likely to compete, directly or indirectly, with the businesses of the Group for the year ended 31 December 2019.

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

The transactions contemplated under the modified series of contractual arrangements entered into by, among others, Chengdu Renrui Qicheng Education Consultation Co., Ltd. (成都人瑞啟程教育諮詢有限公司) ("**Chengdu Qicheng WFOE**"), Chengdu Tianfu Renrui Education Consultation Co., Ltd. (成都天符人瑞教育諮詢有限公司) ("**Chengdu Tianfu**"), its subsidiaries and Mr. Zhang Jianguo, Mr. Zhang Feng and Ms. Zhang Jianmei (the "**Registered Shareholders**") on 1 April 2019 (the "**Modified Contractual Arrangements**") are non-exempt continuing connected transactions, which are subject to reporting, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", the entities we control through the Modified Contractual Arrangements, namely, Chengdu Tianfu, Shanghai Renrui Network Technology Co., Ltd. (上海人瑞網絡科技有限公司) ("**Shanghai Renrui**"), Liaoning Renrui Business Process Outsourcing Service Co., Ltd. (遼寧人瑞服務外包有限公司) ("**Liaoning Renrui**"), Beijing Ruilian Network Technology Co., Ltd. (北京瑞聯網絡科技有限公司) ("**Beijing Ruilian**") and Guiyang Renrui Business Process Outsourcing Service Co., Ltd. (貴陽人瑞服務外包有限公司) ("**Guiyang Renrui**") (collectively, the "**Consolidated Affiliated Entities**"), are treated as the Company's wholly-owned subsidiaries, and their directors, chief executives or substantial shareholders (as defined in the Listing Rules) and their respective associates are treated as the Company's connected persons.

Reasons for the Contractual Arrangements

We provide one-stop HR solutions comprising flexible staffing services, professional recruitment services and other HR solutions including BPO services, corporate training services, labour dispatch services and other miscellaneous services in the PRC.

According to the applicable PRC laws and regulations, value-added telecommunication services (增值電信業務) (the "**VATS**") are subject to foreign investment restrictions, and there are restrictions on foreign investors in owning interests in entities holding the value-added telecommunication services licence (增值電信業務經營許可證) (the "**VATS Licence**") in the PRC. In particular, based on the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2018) (外商投資准入特別管理措施(負面清單)(2018年版)) issued by the Ministry of Commerce of the People's Republic of China (中華人民共和國商務部) (the "**MOFCOM**") and the National Development and Reform Commission on 28 June 2018, which took effect on 28 July 2018, (the "**Old Negative List**") and the consultations with the Market Division of Information and Communication Administration (信息通信管理局市場處) of the Ministry of Industry and Information Technology of the People's Republic of China (中華人民共和國工業和信息化部) (the "**MIIT**") conducted on 18 January 2019 and 1 February 2019 (the "**MIIT Consultations**") and as advised by our PRC legal advisor, (i) the operation of the Xiang Recruitment Platform by Shanghai Renrui to provide the recruitment services, which forms part of our professional recruitment services (including all of our paid membership services) and provides support to our flexible staffing services and BPO services (the "**Shanghai Renrui Recruitment Services**"), constitutes the provision of commercial Internet information services to online users, which is a type of VATS, and (ii) the provision of a specific type of BPO services catered for the clients' needs for client service call center representatives whereby the contract employees work at our Group's premises under our Group's direct supervision (the "**Client Service Representative BPO Services**") operated by Liaoning Renrui constitutes the provision of call center services, which is another type of VATS (collectively, the "**Relevant Businesses**"). The Relevant Businesses involve the provision of the VATS and were subject to foreign ownership restriction under the Old Negative List.

Although the provision of flexible staffing services is not explicitly subject to any foreign investment restrictions under the relevant PRC legal and regulatory framework, a specific type of flexible staffing services catered for the clients' needs for client service call center representatives whereby the contract employees work at the clients' premises pursuant to work assignments set by the clients (the "**Client Service Representative Flexible Staffing Services**") conducted by Beijing Ruilian is subject to the requirement (the "**Client-imposed Licence Requirement**") imposed by certain clients of our Group, as set out in the relevant client contracts, tender documents, and/or as confirmed by these clients, that the relevant contracting entity of our Group which provides Client Service Representative Flexible Staffing Services to such clients must be a holder of the VATS Licence in the category of call center services (the "**VATS Call Center Licence**").

Furthermore, there is no clear guidance or interpretation on the applicable qualification requirements. Therefore, we could not hold any equity interest in Chengdu Tianfu (certain wholly-owned subsidiaries of which hold the VATS Licences) and/or its wholly-owned subsidiaries, including Shanghai Renrui, Liaoning Renrui and Beijing Ruilian, which currently operate the Relevant Businesses and/or hold the VATS Licences. Please refer to the sections headed "Contractual Arrangements — PRC Laws and Regulations relating to Foreign Ownership Restrictions –"Restrictions on foreign ownership in Shanghai Renrui Recruitment Services and Client Service Representative BPO Services" and "Restrictions on foreign ownership in Client Service Representative Flexible Staffing Services subject to the Client-imposed Licence Requirement" on pages 172 to 178 of the Prospectus for further details of their business activities. During the year ended 31 December 2019, through the Consolidated Affiliated Entities (except for Guiyang Renrui) and based on the Old Negative List and the MIIT Consultations, our Company operated (i) the Shanghai Renrui Recruitment Services, (ii) the Client Service Representative BPO Services and (iii) the Client Service Representative Flexible Staffing Services subject to the Client-imposed Licence Requirement. Guiyang Renrui, as one of our Consolidated Affiliated Entities, has not conducted any business since its establishment in February 2019 and up to the date of this annual report. We do not intend to do so going forward, and we are in the process of deregistering Guiyang Renrui.

Under the Modified Contractual Arrangements, Chengdu Qicheng WFOE has acquired effective control over the financial and operational policies of our Consolidated Affiliated Entities, and has become entitled to all the economic benefits derived from their operations.

Report of the Directors

Our Directors believe that the Modified Contractual Arrangements are fair and reasonable because: (i) the Modified Contractual Arrangements were freely negotiated and entered into between on the one hand Chengdu Qicheng WFOE, which is an indirect wholly-owned subsidiary of our Company established in the PRC, and, on the other hand and among others, Chengdu Tianfu, its subsidiaries, and the Registered Shareholders, (ii) by entering into the Exclusive Services Agreement (as defined below) with Chengdu Qicheng WFOE, the Consolidated Affiliated Entities will enjoy better economic and technical support from us, as well as a better market reputation after the Listing, and (iii) a number of other companies whose shares are listed on the Stock Exchange use similar arrangements to accomplish the same purpose.

Subsequently, on 30 June 2019, the MOFCOM and the National Development and Reform Commission issued the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2019) (外商投資准入特別管理措施(負面清單)(2019年版)) (the "**New Negative List**"), which took effect on 30 July 2019 and superseded the Old Negative List. According to the New Negative List, the restrictions on foreign ownership percentage to no more than 50% no longer apply to call center services and the holder of the VATS Call Center Licence. Despite the lack of further guidance on, among others, the interpretation and implementation of the New Negative List and the impact of the New Negative List on the processing of applications for the VATS Call Center Licence by the relevant regulatory authorities after the telephone consultations with the MIIT and subsequent searches on the official website of the MIIT, our Company has established Liaoning Renrui Corporate Business Process Outsourcing Service Co., Ltd. (遼寧人瑞企業服務外包有限責任公司) ("**Liaoning Corporate**"), an indirect wholly-owned subsidiary of our Company, on 10 September 2019. Liaoning Corporate has on 23 September 2019 submitted to the MIIT the application for the VATS Call Center Licence (the "**VATS Call Center Licence Application**"), which is the licence necessary to carry out the Client Service Representative BPO Services, on the assumption that the New Negative List will be strictly interpreted and implemented to allow the Client Service Representative BPO Services to be conducted by entities which are directly or indirectly and wholly owned by foreign entities, and the VATS Call Center Licence to be held by entities which are directly or indirectly and wholly owned by foreign entities. The VATS Call Center Licence Application is subject to the approval by the MIIT. Please refer to the section headed "Contractual Arrangements — PRC Laws and Regulations relating to Foreign Ownership Restrictions — Subsequent Development in Response to the New Negative List" on pages 178 to 181 of the Prospectus for further details. As of the date of this annual report, although Liaoning Corporate's VATS Call Center Licence Application was still being reviewed by the MIIT, we had obtained the approval from the MIIT for passing the first stage of the application.

The amount of revenue our Group derived from the Client Service Representative BPO Services amounted to approximately RMB5.9 million (2018: RMB7.0 million), and accounted for approximately 0.3% of our Group's total revenue (2018: 0.4%) for the year ended 31 December 2019.

The transactions contemplated under the Modified Contractual Arrangements are continuing connected transactions of our Company and are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Qualification Requirements

In addition to restrictions on foreign ownership, there are also regulatory requirements on the experience and operations of a foreign investor who intends to invest in the VATS in the PRC.

The Regulations for the Administration of Foreign-Invested Telecommunications Enterprises 《外商投資電信企業管理規定》(the "**FITE Regulations**") was promulgated on 11 December 2001 and last amended on 6 February 2016 by the State Council. According to the FITE Regulations, foreign investor in a foreign-invested telecommunications enterprise that is engaged in VATS shall have a proven track record and experience in operating VATS under the relevant regulations (the "**VATS Qualification Requirement**"). The MIIT issued a guidance memorandum on its official website in relation to the application requirement for establishing foreign-invested value-added telecommunications enterprises in the PRC. According to this guidance memorandum, an applicant is required to provide satisfactory proof of the VATS Qualification Requirement. The guidance memorandum, however, does not purport to provide an exhaustive list on the application requirement. As further confirmed through the MIIT Consultations, no applicable PRC laws or regulations or rules provides clear guidance or interpretation on the VATS Qualification Requirement. Furthermore, the MIIT has not provided any further guidance on, among others, the interpretation and implementation of the New Negative List and the impact of the New Negative List on the VATS Qualification Requirement.

Efforts and Actions Undertaken to Comply with the Qualification Requirements

Despite the lack of clear guidance or interpretation on the VATS Qualification Requirement, we have been gradually building up our track record of overseas VATS operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests in Chengdu Tianfu when the relevant PRC laws and authorities allow foreign investors to invest and hold (or to increase, as applicable) equity interests in enterprises which engage in VATS and/or hold the VATS Licence.

We have taken the following measures to meet the VATS Qualification Requirement, so as to be qualified to acquire the relevant interests in Chengdu Tianfu and its subsidiaries, namely, Shanghai Renrui, Liaoning Renrui, Beijing Ruilian and Guiyang Renrui, which are permitted to be held by a foreign investor when there is clear guidance or interpretation of the VATS Qualification Requirement or the foreign investment restrictions in operating the VATS and/or holding the VATS Licence are lifted:

- Renrui (HK) and Tournesol Human Resources Limited, both wholly-owned subsidiaries of our Company, have been incorporated in Hong Kong for the purposes of establishing and expanding our operations overseas;
- we have applied for, and are in the process of registering, trademarks outside the PRC for the promotion of our relevant businesses overseas;
- we have obtained four domain names outside the PRC, and are in the process of constructing our overseas website, primarily for introducing our relevant businesses to overseas users; and
- we have obtained a Hong Kong local phone number for the promotion of our call centre businesses overseas.

As confirmed through the MIIT Consultations, the determination of whether a foreign investor satisfies the VATS Qualification Requirement is subject to substantive discretion by the MIIT on a case-by-case basis.

Subject to the discretion of the competent authority in determining whether our Group has fulfilled the VATS Qualification Requirement, our PRC legal advisor is of the view that the above steps taken by us may be deemed as reasonable in relation to the VATS Qualification Requirement.

Risks Relating to the Contractual Arrangements

We believe the following risks are associated with the Modified Contractual Arrangements. Further details of these risks are set out on pages 71 to 80 of the Prospectus.

- The PRC government may determine that the Modified Contractual Arrangements do not comply with applicable PRC laws and regulations, which may subject us to severe penalties, and our business may be materially and adversely affected.
- Substantial uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law of the PRC (中華人民共和國外商投資法) (promulgated by the National People's Congress on 15 March 2019 and effective on 1 January 2020) and it may impact the viability of our current corporate structure, corporate governance and business operations.
- Our Modified Contractual Arrangements may not be as effective in providing control over the Consolidated Affiliated Entities as direct ownership.
- The owners of our Consolidated Affiliated Entities may have conflicts of interest with us, which may materially and adversely affect our business and financial condition.
- Our exercise of the option to acquire the equity interests in and/or the relevant assets of Chengdu Tianfu may be subject to certain limitations and we may incur substantial costs.
- Our Modified Contractual Arrangements may be subject to scrutiny by PRC tax authorities and additional tax may be imposed, which may materially and adversely affect our results of operations and the value of the investment of our Shareholders.
- We may not be able to meet the VATS Qualification Requirement and our plan to unwind the Modified Contractual Arrangements may be subject to certain limitations.
- Substantial uncertainties exist with the regulations regarding foreign ownership restrictions and the New Negative List may impact the viability of our current corporate structure, corporate governance and business operations.
- Certain terms of the Modified Contractual Arrangements may not be enforceable under PRC laws.

Report of the Directors

- We rely on dividend and other payments from Chengdu Qicheng WFOE and Renrui HR Group, which is an indirect wholly-owned subsidiary of our Company and was held as to 99.97% by Renrui (HK) and 0.03% by Tournesol Human Resources Limited as at the date of this annual report after an increase in subscribed capital contribution by Renrui (HK) on 17 March 2020, to pay dividends and other cash distributions to our Shareholders and any limitation on the ability of Chengdu Qicheng WFOE or Renrui HR Group to pay dividends to us would materially and adversely limit our ability to pay dividends to our Shareholders.
- If any of our Consolidated Affiliated Entities becomes subject to winding up or liquidation proceedings, we may lose the ability to use certain important assets, which could negatively impact our business and materially and adversely affect our ability to generate revenue.

Modified Contractual Arrangements in Place

A brief description of the major terms of the Modified Contractual Arrangements which were in place during the year ended 31 December 2019 is as follows:

Exclusive Services Agreement

Pursuant to the exclusive services agreement entered into among Chengdu Qicheng WFOE, Chengdu Tianfu and its subsidiary entities as described therein which include our Consolidated Affiliated Entities, and the Registered Shareholders on 1 April 2019 (the "**Exclusive Services Agreement**"), Chengdu Qicheng WFOE has the exclusive right to provide or to designate any third party to provide technical support and consultancy services to our Consolidated Affiliated Entities. Such services to our Consolidated Affiliated Entities include comprehensive technical support and business support, corporate management consultancy, intellectual property licensing services, advisory services on asset and business operation, debt disposal, material contracts or mergers and acquisitions, employee training, technology development, transfer and consulting services, public relation services, market survey, research and consulting services, market development and planning services, human resources and internal information management, network development, upgrade and ordinary maintenance services, sales of proprietary products, software and trademark and other types of intellectual property rights and other additional services as the parties may mutually agree from time to time. Without Chengdu Qicheng WFOE's prior written consent, none of our Consolidated Affiliated Entities and the Registered Shareholders may accept services covered by the Exclusive Services Agreement from any third party. Chengdu Qicheng WFOE exclusively owns all intellectual property rights arising out of the performance of this agreement.

Pursuant to the Exclusive Services Agreement, Chengdu Tianfu and the Registered Shareholders have undertaken to procure any subsidiary entity to be established after the date of such agreement invested and controlled by Chengdu Tianfu to acknowledge that it will assume the rights and obligations as a subsidiary entity of Chengdu Tianfu under the agreement. In consideration of the services provided by Chengdu Qicheng WFOE or its designated third party, our Consolidated Affiliated Entities agreed to pay service fees equal to total revenue deducting the relevant costs, fees, tax expenses and reserved funds as required by applicable PRC laws and regulations to Chengdu Qicheng WFOE or its designated third party which provided the services, and they will agree with Chengdu Qicheng WFOE or its designated third party which provided the services on the actual amount of the service fees to be paid based on the actual situation. The Exclusive Services Agreement shall remain valid during the term of operation of each of the parties to the agreement unless the parties mutually agree to terminate. In addition, during the period of validity, Chengdu Qicheng WFOE has the unilateral right to terminate by providing 30 days' advance written notice to Chengdu Tianfu and the Registered Shareholders.

Exclusive Option Agreement

Under the exclusive option agreement entered into among Chengdu Qicheng WFOE, the Registered Shareholders and Chengdu Tianfu on 1 April 2019 (the "**Exclusive Option Agreement**"), the Registered Shareholders agreed to grant Chengdu Qicheng WFOE an exclusive, unconditional and irrevocable option for Chengdu Qicheng WFOE or its designated third party to purchase all or part of the equity interests in and/or the relevant assets of Chengdu Tianfu at the lowest price permitted under the PRC laws and regulations, under circumstances in which Chengdu Qicheng WFOE or its designated third party is permitted under PRC laws and regulations to own all or part of the equity interests in and/or the relevant assets of Chengdu Tianfu. The Registered Shareholders shall return the amount of purchase price they have received to Chengdu Tianfu, Chengdu Qicheng WFOE or its designated third party as requested by Chengdu Qicheng WFOE after deduction of the relevant expenses, expenditure and taxes. The Exclusive Option Agreement shall remain valid unless Chengdu Qicheng WFOE or its designated third party exercises the option and has acquired all of the equity interests in and/or the relevant assets of Chengdu Tianfu, or all parties to the Exclusive Option Agreement have executed a written agreement to terminate the Exclusive Option Agreement, whichever is earlier.

Share Pledge Agreement

Pursuant to the share pledge agreement entered into among Chengdu Qicheng WFOE, the Registered Shareholders and Chengdu Tianfu on 1 April 2019 (the "**Share Pledge Agreement**"), the Registered Shareholders unconditionally and irrevocably pledged all of their equity interests in Chengdu Tianfu as the first charge to Chengdu Qicheng WFOE to guarantee performance of the obligations of Chengdu Tianfu and its subsidiary entities as described therein which include our Consolidated Affiliated Entities, and the Registered Shareholders under the Share Pledge Agreement, the Exclusive Option Agreement, the Exclusive Services Agreement and the Exclusive Business Operation Agreement (as defined below, including Powers of Attorney (as defined below)). The Share Pledge Agreement shall remain valid until (i) the full performance, or the nullification or termination of the Exclusive Option Agreement, the Exclusive Services Agreement and the Exclusive Business Operation Agreement (including Powers of Attorney), or (ii) all parties to the Share Pledge Agreement have executed a written agreement to terminate the Share Pledge Agreement, whichever is later.

Exclusive Business Operation Agreement

Pursuant to the business operation agreement entered into among Chengdu Qicheng WFOE, Chengdu Tianfu and its subsidiary entities as described therein which include our Consolidated Affiliated Entities, and the Registered Shareholders on 1 April 2019 (the "**Exclusive Business Operation Agreement**"), the Registered Shareholders agreed that, unless with the prior written consent from Chengdu Qicheng WFOE or its designated third party, Chengdu Tianfu and its subsidiary entities will not conduct any transaction that may have impact on their assets, businesses, manpower, obligations, rights or the operation of these companies on terms as set out in the Exclusive Business Operation Agreement. Chengdu Tianfu and the Registered Shareholders agreed to accept and strictly enforce the advice from Chengdu Qicheng WFOE regarding the recruitment and dismissal of employees, daily operation management and financial management of Chengdu Tianfu and its subsidiary entities. The Exclusive Business Operation Agreement shall remain valid during the term of operation of each of the parties to the agreement unless Chengdu Qicheng WFOE exercises its unilateral right to terminate by providing 30 days' advance written notice to Chengdu Tianfu and the Registered Shareholders.

Powers of Attorney

Each of the Registered Shareholders and Chengdu Tianfu has entered into irrevocable powers of attorney with Chengdu Qicheng WFOE dated 1 April 2019 (the "**Powers of Attorney**") appointing Chengdu Qicheng WFOE, or any person designated by Chengdu Qicheng WFOE, as his/her/its attorney-in-fact to, among others, appoint directors and vote on his/her/its behalf on all matters of our Consolidated Affiliated Entities requiring shareholders' approval under their respective articles of association (as applicable) and under the relevant PRC laws. These Powers of Attorney will remain effective as long as each of the Registered Shareholders and Chengdu Tianfu remain a shareholder of Chengdu Tianfu or its subsidiary entities (as the case maybe), unless Chengdu Qicheng WFOE requests to replace the appointed designee under the Powers of Attorney.

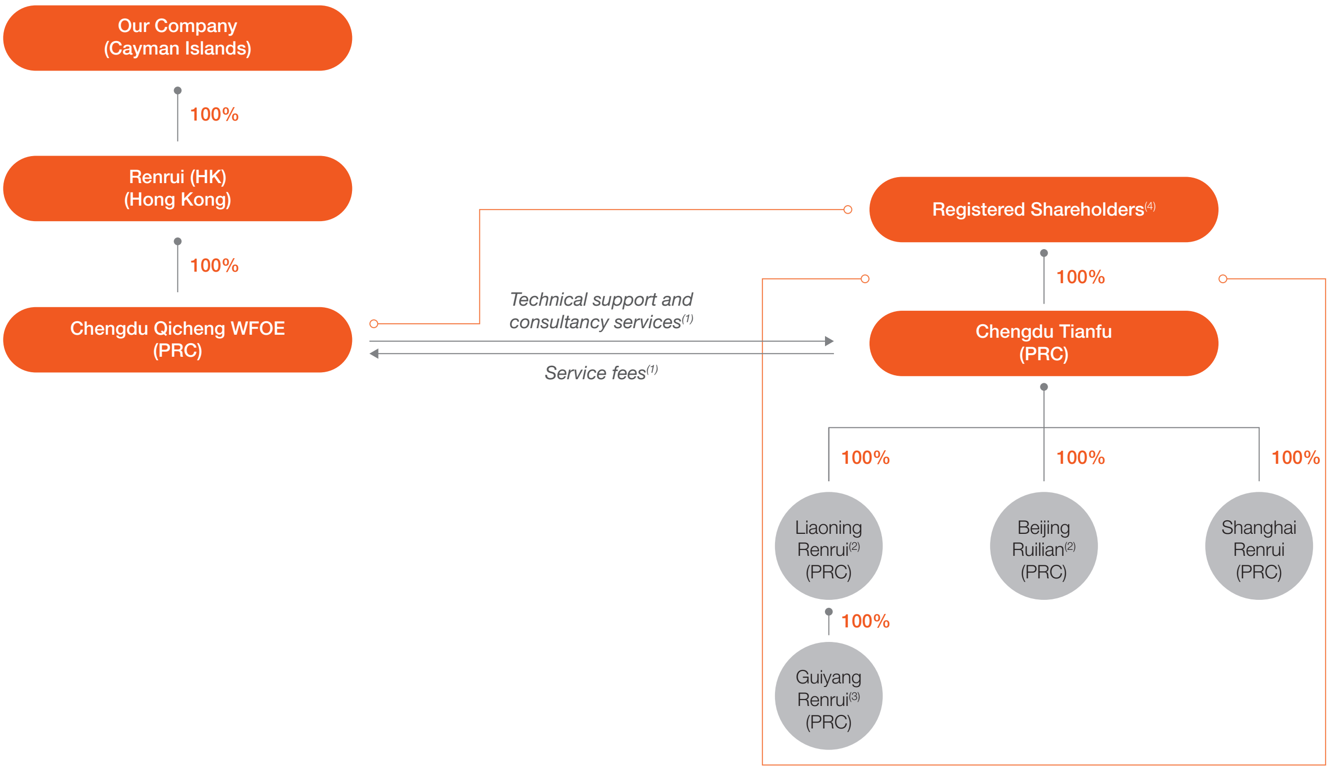
Spouses' Undertakings

Ms. Wang Fen, Ms. Wu Qi, and Mr. Chen Bin, being the respective spouses of the Registered Shareholders, executed unconditional and irrevocable consent letters on 1 April 2019 (the "**Spouses' Undertakings**") whereby he or she unconditionally and irrevocably (i) acknowledged the entry into of the Modified Contractual Arrangements by Mr. Zhang Jianguo, Mr. Zhang Feng and Ms. Zhang Jianmei, respectively; (ii) undertook that he or she shall not take any actions that are in conflict with the purpose and intention of the Modified Contractual Arrangements, including asserting that any equity interests held by Mr. Zhang Jianguo, Mr. Zhang Feng and Ms. Zhang Jianmei, respectively, fall within the scope of their communal properties; and (iii) confirmed that his or her authorization or consent is not required for the implementation of the Modified Contractual Arrangements, any amendments or the termination thereof.

Report of the Directors

For details of the Modified Contractual Arrangements, please refer to the section headed "Contractual Arrangements" in the Prospectus.

The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Group stipulated under the Modified Contractual Arrangements.



Notes:

"●——" *denotes direct legal and beneficial ownership in the equity interest.*

"——▶" *denotes contractual relationship.*

"○——○" *denotes control by Chengdu Qicheng WFOE over the Registered Shareholders and Chengdu Tianfu primarily through (i) powers of attorney to exercise all shareholders' rights in Chengdu Tianfu, (ii) exclusive options to acquire all or part of the equity interests in and/or assets of Chengdu Tianfu and (iii) share pledges over the equity interests in Chengdu Tianfu.*

(1) Our Consolidated Affiliated Entities will pay services fees to Chengdu Qicheng WFOE in exchange for technical support and consultancy services.

(2) We intend to deregister Liaoning Renrui and Beijing Ruilian in the event that all relevant contracts entered into by Liaoning Renrui and Beijing Ruilian have been transferred to Liaoning Corporate after Liaoning Corporate has obtained the VATS Call Center Licence.

(3) Guiyang Renrui, as one of our Consolidated Affiliated Entitie, has not conducted any business since its establishment in February 2019 and up to the date of this annual report. We do not intend to do so going forward, and we are in the process of deregistering Guiyang Renrui.

(4) Chengdu Tianfu is held as to 80%, 10% and 10% by Mr. Zhang Jianguo, Mr. Zhang Feng and Ms. Zhang Jianmei, respectively.

Apart from the above, there are no other new contractual arrangements entered into, renewed or reproduced between the Group and the Consolidated Affiliated Entities during the financial year ended 31 December 2019. There was no material change in the Modified Contractual Arrangements and/or the circumstances under which they were adopted for the year ended 31 December 2019.

For the year ended 31 December 2019, none of the Modified Contractual Arrangements has been unwound as none of the restrictions that led to the adoption of structured contracts under the Modified Contractual Arrangements has been removed. As of 31 December 2019, we had not encountered interference or encumbrance from any PRC governing bodies in operating our businesses through our Consolidated Affiliated Entities under the Modified Contractual Arrangements.

Save as disclosed in this annual report, during the year ended 31 December 2019, we have not entered into any non-exempt connected transaction or continuing connected transaction which should be disclosed pursuant to the Rules 14A.49 and 14A.71 of the Listing Rules.

During the year ended 31 December 2019, no related party transactions disclosed in Note 32 to the audited consolidated financial statements constitutes a connected transaction or continuing connected transaction which should be disclosed pursuant to the Listing Rules for the continuing connected transactions set out in this section. The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the connected transactions and continuing connected transactions entered into by the Group during the year under review.

We have been advised by our PRC legal advisor that the Modified Contractual Arrangements do not violate the relevant PRC laws and regulations.

The amount of revenue our Group generated from our Consolidated Affiliated Entities for the year ended 31 December 2019 was approximately RMB100.5 million (2018: RMB144.5 million), which accounted for approximately 4.4% of our total revenue (2018: 8.9%), representing a decrease by 30.4% as compared to that of 2018.

The net assets of our Consolidated Affiliated Entities were approximately RMB187.0 million as at 31 December 2019 (2018: RMB81.2 million).

Mitigation Actions Taken by the Company

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Modified Contractual Arrangements and our compliance with the Modified Contractual Arrangements:

1. major issues arising from the implementation and compliance with the Modified Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;

2. our Board will review the overall performance of and compliance with the Modified Contractual Arrangements at least once a year;

3. our Company will disclose the overall performance and compliance with the Modified Contractual Arrangements in our annual reports; and

4. our Company has engaged external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Modified Contractual Arrangements, review the legal compliance of Chengdu Qicheng WFOE and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Modified Contractual Arrangements.

Report of the Directors

The Extent to which the Contractual Arrangements Relate to Requirements Other than the Foreign Ownership Restriction

All of the Modified Contractual Arrangements are subject to the restrictions as set out on pages 168 to 182 and pages 191 to 196 of the Prospectus.

Listing Rule Implications

The highest applicable percentage ratios (other than the profits ratio) under the Listing Rules in respect of the transactions under the Modified Contractual Arrangements are expected to be more than 5%. As such, these transactions will be subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Waiver from the Stock Exchange and Annual Review

The Stock Exchange has granted the Company a waiver from strict compliance with (i) the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Modified Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, and (ii) the requirement of setting an annual cap for the transactions under the Modified Contractual Arrangements under Rule 14A.53 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange subject however to the following conditions:

a) no change without independent non-executive Directors' approval;

b) no change without independent Shareholders' approval;

c) the Modified Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by our Consolidated Affiliated Entities;

d) the Modified Contractual Arrangements may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the Modified Contractual Arrangements; and

e) our group will disclose details relating to the Modified Contractual Arrangements on an on-going basis.

During the year ended 31 December 2019, the Company had complied with the waiver conditions set out by the Stock Exchange and all necessary Listing Rules requirements as required by the Stock Exchange.

Annual Revenue Cap on Client Service Representative Flexible Staffing Services subject to the Client-imposed Licence Requirement

As disclosed on page 175 of the Prospectus, our Group has adopted the annual cap on the revenue derived from the contracts subject to the Client-imposed Licence Requirement of no more than 5% of our Group's revenue in respect of the relevant year (the "**Annual Revenue Cap**").

The amount of revenue our Group derived from the Client Service Representative Flexible Staffing Services subject to Client-imposed Licence Requirement amounted to approximately RMB22.9 million (2018: RMB86.0 million) and accounted for approximately 1.0% of our Group's total revenue (2018: 5.3%) for the year ended 31 December 2019.

Confirmations from the Independent Non-executive Directors and the Auditor

Our independent non-executive Directors have confirmed that the Modified Contractual Arrangements for the year ended 31 December 2019 to which any member of the Group was a party were entered into by the Group:

a) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Modified Contractual Arrangements and have been operated so that the revenue generated by the Consolidated Affiliated Entities has been substantially retained by Chengdu Qicheng WFOE;

b) no dividends or other distributions have been made by the Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group;

c) no new contracts were entered into, renewed or reproduced between our Group and the Consolidated Affiliated Entities during the reporting period;

d) no new contracts subject to the Client-imposed Licence Requirement were entered into between our Group and any new or existing clients (except for Client A (a leading American multinational technology company which operates e-commerce and cloud computing platform) and Client B (a company principally engaged in property development and property investment in the PRC)) during the reporting period;

e) our relevant business units have engaged in re-negotiations with Client A and Client B to remove the Client-imposed Licence Requirement but they have not agreed to remove the Client-imposed Licence Requirement;

f) the transactions carried out pursuant to the Modified Contractual Arrangements have not exceeded the Annual Revenue Cap for the year ended 31 December 2019; and

g) the Modified Contractual Arrangements are entered into in the ordinary and usual course of business of our Group on normal commercial terms and are fair, reasonable and advantageous, so far as our Group is concerned and in the interests of our Company and the Shareholders of our Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company has engaged the auditor to conduct certain procedures in respect of the transactions carried out pursuant to the Modified Contractual Arrangements of the Group for the year ended 31 December 2019, in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has confirmed in a letter to the Board that, with respect to the transactions carried out pursuant to the Modified Contractual Arrangements during the year ended 31 December 2019:

a) the transactions carried out pursuant to the Modified Contractual Arrangements have received the approval of the Board;

b) the disclosed continuing connected transactions were entered into in accordance with the relevant agreements under the Modified Contractual Arrangements governing such transactions; and

c) no dividends or other distributions have been made by the Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, no Director or an entity connected with a Director was materially interested, either directly or indirectly, in any transaction, arrangement or contract which is significance in relation to the business of the Group to which the Company or any of its subsidiaries or fellow subsidiaries was a party subsisting during the year ended 31 December 2019 or at the end of the year ended 31 December 2019.

CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, no contract of significance was entered into between the Company, or one of its subsidiary companies, and a controlling Shareholder or any of its subsidiaries during the year ended 31 December 2019.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019 between the Company and a person other than a Director or any person engaged in the full-time employment of the Company.

DIRECTORS' PERMITTED INDEMNITY PROVISION

Pursuant to the Articles, the Company shall indemnify any Director out of the assets of the Company against all losses or liabilities incurred or sustained by him/her as a Director of the Company in defending any proceeding, whether civil or criminal, in which judgment is given in his/her favour, or in which he/she is acquitted. The Company has arranged appropriate directors' liability insurance coverage for the Directors of the Group as at the date of this annual report.

Report of the Directors

STAFF, EMOLUMENT POLICY AND DIRECTORS' REMUNERATION

As at 31 December 2019, we had 645 internal employees. The remuneration package for our employees generally includes salaries, bonuses and allowances. Our remuneration policies are formulated based on the performance of individual employees and are reviewed regularly. The Remuneration Committee was set up for reviewing the Company's emolument policy and structure for all remuneration of the Directors and senior management of the Company, having regard to the Company's operating results, individual performance of the Directors and senior management and comparable market practices.

Details of the emoluments of the Directors and five highest paid individuals for the year ended 31 December 2019 are set out in Note 8 and Note 7 to the audited consolidated financial statements.

SHARE OPTION SCHEMES

1. Pre-IPO share option schemes

The Company conditionally adopted two pre-IPO share option schemes predominantly for certain mid-senior level management members of our Group (i.e. the Mid-senior Level Management Pre-IPO SOS) and certain non-managerial employees of our Group (i.e. the Non-managerial Employee Pre-IPO SOS) respectively on 12 March 2019 (collectively, the "**Pre-IPO Share Option Schemes**").

The purpose of the Pre-IPO Share Option Schemes is to enable our Group to grant options to the participants as incentives or rewards for their contribution to our Group, in particular, (i) to motivate them to optimise their performance and efficiency for the benefit of our Group; (ii) to attract and retain them whose contributions are or will be beneficial to our Group; and (iii) to encourage them to enhance cooperation and communication amongst team members for the growth of our Group.

(i) Mid-senior Level Management Pre-IPO SOS

(a) Who may join
Our Board shall have the right to invite and determine any person belonging to any of the following classes of eligible participants, to take up options to subscribe for Shares: (i) mid-senior level management member(s) (including directors) of any Group company or any advisors/consultants, or (ii) former mid-senior level management member(s) (including former directors) of any Group company who hold unexercised and valid options previously granted by any Group company.

(b) Maximum number of Shares
The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Mid-senior Level Management Pre-IPO SOS at any time shall not exceed 17,142,600 Shares, representing approximately 11.2% of the total issued Shares of the Company as at the date of this annual report.

(c) Performance target
The right to exercise an option is not subject to or conditional upon the achievement of any performance target, unless otherwise stated in the grant by way of a supplemental confirmation letter or any letter.

(d) Vesting period
Any option granted to the participant(s) shall be subject to the vesting period stated herein below. For each of the participant(s), provided that he/she remains in employment with any Group company: (i) one-fourth (1/4) of the options granted to him/her shall be vested on the day immediately following the expiry of a period of six months after the Listing Date; (ii) another one-fourth (1/4) of the options so granted shall be vested on the day immediately following the expiry of a period of 12 months after the Listing Date; (iii) another one-fourth (1/4) of the options so granted shall be vested on the day immediately following the expiry of a period of 18 months after the Listing Date; and (iv) the remaining one-fourth (1/4) of the options so granted shall be vested on the day immediately following the expiry of a period of 24 months after the Listing Date. Our Board reserves the right to vary or accelerate the vesting of the options in such circumstances as it, in its absolute discretion, deems appropriate and any such variation or acceleration shall be effective only when set forth in a written instrument executed with the authority of our Board.

(e) Exercise of option
An option may be exercised by the grantee (or, as the case may be, by his legal personal representative(s)) giving notice in writing to our Company copying the relevant committee and the relevant trustee in the form set out in the Mid-senior Level Management Pre-IPO SOS or in such other form as may be approved by our Board from time to time.

(f) Basis of determining the subscription price
The subscription price shall be set out in a supplemental confirmation letter or any letter or such other price as our Board may from time to time decide in its absolute discretion and notify to the participant(s) and shall be no less than the par value of the Share in any event, subject to adjustment in accordance with the Mid-senior Level Management Pre-IPO SOS.

(ii) Non-managerial Employee Pre-IPO SOS

Save for the following terms, all of the terms of the Non-managerial Employee Pre-IPO SOS are substantially the same with those of the Mid-senior Level Management Pre-IPO SOS.

(a) Who may join
Our Board shall have the right to invite and determine any person belonging to any of the following classes of eligible participants, to take up options to subscribe for Shares: (i) non-managerial employee(s) of any Group company, or (ii) former non-managerial employee(s) of any Group company who hold unexercised and valid options previously granted by any Group company.

(b) Maximum number of Shares
The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Non-managerial Employee Pre-IPO SOS at any time shall not exceed 5,972,262 Shares, representing approximately 3.9% of the issued Shares of the Company as at the date of this annual report.

(c) Vesting period
Any option granted to the participant(s) shall be subject to the vesting period stated herein below. For each of the participant(s), provided that he/she remains in employment with any Group company: (i) one-third (1/3) of the options granted to him/her shall be vested on the day immediately following the expiry of a period of 6 months after the Listing Date; (ii) another one-third (1/3) of the options so granted shall be vested on the day immediately following the expiry of a period of 12 months after the Listing Date; and (iii) another one-third (1/3) of the options so granted shall be vested on the day immediately following the expiry of a period of 18 months after the Listing Date. Our Board reserves the right to vary or accelerate the vesting of the options in such circumstances as it, in its absolute discretion, deems appropriate and any such variation or acceleration shall be effective only when set forth in a written instrument executed with the authority of our Board.

(d) Exercise of option
An option may be exercised by the grantee (or, as the case may be, by his legal personal representative(s)) giving notice in writing to our Company copying the relevant committee and the relevant trustee in the form set out in the Non-managerial Employee Pre-IPO SOS or in such other form as may be approved by our Board from time to time.

As at 31 December 2019, options to subscribe for an aggregate of 22,864,600 Shares (representing approximately 15.2% of the total issued Shares of the Company) under the Pre-IPO Share Option Schemes remained outstanding, and none of the options granted under the Pre-IPO Share Option Schemes had been exercised during the year ended 31 December 2019.

No further options will be granted under the Pre-IPO Share Option Schemes after the Listing Date.

Report of the Directors

Details of movements in the share options granted under the Pre-IPO Share Option Schemes during the year ended 31 December 2019 are as follows:

Category and Name of grantee	Date of grant of share options	Number of share options: Outstanding as at 1 January 2019	Granted during the year ended 31 December 2019	Exercised during the year ended 31 December 2019	Cancelled/ Lapsed during the year ended 31 December 2019	Outstanding as at 31 December 2019	Vesting period of share options	Exercise price of share options
Executive Directors								
Mr. Zhang Feng	31 January 2013 and 20 February 2013	455,800	–	–	–	455,800	One-fourth of options vested on the day immediately following the expiry of a period of 6 months, 12 months, 18 months and 24 months after the Listing Date, respectively	USD0.1111
Ms. Zhang Jianmei	31 January 2013, 20 February 2013 and 16 October 2018	928,800	–	–	–	928,800	One-fourth of options vested on the day immediately following the expiry of a period of 6 months, 12 months, 18 months and 24 months after the Listing Date, respectively	USD0.1111 - USD0.88
In aggregate		1,384,600	–	–	–	1,384,600		
Other management members and employees of our Group								
In aggregate	31 January 2013 – 31 July 2019	17,190,800	2,661,000	–	(1,539,000) *(Note 2)*	18,312,800	Mid-senior level management: one-fourth of options vested on the day immediately following the expiry of a period of 6 months, 12 months, 18 months and 24 months after the Listing Date, respectively Non-managerial employee: one-third of options vested on the day immediately following the expiry of a period of 6 months, 12 months and 18 months after the Listing Date, respectively	USD0.1111 - USD2.80
Other participants *(Note 1)*								
In aggregate	31 January 2013 – 5 November 2018	3,247,200	–	–	(80,000)	3,167,200	Mid-senior level management: one-fourth of options vested on the day immediately following the expiry of a period of 6 months, 12 months, 18 months and 24 months after the Listing Date, respectively Non-managerial employee: one-third of options vested on the day immediately following the expiry of a period of 6 months, 12 months and 18 months after the Listing Date, respectively	USD0.1111 - USD0.88
Total		21,822,600	2,661,000	–	(1,619,000)	22,864,600		

Notes:

(1) They include former mid-senior level management members, former non-managerial employees of our Group and consultants.

(2) Share options to subscribe for 40,000 Shares were lapsed during the period from the Listing Date to 31 December 2019.

Further details of the Pre-IPO Share Option Schemes are set out on pages IV-29 to IV-48 of the Prospectus.

2. Post-IPO share option scheme

The Company conditionally adopted the Post-IPO Share Option Scheme on 26 November 2019.

(a) Purpose

The purpose of the Post-IPO Share Option Scheme is to enable our Group to (1) recognise and acknowledge the contributions that eligible participants have (or may have) made or may make to our Group (whether directly or indirectly); (2) attract, retain and appropriately remunerate the best possible quality of employees and other eligible participants; (3) motivate the eligible participants to optimise their performance and efficiency for the benefit of our Group; (4) enhance its business, employee and other relations; and/or (5) retain maximum flexibility as to the range and nature of rewards and incentives which our Group can offer to eligible participants.

(b) Eligible participants
Eligible participants mean (1) any employee or officer employed by any member of our Group or an affiliate (whether full time or part time) and any of his/her close associates; (2) any director or proposed director of any member of our Group or any company which is an affiliate and their respective close associates; and (3) any consultant, professional, customer, supplier, agent, franchisee, partner, advisor or contractor of any member of our Group or any of the affiliates and their respective close associates, who the Board in its absolute discretion determines to be qualified to be (or, where applicable, to continue to be qualified to be) an eligible participant.

(c) Total number of Shares available for issue under the Post-IPO Share Option Scheme
The maximum number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and other schemes shall not, in aggregate, exceed 15,053,947, being 10% of the total number of issued Shares as at the Listing Date ("**Scheme Mandate Limit**") and representing approximately 9.8% of the total issued shares of the Company as at the date of this annual report. Options lapsed in accordance with the terms of the Post-IPO Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.

The Scheme Mandate Limit may be refreshed if so approved by the Shareholders at general meeting from time to time provided always that the Scheme Mandate Limit so refreshed must not exceed 10% of the Shares in issue as at the date of approval of such renewal by our Shareholders at general meeting. The maximum number of Shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and other schemes shall not, in aggregate, exceed 30% of the total number of Shares in issue from time to time.

As at the date of this annual report, no share option had been granted under the Post-IPO Share Option Scheme.

(d) Maximum entitlement of each participant
The total number of Shares issued and to be issued upon exercise of options already granted or to be granted to any grantee (including exercised, cancelled and outstanding options) under the Post-IPO Share Option Scheme, in any 12-month period up to and including the date of such grant shall not exceed 1% of the Shares in issue.

(e) Period within which the Shares must be taken up under an option
An option may be exercised in accordance with the terms of the Post-IPO Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the commencement date subject to the provisions of early termination thereof.

(f) Minimum period for which an option must be held before it can be exercised
The Board may in its absolute discretion set a minimum period for which an option must be held and performance targets that must be achieved before an option can be exercised.

(g) Time of acceptance and the amount payable on acceptance of the option
An offer shall be deemed to have been accepted when the Company receives a duplicate offer letter duly signed from the grantee together with a remittance of RMB1.00 (or such other nominal sum in any currency as the Board may determine) in favour of the Company as consideration for the grant thereof.

(h) Basis of determining the exercise price
The exercise price in respect of any particular option shall be a price determined by the Board and stated in the offer letter, and shall not be less than the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer, which must be a business day; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of the offer; and (iii) the nominal value of a Share prevailing on the date of the offer.

Report of the Directors

(i) Life of the Post-IPO Share Option Scheme
The Post-IPO Share Option Scheme became unconditional on the Listing Date and shall be valid and effective for a period of ten years commencing therefrom, subject to the early termination provisions contained in the Post-IPO Share Option Scheme. As at 31 December 2019, the remaining life of the Scheme is approximately 9 years and 11.5 months.

Share options which are forfeited prior to the expiry date (if any) will be released back to the pool of Shares available to be issued under the Post-IPO Share Option Scheme.

As at 31 December 2019, no share option had been granted, exercised, cancelled nor lapsed under the Post-IPO Share Option Scheme.

Further details of the Post-IPO Share Option Scheme are set out on pages IV-48 to IV-58 of the Prospectus.

SHARE AWARD SCHEME

The Company conditionally adopted the Post-IPO Share Award Scheme on 26 November 2019.

(a) Purpose of the Post-IPO Share Award Scheme
The Post-IPO Share Award Scheme is established to enable our Group to (1) recognise and acknowledge the contributions that the directors, senior management and employees of our Group or any advisors or consultants who satisfy the eligibility requirements as determined by our Board ("**Eligible Persons**") have (or may have) made or may make to our Group (whether directly or indirectly); (2) attract and retain and appropriately remunerate the best possible quality of employees and other Eligible Persons; (3) motivate the Eligible Persons to optimise their performance and efficiency for the benefit of our Group; (4) enhance its business, employee and other relations; and/or (5) retain maximum flexibility as to the range and nature of rewards and incentives which our Group can offer to Eligible Persons.

(b) Participants of the Post-IPO Share Award Scheme and Basis for Determining the Eligibility of the Selected Participants
Our Board may, from time to time, at its absolute discretion, select any Eligible Persons to participate in the Post-IPO Share Award Scheme ("**Selected Participants**"), subject to the terms and conditions set out in the Post-IPO Share Award Scheme. In determining the Selected Participants, our Board shall take into consideration matters including, but without limitation, the present and expected contribution of the relevant Selected Participants to our Group.

(c) Scheme Limit
Our Company shall not make any grant of award (the "**Award**") which will result in the number of Shares allotted and issued to or acquired by the trustee amounting or exceeding 10% of the total number of issued Shares immediately after completion of the global offering (assuming (i) no exercise of the over-allotment option, (ii) no exercise of the options which have been or may be granted under the share option schemes and (iii) no Shares are issued pursuant to the grant of the Awards under the Post-IPO Share Award Scheme). The maximum number of Award which may be granted to a grantee but unvested under the Post-IPO Share Award Scheme shall not exceed 1% of the total number of issued Shares from time to time.

(d) Awards
An Award granted by our Board to the grantee may be settled in the form of transfer of the Shares underlying the Award ("**Award Shares**") or the payment of the actual selling price in cash upon the vesting of such Award. Each Award may be subject to such other vesting conditions as may be imposed by our Board at its absolute discretion, including without limitation, a vesting period.

(e) Grant and Acceptance of the Awards
Our Company shall issue a letter to each Selected Participant in such form as our Board may from time to time determine, specifying the date of grant, the number of Award Shares underlying the Award, the vesting dates (if any) and such other criteria and vesting conditions and further details as our Board may consider necessary.

(f) Duration of the Post-IPO Share Award Scheme
Subject to any early termination as may be determined by our Board pursuant to the rules of the Post-IPO Share Award Scheme, the Post-IPO Share Award Scheme shall be valid and effective for a term of 10 years commencing on the adoption date, after which period no further Awards will be granted but the provisions of the Post-IPO Share Award Scheme shall remain in full force and effect to the extent necessary to give effect to the vesting of any Awards granted prior to the expiration of the Post-IPO Share Award Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Post-IPO Share Award Scheme.

As at 31 December 2019, no Award had been granted or agreed to be granted by our Company pursuant to the Post-IPO Share Award Scheme.

Further details of the Post-IPO Share Award Scheme are set out on pages IV-58 to IV-65 of the Prospectus.

EQUITY-LINKED AGREEMENTS

Save as disclosed in this annual report, no equity-linked agreement was entered into by the Company at any time during or subsisted at the end of the year ended 31 December 2019.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019, purchases from the Group's five largest suppliers accounted for 3.5% (2018: 3.8%) of the Group's total purchases and purchases from the largest supplier accounted for 1.3% (2018: 1.6%）.

For the year ended 31 December 2019, the Group's sales to its five largest customers accounted for 54.1% (2018: 50.8%) of the Group's total sales and sales to the largest customer accounted for 34.3% (2018: 21.4%）.

During the year ended 31 December 2019, none of the Directors or any of their associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued Shares of the Company) had any interest in the Company's five largest customers nor suppliers.

CHARITABLE DONATIONS

There was no donation made by the Group during the year ended 31 December 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period from the Listing Date to 31 December 2019, except for the global offering in connection with the Listing, neither the Company nor any of its subsidiaries or consolidated affiliated entities has purchased, sold or redeemed any of the Shares.

Report of the Directors

USE OF NET PROCEEDS FROM THE LISTING

The Shares were listed on the Main Board of The Stock Exchange on the Listing Date by way of global offering. The Net Proceeds after deducting professional fees, underwriting commissions and other related listing expenses amounted to approximately HK$922.0 million (equivalent to approximately RMB826.1 million).

The amount of Net Proceeds utilised from the Listing Date to 31 December 2019 is set forth below:

	Intended use of Net Proceeds	Original allocation (Percentage)	Original allocation (HK$)	Amount of Net Proceeds utilised up to 31 December 2019	Balance of Net Proceeds unutilised as at 31 December 2019 (HK$)	Intended timetable for the use of unutilised Net Proceeds
(i)	Expand our geographic coverage to better support our clients and new opportunities	20%	184.4 million	Nil	184.4 million	By/ before 31 December 2022
(ii)	Expand our industry coverage, mainly through acquisition and also through organic growth in the next three years, to capture demand for flexible staffing services we have observed in certain underserved and expanding industries, and specifically, to target our services to more financial institution, IT industry and new retail clientele	17%	156.7 million	Nil	156.7 million	By/ before 31 December 2022
(iii)	Expand our existing BPO and headhunting service offerings in the next three years in order to capture the expected growth potential in both service sectors	13%	119.9 million	Nil	119.9 million	By/ before 31 December 2022
(iv)	Further enhance our integrated HR ecosystem and build up our capabilities in artificial intelligence and data mining technology	22%	202.8 million	Nil	202.8 million	By/ before 31 December 2024
(v)	Further promote our brand and launch marketing and promotion activities	10%	92.2 million	Nil	92.2 million	By/ before 31 December 2022
(vi)	Support our global expansion strategy in the next four years	8%	73.8 million	Nil	73.8 million	By/ before 31 December 2023
(vii)	Working capital and general corporate purposes	10%	92.2 million	Nil	92.2 million	By/ before 31 December 2022

Since the Listing Date up to 31 December 2019, the Net Proceeds had not yet been utilised. The Group will utilise the Net Proceeds in accordance with the intended use of proceeds as set out in the Prospectus. The Directors are not aware of any material change to the planned use of Net Proceeds as at the date of this annual report.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high corporate governance standards. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 58 to 69 in this annual report.

ANNUAL GENERAL MEETING

The AGM of the Company will be held on 10 June 2020. The notice of the AGM will be published and dispatched to the Shareholders in due course in the manner as required by the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the Shareholders' eligibility to attend and vote at the AGM, the register of members of the Company will be closed from 5 June 2020 (Friday) to 10 June 2020 (Wednesday), both days inclusive, during which no transfer of Shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all duly completed Share transfer forms accompanied by the relevant Share certificates, must be lodged with the Company's Hong Kong Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 4 June 2020 (Thursday).

AUDIT COMMITTEE

The Audit Committee, together with the management and the external auditor, had reviewed the accounting policies and practices adopted by the Group as well as the internal control matters, and had also reviewed the Company's consolidated financial statements for the year ended 31 December 2019.

AUDITOR

The consolidated financial statements of the Company for the ended 31 December 2019 have been audited by PricewaterhouseCoopers.

PricewaterhouseCoopers shall retire and being eligible, offer itself for re-appointment, and a resolution to this effect shall be proposed at the AGM.

On behalf of the Board
Mr. Zhang Jianguo
Chairman of the Board

PRC, 31 March 2020

Corporate Governance Report

The Board of the Company is committed to maintaining high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of Shareholders and to enhance corporate value and accountability.

The Company has applied the principles as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules. The Board is of the view that since the Listing Date and up to 31 December 2019, the Company has complied with all applicable code provisions as set out in the CG Code, except for the deviation from code provision A.2.1 as explained under the paragraph headed "Chairman and Chief Executive Officer" below.

The Company is committed to enhancing its corporate governance practices appropriate to the conduct and the growth of its business and to reviewing such practices from time to time to ensure that they comply with statutory and professional standards and align with the latest development.

BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interest of the Company.

The Board has delegated the authority and responsibilities for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the Audit Committee, the Remuneration Committee and the Nomination Committee. The Board has delegated to the Board committees responsibilities as set out in their respective terms of reference. All Board committees are provided with sufficient resources to perform their duties.

The Board regularly reviews the contribution required from a Director to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Board Composition

The Board currently comprises eight Directors, consisting of three executive Directors, two non-executive Directors and three independent non-executive Directors.

Executive Directors:

Mr. Zhang Jianguo
(Chairman of the Board and Chief Executive Officer)
Mr. Zhang Feng
Ms. Zhang Jianmei

Non-executive Directors:

Mr. Chen Rui
Mr. Chow Siu Lui

Independent Non-executive Directors:

Ms. Chan Mei Bo Mabel
Mr. Shen Hao
Mr. Leung Ming Shu

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The biographical information of the Directors is set out in the section headed "Biographies of Directors and Senior Management" in this annual report.

Save as disclosed in the Prospectus and this annual report, to the best knowledge of the Company, there are no financial, business, family or other material relationships among the members of the Board.

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be segregated and should not be performed by the same individual.

According to the current structure of the Board, the positions of the Chairman and Chief Executive Officer of the Company are held by Mr. Zhang Jianguo.

The Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company, given that: (i) decision to be made by the Board requires approval by at least a majority of the Directors and that the Board comprises three independent non-executive Directors out of eight Directors, and the Board believes there is sufficient check and balance on the Board; (ii) Mr. Zhang Jianguo and the other Directors are aware of and undertake to fulfil their fiduciary duties as Directors, which require, among other things, that they act for the benefit and in the best interests of the Company and will make decisions of the Group accordingly; and (iii) the balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting the operations of the Group. Moreover, the overall strategic and other key business, financial and operational policies of the Group are made collectively after thorough discussion at both the Board and senior management levels. Finally, as Mr. Zhang Jianguo is our principal founder, the Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board will continue to review the effectiveness of the corporate governance structure of the Group in order to assess whether separation of the roles of chairman and chief executive officer is necessary.

Independent Non-Executive Directors

Since the Listing Date to 31 December 2019, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise. Among the three independent non-executive Directors, both Mr. Leung Ming Shu and Ms. Chan Mei Bo Mabel possess appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent and remain so as at the date of this annual report.

Appointment and Re-election of Directors

Each of the executive Directors has entered into a service contract with the Company under which they agreed to act as executive Directors for an initial term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either the executive Director or the Company.

Each of the non-executive Directors and the independent non-executive Directors has signed an appointment letter with the Company for a term of one year commencing from the Listing Date (in respect of non-executive Directors) and 29 November 2019 (in respect of independent non-executive Directors), which may be terminated by not less than one month' notice in writing served by either the respective Director or the Company. The appointment of Directors is subject to the provisions of retirement and rotation of Directors under the Articles.

In accordance with article 16.19 of the Articles, at every annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third) shall be subject to retirement by rotation at least once every three years.

In accordance with article 16.2 of the Articles, any Director appointed by the Board either to fill a casual vacancy or as an addition to the existing Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting.

Corporate Governance Report

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board should assume responsibilities for leadership and control of the Company and be collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to the management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decisions on all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

The Board has clearly set out the circumstances under which the management should report to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. The Board regularly reviews the above said circumstances and ensures they remain appropriate.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal action taken against them arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director has received a formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company, full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by visits to the Company and meetings with senior management of the Company.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading materials on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2019, the Company organised sessions conducted by the legal advisors for all Directors. The training sessions covered a wide range of relevant topics including directors' duties and responsibilities, continuing connected transaction, disclosure of interests and regulatory updates. In addition, relevant reading materials including compliance manual/legal and regulatory updates/seminar handouts have been provided to the Directors for their reference and studying. (Company, please confirm)

The training records of the Directors for the year ended 31 December 2019 are summarised as follows:

Name of Directors	Nature of continuous professional development programs
Executive Directors	
Mr. Zhang Jianguo	A
Mr. Zhang Feng	A, B
Ms. Zhang Jianmei	A
Non-executive Directors	
Mr. Chen Rui	A, B
Mr. Chow Siu Lui	A, B
Independent Non-executive Directors	
Ms. Chan Mei Bo Mabel	A, B
Mr. Shen Hao	A, B
Mr. Leung Ming Shu	A, B

Notes:

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops

B: Reading relevant news alerts, newspapers, journals, magazines and publications

BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, each of which has been delegated responsibilities and shall report back to the Board. The roles and functions of these committees are set out in their respective terms of reference. The terms of reference of each of these committees will be revised from time to time to ensure that they continue to meet the needs of the Company and to ensure compliance with the CG Code. The terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

Audit Committee

The Audit Committee comprises three members, including two independent non-executive Directors, namely Mr. Leung Ming Shu and Ms. Chan Mei Bo Mabel and one non-executive Director, namely Mr. Chow Siu Lui. Mr. Leung Ming Shu is the chairman of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditor, providing advice and comments to the Board and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

No meeting of the Audit Committee was held during the period from the Listing Date to 31 December 2019. Up to the date of this annual report, two Audit Committee meetings were held on 6 January 2020 and 24 March 2020, respectively, to discuss the audit plan for the 2019 financial year with the auditor, and to review the annual financial results and report for the year ended 31 December 2019 and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditor, engagement of non-audit services and relevant scope of works, connected transactions and arrangements for employees to raise concerns about possible improprieties respectively.

Corporate Governance Report

The Audit Committee also met the external auditor once without the presence of the executive Directors. The Audit Committee had met with the external auditor without the presence of the executive Directors at the two meetings held on 6 January 2020 and 24 March 2020, respectively.

Remuneration Committee

The Remuneration Committee comprises three members, including two independent non-executive Directors, namely Ms. Chan Mei Bo Mabel and Mr. Shen Hao and one executive Director, namely Mr. Zhang Jianguo. Ms Chan Mei Bo Mabel is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include determining or making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, making recommendations to the Board on the Company's remuneration policy and structure for all Directors and senior management; establishing a formal and transparent procedure for developing remuneration policy to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

No meeting of the Remuneration Committee was held during the period from the Listing Date to 31 December 2019. Up to the date of this annual report, one Remuneration Committee meeting was held on 6 February 2020, to review and make recommendation to the Board on the remuneration policy and the structure of the Company and the remuneration packages of the Directors and other related matters.

Nomination Committee

The Nomintation Committee comprises three members, including one executive Director, namely Mr. Zhang Jianguo and two independent non-executive Directors, namely Ms. Chan Mei Bo Mabel and Mr. Shen Hao. Mr Zhang Jianguo is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The principal duties of the Nomination Committee include reviewing the structure, size and composition (including the skills, knowledge and experience) required of the Board annually and making recommendations on any proposed change to the Board to complement the Company's corporate strategy; making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular, the Chairman and the chief executive, and assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's board diversity policy (the "**Board Diversity Policy**"). The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Company's director nomination policy (the "**Director Nomination Policy**") that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

No meeting of the Nomination Committee was held during the period from the Listing Date to 31 December 2019. Up to the date of this annual report, two Nomination Committee meetings were held on 6 February 2020 and 31 March 2020, respectively, to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and to consider the qualifications of the retiring Directors standing for election at the AGM. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board was maintained.

BOARD DIVERSITY POLICY AND NOMINATION POLICY

The Board has adopted a Board Diversity Policy which sets out the basic principles to be followed to ensure that the Board has the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance.

The Board has also adopted a Director Nomination Policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at the Board level.

Board nomination and appointments will continue to be made on merit basis based on its business needs from time to time while taking into account diversity. The Nomination Committee has primary responsibility for identifying individuals qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships.

Selection of board candidates shall be based on amongst others, integrity and character, commitment in respect of available time and relevant interest, a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience.

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board.

The Nomination Committee is responsible for reviewing the policy, developing and reviewing measurable objectives for implementing the policy and monitoring the progress on achieving these measurable objectives.

The Nomination Committee shall review this policy and the measurable objectives at least annually, and as appropriate, to ensure the continued effectiveness of the Board.

CORPORATE GOVERNANCE FUNCTIONS

The Audit Committee is delegated by the Board to perform the functions set out in the code provision D.3.1 of the CG Code.

From the Listing Date to the date of this annual report, the Audit Committee had reviewed the Company's policies and practices on compliance with legal and regulatory requirements, training and continuous professional development of Directors and senior management, the corporate governance policies and practices, the compliance of the Model Code, and the Company's compliance with the CG Code and the disclosure in this Corporate Governance Report.

BOARD MEETINGS AND DIRECTORS' ATTENDANCE RECORDS

During the period from the Listing Date to 31 December 2019 (which is less than one month), no Board meeting or Board committee meeting or general meeting was held. Since the Listing Date, the Company has adopted the practice of holding Board meetings regularly, at least four times a year for Board meetings, and at approximately quarterly intervals with active participation of majority of Directors, either in person or through electronic means of communication. Since the Listing Date and up to the date of this annual report, certain Board meetings and Board committee meetings had been held.

Corporate Governance Report

The attendance records of each Director at the Board meetings and Board committee meetings of the Company held during the period from 1 January 2020 up to the date of this annual report are set out below:

	Attendance/Number of Meeting(s)			
Name of Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee
Mr. Zhang Jianguo	2/2	N/A	1/1	2/2
Mr. Zhang Feng	2/2	N/A	N/A	N/A
Ms. Zhang Jianmei	2/2	N/A	N/A	N/A
Mr. Chen Rui	2/2	N/A	N/A	N/A
Mr. Chow Siu Lui	2/2	2/2	N/A	N/A
Ms. Chan Mei Bo Mabel	2/2	2/2	1/1	2/2
Mr. Shen Hao	2/2	N/A	1/1	2/2
Mr. Leung Ming Shu	2/2	2/2	N/A	N/A

Note: The Company was listed on 13 December 2019, and hence no AGM was held in 2019.

Notices of not less than 14 days will be given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting. For other Board and Board committee meetings, reasonable notice will be generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least three days before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The senior management attends all regular Board meetings and where necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The joint company secretaries are responsible for taking and keeping minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

The Articles contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have potential or actual conflicts of interests.

DIVIDEND POLICY

The Company has adopted a dividend policy on the payment of dividends. The Company do not have any pre-determined dividend payout ratio. Depending on the financial conditions of the Company and the Group and the conditions and factors, among others, financial results, cash flow situation, business conditions and strategies and future operations and earnings, as set out in the dividend policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the Shareholders' approval.

The Board has resolved not to recommend the payment of a final dividend for the year ended 31 December 2019.

Subject to the Cayman Companies Law and the Articles, no dividend may be declared in excess of the amount recommended by the Board and the dividends are declared from statutory distributable reserves.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing the design, implementation and monitoring of the risk management and internal control systems.

The Company has adopted and implemented comprehensive risk management policies in various aspects of its business operations such as information system, data security, payment and payroll cycle with the following principles, features and processes:

Information system risk management

During the year ended 31 December 2019, we have not experienced any material disruption to our information and technology system due to malfunctioning of software or hardware. To avoid any service interruption due to power outage, our offices and dedicated storage server are equipped with uninterruptible power supply (UPS) apparatuses and can provide emergency power support for up to one hour. Our office at Yingkuo BPO services centers is equipped with uninterruptible power supply apparatuses and can provide emergency power support for up to two hours. We maintain and update our core system on a weekly basis. We also have a dedicated team of engineers to debug, upgrade and maintain the reliability and security of our system. If there is a need for system debugging, our team of engineers can typically complete the task within one hour. Benefiting from an experienced team led by one of our Founders and Chief Operating Officer, Mr. Zhang Feng, we believe we have built our technology infrastructure system according to a high industry standard and this cannot be easily replicated by our competitors.

Data security

We collect a substantial amount of personal data relating to our growing pool of candidates for our HR services, including names, phone numbers, mailing addresses and specific information and preferences relating to the candidates, such as past work history, education and other background information. The candidates' personal data is only received and collected by us after the candidate registers as a user through the Xiang Recruitment App (the mobile application which enables registered individual users to remotely access our Xiang Recruitment Platform) with clear consent to our user agreement and privacy policy and submits his or her details. Our user agreement sets out the terms and conditions for how we collect personal data as well as how it will be handled, stored and used. For our clients and suppliers, we also store all past contracts. As such, we have adopted robust internal control measures to ensure the security and confidentiality of our data system:

- **Right to access**: Access to data is restricted to a need-to-know basis. For example, users are assigned to different security clearance levels for uploading and downloading data from our system. Furthermore, our system is designed to allow access only from pre-authorised IP locations. Lastly, visitor logs embedded in our system track all access and usage of visitors to our website. We constantly update and maintain policies relating to data access in our key business activities.

  Some third parties, including our clients and candidates, are given limited access to certain personal data in order for us to render our services. For instance, our flexible staffing service clients can access personal data of those contract employees assigned to their projects, and our professional recruitment service clients are granted limited access to candidate information of our talent pool, within the scope of consent under the user agreements and user privacy policy or further obtained from the owner of such information. We set out standard confidentiality provisions or use separate confidentiality agreements when we contract with third parties, which require these third parties to maintain the security and confidentiality of such personal information, and on some occasions, return or destroy such confidential information including personal data in their possession upon our request.

Corporate Governance Report

- **Data storage and backup:** We have one dedicated storage server currently located in our Shanghai office with system backup on a daily basis in order to minimise the risk of data loss or leakage, as well as an off-site backup storage server in Beijing with weekly data backup. Our database has been encrypted and our policies have been designed to prevent any unauthorised member of the public or third parties from accessing or using our data in any unauthorised manner. To safeguard our operation and data system, we have installed two separate systems for applications and data, each walled-off from the other so that the integrity of our data can be preserved without interfering with our daily operations. Our computer system and information processing facilities are protected by firewalls and anti-virus software to prevent and detect threats by computer viruses and other malicious software.

- **Physical security of the data system**: We host a server room in an independent area isolated from the employee office area in our Shanghai office. Access to the server room is limited, and only authorised IT personnel responsible for its operation and maintenance are granted entry. Closed-circuit monitoring has been installed for the server room. Off-site backup has been implemented for all data on a weekly basis to our dedicated data storage server in Beijing. We have established secured communication channels using our VPN connections for data transmission between operation sites and our own data storage site. To ensure the integrity of our client information and user data, we do not use third party server for data storage.

We have taken various measures to ensure the collection, storage and use of our user data are in compliance with applicable laws and regulations. For example, our user agreements clearly specify the rules, purposes, methods and scope of our collection and use of users' data. By acknowledging the terms and conditions of the user agreement, our users provide consent to our collection, use and disclosure of their data subject to the limitations set forth therein. Upon a user's deregistration with our online platform, we will terminate our use of the personal data of such user as required by applicable PRC laws and regulations, other than data that has been processed by us and hence can no longer be linked to the identity of such deregistered user. Our collection, use and disclosure of employees' or job candidates' personal data are for the purposes consented to by the data subject, who provided the relevant data and remain the owner of such data, and the personal data will not be utilised for any other purposes without their prior consent. We do not set a fixed duration for how long the personal data will be kept in our system. Therefore, unless the owner of the data requests for deletion or such data has become obsolete, we will continue to maintain this data in accordance with our policy to ensure security and confidentiality. We generally retain data in relation to users' search and browsing history for about two months. According to the Regulations on Technological Measures for Internet Security Protection (《互聯網安全保護技術措施規定》), Internet service providers including us are required to take proper measures including keeping records of certain information about their users for at least 60 days. We comply with these requirements, taking measures to keep cyber-related logs with user information, including registration details, IP addresses, user-uploaded content and time of posts, for at least 60 days.

We also have various internal control measures to ensure the security and confidentiality of the data, including personal data of individuals and other customer information. In addition to restricting how personal data and client information can be obtained, stored and used, as well as restricting access by assigning different security clearance levels, our IT department will also conduct system checks, review account information and require account passwords to meet a certain level of complexity for security purposes. In addition, they will also monitor access rights to confirm that each is in line with business needs and in the event of a remote login, a text message will be sent to relevant personnel, including IT personnel and project managers. Our employees who are given access to data on a need-to-know basis are required to adhere to all relevant laws and regulations in relation to the data privacy protection.

During the year ended 31 December 2019, we have not been in material breach of any PRC laws or regulations in relation to the privacy and personal information protection during our collection, use, disclosure and protection of personal information. During the year ended 31 December 2019, we have not received any complaints from any third party, or been involved in any dispute with any third party, or been investigated or punished by any competent authorities in relation to privacy and personal information protection.

Payment and payroll cycle

We generally make payments to our internal employees on the 10th of each month, and start to pay benefits and then social insurance and housing provident fund contributions. For our contract employees, at each monthly payroll cycle, we generally make payments to our contract employees for their salaries, benefits, social insurance and housing provident fund contributions. Before these payments are made, we have measures in place to confirm whether the relevant payments have been received from our clients for the period these contract employees were working on their assignments. As time is required for checking of invoices, calculation of payroll, and processing of payments, we generally structure our monthly invoice, client payment, and contract employee payroll schedule in such a way as to have clients settle invoices before salaries are to be paid to our contract employees. For some flexible staffing clients, we will also require a risk deposit or an upfront payment. We typically grant a credit period of 10 to 70 days to our clients based on the client's creditworthiness, prior payment history and additional client-specific information. If any client has delayed or failed to make payment, this will be flagged in our system and dedicated personnel will follow up with the relevant client.

We also face numerous market risks, such as interest rate, credit, liquidity and currency risks that arise in the ordinary course of our business. For a discussion on these market risks, please refer to the section headed "Management Discussion and Analysis" in this annual report.

INTERNAL AUDIT FUNCTION

The Company has established its internal audit function to assist the Board and the Audit Committee in their review of the adequacy and effectiveness of the risk management and internal control systems.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2019, and considered that such systems are effective and adequate. The annual review also covered the financial reporting, internal audit function, adequacy of resources, staff qualifications and experiences, training programmes and budget of the Company's accounting, internal audit and financial reporting functions.

WHISTLEBLOWING POLICY

The Company has adopted arrangement to facilitate employees and other stakeholders to raise concerns, in confidence, about possible improprieties in financial reporting, internal control or other matters.

The Audit Committee of the Company shall review such arrangement regularly and ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

INSIDE INFORMATION

The Company has developed its disclosure policy which provides a general guide to the Directors, senior management and relevant employees of the Company in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorised access and use of inside information are strictly prohibited.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code from the Listing Date up to 31 December 2019.

The Company's employees, who are likely to be in possession of unpublished inside information of the Company, are also subject to the Model Code.

Corporate Governance Report

DIRECTORS' RESPONSIBILITY IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2019.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, announcements relating to disclosure of inside information and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report of this annual report.

AUDITOR'S REMUNERATION

The remuneration for the audit and non-audit services provided by the Auditor to the Group during the year ended 31 December 2019 was approximately as follows:

Type of Services	Amount (RMB'000)
Audit and audit related services	1,900
Non-audit services	476
Total	2,376

JOINT COMPANY SECRETARIES

Mr. Li Wenjia and Ms. Siu Pui Wah are the joint company secretaries of the Company. Ms. Siu is a director and head of accounting and corporate services of Trident Corporate Services (Asia) Limited, a global professional services provider. Mr. Li and Ms. Siu worked and communicated closely to discharge the functions of joint company secretaries since the Listing Date.

During the year ended 31 December 2019, each of Mr. Li and Ms. Siu has undertaken not less than 15 hours of relevant professional training.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable Shareholders and investors to make the best investment decisions.

The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. The general meetings of the Company provide a platform for communication between the Board and the Shareholders. The chairman of the Board as well as chairmen of the Nomination Committee, the Remuneration Committee and the Audit Committee or, in their absence, other members of the respective committees, are available to answer Shareholders' questions at general meeting. The external auditor of the Company is also invited to attend the annual general meetings of the Company to answer questions about the conduct of audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

To promote effective communication, the Company maintains a website (www.renruihr.com), where information and updates on the Company's financial information, corporate governance practices, biographical information of the Board and other information are available for public access.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Procedures for Shareholders to Convene Extraordinary General Meeting and Putting Forward Proposal at General Meeting

Article 12.3 of the Articles provides that any one or more members may deposit written requisition at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist(s), provided that such requisitionist(s) held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

For proposal of a person for election as Director, pursuant to Article 16.4 of the Articles, no person shall, unless proposed by the Board pursuant to the recommendation of the Nomination Committee, be eligible for election to the office of Director at any general meeting unless during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the company secretary of the Company notice in writing by a member of the Company (not being the person to be proposed), entitled to attend and vote at the meeting for which such notice is given, of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected, and such person has been approved by the Nomination Committee and the Board.

Putting Forward Enquiries to the Board

For putting forward any enquiry to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: No. 601, 602, 603, 6/F, Block 3, No. 688 Mid-Section Tianfu Avenue, Chengdu High-tech Zone, Free Trade Pilot Zone, Sichuan, China

(For the attention of the Board of Directors)

Email: ir@renruihr.com

For the avoidance of doubt, Shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Change in Constitutional Documents

The Company adopted amended and restated Articles on 26 November 2019, which have been effective from the Listing Date. During the period from the Listing Date to the date of this annual report, no other changes have been made to the said amended and restated Articles. The Articles are available on the websites of the Company and the Stock Exchange.

Environmental, Social and Governance Report

The Company has prepared this Environmental, Social and Governance Report (the "**Report**") in accordance with the Environmental, Social and Governance Reporting Guide under Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, which sets out the environmental, social and governance ("**ESG**") performance of the Group in 2019.

SCOPE OF REPORTING

The Report covers our principal businesses such as flexible staffing, professional recruitment and other HR solutions. The key performance indicators (KPIs) in environmental aspects herein cover our 14 main offices in Chengdu, Shanghai, Beijing, Wuhan and Guangzhou Cities etc. The reporting period is from 1 January 2019 to 31 December 2019.

STANDARDS OF REPORTING

The Group assesses the relevant aspects and KPIs in terms of applicability and materiality in accordance with the Environmental, Social and Governance Reporting Guide. The Report is in full compliance with the disclosure requirement of "comply or explain" and has explained the disclosure rules which are not applicable to us in the Report. The Report complies with the reporting principles in relation to the Guide:

- "Materiality": We identify material ESG issues through stakeholder engagement and materiality assessment;
- "Quantitative": The Report has quantified KPIs in environmental aspects;
- "Consistency": The Report is the first Environmental, Social and Governance Report of the Company. The relevant disclosure and statistical methods for subsequent years will be consistent with those for this year.

DESCRIPTION OF DATA

All data are derived from relevant statistical reports and official documents. We guarantee the objectivity and authenticity of the relevant data in the Report.

1. ESG MANAGEMENT

1.1 ESG Strategy

The Group adheres to the business philosophy of "technology-driven HR services" and the corporate vision of "becoming a world-class human resources services enterprise from the PRC". The Group is committed to the core values of "customer-oriented, striver-oriented, long-term commitment to hard work and self-judgment". We always believe that only a company that is committed to fulfilling environmental and social responsibilities can lead and promote the sustainable development of the society.

The Group integrates sustainable development into its ESG strategies and provides guidance on ESG management in its daily operations. It regularly reviews its ESG policies and strategies to ensure that they are appropriate and applicable to its business.

1.2 ESG Governance

The Board supports our commitment to fulfilling its ESG responsibilities and assumes full responsibility for the ESG strategies and reporting. The Board reviews the ESG performance of the Company and its subsidiaries on annual basis. It identifies, evaluates and manages important ESG-related matters. It monitors and approves the annual Environmental, Social and Governance report.

The management is responsible for evaluating and determining the ESG-related risks. It ensures that an appropriate and effective ESG risk management and internal control system were set up. The management reports to the Board on ESG-related risks and opportunities, and confirm the effectiveness of the ESG system.

To carry out ESG management in full swing, we have established an ESG working group, which consists of the HR department, flexible staffing business department, sales management department and finance department, etc. Each department head is directly involved in it and has assigned personnel in charge of ESG management and reporting who reports to the management of the progress of ESG management and reporting.

1.3 Communication with Stakeholders

Our major stakeholders include the government and regulatory authorities, shareholders and investors, internal employees, contract employees, customers, suppliers, industry associations and communities, and non-governmental organisations etc. We attach great importance to the communication with stakeholders. It has established effective communication channels and actively responds to the demands and expectations of stakeholders. This allows both parties to grow together.

Stakeholders	Expectations and Requirements	Means of Communication
Government and Regulatory Authorities	• Compliance with laws and regulations • Tax payment according to laws • Labour rights	• Daily supervision • Official correspondence • Meetings
Shareholders and Investors	• Information disclosure • Investment return • Corporate governance • Risk control • Sustainable development	• General meetings • Company' s website • Mails, phones and faxes • Investor relations activities • Stock Exchange's website
Internal Employees	• Wages and benefits • Health and safety • Training and development opportunities • Democratic communication and Human rights protection	• E-mails and complaint hotline • Annual meetings, daily meetings, etc. • Staff activities

Environmental, Social and Governance Report

Stakeholders	Expectations and Requirements	Means of Communication
Contract Employees	• Wages and benefits • Health and safety • Training and development opportunities • Democratic communication and human rights protection	• System and platform • On-site team communication • Annual meetings, daily meetings, etc. • Staff activities
Customers	• Responsible operation • Quality services • Service innovation • Sustainable development	• Customer satisfaction survey • System and platform • Customer visits • Customer complaints handling
Suppliers	• Supply chain management • Quality and price • Integrity and compliance	• Project cooperation and negotiation • Supplier visits • Quality communication
Industry Associations and Communities	• Environmental protection • Social welfare activities • Industry promotion	• Charity donation • Social welfare activities • Volunteer services • Industry exchange activities • Seminars, forums, publications
Non-governmental Organisations	• Compliance operation • Labour rights • Industry development	• Social network platform • Official website • Seminars, forums, publications

1.4 Materiality Assessment

To improve the quality of disclosure, we have selected key issues of stakeholders' concern and made targeted disclosure by using ESG materiality assessment.

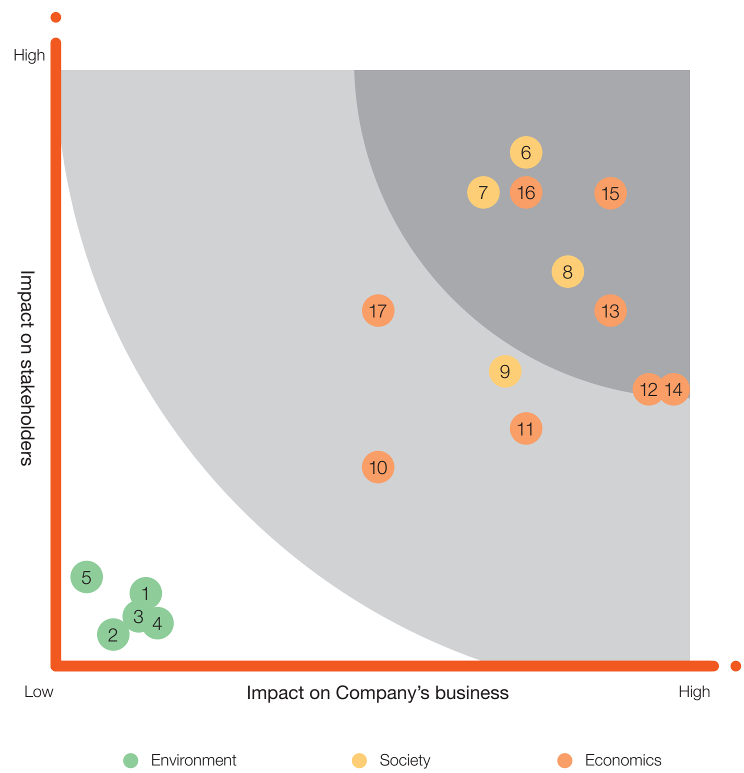
In 2019, the ESG working group took the following steps to conduct materiality assessment:

- **Identification of issues:** Considering factors such as current condition of the Company, industry overview, risks and opportunities encountered, 17 issues were identified. These issues were related to and affected the Company and its stakeholders in environmental, social and economic aspects;

- **Questionnaires:** The Group designed and distributed questionnaires to internal stakeholders on the identified issues. It consolidated answers from those questionnaires and conducted materiality analysis to obtain preliminary results of materiality evaluation;

- **Confirmation of results:** The preliminary results were discussed, verified and confirmed by the management and the ESG working group. The following materiality assessment results were concluded as the basis of disclosure in the Report:

Renrui indicator	Number
Waste management	1
Wastewater discharge management	2
Energy management	3
Water resource management	4
Adapting to climate change	5
Rights and benefits of employees	6
Occupational health and safety	7
Development and training of employees	8
Prohibition of child labour and forced labour	9
Supply chain management	10
Protection of intellectual properties	11
Service quality and business innovation	12
Privacy management	13
Customer satisfaction	14
Protection of contract employees' rights	15
Compliance operation with integrity	16
Charity and social welfare	17



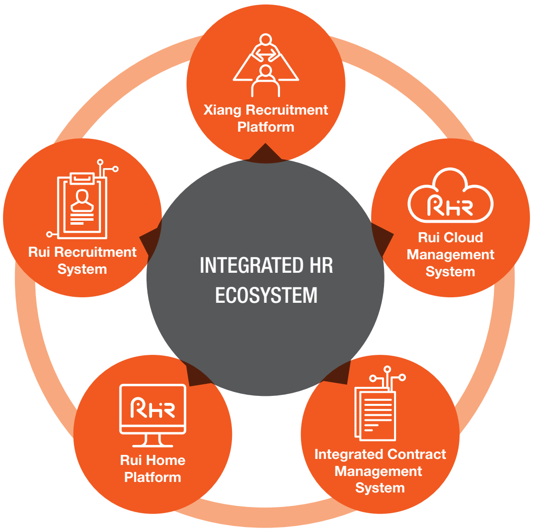
2. RESPONSIBLE OPERATION

The Group is committed to offering integrated HR solutions to enterprises. We have opened more than 20 offices nation-wide, forming five big regions in Western China, Northern China, Eastern China, Southern China and Central China, and our services have covered more than 150 cities in China. We are able to respond to the staffing needs of clients at multiple outlets across the country: (i) improve the staffing process of clients by providing flexible staffing services to them, effectively dispatch suitable contract employees and reduce the turnover rate of contract employees; (ii) by implementing our pioneering O2O recruitment method and using both online and offline resources, we aim to maximize the opportunities for job seekers to be hired while providing professional recruitment services to clients at the same time.

As an HR service provider which provides integrated HR services to clients leveraging on our integrated HR ecosystem, We strictly abide by the Contract Law of the PRC (《中華人民共和國合同法》), the Labor Contract Law of PRC (《中華人民共和國勞動合同法》), the Employment Promotion Law of the PRC (《中華人民共和國就業促進法》), the Provisions on Employment Services and Employment Management (《就業服務與就業管理規定》), the Provisions on the Administration of Human Resources Market (《人才市場管理規定》), the Interim Provisions on the Administration of Sino-foreign Equity Joint Venture Human Resources Intermediary Institutions (《中外合資人才仲介機構管理暫行規定》) and other relevant policies and regulations on human resources services, as well as the Network Security Law of the PRC (《中華人民共和國網絡安全法》), the Measures for the Administration of Internet Information Services (《互聯網資訊服務管理辦法》), the Provisions on the Administration of Mobile Internet Applications Information Services (《移動互聯網應用程序信息服務管理規定》), the Measures for the Security Review of Network Products and Services (Trial) (《網絡產品和服務安全審查辦法 (試行) 》) and other relevant regulations on internet services and information security review, and carry out HR market activities in a legal and orderly manner to create values for customers' staffing.

2.1 Service Innovation

Our fully integrated HR ecosystem comprises Xiang Recruitment Platform, Rui Recruitment System, Rui Home Platform, Rui Cloud Management System and the Integrated Contract Management System. These online systems and platforms enable inter-platform inter-action, as well as improve hiring and overall efficiency. They play a vital part in supporting the entire HR services industry value chain ranging from position advertisements, front-end recruitment, induction and onboarding, back-end personnel management and other HR functions, such as employee data storage, management payroll and resignations.



The Group has always adhered to the service philosophy of "technology-driven human resources services" and have invested more than RMB10 million per year in the R&D of information system to ensure the continuous upgrading of our existing systems and platforms. Also, we have new systems incorporated into our integrated HR ecosystem every year to support our business development and meet the service requirements of clients. In 2019, we developed a series of new functions for our existing integrated HR ecosystem. For example, we further optimised the "Xiang Recruitment System" and enhanced the group chat function for job applicants, realising the interaction and sharing of ideal job positions among candidates on the Xiang Recruitment Platform. At the same time, we launched the Ruijie System to promote the standardisation of flexible staffing service process in different cities and regions.

2.2 Service Quality

Adhering to the service philosophy of "client-oriented and results-driven", we continue to optimise our professional HR services for our clients from both technical and management perspectives. Our results-driven, integrated HR solutions business model allows us to provide innovative and customized solutions to our clients with staffing needs in a flexible way, helping our clients to manage peaks and troughs in labor demand. We strategically focus on serving clients from the emerging new economy industries with mass staffing needs under tight time constraints, as well as clients from financial sectors with recurring contracts providing flexible staffing services, professional recruitment and complementary HR services.

On the technical level, we continue to improve overall recruitment efficiency and enhance customer and candidate experience with digital solutions and integrated search and matching capabilities. We have a fully digitized and synchronized big data of human resources, using big data-driven technology to analyze information of registered individual users, categorize and mark such information, match job applicants with suitable job opportunities, and recommend suitable candidate to customers. We also regularly update data from both its candidates and customers to optimise the algorithm and continuously improve the accuracy and success rate of job matching and predicting user preference, improving speed and quality of its services.

Environmental, Social and Governance Report

We have established a professional team of engineers and technicians, which is responsible for monitoring, maintaining and upgrading the Group's proprietary systems and platforms. We keep our integrated HR ecosystem updated, with an efficient feedback loop for timely adjustments and innovation, in order to guarantee efficiency and effectiveness of our services.

On the management level, we continued to improve the service process, optimize the project management and the performance assessment of execution team members, further reduce the turnover rate of flexible staffing employees and strengthen their work efficiency. These help customers reduce employment risks and costs.

For flexible staffing projects, the low turnover rate and high stability of flexible staffing employees are the most concerned needs of our customers. Based on their needs, the Group carried out flexible staffing projects in accordance with the Management Policy for Special Flexible Staffing Projects (《靈活用工專項項目管理制度》) and other internal project implementation policy:

- At the beginning of each month, the recruitment targets and plans, targets on turnover rate control of flexible staffing employees and key management measures for the month are formulated, and the recruitment targets and the targets on turnover rate control of flexible staffing employees are determined as the key basis for assessment;

- During the execution of project, project summary is conducted in the form of semi-monthly and monthly meetings;

- A monthly review of the projects is conducted, and the assessment results of the projects are linked to the bonus of members the corresponding project group that provided services.

We set KPIs, including completion rate of recruitment target, recruitment costs, targets on turnover rate control of flexible staffing employees and service value, etc., to motivate our project team members to promptly recruit flexible staffing employees for our clients while reducing the turnover rate of flexible staffing employee.

In 2019, in order to better meet the needs of customers, we adjusted part of our appraisal system of the flexible staffing business department and achieved the integration of the objectives of the recruitment team and the on-site teams. For example, on the basis of the completion rate of the monthly recruitment target, the vice recruitment director of the flexible staffing business department also assess the re-tention rate of flexible staffing employees after monthly recruitment, which enabled the recruitment project managers to achieve fast recruitment and further enhanced the matching of employees and flexible staffing job positions.

In addition, we have launched the "competition for the net increase in the number of flexible staffing employees in various regions 2019" since July 2019. We compete on a quarterly basis with the net increase of 1,000 employees of flexible staffing per quarter as a threshold. For the region ranking first in each quarter, we will offer incentives based on their contribution to the net increase in the number of flexible staffing employees. We also need to increase the stability of the work of these flexible staffing employees while providing clients with a large number of flexible staffing employees to ensure the continuous growth in the number of flexible staffing employees.

2.3 Customer Satisfaction

"Client-oriented" is an important element of our service philosophy. Our comprehensive services offerings, together with our trusted brand and industry expertise, have led to higher client satisfaction, retention and stickiness, which is reflected in the high renewal rate of our clients. The Group conducts surveys on customer satisfaction regularly through phone calls and questionnaires to understand customer satisfaction and expectations and continuously improve service quality:

- In respect of flexible staffing, we conduct performance assessments in terms of work results (full team rate of flexible staffing employees, monthly turnover rate and comprehensive performance, etc.) and key behaviors (such as the utilising systems, controlling turnover rate, setting up standardized service process and enhancing service values to customers, etc.), and pay special attention to the performance of recruitment project managers and on-site teams in terms of recruitment, basic HR services, staff care for contract employees, communication feedback with clients, etc. This continuously improves the professionalism of the Group services;

- For professional recruitment, we understand customer satisfaction mainly from job results (number of recruited staff, time to complete recruitment, etc.) and key behaviors (such as clients' requirements on recruitment positions and interview arrangements, etc.), and provide scoring, conduct assessment and make improvement based on customer feedbacks.

Environmental, Social and Governance Report

Client satisfaction is reflected in the high renewal rate of our clients. For the year ended 31 December 2019, our flexible staffing project maintained a contract renewal rate of 100% for clients with an annual services premium and professional recruitment services fee of over RMB1 million.

2.4 Customer Complaints

The Group values the feedback and opinions of every customer and has set up a customer complaint hotline 4006539977 to collect customer complaints. Clients may also provide their suggestions or opinions directly to our on-site team.

The Group has issued service standards such as the Service Demands on the Complaint Hotline (《關於投訴專線的服務要求》) and adopted the First Inquiry Responsibility System. After our customer service department receiving a complaint, we will report the investigation results to the customer within 2 working days, and the complaint will generally be handled and completed within 1 week. After the handling on complaint is completed, the customer service department will conduct a review with the customer to understand the customer's satisfaction with the complaint handling result. The Group also conducts regular analysis and summary of complaints, tracks the root cause, analyses the reasons and the entire processes of the issues complained by customers, and proposes specific improvement suggestions, so as to enhance the quality and level of services to customers.

2.5 Contract Employees' interest

The Group's contract employees include flexible staffing employees, BPO employees and labour dispatch employees. We provide a comprehensive services to our contract employees to enhance their sense of belonging and reduce their turnover. We strictly abide by the Labour Contract Law of the PRC(《中華人民共和國勞動合同法》), the Interim Provisions on Labour Dispatch(《勞務派遣暫行規定》), and other laws and regulations to protect the rights and interests of contract employees.

Recruitment and dismissal: The recruitment of contract employees commences via our innovative O2O business model. We convert online traffic to our website, our Xiang Recruitment Platform and social media platforms, to offline recruitment process, where candidates and followers of our social media accounts can visit us at our frequent recruitment events and participate in available job interviews. We follow the principles of fairness, impartiality and openness in the selection of talents under the same conditions. The Group generally signs a two-year labour contract with contract employees, which specifies the circumstances of terminating the labour contract, regulates the conditions and procedures for the resignation of employees in accordance with the requirements under the national laws, and not to dismiss employees at will.

Salary and benefits: The Group sets the basic salaries, position allowances and performance bonus incentives of contract employees with our clients with reference to the salary and benefit standards of the labour markets in the places where flexible staffing employees are deployed. The Group clearly stipulates in the labour contract the salary components, salary standard, salary payment date, etc., Salaries are paid on time. In accordance with the prevailing laws and regulations of the cities where the signing units of contract employees' labour contracts are located, the Group paid social insurance and housing provident fund for contract employees on time to protect their legal rights and interests.

Working hours and holidays: The Group specifies the working hours system in the labor contract. For contract employees at job positions under the standard work hours system, if an employee needs to work overtime due to work requirements or the need to complete the work within the day, we will arrange the employee to take the same time off or pay overtime salary according to the law; for job positions that are not applicable to the standard work hours system due to nature of work and specification of production, we will apply to the relevant labor security administrative department for implementation of the comprehensive work hours system or irregular work hours system according to the law, which will be implemented upon approval.

The Group guarantees the rest rights of the contract employees, who are entitled to statutory holidays, sick leave, injury leave, marriage leave, maternity leave, breast-feeding leave, bereavement leave, etc.

Training and development: Our Renrui Academy (人瑞學院) provides all sorts of trainings for flexible staffing employees to help them understand the corporate culture and management style of our customers as well as our service standards. The Group conducts on-going evaluation of each contract employee and provides training courses that match the job functions and requirements of contract employees to improve their performance and facilitate their personal development.

From 29 to 31 October 2019, Renrui Academy carried out a training with the theme of "Personal branding and career goal management" for flexible staffing employees, to stress the importance of career goals and help them understand the skills on personal branding.

Environmental, Social and Governance Report

Democratic communication: The Group has established the Rui Home Platform. Through the Rui Home Platform, contract employees may process and sign their employment contracts online, apply for leaves, inquire about salary distribution at any time and apply for employee benefits, etc. Contract employees may also communicate with our on-site teams at real time to express their opinions and suggestions regarding their work in relation to their employments, thereby effectively safeguarding their rights and interests as employees.

Health and safety: We attach great importance to the contract employees' health and safety. In accordance with the relevant state labor safety and health regulations, The Group equips contract employees with necessary safety protection measures, provide the necessary personal protection equipment based on corresponding positions, and establish accountability system for the prevention and control of occupational diseases, so as to improve the management implementation and level of occupational disease prevention and control. The Group offers medical checkup packages below market prices and customized business insurance packages with significantly higher price-performance ratio than the market for our contract employees to purchase according to their needs, exactly the same as Renrui employees.

Caring for contract employees: We strive to create a harmonious and heart-warming working environment for contract employees and carry out a series of festive and team building activities, from which they can be able to experience the humanistic culture of the Company.

- *Development activity for contract employees of a flexible staffing project in December 2019*

- *Lunar New Year party for contract employees of a flexible staffing project in January 2019*

2.6 Data Security

The Group collects a substantial amount of personal data relating to our growing pool of candidates for our HR services, including names, phone numbers, mailing addresses and specific information and preferences relating to the candidates, such as past work history, education and other background information. The candidates' personal data is only received and collected by us after the candidate registers as a user through the Xiang Recruitment App with clear consent to our user agreement and privacy policy and submits his or her details. Our user agreement sets out the terms and conditions for how we collect personal data as well as how it will be handled, stored and used. For our clients and suppliers, we also store all past contracts. As such, we have adopted robust internal control measures to ensure the security and confidentiality of our data system. To protect information security, we have formulated policies and regulations on information security and organised trainings on data security, etc.

The Group regulates all aspects of the collection, storage, usage and disclosure of business information of corporate customers and personal information of candidate based on the Personal Information Protection and Business Secrecy Policy (《個人信息保護與商業秘密保密制度》) and other internal policies. If employees are found to have violated the personal information confidentiality rules and the commercial confidentiality rules, the Group will issue warnings, severe warnings or will directly terminate their labour contracts by considering the seriousness of the issues.

In addition, we have adopted effective internal control measures to ensure the security and confidentiality of the information system, such as setting up multiple security verifications to restrict access, conducting data back-up at least once a week, using its own servers to store data, limiting personnel's access to server rooms, and reviewing users' rights in the system quartely by our technology development department. The Group requires internal employees to sign the Confidentiality Agreement (《保密協議》), the Notice on Employee Information Security (《員工信息安全須知》) and the Employee Competition Restriction and Confidentiality Agreement (《員工競業限制和保密協議》), and enters into confidentiality agreements with customers and suppliers. For details, please refer to the content in relation to data security in "Corporate Governance Report" of this annual report.

We have set up channels such as a reporting mailbox (compliance@renruihr.com) to encourage internal and external personnel to report violations on information protection and confidentiality. For the year ended 31 December 2019, the Group had not received any complaints about leak of personal information and commercial secrets.

We also actively carry out legal training on information security. In 2019, the legal department of the Group specially carried out training on Sharing of Protection Laws of Personal Information (《個人信息保護法律分享》) to promote laws and regulations relating to information security and internal policies to strengthen the awareness of information security and protection of employees.

Environmental, Social and Governance Report

2.7 Intellectual Property

The Group protects our brand and trademarks, software, domain names and other intellectual property rights through complying with the Trademark Law of the PRC (《中華人民共和國商標法》) and the Copyright Law of the PRC (《中華人民共和國著作權法》) and other relevant laws and regulations on intellectual property rights, as well as signing confidentiality agreements with our employees, suppliers and customers.

Meanwhile, the Group also respects the intellectual property rights of others. The Group issues warnings from time to time and prevents acts of infringement. The Group emphasize the importance of respecting the intellectual property rights of others to employees including the persons-in-charge of professional recruitment business department and flexible staffing business department, as well as internal employees, require them to carefully review the published contents on job positions, encourage the use of public materials from websites where free pictures and elements can be downloaded, use original articles in our promotional materials, and remind them to purchase pictures and articles from third parties using the company name to avoid infringing the copyrights of others.

In 2018, we were subject to and settled, six claims relating to infringement or other intellectual property disputes amounting to RMB127,900 in aggregate. These claims against our Group were legal proceedings or complaints brought by third-party copyright owners relating to the unauthorized use of their articles or photos on our Xiang Recruitment Platform and were immaterial to our Group. Four of these six disputes were settled for amounts under RMB10,000 each. The remaining two cases were settled by entering into photo purchasing agreements with the two claimants for RMB58,900 and RMB50,000, respectively. In order to mitigate the occurrence of future intellectual property disputes, we have implemented internal controls measures including (i) disabling certain sections of our Xiang Recruitment Platform that allowed external users to upload and post articles and images; (ii) entering into agreements with image sources for proper supply of images; (iii) requiring review from the legal department before use of images purchased from stock photo websites; (iv) providing training to internal employees on intellectual property rights and risks; (v) screening and monitoring of content regularly by our internal employees; and (vi) assessing account user rights and settings periodically to ensure these are in line with business needs. Since we have strengthened the internal control management of intellectual property rights, we did not receive any claims for intellectual property disputes with third parties in 2019.

2.8 Brand Management

The Group strictly abides by the Advertising Law of the PRC (《中華人民共和國廣告法》) and other relevant laws and regulations, and places advertisements through outdoor advertising, new media Weibo, WeChat, apps and online website and other major channels to carry out brand promotion in compliance with laws and regulations. At the same time, we regulate the publication of advertisements in accordance with the Advertisement Placement Process of Renrui Human Resources (《人瑞人才廣告投放流程》) and other documents on internal process, and strictly controls various stages of advertisement placement. The Group will also promote legal knowledge such as prohibited words in the Advertising Law to employees by e-mail.

In August 2019, the marketing department of the Group arranged marketing staff, including those responsible for public relation dissemination, brand planning, business development, marketing event execution, copywriting and design, etc., to participate in the thematic study on the content of the new advertising law, which involves banned words, rules of usage, penalty regulations and other relevant rules of the new advertising law, to prevent the marketing staff from violating and using inappropriate advertising terms in future work. This ensures the proper output of the brand value and influence of the Group.

The Group regulates the use of our brand based on the Brand Guidelines of Renrui Human Resources (《人瑞人才品牌使用指引》). We adopt a responsibility-to-person system, where the head of each business system designates a contact point and person-in-charge, and the brand director of the marketing department is responsible for the effective supervision of the usage standards of each channel to ensure the standardization of brand use.

Advertising is not our major brand promotion model, and we plan to increase the exposure of our brand and expand our talent pool through various marketing channels, including cooperation with other well-known brands and through our internal referral system. We keep our Xiang Recruitment Platform updated with visible and desirable opportunities to attract the attention of potential candidates, both by offline promotion such as article publications in well-recognised HR industry magazines and cooperative promotion with colleges and universities. We employ a variety of dynamic and adaptive marketing methods which allow us to meet the market demand at any given time and enhance the positive brand recognition of our services. Under the process of brand promotion in multiple channels, we strictly abide by the relevant laws and regulations such as the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》). Our marketing strategies target both clients and potential candidates and we believe our marketing efforts together with word-of-mouth referrals have helped generate brand awareness among professionals and industry leading corporations.

3. SUPPLIER MANAGEMENT

Our suppliers include social insurance and housing provident fund processing agents, call center and technical support for BPO services, transportation services, other HR solutions providers for candidate sourcing and subcontractors for flexible staffing or BPO services.

We regulate the suppliers based on policies such as the Procurement and Supplier Management Policy of Renrui Group (《人瑞集團採購及供應商管理制度》). During the access stage, we assess and confirm the service capability of the suppliers, review their qualification assessment and then put them on the list of suppliers. For those suppliers that have been included in the list, We evaluate the performance of them on an annual basis to ensure quality. For suppliers with subpar performance, the Group will cease to work with them.

Environmental, Social and Governance Report

For our major suppliers, namely social insurance provident fund suppliers, the Group has formulated the Management Policy of Renrui Group's Suppliers of Social Insurance Provident Fund (《人瑞集團社保公積金供應商管理制度》) to ensure the service quality of them:

- During the access stage, the flexible staffing business department, finance department and legal department were established to review suppliers' materials;

- During the assess stage, we check whether our suppliers have made payments for social insurance provident fund in a truthful manner through monthly spot checks and self-checks of contract employees.

- We check the experience of the contract employees and whether payments of the social insurance provident fund have been made on time via the Rui Home Platform and phone calls every month which is an important basis for reviewing the eligibility of suppliers on a semi-annual basis;

- We conduct semi-annual reassessment and adjustment on the suppliers in the database to timely remove unqualified suppliers to establish a safe and stable social insurance provident fund supplier team.

For SMS providers sending invitations of interviews to candidate and registration verification codes from Xiang Recruitment Platform, we conduct spot checks on SMS delivery rate on a monthly basis, monitor the status of SMS delivery, and settle payments according to the record on the number of SMS delivered after spot checks.

4. INTEGRITY BUILDING

In order to ensure the healthy and orderly development of the Group, create an efficient, upright and honest working atmosphere, we require our employees to adhere to the principles of fairness and impartiality in their work, strictly abide by the relevant laws and regulations (including the Criminal Law of the PRC (《中華人民共和國刑法》), the Company Law of the PRC (《中華人民共和國公司法》), the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) and the Anti-Money Laundering Law of the PRC (《中華人民共和國反洗錢法》)) and the Training Package on Business Ethics for Listed Companies (上市公司商業道德培訓材料) provided by Hong Kong Independent Commission Against Corruption (香港廉政公署) and not to exploit the advantages of their positions or the effects of their positions for personal gain, or seek for personal gain in disguise.

We have set up reporting hotline, e-mail and other channels, and issued the Notice on the Company's Complaints and Reporting Channels (《關於公司投訴、舉報通道的通知》) to inform employees of the reporting channels and encourage them to report in a timely manner when they are aware of anyone who is receiving rebates, abusing one's power for personal gain, engaging in malpractice and leaking confidential information of the Company. Relevant departments and personnel organized by the human resources department will investigate and execute the cases and reply those phone calls or emails within two weeks. Once the case is confirmed, the relevant staff will be given a warning, imposed a fine or other penalty. Employment relationship with the relevant staff will be terminated and the individual(s) will be transferred to the judicial authority for handling if it seriously damages the reputation and other serious circumstances. During the period, the information of the reporting person and the content of the phone call or email are kept strictly confidential to protect the personal safety of the reporting person.

5. PEOPLE-ORIENTED

In strict compliance with the Labour Law of the PRC (《中華人民共和國勞動法》), the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), the Provisions on the Prohibition of Using Child Labour (《禁止使用童工規定》) and other relevant laws and regulations, the Group has formulated a series of internal staff management policies. At the same time, we provide employees with more competitive remuneration, performance-based incentives, Pre-IPO Share Option Schemes, internal training, career development consulting services and other incentive measures, so as to take care of internal employees' health and job satisfaction, attract, retain and motivate talents.

5.1 Employment Management for Internal Employees

5.1.1 Recruitment and dismissal

The Group has standardized the recruitment and staff movement and other relevant procedures in accordance with the Regulations on Recruitment Process Management (《招聘流程管理規範要求》) to effectively respond to the needs of staff in various business departments. We recruit the most suitable candidates through online channels, internal referrals, recruitments in schools and headhunting companies recommendations. We conduct adequate background on candidates, including personal information such as their education qualifications, work experience and the remuneration packages provided to them by their previous employers. At the same time, we require employees to provide their identity cards during admissions, and verify the information on employees' identity cards to eliminate the employment of child labour from the source. We sign the Labour Contract (《勞動合同》) with employees and specify the circumstances of terminating the Labour Contract, regulates the conditions and procedures for the resignation of employees, and not to dismiss employees at will.

5.1.2 Compensation and Benefits

The Group strictly complies with local laws and regulations at the places of our branches and subsidiaries and internal remuneration policies of the Group, provides employees with remuneration system comprising basic salary, job allowance and performance-based incentives, and pays social insurance and housing provident fund on time. Our remuneration policies are formulated based on the performance of individual employee and are reviewed regularly.

For employees who are dispatched to work in other cities and recruitment project executives who take business trips overseas, We provide subsidies to employees for off-site work in accordance with the requirements of the Management Policy of Off-site Work (《異地工作管理制度》) and the Regulations on Subsidies for Off-site Business Trips of Project Executives (《項目執行人員異地出差補貼規定》).

Environmental, Social and Governance Report

5.1.3 Working hours and Holidays

The Group has formulated the Attendance Management and Leave Policy of Renrui Group (《人瑞集團考勤管理及休假制度》) to strictly regulate the attendance and leave of employees. We have implemented a standard working hour policy where employees work 8 hours per day and 40 hours per week. In case of overtime work, employees apply for overtime work in accordance with the procedures stipulated in the policy, which shall be approved by the immediate supervisors and department directors. Employees approved for overtime work shall receive compensation leave in priority. In case of failure to arrange for compensation leave, the Group shall pay overtime wages to employees according to the law, to protect the legal rights of employees.

Our employees are entitled to national statutory holidays, as well as annual leave, personal leave, sick leave, marriage leave, maternity leave, pregnancy checkup leave, paternity leave, breast-feeding leave, bereavement leave and work-related injury leave.

5.1.4 Equality and Diversification

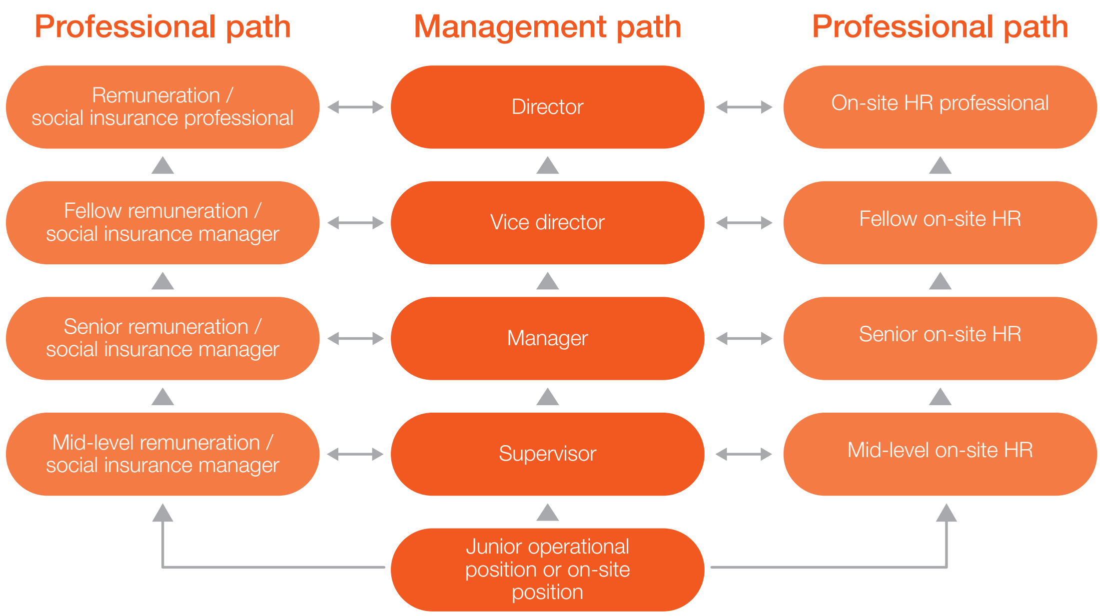
The Group abides by the principles of fairness, impartiality and openness, recruits employees on the basis of merit under the same conditions, and does not discriminate on the basis of race, gender, color, age, family background, ethnicity, religion, physical fitness and nationality to ensure that they are treated fairly.

We actively offer job opportunities to disabled job seekers, namely posts with a high level of standardization and mature work processes that do not necessarily require office work. In 2019, we hired several disabled staff to work in the Company as deputy general manager of business departments, cashiers, contract management personnel and salary verification personnel. They are also entitled to the same benefits as other employees in the same cities and similar positions in terms of salary standards, performance appraisal, work hours, leaves, training and development, etc.

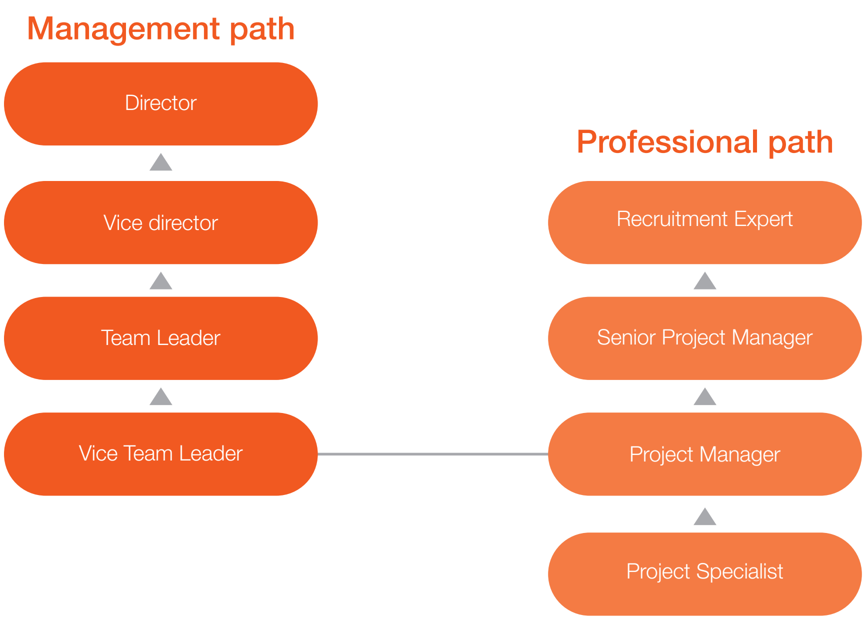
5.2 Training and Development

The Group pays close attention to the development of employees' personal skills and provides career development paths for employees in different positions. For example: regarding the flexible staffing business department and professional recruitment business department, the Group has established clear qualification assessment paths for both professional and management positions and project managers to facilitate the career development of employees.

CAREER DEVELOPMENT PATHS FOR POSITIONS IN FLEXIBLE STAFFING BUSINESS DEPARTMENT AND MEMBERS OF ON-SITE TEAM



CAREER DEVELOPMENT PATHS FOR PROJECT MANAGERS IN PROFESSIONAL RECRUITMENT BUSINESS DEPARTMENT



Environmental, Social and Governance Report

The Group provides various types of training such as orientation training, business knowledge training and management knowledge training to meet the needs of employees at all levels and improve their professional capabilities. We also actively established an internal trainer team to help employees improve work and performance and achieve sharing of knowledge. For the year ended 31 December 2019, we had a total of 68 internal lecturers.

• *Rui Learner, an online learning platform*

We provide targeted skills trainings based on the results of qualification assessment and shortcomings of employees every month. For example, in 2019, we launched relevant training courses such as "Skills on promotions for candidate groups on Xiang Recruitment Platform" and "Basic HR services and management knowledge for on-site teams" to support the growth of our recruitment project managers and on-site teams.

In addition, based on the service concept of "technology-driven HR services", we leveraged on our advantages in system R&D and established the Rui Learner (瑞學堂), an online learning platform and enterprise knowledge base, providing employees with various online courses on HR professional service knowledge, sales knowledge and management knowledge to meet the various learning needs of employees. Employees can participate in online learning via the Rui Learner in a flexible and convenient manner and consolidate their knowledge and skills. In 2019, we provided a total of 855 learning courses, 156 learning videos and 271 learning documents on the Rui Learner platform, with a total of 13,321 learning times and 21 learning times per employee.

- *Professional recruitment skills training for recruitment business department of Eastern China in January 2019*
- *New staff orientation training in June 2019*

- *Professional recruitment skills training for team leaders of recruitment business department in August and September 2019*

- *Training on the sales and marketing ability for major client sales team in August 2019*
- *Training for senior headhunting advisors in Decemeber 2019*

Environmental, Social and Governance Report

5.3 Health and Safety

The Group attaches great importance to the health and safety management of employees. The Group equips our employees with daily first-aid kits at workplace in case of any discomfort. In 2019, the Group arranged a variety of employee health activities to increase employee health awareness. For example:

- In November 2019, Guangzhou office provided consultation services and lectures on acupoints and meridians;
- In April 2019, Shanghai office invited an external social welfare team to provide massage and contact diagnosis for employees, conduct neck and waist assessment on site, and provide health reports and practical rehabilitation guidance for employees who tilt their heads down and sit all day, to help employees understand the healthcare knowledge of neck and waist.

In addition, we provide employees with cost-effective medical examination packages and customized commercial insurance packages for purchase. In 2019, we also launched the "Renrui commercial insurance Q&A competition" with prizes to en-courage employees to know more about the customized functions of commercial insurance and strengthen their sense of self-security.

- *First-aid kit in Shanghai office*

- *Doctor was invited to give lectures and diagnosis to staff*

- *Spine guidance event for employees*

We strictly abide by the Fire Protection Law of the PRC (《中華人民共和國消防法》) and other relevant laws and regulations, and actively cooperate with the properties to carry out fire safety activities such as fire drills and firefighting linkage tests. For example:

- In September 2019, Shanghai office cooperated with the property to carry out fire-fighting linkage test to examine if the building's firefighting equipment is intact and remove obstacles to firefighting facilities;

- In November 2019, Shanghai office participated in the fire drill organized by the property to strengthen the fire safety awareness and understanding of firefighting procedures among all employees, enhance the ability of each department to cope with emergencies and coordinate with each other.

From 1 January 2017 to 31 December 2019, we were not aware of any work-related fatalities.

5.4 Care for Employees

- *Christmas party*

- *Mid-autumn Festival gathering*

As a practitioner of human resources management services, the Group always adheres to the people-oriented principle to let employees feel the care of the Company. In 2019, the Group organized a series of team building activities for employees such as birthday parties, festive events and badminton competition, and offered employee benefits such as free smartphone screen protectors, battery replacement and maintenance for various types of electronic devices.

- *Glutinous rice balls in Winter Solstice*

- *Quarterly birthday party*

Environmental, Social and Governance Report

• “Strivers” Hokkaido tour

• Special interviews featuring “Strivers”

The Group organizes Strivers contest every year, in which we select outstanding employees within business departments, branches and subsidiaries as Strivers generally based on their half-year performance assessments. The reward for Strivers selected in the first half of 2019 was a paid one-week Hokkaido tour. For those in the second half of 2019, the Group presented certificates of honor and gold medals to them at the management meeting held in early January 2020, conducted special in-terviews with them and published these interviews on WeChat Public Account of Renrui HR, calling on all employees to learn from them.

6. GREEN OFFICE

- *Energy conservation slogan*

- *Water saving slogan*

The Group takes energy saving, emission reduction and environmental protection into account while operating. The Group strictly abides by the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Energy Conservation Law of the PRC (《中華人民共和國節約能源法》) and other applicable environmental laws and regulations, and adopts various measures for energy conservation, water conservation and emission reduction to implement sustainable development in all aspects of the operation of the Group.

We have formulated the 6S Management Implementation Plan for Renrui Group (《人瑞集團6S管理實施方案》) and commenced trainings on 6S knowledge, which requires employees to allocate and use resources reasonably and reduce waste by saving paper, turning off power after work, etc..

The Group raises employees' awareness of green office through emails, notices, morning meetings and regular inspections, so as to reduce waste and build a good corporate image.

- *Paper saving slogan*

Environmental, Social and Governance Report

The Group also promotes green office through various featured activities, such as:

- Since 2018, Shanghai office has organized activity namely "1-Hour Cleaning Day" one hour before closing time on each Friday in the Shanghai office and encourages employees to clean their workplaces and designated public areas. Shanghai office evaluates each area, sends broadcast emails and sets reward-and-punishment measures to further implement 6S management in the office.

- To respond to the waste sorting requirement in Shanghai, we carried out a waste sorting knowledge quiz at the quarterly birthday party in August 2019 to share the common knowledge about waste sorting and raise the employees' awareness on waste sorting.

• *1 Hour Cleaning Day on Every Friday,* As of 31 December 2019, the Group's KPIs for emissions and use of resources are as follows:

Emissions[1]	2019
Total GHG emissions (tCO_2e)[2]	391.5
Energy indirect GHG emissions (Scope 2) (tCO_2e)	391.5
Total GHG emissions per capita (tCO_2e/employee)	0.66

Use of Resources	2019
Total energy consumption (MWh)[5]	605.5
Total indirect energy consumption (MWh)	605.5
Including: Purchased electricity (MWh)	605.5
Total energy consumption per capita (MWh/employee)	1.01
Water consumption (tons)[6]	373.3
Water consumption per capita (tons/employee)	0.63

Note:

1. Due to the business nature, we do not generate waste gas emissions. We only generate a small amount of wastewater from the office in the daily operations and is managed together by the property management companies, therefore, KPI A1.1 (the types of emissions and respective emissions data) is not disclosed in the Report;

2. Based on the nature of the operations, our GHG emissions mainly come from energy indirect GHG emissions (scope 2) caused by purchased electricity and does not involve direct GHG emissions (scope 1). GHG is presented in carbon dioxide equivalent and accounted for in accordance with the Guidelines for the Accounting and Reporting of Greenhouse Gas Emissions of Public Building Operation Enterprises (《公共建築運營企業溫室氣體排放核算方法與報告指南》) issued by the National Development and Reform Commission;

3. The hazardous wastes produced in our office are small amount of waste toner cartridges, waste ink cartridges, etc., which are recycled by the printer suppliers. The impact on the environment is small. Therefore, KPI A1.3 (total hazardous waste produced) is not disclosed in the Report;

4. Non-hazardous waste produced during the operation includes domestic waste and is managed together by the property management companies. Therefore, KPI A1.4 (total non-hazardous waste produced) is not disclosed in the Report;

5. Due to the nature of the operations, our indirect energy consumption comes from purchased electricity and does not involve direct energy consumption. Total energy consumption is calculated based on electricity consumption;

6. The water comes from municipal water supply and there is no issue in sourcing useable water;

7. KPI A2.5 (total packaging material used for finished products) is not applicable to us as the operations do not involve the use of packaging materials;

8. Due to the nature of the industry, the operations do not have significant impacts of activities on the environment and natural resources, therefore, Aspect A3 (The Environment and Natural Resources) and KPI A3.1 (description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them) is not applicable and is not disclosed in the Report.

Environmental, Social and Governance Report

7. COMMUNITY WELFARE

• *Mr. Zhang Jianguo delivered a speech at the 13th China Labour Law and Employee Relationship Summit Forum*

• *Mr. Zhang Jianguo delivered a theme speech at the 28th Sino-foreign Management Seminar*

The Group is committed to becoming the pioneer of fast-growing HR solutions in the PRC and actively promotes flexible staffing to the public. The Group actively promotes the advantages of flexible staffing in terms of cost-reduction and efficiency en-hancement for enterprises to Chinese enterprises, continues to push forward the development of flexible staffing services in China's HR industry, and guides Chinese enterprises in the innovation of HR management.

Mr. Zhang Jianguo, the chairman of the Board of the Company, the CEO and an executive Director of the Group, jointly published Flexible Employment (《靈活用工－人才為我所有到為我所用》) with Professor Feng Xiliang and others in 2018, and Manager's Thought — Winning in Strategic Human Resource Management (《經營者思維－贏在戰略人力資源管理》) with Professor Peng Jianfeng in 2019. These two books contribute inspiring thoughts to Chinese enterprises in the aspect of HR management, introducing new suggestions on the selection strategies for enterprises in the aspects of staffing and employment.

• *Press conference and thematic forum of the White Paper on the Development of Flexible Staffing of Enterprises in the PRC 2019*

In addition, the Group has published White Paper on the Development of Flexible Staffing of Enterprises in the PRC (《中國企業靈活用工發展白皮書》) for two consecutive years from 2018 to 2019. By organising various forms of sharing activities such as industry summits, high-end forums and thematic gatherings, the Group shared its beliefs and experience in HR management (especially on the concepts, business modes and development trend of flexible staffing and how it brings advantages to enterprises) to entrepreneurs, management of enterprises, persons-in-charge of HR de-partments of enterprises, teachers and students from colleges and universities and others. This helps enterprises and the society discover new management ideas in the selection of staffing and employment and provides strong support for a healthy and orderly development of the flexible staffing services.

We also participated in a series of social welfare activities organised by government authorities and actively undertook social responsibilities such as promoting environmental protection and supporting education. For example: in September 2019, our employees participated in the 100-day relay campaign, namely "Plogging in Jing'an (撿跑靜安)" to pick up and sort the wastes in the street, so as to practice the environmental protection concept of "jointly protecting our home".

- *"Plogging in Jing'an (撿跑靜安)" the 100-day relay campaign*

Independent Auditor's Report

羅兵咸永道

To the Shareholders of Renrui Human Resources Technology Holdings Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Renrui Human Resources Technology Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 102 to 164, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive loss for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition
- Impairment assessment for trade receivables

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition Refer to Note 2.21 (Revenue recognition) and Note 5 (Segment information and revenue) to the consolidated financial statements. The Group recognised revenue of RMB2,287.6 million for the year ended 31 December 2019, including flexible staffing, professional recruitment and other HR solutions. Revenue is recognised when or as the control of the services is transferred to customers. We considered this is a key audit matter as significant audit efforts were spent in auditing the revenue due to the large volume of transactions.	Our work in relation to revenue recognition included: • We evaluated and validated key internal controls over revenue recognition. • We tested revenue transactions, on a sample basis, covering different revenue types, locations and customers, by examining the relevant supporting documents, including sales contracts, customers' confirmation of rendering services, underlying invoices and evidence of cash receipts from customers. We found the Group's revenue being tested were supported by evidence we gathered.
Impairment assessment for trade receivables Refer to Note 4(f) (Impairment of trade receivables) and Note 21 (Trade and notes receivables) to the consolidated financial statements. As at 31 December 2019, the Group's gross trade receivables amounted to RMB338.6 million, against which an impairment provision of RMB5.9 million was provided. The Group applied the simplified approach as permitted under the relevant accounting standard to measure expected credit losses which used a lifetime expected loss model for all trade receivables, which were grouped based on shared credit risk characteristics and the days past due. Expected credit losses were determined based on historical default rates and also incorporated forward looking information. We considered this is a key audit matter due to the magnitude of trade receivables balances and the significant management's judgements applied in assessing the impairment of trade receivables.	Our work in relation to impairment provision for trade receivables included: • We assessed the reasonableness of key assumptions adopted in determining expected credit losses of trade receivables. We assessed the historical default loss rates by evaluating the Group's actual credit losses incurred in the past. We evaluated the adjustments to the historical default loss rates based on forward looking macroeconomic data by reference to public information. • We tested the accuracy of the ageing analysis of trade receivables by tracing items in the ageing analysis, on a sample basis, to the relevant supporting documents. • We tested mathematical accuracy of the calculation of the expected credit losses. • We checked subsequent cash receipts relating to trade receivables as at 31 December 2019, on a sample basis. Based on the work performed, we considered that management's judgements in assessing the impairment of trade receivables were supported by the evidence we gathered.

Independent Auditor's Report

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mang, Kwong Fung Frederick.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 March 2020

Consolidated Income Statement

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Revenue	5	2,287,601	1,615,891
Cost of revenue	6	(2,046,716)	(1,460,935)
Gross profit		240,885	154,956
Selling and marketing expenses	6	(42,868)	(42,394)
Research and development expenses	6	(13,372)	(13,088)
Administrative expenses	6	(89,750)	(48,095)
Reversal of/(provision for) net impairment losses on financial assets	3.1(b)	53	(2,993)
Other income	9	21,158	9,409
Other gains/(losses), net	10	2,163	(268)
Operating profit		118,269	57,527
Finance income	11	1,562	233
Finance costs	11	(5,351)	(1,781)
Fair value losses on hybrid financial instruments	25	(878,151)	(196,542)
Loss before income tax		(763,671)	(140,563)
Income tax (expense)/credit	13	(16,160)	3,628
Loss for the year attributable to equity holders of the Company		(779,831)	(136,935)
Loss per share (expressed in RMB per share)			
- Basic and diluted loss per share	14	(12.42)	(2.36)

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Loss

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Loss for the year		**(779,831)**	(136,935)
Other comprehensive loss			
Items that may not be reclassified subsequently to profit or loss:			
Currency translation differences	24	**(28,932)**	(12,858)
Other comprehensive loss for the year		**(28,932)**	(12,858)
Total comprehensive loss for the year attributable to equity holders of the Company		**(808,763)**	(149,793)

The above consolidated statement of comprehensive loss should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 31 December 2019

	Note	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	84,499	62,069
Intangible assets	17	768	603
Other non-current assets	18	6,005	4,641
Deferred income tax assets	19	14,935	26,091
Total non-current assets		106,207	93,404
Current assets			
Trade and notes receivables	21	341,452	331,444
Prepayments, deposits and other receivables	20	7,246	7,990
Amount due from a related party	32	—	18
Cash and cash equivalents	22	1,029,456	40,341
Total current assets		1,378,154	379,793
Total assets		1,484,361	473,197
EQUITY/(DEFICIT)			
Share capital	23	51	18
Share premium	23	2,170,559	—
Other reserves	24	(30,911)	(6,933)
Accumulated losses		(1,072,328)	(292,497)
Total equity/(deficit)		1,067,371	(299,412)
LIABILITIES			
Non-current liabilities			
Hybrid financial instruments	25	—	402,198
Lease liabilities	27	54,381	41,592
Total non-current liabilities		54,381	443,790
Current liabilities			
Trade and other payables	26	316,875	279,720
Contract liabilities	5	22,016	26,929
Current income tax liabilities		4,669	—
Borrowings	28	—	10,000
Lease liabilities	27	19,049	12,170
Total current liabilities		362,609	328,819
Total liabilities		416,990	772,609
Total equity/(deficit) and liabilities		1,484,361	473,197

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 102 to 164 were approved by the Board of Directors on 31 March 2020 and were signed on its behalf.

Zhang Jianguo
Director

Zhang Feng
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Note	Attributable to equity holders of the Company				
		Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total (deficit)/equity RMB'000
Balance at 1 January 2018		18	—	4,382	(155,562)	(151,162)
Comprehensive loss						
Loss for the year		—	—	—	(136,935)	(136,935)
Other comprehensive loss						
– Currency translation differences	24	—	—	(12,858)	—	(12,858)
Total comprehensive loss		—	—	(12,858)	(136,935)	(149,793)
Transactions with equity holders of the Company						
Share-based compensation	24	—	—	1,543	—	1,543
Total transactions with equity holders of the Company		—	—	1,543	—	1,543
Balance at 31 December 2018		18	—	(6,933)	(292,497)	(299,412)
Balance at 1 January 2019		18	—	(6,933)	(292,497)	(299,412)
Comprehensive loss						
Loss for the year		—	—	—	(779,831)	(779,831)
Other comprehensive loss						
– Currency translation differences	24	—	—	(28,932)	—	(28,932)
Total comprehensive loss		—	—	(28,932)	(779,831)	(808,763)
Transactions with equity holders of the Company						
Share-based compensation	24	—	—	4,954	—	4,954
Issue of ordinary shares in connection with the listing, net of listing expenses	23	14	865,862	—	—	865,876
Conversion of preferred shares	23	19	1,304,697	—	—	1,304,716
Total transactions with equity holders of the Company		33	2,170,559	4,954	—	2,175,546
Balance at 31 December 2019		51	2,170,559	(30,911)	(1,072,328)	1,067,371

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash generated from operations	30	150,847	41,743
Income tax paid		(335)	—
Net cash generated from operating activities		150,512	41,743
Cash flows used in investing activities			
Purchase of property, plant and equipment		(12,162)	(3,270)
Purchase of financial assets at fair value through profit or loss		(218,000)	(74,700)
Purchase of intangible assets		(439)	—
Proceeds from disposal of property, plant and equipment		217	—
Proceeds from disposal of financial assets at fair value through profit or loss		218,108	74,791
Interest received		1,454	142
Net cash used in investing activities		(10,822)	(3,037)
Cash flows from/(used in) financing activities			
Proceeds from issue of ordinary shares upon listing	23	908,386	—
Proceeds from issue of preferred shares	25	—	63,420
Proceeds from borrowings		70,390	44,040
Repayment of convertible bonds	25	—	(60,376)
Repayment of amounts due to related parties		—	(5,200)
Repayment of borrowings		(80,390)	(38,090)
Payment of lease liabilities	31	(19,719)	(18,673)
Interest paid		(433)	(2,007)
Listing expenses paid		(30,923)	(2,661)
Net cash generated from/(used in) financing activities		847,311	(19,547)
Net increase in cash and cash equivalents		987,001	19,159
Cash and cash equivalents at beginning of the year		40,341	21,256
Effects of exchange rate changes on cash and cash equivalents		2,114	(74)
Cash and cash equivalents at end of the year	22	1,029,456	40,341

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 GENERAL INFORMATION AND REORGANISATION

1.1 General information

Renrui Human Resources Technology Holdings Limited (the "Company") was incorporated in the Cayman Islands on 14 October 2011 as an exempted company with limited liability. The registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company, an investment holding company, and its subsidiaries (together, the "Group") are principally engaged in the provision of flexible staffing services, professional recruitment services and other human resources ("HR") solutions services in the People's Republic of China (the "PRC") (the "Listing Businesses"). The ultimate controlling parties of the Company are Mr. Zhang Jianguo, Mr. Zhang Feng and Ms. Zhang Jianmei (collectively, the "Controlling Equity Holders").

The Company completed its initial public offering and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 December 2019 (the "Listing").

The consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

1.2 Reorganisation

Prior to the Reorganisation (as defined below), the Listing Businesses were carried by Chengdu Tianfu Renrui Education Consultation Co., Ltd. ("Chengdu Tianfu") and its subsidiaries, which were held by the Controlling Equity holders and controlled by the Company through the contractual arrangements dated 28 April 2012 (the "Old Contractual Arrangements") entered into between (1) Chengdu Renrui Qicheng Education Consultation Co., Ltd. ("Chengdu Qicheng WFOE"), a wholly owned subsidiary of the Company, (2) Chengdu Tianfu and (3) the registered equity holders of Chengdu Tianfu, being the Controlling Equity holders.

For preparation of the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited, the Group underwent an internal reorganisation (the "Reorganisation") to transfer certain subsidiaries previously held by Chengdu Tianfu to Renrui Education (Hong Kong) Limited ("Renrui (HK)"), a Hong Kong subsidiary wholly held by the Company, leaving Liaoning Renrui Business Process Outsourcing Service Co., Ltd. ("Liaoning Renrui"), Beijing Ruilian Network Technology Co., Ltd. ("Beijing Ruilian") and Shanghai Renrui Network Technology Co., Ltd. ("Shanghai Renrui"), which continue to be held directly by Chengdu Tianfu.

In addition, a series of contractual arrangements (the "Modified Contractual Arrangements") were entered into between Chengdu Qicheng WFOE, Chengdu Tianfu and the Controlling Equity Holders on 1 April 2019 to replace the Old Contractual Arrangements, pursuant to which Chengdu Qicheng WFOE continued to exercise control over the financial and operational policies of Chengdu Tianfu and the remaining subsidiaries and became entitled to economic benefits generated by Chengdu Tianfu and the relevant subsidiaries.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

(i) Compliance with HKFRS and HKCO

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies Ordinance Cap. 622.

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except that the revaluation of financial assets at fair value through profit or loss ("FVPL") and hybrid financial instruments are measured at fair value.

(iii) New standards, amendments and interpretations of HKFRSs effective for 2019

The following standards and amendments of HKFRSs which are relevant to the Group's operations are effective for the first time for annual period beginning on 1 January 2019. These have already been adopted by the Group when it prepared its consolidated financial statements for the three years ended 31 December 2016, 2017, 2018 and six months ended 30 June 2019 for the Listing of the Company.

- HKFRS 16 – Leases
- Amendments to HKFRS 9 – Prepayment Features with Negative Compensation
- Amendments to HKAS 28 – Long-term Interests in Associates and Joint Ventures
- Annual Improvements to HKFRS Standards 2015 – 2017 Cycle
- Amendments to HKAS 19 – Plan Amendment, Curtailment or Settlement
- Interpretation 23 Uncertainty over Income Tax Treatments.

(iv) New standards, amendments and interpretations of HKFRSs not yet effective for 2019 and have not been early adopted by the Group

A number of new standards, amendments to existing standards and interpretations have been issued but are not yet effective for 31 December 2019 reporting periods and have not been early adopted by the Group. These new standards, amendments and interpretations are set out below:

	Effective for accounting year beginning on or after
HKFRS 17 — Insurance Contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
Amendments to HKAS 1 and HKAS 8 — Definition of Material	1 January 2020
Amendments to HKFRS 3 — Definition of a Business	1 January 2020
Revised Conceptual Framework for Financial Reporting	1 January 2020

The Group is in the process of assessing potential impact of the above new standards, amendments to existing standards and interpretations that are relevant to the Group upon initial application. According to the preliminary assessment made by the directors of the Company, the management does not anticipate any significant impact on the Group's financial position and results of operations upon adopting the above new standards, amendments to existing standards and interpretations. The management of the Group plans to adopt these new standards, amendments to existing standards and interpretations when they become effective.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principles of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive loss, statement of changes in equity and balance sheet respectively.

(a) Subsidiaries controlled through Contractual Arrangements

The Group obtained control over Chengdu Tianfu and the relevant PRC subsidiaries through the Old Contractual Arrangements before the Reorganisation, and subsequently replaced by the Modified Contractual Arrangements entered into between Chengdu Qicheng WFOE, Chengdu Tianfu and the Controlling Equity Holders, which enable Chengdu Qicheng WFOE to:

- govern the financial and operating policies of Chengdu Tianfu and the relevant PRC subsidiaries;
- exercise equity holder's voting rights of Chengdu Tianfu and the relevant PRC subsidiaries;
- receive all of the economic interest returns generated by Chengdu Tianfu and the relevant PRC subsidiaries in consideration of the exclusive business cooperation agreements;
- obtain an irrevocable and exclusive right to purchase part or all of the equity interests in Chengdu Tianfu and the relevant PRC subsidiaries at any time and from time to time; and
- obtain a pledge over the entire interests in Chengdu Tianfu from the Controlling Equity Holders to secure performance of entities' obligation under the contractual arrangements.

As a result of the aforesaid contractual arrangements, the Group has rights to exercise power over Chengdu Tianfu and the relevant PRC subsidiaries, receive variable returns from its involvement with these entities, has the ability to affect those returns through its power over the entities and is considered to control the entities. Consequently, the Company regarded Chengdu Tianfu and the relevant PRC subsidiaries as controlled structured entities and consolidated the financial position and results of operations of these entities in the consolidated financial statements of the Company throughout the years ended 31 December 2019 and 2018.

Nevertheless, there are still uncertainties regarding the interpretation and application of current and future PRC laws and regulations. The directors of the Company, based on the advice of its legal counsel, consider that the use of the aforesaid contractual arrangements are in compliance with the relevant PRC laws and regulations are legally enforceable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principles of consolidation (Continued)

(i) Subsidiaries (Continued)

(b) Changes in ownership interests

When the Group ceases to consolidate a subsidiary because of a loss of control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRS.

2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM").

The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as executive directors of the Company.

2.5 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's functional currency is United States Dollar ("USD") as its key activities and transactions are denominated in USD. The Company's primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency. The consolidated financial statements are presented in RMB, which is the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in the consolidated income statement.

Foreign exchange gains and losses are presented in the consolidated income statement within "Other gains/(losses), net".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign currency translation (Continued)

(ii) Transactions and balances (Continued)

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in consolidated income statement.

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income. When a foreign operation is sold, the associated exchange differences may not be reclassified to profit and loss.

2.6 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful as follows:

• right-of-use assets	the term of lease
• computer equipment (including servers)	1~3 years
• electrical appliances	1~3 years
• furniture	5 years
• leasehold improvements	lesser of the term of the lease or the estimated useful lives of the assets

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment (Continued)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount, and are recognised in "Other gains/(losses), net" in the consolidated income statement.

Right-of-use assets included the rights to use certain properties under leases which are measured at cost. The initial costs of right-of-use assets include the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date
- any initial direct costs, and
- restoration costs.

Right-of-use assets are depreciated over the term of lease on a straight-line basis.

2.7 Intangible assets

Intangible assets include software purchased from third parties. They are initially recognised and measured at cost or fair value if they are acquired in business combinations. The intangible assets are amortised over their estimated useful lives using the straight-line method which reflects the pattern in which the intangible asset's future economic benefits are expected to be consumed.

The Group amortises intangible assets with a limited useful life using the straight-line method over 5 years.

2.8 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Other assets that are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.9 Financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial assets (Continued)

(i) Classification (Continued)

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

The Group derecognises a financial asset, if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of derecognition of transfer of cash flows (“pass through” requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit and loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. Transaction cost of financial assets carried at FVPL are expensed in profit and loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group’s business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in “Other gains/(losses), net” in the consolidated income statement together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated income statement.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in “Other gains/(losses), net” in the consolidated income statement in the period in which it arises.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial assets (Continued)

(iv) Impairment

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.

The Group applies the simplified approach permitted by HKFRS 9 on trade receivables, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1(b) for further details.

While cash and cash equivalents is also subject to the impairment requirements of HKFRS 9, the identified impairment loss is immaterial.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.11 Trade receivables

Trade receivables are amounts due from customers for services provided in the ordinary course of business. They are generally due for settlement within 1 year and therefore are all classified as current.

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. See Note 21 for further information about the Group's accounting for trade receivables and Note 3.1 for a description of the Group's impairment policies.

2.12 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand and deposits held at call with financial institutions with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.14 Trade and other payables

These amounts represent liabilities for services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.16 Borrowing cost

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are expensed in the period in which they are incurred.

2.17 Hybrid financial instruments

Hybrid financial instruments include convertible bonds and convertible redeemable preferred shares ("Preferred Shares").

(a) Convertible bonds

Convertible bonds which entitle the holder a put option (i.e. an option to require the Group to redeem in cash) and an option to convert into a variable number of equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as compound instruments consisting of a liability and a derivative component.

(b) Preferred shares

Preferred Shares which entitle the holder to participate in dividends appropriation in preference to holders of ordinary shares, subject to the discretion of the directors of the Company, are regarded as compound instruments that consist of a liability component and an embedded derivative.

Pursuant to HKFRS 9, hybrid financial instruments are accounted for in their entirety as financial liabilities through profit and loss, with fair value changes reflected in FVPL within the consolidated income statement, except for the portion attributable to credit risk change that should be charged to other comprehensive income. Accordingly, the embedded conversion features do not require future evaluation, bifurcation, and separate accounting as the change in fair value of embedded feature is reflected in the change in fair value in the compound instruments under such "whole instruments" approach. Issue costs that are directly attributable to the issue of the instruments, designated as financial liabilities at fair value through profit and loss, are recognised immediately in the consolidated income statement.

The instruments are classified as non-current liabilities unless the Group has an obligation to settle the liability within 12 months after the reporting period.

2.18 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Current and deferred income tax (Continued)

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.19 Employee benefits

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to a certain ceiling.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government.

The contributions are recognised as employee benefit expenses when they are due.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Share-based payments

The Group has granted tranches of share options. The Group receives services from employees as consideration for equity instruments of the Group. The fair value of the services received in exchange for the grant of the equity instruments is recognised as expenses in the consolidated income statement.

(i) Share options

For grant of share options, the total amount to be expensed is determined by reference to the fair value of the options granted by using option-pricing models:

- including any market performance conditions
- excluding the impact of any service and non-market performance vesting conditions, and
- including the impact of any non-vesting conditions

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

(ii) Modifications and cancellations

The Group may modify the terms and conditions on which share incentive awards were granted. If a modification increases the fair value of the equity instruments granted, the incremental fair value granted is included in the measurement of the amount recognised for the services received over the remainder of the vesting period.

A grant of share incentive awards, that is cancelled or settled during the vesting period, is treated as an acceleration of vesting. The Group immediately recognises the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

(iii) Share-based payments transactions among group entities

The grant by the Company of share options to the employees of the subsidiaries are treated as a capital contribution in the separate financial statements of the Company. The fair value of employee services received, determined by reference to the grant date fair value, is recognised over the vesting period as an increase to investments in subsidiaries undertakings, with a corresponding adjustment to equity in the separate financial statements of the Company.

2.21 Revenue recognition

Revenue is recognised when or as the control of the services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the services may be transferred over time or at a point in time. Control of the services is transferred over time if the Group’s performance provides all of the benefits received and consumed simultaneously by the customer.

If control of the 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 services.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Revenue recognition (Continued)

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 balance sheet as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

A contract asset is the Group's right to consideration in exchange for 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 that 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 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 services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

(i) The accounting policy for the Group's principal revenue sources

Flexible staffing

The Group provides flexible staffing services to meet the customers' staffing needs with the Group's employees performing duties under the customers' direct instructions, and the Group is primarily responsible for ensuring the quality and stability of the available staffing resources. The Group generally enters into flexible staffing contracts with the customers to provide sufficient staffing resources for a contract term of one to two years. The customers are usually billed on monthly basis for the service fee calculated based on a pre-agreed amount or unit rate per employee.

The Group controls flexible staffing services before transferring to the customers and is primarily responsible for fulfilling the contracts to ensure the quality and stability of the available staffing resources, which all together forms a single performance obligation. The Group is subject to the risks associated with employment of the employees. Revenue for flexible staffing is recognised on a gross basis over time as the customers simultaneously receive and consume the benefits provided by the Group's performance, while the labour costs paid to the Group's employees are recognised as cost of revenue.

Professional recruitment

The Group provides recruitment services of junior or middle-to-senior level positions of different functions across various industries. The service fee is calculated based on either a fixed fee per placement or as a percentage of the salary of the successfully placed candidates.

The recruitment contracts generally include only a single performance obligation, while for certain contracts, the Group will also guarantee the replacement of the candidate within a short period of time, normally one month. In such case, contract price will be allocated between the recruitment and replacement service based on stand-alone selling price. The Group normally receives part of the recruitment fees upfront, which are recognised as contract liabilities. The revenue related to recruitment service is recognised at the point in time when the Group successfully places the candidates, and this is the timing when the customers have accepted the Group's services of providing selected candidates. The revenue related to replacement service will be recognised at the point in time when the service is provided.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Revenue recognition (Continued)

(i) *The accounting policy for the Group's principal revenue sources* (Continued)

Professional recruitment (Continued)

Certain customers also pay membership fees to the Group to request a package of services, including arranging interviews or advertising job openings on the Group's platform for a contract term of one year or less. The Group normally receives all of the membership fees upfront, such amount is non-refundable and recognised as contract liabilities. Under the membership fees model, the services can be divided into two categories: i) consumption-based services such as arranging interviews, top display of job postings, etc.; and ii) time based services such as unlimited normal job postings and access to the Group's platform, etc. Each service is a performance obligation, and the transaction price is generally allocated to each performance obligation on the basis of relative stand-alone selling price. The revenue from the consumption-based services is recognised upon the consumption of the individual service. The revenue from the time-based service is recognised on a straight-line basis over the contract period.

Other HR solutions

Other HR solutions comprise business process outsourcing ("BPO") services, labour dispatch services and corporate training services.

For BPO services, the Group is responsible for maintaining sufficient number of employees to perform the whole business function outsourced to the Group under the Group's direct supervision, such as call center customer services. The Group generally enters into BPO contracts with the customers for a contract term of one year, which include only a single performance obligation. The customers are usually billed on monthly basis for the service fee calculated based on number of employees required times unit rate per employee or a pre-agreed lump sum amount.

Since the Group controls BPO services before transferring to the customers, is primarily responsible for fulfilling the contracts to ensure the quality and performance of the outsourced business function, is subject to the risks associated with employment of the employees, and has discretion in establishing prices, which all together forms a single performance obligation, the BPO revenue is recognised on a gross basis over time as the customers simultaneously receive and consume the benefits provided by the Group's performance, while the labour costs paid to the Group's employees or the Group's subcontractors are recognised as cost of revenue.

For labour dispatch services, the Group acts as a dispatching agent. Labour dispatch services involve a tripartite legal relationship among the employees, the customers and the Group in which the customers have a legal relationship with the employees and assume the risks associated with employment of the employees; the Group is mainly responsible for administrative work, including onboarding and existing procedures, salary payment, etc. which is considered as one performance obligation performed on monthly basis. Although the Group is associated with certain risk of the employee as the Group helps the administration work, the Group does not control employee's labour services, is not responsible for the employee's fulfilment of the labour contract, has no discretion of the price paid to the employee, therefore the labour dispatch revenue is recorded on a net basis over time as the customers simultaneously receive and consume the benefits provided by the Group's performance of the monthly administration work, while the labour costs paid to the employees are recorded to net off revenue.

For corporate training services, the Group provides the training and development courses which are tailored for the customers. The training services revenue is recognised at the point in time when the training courses have been delivered.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Leases

The Group leases various properties. Property leases are typically made for fixed periods of one to six years. Lease terms are negotiated on an individual basis and contain various different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Property leases are recognised as right-of-use assets (included in property, plant and equipment) and the corresponding liabilities at the date of which the respective leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Dividends distribution

Dividend distribution to the Company's equity holders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's equity holders or directors, where appropriate.

2.24 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the subsidies will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

2.25 Interest income

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 11 below. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.26 Research and development

Research expenditures are recognised as expenses as incurred. Costs incurred on development projects are capitalised as intangible assets when recognition criteria are met, including:

(a) it is technically feasible to complete the software so that it will be available for use;

(b) management intends to complete the software and use or sell it;

(c) there is an ability to use or sell the software;

(d) it can be demonstrated how the software will generate probable future economic benefits;

(e) adequate technical, financial and other resources to complete the development and to use or sell the software are available; and

(f) the expenditure attributable to the software during its development can be reliably measured.

Other development costs that do not meet those criteria are expensed as incurred.

There were no development costs meeting these criteria and capitalised as intangible assets as of 31 December 2019 and 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group currently does not use any derivative financial instruments to hedge certain risk exposures in the year 2019 and 2018.

3.1 Financial risk factors

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the Group entities' functional currency. The functional currency of the Company is USD whereas the functional currency of the subsidiaries operating in the PRC is RMB.

The Group operates mainly in the PRC with most of the transactions settled in RMB. As at 31 December 2019, the majority of the Group's assets and liabilities are denominated in RMB, except for the bank deposits from the Company's initial public offering, which are denominated in HKD, while the Company's functional currency is USD. Accordantly the management considers that the business is not exposed to any significant foreign exchange risk.

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates, as the Group has no significant interest-bearing assets except for cash and cash equivalents measured at amortised cost.

The Group's exposure to changes in interest rates is also attributable to its borrowings and lease liabilities, details of which has been disclosed in Notes 28 and 27. Borrowings and lease liabilities carried at floating rates expose the Group to cash flow interest rate risk whereas those carried at fixed rates expose the Group to fair value interest rate risk.

At 31 December 2019 and 2018, the Group's borrowings and lease liabilities were all carried at fixed rates, which did not expose the Group to cash flow interest rate risk.

(b) Credit risk

Credit risk is managed on a group basis. The Group's credit risk arises from cash and cash equivalents, as well as credit exposures to customers, including outstanding receivables.

(i) Cash and cash equivalents

As at 31 December 2019 and 2018, the Group expects that there is no significant credit risk associated with cash and cash equivalents since most of them are deposited at state-owned banks and other multinational medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Trade and notes receivables

To manage risk arising from trade receivables, the Group has policies in place to ensure that credit terms are made to customers with an appropriate credit history and the management performs ongoing credit evaluations of its customers. The credit period granted to the customers is typically of 10 to 70 days and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors. The Group applies HKFRS 9 simplified approach to measuring the expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Expected credit losses are determined based on historical default rates and also incorporate forward looking information. The Group identifies GDP growth rate and unemployment rate as the key economic variables impacting the expected credit losses.

On that basis, the loss allowance for trade receivables as at 31 December 2019 and 2018 was determined as follows:

31 December 2019	Current	Past due within 3 months	Past due from 4 months to 6 months	Past due from 7 months to 9 months	Past due from 10 months to 12 months	Past due over 12 months	Total
Expected loss rate	0.10%	3.43%	8.46%	22.22%	70.00%	100.00%	
Gross carrying amount	294,104	30,096	10,659	63	10	3,668	338,600
Loss allowance	294	1,031	902	14	7	3,668	5,916

31 December 2018	Current	Past due within 3 months	Past due from 4 months to 6 months	Past due from 7 months to 9 months	Past due from 10 months to 12 months	Past due over 12 months	Total
Expected loss rate	0.10%	1.05%	19.67%	55.83%	69.49%	100.00%	
Gross carrying amount	257,495	73,490	1,678	240	118	4,524	337,545
Loss allowance	257	774	330	134	82	4,524	6,101

As at 31 December 2019, the Group assessed the identified credit losses of note receivables were immaterial.

(iii) Other receivables

For other receivables, the Group applies the general model for expected credit losses prescribed by HKFRS 9, since credit risk has not significantly increased after initial recognition, provision is provided, and the loss allowance recognised during the period was therefore limited to 12 months expected losses. As at 31 December 2019 and 2018, the loss allowance of other receivables were RMB194,000 and RMB148,000, respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(iii) Other receivables (Continued)

Movement on the Group's loss allowance for impairment of trade receivables and other receivables was as follows:

	2019 RMB'000	2018 RMB'000
Opening loss allowance at 1 January	6,249	3,256
(Decrease)/increase in loan loss allowance recognised in profit or loss during the year	(53)	2,993
Receivables written off during the year as uncollectible	(86)	—
Closing loss allowance at 31 December	6,110	6,249

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of available financing to meet its daily operation working capital.

The table below analyses the Group's financial liabilities by relevant maturity grouping at each balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months from the balance sheet date equal to their carrying amounts in the consolidated balance sheet, as the impact of discount is not significant.

Contractual maturities of financial liabilities	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	More than 5 years RMB'000	Total contractual cash flows RMB'000
At 31 December 2019					
Trade and other payables*	54,345	—	—	—	54,345
Lease liabilities	23,146	21,264	37,703	—	82,113
	77,491	21,264	37,703	—	136,458
At 31 December 2018					
Borrowings	10,142	—	—	—	10,142
Trade and other payables*	40,802	—	—	—	40,802
Hybrid financial instruments**	—	—	402,198	—	402,198
Lease liabilities	12,513	15,545	34,403	—	62,461
	63,457	15,545	436,601	—	515,603

* Excluding non-financial liabilities of accrued payroll and welfare and value-added tax ("VAT") and surcharges.

** The amounts of hybrid financial instruments are not measured at undiscounted cash flows, but at fair value.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits for other stakeholders; and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (exclude hybrid financial instruments) less cash and cash equivalents. Total capital is calculated as total equity plus net debt.

As at 31 December 2019 and 2018, the Group was in a net cash position (i.e., cash and cash equivalents is higher than borrowing), hence it is not meaningful to present the gearing ratio.

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2019 and 2018 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's financial assets at fair value through profit or loss mainly represented wealth management products purchased from banks. The Group had no financial assets at fair value through profit or loss as at 31 December 2019 and 2018.

The Group's financial liabilities measured at fair value mainly represented hybrid financial instruments. The Group had no such financial liabilities as at 31 December 2019 and the liabilities that were measured at fair value as at 31 December 2018 were as follows:

Recurring fair value measurements	Note	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
As at 31 December 2018				
Financial liabilities – hybrid financial instruments	25	—	—	402,198

There were no transfers among levels of the fair value hierarchy during the years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

The following table presents the changes in level 3 instruments of financial liabilities at fair value through profit or loss for the years ended 31 December 2019 and 2018.

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
At the beginning of the year	402,198	187,567
Issuance	—	63,420
Repayment	—	(60,376)
Fair value change	878,151	196,542
Conversion of preferred shares	(1,304,716)	—
Currency translation differences	24,367	15,045
At the end of the year	—	402,198

The Group manages the valuation of level 3 instruments for financial reporting purposes and manages the valuation exercise of the instruments on a case by case basis. At least once every year, the management would use valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

The valuation of the level 3 instruments included hybrid financial instruments (Note 25). As hybrid financial instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including discounted cash flows and market approach etc. Major key assumptions used in the valuation for hybrid financial instruments are presented in Note 25.

Fair value of hybrid financial instruments is affected by changes in the Company's equity value. If the Company's equity value had increased/decreased by 10% with all other variables held constant, the loss before income tax for the year ended 31 December 2018 would have been approximately RMB29.5 million higher/lower. Detailed quantitative sensitivity analysis is presented in Note 25.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Current and deferred income tax

The Group is subject to income taxes in several jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Current and deferred income tax (Continued)

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. At 31 December 2019 and 2018, the Group did not recognise deferred income tax asset in respect of cumulative tax loss of approximately RMB5,179,000 and RMB3,774,000 respectively. The outcome of their actual utilisation may be different from management's estimation. These tax losses will expire from 2019 to 2024.

(b) Fair value of hybrid financial instruments

The fair value of hybrid financial instruments that are not traded in an active market is determined by using valuation techniques. The Group applied the market approach or the discounted cash flow approach to determine the underlying equity value of the Company and adopted option-pricing method and equity allocation model to determine the fair value of the hybrid financial instruments. Key assumptions such as the timing of the liquidation, redemption or IPO event as well as the probability of the various scenarios were based on the Group's best estimates.

(c) Contractual arrangements

Before the Reorganisation, the Group conducted the Listing Businesses through Chengdu Tianfu and its PRC subsidiaries. After the Reorganisation, the Group conducts part of the Listing Businesses through Chengdu Tianfu and the relevant subsidiaries remained under Chengdu Tianfu. The Group does not have any legal ownership in Chengdu Tianfu. The Directors assessed whether or not the Group has power over relevant activities of Chengdu Tianfu and the relevant subsidiaries and whether it has the rights to variable returns from its involvement with Chengdu Tianfu and the relevant subsidiaries. Nevertheless, the contractual arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Chengdu Tianfu and the relevant PRC subsidiaries and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of Chengdu Tianfu and the relevant subsidiaries. The Directors, based on the advice of its legal counsel, consider that the contractual arrangements with Chengdu Tianfu and its registered equity holders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

(d) Fair value of share-based compensation expenses

The Group awarded share options to eligible senior management and employees. The fair value of the share options are determined by Binomial model at the grant date, and is expected to be expensed over the respective vesting period.

Significant estimate on assumptions, including underlying equity value, risk-free interest rate, expected volatility, dividend yield, and terms, are made by the directors and third-party valuer. In addition, the Group is required to estimate the expected percentage of grantees that will remain in employment with the Group. Changes in these estimates and assumptions could have a material effect on the determination of the fair value of the share options and the amount of such share options expected to become vested, which may in turn significantly impact the determination of the share options expenses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(e) Principal versus agent considerations

Determining whether the Group is acting as a principal or as an agent in the provision of certain services to its customers requires judgment and consideration of all relevant facts and circumstances. In evaluation of the Group's role as a principal or agent, the Group considers, individually or in combination, whether the Group controls the specified service before it is transferred to the customer, is primarily responsible for meeting customer specifications, is subject to the risk associated with employment, and has discretion in establishing prices.

(f) Impairment of trade receivables

The Group's management determines the provision for impairment of trade receivables based on the expected credit losses which use a lifetime expected loss allowance for trade receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition as well as forward looking estimates at the end of reporting period, and requires the use of judgements and estimates. Management reassesses the provisions at each balance sheet date.

5 SEGMENT INFORMATION AND REVENUE

(a) Description of segments and principal activities

The Group's business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions. As a result of this evaluation, the Group determined that it has operating segments as follows:

The CODM assesses the performance of the operating segments mainly based on segment revenues and segment gross profit. Thus, segment result would present revenue and gross profit for each segment, which is in line with CODM's performance review.

Flexible staffing

The flexible staffing segment offers contingent workers for customers who wish to manage their own headcount or only require worker for limited time or a specific project. The Group provides contingent workers contracted with the Group that the Group finds suitable for the job descriptions and assigns them to the customers.

Professional recruitment

The professional recruitment segment offers headhunting service. The Group assists customers search for, identify and recommend suitable candidates for the job vacancies. Also, the Group assists customers' hiring process, which includes candidate assessments, screening and conducting candidate interviews.

Other HR solutions

The Group provides other human resource solutions such as BPO, corporate training and labour dispatch.

The principal operating entities of the Group are domiciled in the PRC. Accordingly, almost all of the Group's revenue are derived in the PRC.

5 SEGMENT INFORMATION AND REVENUE (Continued)

(b) Segment results and other information

The segment information provided to the Group's CODM for the reportable segments for the year ended 31 December 2019 was as follows:

	Year ended 31 December 2019			
	Flexible staffing RMB'000	Professional recruitment RMB'000	Other HR solutions RMB'000	Total RMB'000
Segment revenue	2,150,950	63,509	73,142	2,287,601
Segment gross profit	192,078	22,536	26,271	240,885
Unallocated:				
Selling and marketing expenses				(42,868)
Research and development expenses				(13,372)
Administrative expenses				(89,750)
Other income (Note 9)				21,158
Fair value losses on hybrid financial instruments (Note 25)				(878,151)
Other gains, net (Note 10)				2,163
Reversal of net impairment losses on financial assets (Note 3.1)				53
Finance costs, net (Note 11)				(3,789)
Loss before income tax				(763,671)
Income tax expense (Note 13)				(16,160)
Loss for the year				(779,831)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

5 SEGMENT INFORMATION AND REVENUE (Continued)

(b) Segment results and other information (Continued)

The segment information provided to the Group's CODM for the reportable segments for the year ended 31 December 2018 was as follows:

	Year ended 31 December 2018			
	Flexible staffing RMB'000	Professional recruitment RMB'000	Other HR solutions RMB'000	Total RMB'000
Segment revenue	1,514,950	68,369	32,572	1,615,891
Segment gross profit	113,119	31,053	10,784	154,956
Unallocated:				
Selling and marketing expenses				(42,394)
Research and development expenses				(13,088)
Administrative expenses				(48,095)
Other income (Note 9)				9,409
Fair value losses on hybrid financial instruments (Note 25)				(196,542)
Other losses (Note 10)				(268)
Net impairment losses on financial assets (Note 3.1)				(2,993)
Finance costs, net (Note 11)				(1,548)
Loss before income tax				(140,563)
Income tax credit (Note 13)				3,628
Loss for the year				(136,935)

(c) Segment assets and segment liabilities

No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM.

5 SEGMENT INFORMATION AND REVENUE (Continued)

(d) Disaggregation of revenue from contracts with customers

(i) The Group derived revenue in the following types:

	Year ended 31 December 2019 RMB'000	2018 RMB'000
Flexible staffing	2,150,950	1,514,950
Professional recruitment		
– Recruitment	57,629	62,434
– Paid membership	5,880	5,935
Other HR solutions		
– BPO	51,753	22,964
– Corporate training	1,616	965
– Labour dispatch	7,067	8,643
– Other miscellaneous services*	12,706	—
	2,287,601	1,615,891

* For the year ended 31 December 2019, other miscellaneous services mainly included tailored employee management solutions to the customers, which was recognised over time as the customers simultaneously received and consumed the benefits provided by the Group's performance.

(ii) The Group derived revenue from the transfer of services over time and at a point in time in the following major service lines:

2019	Flexible staffing RMB'000	Professional recruitment RMB'000	Other HR solutions RMB'000	Total RMB'000
Timing of revenue recognition				
At a point in time	—	61,951	1,616	63,567
Over time	2,150,950	1,558	71,526	2,224,034
	2,150,950	63,509	73,142	2,287,601

2018	Flexible staffing RMB'000	Professional recruitment RMB'000	Other HR solutions RMB'000	Total RMB'000
Timing of revenue recognition				
At a point in time	—	68,332	965	69,297
Over time	1,514,950	37	31,607	1,546,594
	1,514,950	68,369	32,572	1,615,891

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

5 SEGMENT INFORMATION AND REVENUE (Continued)

(d) Disaggregation of revenue from contracts with customers (Continued)

(iii) Information about major customers

The major customer group from whom the individual customer group's revenue amounted to 10% or more of the Group's total revenue was as below:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Customer group A	784,621	345,850

(e) Liabilities related to contracts with customers

The Group recognised the following liabilities related to contracts with customers:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Contract liabilities – professional recruitment	19,889	19,890
Contract liabilities – flexible staffing	1,425	4,161
Contract liabilities – other HR solutions	702	2,878
	22,016	26,929

Contract liabilities represent non-refundable advanced payments received from customers for services that have not yet been provided to the customers, which are expected to be satisfied during one year or less.

All of the Group's revenue is made directly with the customers. For flexible staffing, BPO and labour dispatch, the customers are usually billed on a monthly basis. For other services, the period of the services are generally within one year. As a practical expedient under HKFRS 15, transaction price allocated to these unsatisfied contracts is not disclosed.

During the years ended 31 December 2019 and 2018, all brought-forward contract liabilities at the beginning of the financial year were fully recognised as revenue.

6 EXPENSES BY NATURE

The following expenses include cost of revenue, selling and marketing expenses, research and development expenses and administrative expenses:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Employee benefit expenses (Note 7)	2,029,688	1,463,063
Depreciation and amortisation (Note 16, 17)	24,559	19,041
Travelling and entertainment expenses	34,374	20,229
Marketing and promotion expenses	18,818	13,165
Other taxes and surcharges	13,945	8,867
Subcontracting costs	9,136	10,927
Listing expenses	35,942	8,083
Recruitment related communication expenses	8,321	5,587
Utilities and office expenses	7,031	6,041
Professional service fee	3,843	2,554
Lease and property management expenses	2,941	2,705
Auditor's remuneration		
– Audit services	1,900	442
– Non-audit services	476	—
Others	1,732	3,808
Total	2,192,706	1,564,512

7 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Wages, salaries and bonus	1,651,057	1,161,976
Social insurance and housing fund	352,191	272,682
Other employee welfares	21,486	26,862
Share-based payments (Note 24)	4,954	1,543
	2,029,688	1,463,063

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

7 EMPLOYEE BENEFIT EXPENSES (Continued)

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2018: one) directors whose emoluments were reflected in the analysis shown in Note 8. The emoluments payable to the remaining three (2018: four) individuals during the year were as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Wages, salaries and bonus	3,365	4,053
Social insurance and housing fund	54	75
Share-based payments	696	176
	4,115	4,304

The emoluments fell within the following bands:

	Number of individuals	
	2019	2018
Emolument bands (in HK dollar)		
HK$0 – HK$1,000,000	—	2
HK$1,000,001 – HK$2,000,000	2	2
HK$2,000,001 – HK$3,000,000	1	—
	3	4

During the years ended 31 December 2019 and 2018, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

8 DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2019:

Name of Director	Fees RMB'000	Salary and bonuses RMB'000	Employer's contribution to pension scheme RMB'000	Share-based payments RMB'000	Total RMB'000
Chairman					
Mr. Zhang Jianguo (i)(ii)	—	800	22	—	822
Executive directors					
Mr. Zhang Feng (ii)	—	680	20	18	718
Ms. Zhang Jianmei (ii)	—	908	22	172	1,102
Non-executive directors					
Mr. Chen Rui (iii)	—	—	—	—	—
Mr. Chow Siu Lui (iii)	—	—	—	—	—
Independent non-executive directors					
Mr. Shen Hao (iv)	22	—	—	—	22
Ms. Chan Mei Bo Mabel (iv)	22	—	—	—	22
Mr. Leung Ming Shu (iv)	22	—	—	—	22
Total	66	2,388	64	190	2,708

For the year ended 31 December 2018:

Name of Director	Fees RMB'000	Salary and bonuses RMB'000	Employer's contribution to pension scheme RMB'000	Share-based payments RMB'000	Total RMB'000
Chairman					
Mr. Zhang Jianguo (i)(ii)	—	509	22	—	531
Executive directors					
Mr. Zhang Feng (ii)	—	636	19	—	655
Ms. Zhang Jianmei (ii)	—	1,097	23	37	1,157
Non-executive directors					
Mr. Chen Rui (iii)	—	—	—	—	—
Mr. Chow Siu Lui (iii)	—	—	—	—	—
Total	—	2,242	64	37	2,343

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

8 DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

The emoluments shown above represents aggregate amounts paid to or receivable by directors in respect of their services in connection with the management of the affairs of the Company or its subsidiaries undertaking.

None of the directors of the Company received or were paid any emoluments in respect of accepting office, and waived or agreed to waive any emolument for the years ended 31 December 2019 and 2018.

(i) The chief executive of the Company is Mr. Zhang Jianguo, who is also the Chairman of the Board.

(ii) Mr. Zhang Jianguo, Mr. Zhang Feng and Ms. Zhang Jianmei were appointed as executive directors on 26 March 2019.

(iii) Mr. Chen Rui and Mr. Chow Siu Lui were appointed as non-executive directors on 26 March 2019.

(iv) Mr. Shen Hao, Ms. Chan Mei Bo Mabel and Mr. Leung Ming Shu were appointed as independent non-executive directors on 29 November 2019.

(v) Directors' retirement benefits

No director's retirement benefit subsisted at the end of the year or at any time during the years ended 31 December 2019 and 2018.

(vi) Directors' termination benefits

No director's termination benefit subsisted at the end of the year or at any time during the years ended 31 December 2019 and 2018.

(vii) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available director's services subsisted at the end of the year or at any time during the years ended 31 December 2019 and 2018.

(viii) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

Excluding the information disclosed in Note 32, there were no other loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors subsisted at the end of the year or at any time during the years ended 31 December 2019 and 2018.

(ix) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the years ended 31 December 2019 and 2018.

9 OTHER INCOME

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Government grants (i)	18,111	9,108
Additional deduction of input value-added tax ("**VAT**") (ii)	2,881	—
Others	166	301
	21,158	9,409

(i) The government grants mainly represented financial support funds from local government. There were no specific conditions or other contingencies attaching to these grants, and therefore, the Group recognised the grants upon receipts.

(ii) Pursuant to the "Announcement on Relevant Policies for Deepening the Value-added Tax Reform" (Cai Shui Haiguan [2019] No.39) (「關於深化增值税改革有關政策的公告」(財税海關[2019]第39號)) jointly issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs, the Company's certain subsidiaries qualified for an additional 10% deduction of input VAT from output VAT from 1 April 2019 to 31 December 2021.

10 OTHER GAINS/(LOSSES), NET

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Net losses on disposal of property, plant and equipment	(87)	(18)
Exchange gains/(losses) - net	2,136	(129)
Gains on early termination of lease contracts	326	—
Others	(212)	(121)
	2,163	(268)

11 FINANCE INCOME AND COSTS

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Finance income		
Interest income on cash and cash equivalents	1,562	233
Finance income	1,562	233
Finance costs		
Interest expense		
— lease liabilities	(4,854)	(1,224)
— amounts due to related parties	—	(310)
— borrowings	(497)	(247)
Finance costs expensed	(5,351)	(1,781)
Finance costs, net	(3,789)	(1,548)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

12 SUBSIDIARIES

The Group's principal subsidiaries at 31 December 2019 and 2018 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The place of incorporation or registration is also their principal place of business.

Name of the subsidiaries	Principal activities	Place of incorporation	Registered capital	Paid-in capital	Held (%) 2019	Held (%) 2018
Renrui (HK)	Investment Holding	Hong Kong	HKD1	HKD1	100	100
Beijing Renrui Human Resources Service Co., Ltd.	Human Resources Services	Beijing, China	RMB10,000,000	RMB10,000,000	100	100
Beijing Ruilian	Human Resources Services	Beijing, China	RMB10,000,000	RMB10,000,000	100	100
Tianjin Renrui Human Resources Service Co., Ltd.	Human Resources Services	Tianjin, China	RMB2,000,000	RMB2,000,000	100	100
Xian Renrui Human Resources Service Co., Ltd.	Human Resources Services	Xian, China	RMB2,000,000	RMB2,000,000	100	100
Hefei Renrui Human Resources Service Co., Ltd.	Human Resources Services	Hefei, China	RMB2,000,000	RMB2,000,000	100	100
Qingdao Renrui Human Resources Service Co., Ltd.	Human Resources Services	Qingdao, China	RMB2,000,000	RMB2,000,000	100	100
Chengdu Qicheng WFOE	Investment Holding	Chengdu, China	USD13,250,000	USD11,650,000	100	100
Chengdu Tianfu	Human Resources Services and Investment Holding	Chengdu, China	RMB5,000,000	RMB5,000,000	100	100
Wuhan Renrui Human Resources Service Co., Ltd.	Human Resources Services	Wuhan, China	RMB30,000,000	RMB30,000,000	100	100
Chengdu Renrui Vocational Training School	Labour Skills Training	Chengdu, China	—	—	—	100
Chongqing Renrui Human Resources Service Co., Ltd.	Human Resources Services	Chongqing, China	RMB2,000,000	RMB2,000,000	100	100
Guangzhou Renrui Human Resources Service Co., Ltd.	Human Resources Services	Guangzhou, China	RMB50,000,000	RMB50,000,000	100	100
Shenzhen Renrui Human Resources Service Co., Ltd.	Human Resources Services	Shenzhen, China	RMB20,000,000	RMB20,000,000	100	100
Shanghai Renrui	Human Resources Services and R&D	Shanghai, China	RMB10,000,000	RMB10,000,000	100	100
Shanghai Renhui Human Resources Service Co., Ltd.	Human Resources Services	Shanghai, China	RMB20,000,000	RMB20,000,000	100	100
Nanjing Renrui Human Resources Co., Ltd.	Human Resources Services	Nanjing, China	RMB20,000,000	RMB20,000,000	100	100
Hangzhou Renrui Human Resources Service Co., Ltd.	Human Resources Services	Hangzhou, China	RMB2,000,000	RMB2,000,000	100	100
Suzhou Renrui Puhui Human Resources Service Co., Ltd.	Human Resources Services	Changshu, China	RMB10,000,000	RMB10,000,000	100	100
Suzhou Renrui Yongdao Human Resources Service Co., Ltd.	Human Resources Services	Changshu, China	RMB2,000,000	RMB2,000,000	100	100
Renrui HR Group	Human Resources Services	Chengdu, China	RMB2,105,300	RMB2,000,000	100	100
Liaoning Renrui	BPO Services	Yingkou, China	RMB20,000,000	RMB10,000,000	100	100
Ningbo Renrui Human Resources Service Co., Ltd.	Human Resources Services	Ningbo, China	RMB2,000,000	RMB2,000,000	100	100
Liaoning Renrui Puhui Human Resources Service Co., Ltd.	Human Resources Services	Yingkou, China	RMB20,000,000	RMB20,000,000	100	100
Liaoning Renrui Yongdao Human Resources Service Co., Ltd.	Human Resources Services	Yingkou, China	RMB20,000,000	RMB20,000,000	100	100

12 SUBSIDIARIES (Continued)

Name of the subsidiaries	Principal activities	Place of incorporation	Registered capital	Paid-in capital	Held (%) 2019	Held (%) 2018
Wuhan Huazhong Renrui Human Resources Service Co., Ltd.	Human Resources Services	Wuhan, China	RMB10,000,000	RMB10,000,000	100	100
Shangrao Renrui Human Resources Service Co., Ltd.	Human Resources Services	Shangrao, China	RMB10,000,000	RMB10,000,000	100	100
Sunflower Human Resources Limited (Note)	Investment Holding	The British Virgin Islands	USD50,000	USD1	100	—
Tournesol Human Resources Limited (Note)	Human Resources Services	Hong Kong	HKD1	HKD1	100	—
Shandong Renrui Human Resources Service Co., Ltd.	Human Resources Services	Jinan, China	RMB3,000,000	RMB0	100	—
Guiyang Renrui Business Process Outsourcing Service Co., Ltd.	BPO Services	Guiyang, China	RMB10,000,000	RMB0	100	—
Liaoning Corporate	BPO Services	Yingkou, China	RMB10,000,000	RMB0	100	—

Note: The Company acquired Sunflower Human Resources Limited from a limited partner of VMS Strategic Investment Fund, L.P. on 8 April 2019 with a consideration of USD45,000. Sunflower Human Resources Limited holds a Hong Kong subsidiary, Tournesol Human Resources Limited with a licence to operate an employment agency issued by the Commissioner for Labour in Hong Kong. Before the acquisition, except for issued share capital of USD1, Sunflower Human Resources Limited and its subsidiary had no assets or liabilities. These companies have no operation since their incorporation. Accordingly, the acquisition did not constitute a business combination.

13 INCOME TAX (EXPENSE)/CREDIT

Cayman Islands

Under the current laws of the Cayman Islands, the Company incorporated in the Cayman Islands is not subject to tax on income or capital gain. Additionally, the Cayman Islands do not impose a withholding tax on payments of dividends to equity holders.

Hong Kong

Hong Kong profits tax rate is 16.5%. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax during the years ended 31 December 2019 and 2018.

PRC corporate income tax ("CIT")

CIT provision is made on the estimated assessable profits of entities within the Group incorporated in the PRC and is calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% during the years ended 31 December 2019 and 2018 except for those as discussed below:

According to the "Notice on the Tax Policies of Further Implementation of the Western Region Development Strategy" (Cai Shui [2011] No.58) (「關於深入實施西部大開發戰略有關稅收政策問題的通知」(財稅[2011]第58號)" issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs, companies set up in the western region and falling into certain encouraged industry catalogue promulgated by the PRC government will be entitled to a preferential tax rate of 15%. Certain subsidiaries within the Group were set up in the western development region and fell into the encouraged industry catalogue, and therefore they were entitled to the above said preferential tax rate of 15%.

Pursuant to the "Circular on Income Tax Policies for Further Encouraging the Development of Software Industry and Integrated Circuit Industry" (Cai Shui [2012] No.27) (關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知 (財稅[2012]第27號)), certain subsidiary of the Group was entitled to a two year exemption from income taxes followed by three year of a 50% tax reduction, commencing from the first year when taxable income amount is greater than zero. Certain subsidiary within the Group was qualified for this policy and enjoyed the exemption from income taxes from 1 January 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

13 INCOME TAX (EXPENSE)/CREDIT (Continued)

Withholding tax on undistributed dividends

According to CIT law, distribution of profits earned by PRC companies since February 2015 is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investor, upon the distribution of profits to overseas-incorporated immediate holding companies. During years ended 31 December 2019 and 2018, the PRC companies within the Group did not have any profit distribution plan.

(a) Income tax (expense)/credit

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Current income tax	(5,004)	—
Deferred income tax	(11,156)	3,628
	(16,160)	3,628

(b) Numerical reconciliation of income tax (expense)/credit to prima facie tax payable

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Loss before income tax (expense)/credit	(763,671)	(140,563)
Tax calculated at PRC CIT rate of 25% income tax rate	190,918	35,141
Tax effects of:		
– Expenses not deductible for tax purposes	(1,854)	(989)
– Tax losses and temporary difference for which no deferred income tax asset was recognised	(649)	(341)
– Utilisation of tax losses for which no deferred income tax asset was previously recognised	525	—
– Additional deduction of 100% of the wages paid to disabled employees	625	1,124
– Research and development tax credit	2,310	2,181
– Cayman Islands incorporated company's losses not deductible in calculating taxable income	(223,741)	(47,544)
– Tax exemption and preferential income tax rates applicable to subsidiaries	16,041	14,056
– PRC withholding income tax from intercompany interest income	(335)	—
	(16,160)	3,628

14 LOSS PER SHARE

(a) Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to the ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2019	2018
Loss attributable to the equity holders of the Company (RMB'000)	**(779,831)**	(136,935)
Weighted average number of ordinary shares in issue (thousands)	**62,779**	57,960
Total basic loss per share attributable to the ordinary equity holders of the Company (RMB per share)	**(12.42)**	(2.36)

(b) Diluted loss per share

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company had three categories of dilutive potential ordinary shares: preferred shares, share options and convertible bonds. As the Group incurred losses for the years ended 31 December 2019 and 2018, the dilutive potential ordinary shares were not included in the calculation of diluted loss per share as their inclusion would be anti-dilution.

Accordingly, diluted loss per share for the years ended 31 December 2019 and 2018 were the same as basic loss per share of the respective years.

15 SHARE-BASED PAYMENTS

Since 2011, the Group has granted share option to eligible senior management and employees. For the year ended 31 December 2018 and prior to March 2019, the options granted were vested upon the listing of the Company, on the condition that employees remained in service without any performance requirements.

In March 2019, the Group modified the terms and conditions of the previously granted share options mentioned above. The modified pre-IPO Share option schemes have graded vesting terms, and the share options will vest in tranches upon the listing on condition that the employees remain in service without any performance requirements. Such modification has no impact on the subsequent measurement during the remainder of the vesting period, since the modification does not increase the fair value of those previously granted share options.

After March 2019, new pre-IPO Share options have graded vesting terms, and the share options will vest in tranches upon the listing on condition that the employees remain in service without any performance requirements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

15 SHARE-BASED PAYMENTS (Continued)

Movements in the number of share options granted and their related weighted average exercise prices were as follows:

	Number of share options	Weighted average exercise price per share option USD
Outstanding as of 1 January 2018	12,859,600	0.36
Granted during the year	11,157,000	0.88
Forfeited during the year	(2,194,000)	0.55
Outstanding as of 31 December 2018	21,822,600	0.60
Granted during the year	2,661,000	2.66
Forfeited during the year	(1,619,000)	0.97
Outstanding as of 31 December 2019	22,864,600	0.82

The Group adopted Binomial option-pricing model to determine the fair value of share options. Significant assumptions of share options granted during the years ended 31 December 2019 and 2018 were set as below:

	Year ended 31 December	
	2019	2018
Risk-free interest rates	1.76%~2.56%	2.93%
Expected volatility	40.00%	38.00%
Fair value of ordinary shares (USD)	1.04~1.88	0.30
Exercise price (USD)	2.00~2.80	0.88
Dividend yield	0.00%	0.00%

16 PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets property RMB'000	Computer equipment RMB'000	Electrical appliances RMB'000	Furniture RMB'000	Leasehold improvements RMB'000	Total RMB'000
At 1 January 2018						
Cost	48,927	8,500	670	1,827	7,954	67,878
Accumulated depreciation	(28,064)	(5,832)	(541)	(881)	(5,141)	(40,459)
Net book amount	20,863	2,668	129	946	2,813	27,419
Year ended 31 December 2018						
Opening net book amount	20,863	2,668	129	946	2,813	27,419
Additions	50,115	661	10	233	2,366	53,385
Disposals	—	—	—	(4)	—	(4)
Depreciation charge (Note 6)	(14,508)	(1,941)	(107)	(316)	(1,859)	(18,731)
Closing net book amount	56,470	1,388	32	859	3,320	62,069
At 31 December 2018						
Cost	99,042	8,510	172	1,892	10,200	119,816
Accumulated depreciation	(42,572)	(7,122)	(140)	(1,033)	(6,880)	(57,747)
Net book amount	56,470	1,388	32	859	3,320	62,069
Year ended 31 December 2019						
Opening net book amount	56,470	1,388	32	859	3,320	62,069
Additions	43,092	4,627	79	2,792	4,664	55,254
Disposals	(8,235)	(178)	—	(126)	—	(8,539)
Depreciation charge (Note 6)	(20,725)	(1,122)	(37)	(531)	(1,870)	(24,285)
Closing net book amount	70,602	4,715	74	2,994	6,114	84,499
At 31 December 2019						
Cost	94,358	10,368	172	4,288	11,066	120,252
Accumulated depreciation	(23,756)	(5,653)	(98)	(1,294)	(4,952)	(35,753)
Net book amount	70,602	4,715	74	2,994	6,114	84,499

(i) Non-current assets pledged as security

As at 31 December 2019 and 2018, no property, plant or equipment was pledged as security for the Group's borrowings.

(ii) Depreciation expenses were charged to the consolidated income statement as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Cost of revenue	13,458	10,389
Administrative expenses	7,098	5,014
Selling and marketing expenses	2,628	1,968
Research and development expenses	1,101	1,360
	24,285	18,731

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

17 INTANGIBLE ASSETS

	Software RMB'000
At 1 January 2018	
Cost	1,584
Accumulated amortisation	(671)
Net book amount	913
Year ended 31 December 2018	
Opening net book amount	913
Amortisation charge* (Note 6)	(310)
Closing net book amount	603
At 31 December 2018	
Cost	1,584
Accumulated amortisation	(981)
Net book amount	603
Year ended 31 December 2019	
Opening net book amount	**603**
Additions	**439**
Amortisation charge* (Note 6)	**(274)**
Closing net book amount	**768**
At 31 December 2019	
Cost	**1,804**
Accumulated amortisation	**(1,036)**
Net book amount	**768**

* Amortisation charges were included in administrative expenses for both years ended 31 December 2019 and 2018.

18 FINANCIAL INSTRUMENTS BY CATEGORY

The Group held the following financial instruments:

Financial assets

	Note	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Financial assets at amortised cost			
Trade and notes receivables	21	341,452	331,444
Deposits and other receivables	20	2,458	2,028
Other non-current assets*		6,005	4,641
Cash and cash equivalents	22	1,029,456	40,341
		1,379,371	378,454

Financial liabilities

	Note	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Financial liabilities at amortised cost			
Trade and other payables (excluding accrued payroll and welfare and VAT and surcharges)	26	54,345	40,802
Borrowings	28	—	10,000
Lease liabilities	27	73,430	53,762
Financial liabilities at FVPL			
Hybrid financial instruments	25	—	402,198
		127,775	506,762

* Other non-current assets mainly included deposits paid for lease contracts that would be repaid at the end of the relevant leasing periods.

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

19 DEFERRED INCOME TAXES

(i) Deferred tax assets

The balance comprises temporary differences attributable to:	2019 RMB'000	2018 RMB'000
Tax losses	10,188	24,231
Accrued expenses	892	157
Loss allowances for financial assets	1,506	1,511
Lease liabilities	1,081	192
Unrealised profit	1,268	—
Total deferred tax assets	14,935	26,091

Movements	Tax losses RMB'000	Accrued expenses RMB'000	Loss allowances for financial assets RMB'000	Lease liabilities RMB'000	Unrealised profit RMB'000	Total RMB'000
At 1 January 2018	20,591	906	782	184	—	22,463
Credited/(charged) to the consolidated income statement	3,640	(749)	729	8	—	3,628
At 31 December 2018	24,231	157	1,511	192	—	26,091
At 1 January 2019	24,231	157	1,511	192	—	26,091
(Charged)/credited to the consolidated income statement	(14,043)	735	(5)	889	1,268	(11,156)
At 31 December 2019	10,188	892	1,506	1,081	1,268	14,935

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through future taxable profit is probable. The Group did not recognise deferred income tax asset in respect of cumulative tax loss of approximately RMB5,179,000 (2018: RMB3,774,000) that can be carried forward to offset against future taxable income, because it was uncertain whether there would be sufficient profit to offset in the near future. The outcome of their actual utilisation may be different from management's estimation.

Expiry date	2019 RMB'000	2018 RMB'000
2019	—	1,574
2020	9	1,449
2021	4	473
2022	47	47
2023	1,266	1,288
2024	3,853	—
	5,179	4,831

20 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Prepayments	3,438	2,205
Prepaid listing expenses	—	2,661
Deposits	1,827	2,055
Input VAT deductible	1,350	1,096
Other receivables	825	121
Less: provision for impairment	(194)	(148)
	7,246	7,990

As at 31 December 2019 and 2018, the fair value of other receivables of the Group, except for the prepayments, prepaid listing expenses and input VAT deductible, which were not financial assets, approximated their carrying amounts.

At 31 December 2019 and 2018, the carrying amounts of prepayments, deposits and other receivables were primarily denominated in RMB.

21 TRADE AND NOTES RECEIVABLES

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Trade receivables	338,600	337,545
Less: provision for impairment of trade receivables	(5,916)	(6,101)
Trade receivables – net	332,684	331,444
Notes receivables	8,768	—
	341,452	331,444

The directors of the Company considered that the carrying amounts of the trade and notes receivables balances approximated their fair values as at 31 December 2019 and 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

21 TRADE AND NOTES RECEIVABLES (Continued)

The Group generally allows a credit period of 10 to 70 days to its customers. Ageing analysis of trade receivables based on recognition date before provision for impairment was as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Trade receivables		
– within 3 months	304,100	320,168
– 4 months to 6 months	30,070	12,491
– 7 months to 9 months	752	244
– 10 months to 12 months	10	118
– Over 12 months	3,668	4,524
	338,600	337,545

Impairment and risk exposure

The Group applies HKFRS 9 simplified approach to measuring the expected credit losses which uses a lifetime expected loss allowance for all trade receivables (Note 3.1).

22 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Cash on hand	20	—
Cash at banks	1,029,436	40,341
	1,029,456	40,341

Cash and cash equivalents were denominated in the following currencies:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
HKD	874,875	—
RMB	152,786	23,074
USD	1,795	17,267
	1,029,456	40,341

23 SHARE CAPITAL AND SHARE PREMIUM

Authorised:	Number of ordinary shares	Nominal value of ordinary shares USD	Number of preferred shares	Nominal value of preferred shares USD
At 1 January 2018	956,186,758	47,809	43,813,242	2,191
Addition	989,233,763	49,462	10,766,237	538
At 31 December 2018	1,945,420,521	97,271	54,579,479	2,729
Conversion of preferred shares	54,579,479	2,729	(54,579,479)	(2,729)
At 31 December 2019	2,000,000,000	100,000	—	—

Issued:	Number of ordinary shares	Nominal value of ordinary shares USD	Nominal value of ordinary shares RMB'000	Share premium RMB'000	Number of preferred shares	Nominal value of preferred shares USD
At 1 January 2018	57,960,000	2,898	18	—	43,813,242	2,191
Issue of preferred shares	—	—	—	—	10,766,237	538
At 31 December 2018	57,960,000	2,898	18	—	54,579,479	2,729
At 1 January 2019	57,960,000	2,898	18	—	54,579,479	2,729
Issuance (i)	11,592,000	580	4	—	—	—
Repurchase (i)	(11,592,000)	(580)	(4)	—	—	—
Issue of ordinary shares in connection with the listing, net of listing expenses (ii)	38,000,000	1,900	14	865,862	—	—
Conversion of preferred shares (iii)	54,579,479	2,729	19	1,304,697	(54,579,479)	(2,729)
At 31 December 2019	150,539,479	7,527	51	2,170,559	—	—

(i) On 6 March 2019, the Company repurchased 11,592,000 shares from Ming Feng Holdings Limited ("Ming Feng") at a total repurchase price of USD579.60. On the same day, the Company issued 5,796,000 shares and 5,796,000 shares to Wu Fu Min Feng Holdings Limited controlled by Mr. Zhang Feng and Lin Feng Holdings Limited controlled by Ms. Zhang Jianmei, respectively, and each at a subscription price of USD289.8.

(ii) On 13 December 2019, the Company issued 38,000,000 new ordinary shares of USD0.00005 each at HKD26.60 per share in connection with its global offering and commencement of the listing of its shares on the Stock Exchange on the same date and raised gross proceeds of approximately HKD1,010,800,000 (equivalent to RMB908,386,000). The excess over the par value of RMB14,000 for the 38,000,000 shares issued net of the transaction costs of approximately RMB42,510,000 was credited to share premium account with an amount of RMB865,862,000.

(iii) Upon the Listing on 13 December 2019, all outstanding Preferred Shares of the Company were converted into ordinary shares of USD0.00005 each at HKD26.60 per share. The fair value of the 54,579,479 shares was HKD1,451,814,000 (equivalent to RMB1,304,716,000), and the excess over the par value of RMB19,000 was credited to share premium account with an amount of RMB1,304,697,000.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

24 OTHER RESERVES

Other reserves of the Group	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Total RMB'000
At 1 January 2018	418	3,964	4,382
Currency translation differences	—	(12,858)	(12,858)
Share-based compensation (Note 7)	1,543	—	1,543
At 31 December 2018	1,961	(8,894)	(6,933)
At 1 January 2019	**1,961**	**(8,894)**	**(6,933)**
Currency translation differences	**—**	**(28,932)**	**(28,932)**
Share-based compensation (Note 7)	**4,954**	**—**	**4,954**
At 31 December 2019	**6,915**	**(37,826)**	**(30,911)**

25 HYBRID FINANCIAL INSTRUMENTS

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Preferred shares (a)	**—**	402,198
Convertible bonds (b)	**—**	—
	—	402,198

Upon the Listing on 13 December 2019, all outstanding Preferred Shares of the Company were converted into ordinary shares.

25 HYBRID FINANCIAL INSTRUMENTS (Continued)

(a) Preferred Shares

	Series A Preferred Shares (i) RMB'000	Series B-1 Preferred Shares (ii) RMB'000	Series B-2 Preferred Shares (iii) RMB'000	Series D Preferred Shares (iv) RMB'000	Total RMB'000
At 1 January 2018	67,060	49,569	14,558	—	131,187
Issuance	—	—	—	63,420	63,420
Fair value change	97,729	56,361	9,393	29,063	192,546
Currency translation differences	6,757	4,444	1,059	2,785	15,045
At 31 December 2018	171,546	110,374	25,010	95,268	402,198
At 1 January 2019	**171,546**	**110,374**	**25,010**	**95,268**	**402,198**
Fair value change	**461,960**	**204,794**	**54,176**	**157,221**	**878,151**
Currency translation differences	**11,925**	**6,054**	**1,511**	**4,877**	**24,367**
Conversion of preferred shares (Note 23)	**(645,431)**	**(321,222)**	**(80,697)**	**(257,366)**	**(1,304,716)**
At 31 December 2019	**—**	**—**	**—**	**—**	**—**

(i) On 23 March 2012, the Company entered into Series A Preferred Shares Purchase Agreement with LC Fund V, L.P. and LC Parallel Fund V, L.P. (together "LC"). According to the agreement, the Company would issue 13,500,000 preferred shares amounting to USD3,000,000 with a maturity period of five years. Such Series A Preferred Shares were subsequently subdivided into 27,000,000 Series A Preferred Shares on 1 August 2012.

On 24 January 2018, the Company and LC agreed to extend the Series A Preferred Shares to 1 January 2021.

The key features of the Series A Preferred Shares are as follows:

Conversion

Each preferred share shall be convertible, at the option of the holder of the preferred shares, at any time after the date of issuance of such preferred shares, into such number of fully paid and non-assessable ordinary shares as is determined by dividing preferred shares purchase price by the conversion price applicable to such preferred shares. The preferred shares conversion price shall initially equal to the preferred shares purchase price, and shall be adjusted from time to time. The initial conversion ratio for preferred shares to ordinary shares shall be 1:1.

Redemption

According to the amended and restated memorandum of association of the Company on 23 March 2012, each holder of Series A Preferred Shares shall have the right to redeem all or part of the Series A Preferred Shares at the redemption price if a qualified IPO has not occurred at any time commencing on 1 January 2017.

On 28 September 2015, the Company renewed the memorandum, each holder of Series A Preferred Shares shall have the right to redeem at the redemption price at any time commencing on 28 February 2019.

On 24 January 2018, LC and the Company agreed to extend the commencement date of the relevant redemption period to 1 January 2021. Redemption price of Series A Preferred Shares equals to the original subscription price with interests compounded 12% per annum, plus all accrued or declared but unpaid dividends.

25 HYBRID FINANCIAL INSTRUMENTS (Continued)

(a) Preferred Shares (Continued)

Liquidation

Upon any liquidation, dissolution, or winding up of the Company, before any distribution or payment made to any ordinary shareholders, the preferred shareholders shall be entitled to receive an amount per preferred share that is equal to 150% of the original Series A issue price, plus all mandatory dividend unpaid on each preferred share then held by such preferred shareholders. When liquidation occurs, the order of payback is: Series A Preferred Shares takes precedence over ordinary shares.

(ii) On 27 February 2014, the Company and Macquarie Corporate Holdings Pty Limited ("Macquarie") entered into Series B-1 Preferred Shares Purchase Agreement. According to the agreement, the Company would issue 13,437,500 Series B-1 Preferred Shares amounting to USD4,300,000 with a maturity period of five years.

On 16 July 2018, Macquarie sold 8,814,464 Series B-1 Preferred Shares to VMS Strategic Investment Fund, L.P. ("VMS"), with total sale price of USD7,500,000. On the same day, the Company entered into Amended and Restated Memorandum with Macquarie and VMS, which extended the expiry date of Series B-1 Preferred Shares to the third anniversary of the Series D Preferred Shares closing date. The Company may make a request to Series B-1 Preferred Shareholders for an extension for two years.

The key features of the Series B-1 Preferred Shares are as follows:

Conversion

Each preferred share shall be convertible, at the option of the holder of the preferred shares, at any time after the date of issuance of such preferred shares, into such number of fully paid and non-assessable ordinary shares as is determined by dividing preferred shares purchase price by the conversion price applicable to such preferred shares. The initial preferred shares conversion price shall initially equal to the preferred shares purchase price, and shall be adjusted from time to time. The initial conversion ratio for preferred shares to ordinary shares shall be 1:1.

Redemption

According to the Share Subscription Agreement of the Company on 27 February 2014, each holder of Series B-1 Preferred Shares shall have the right to redeem all or part of the Series B-1 Preferred Shares at the redemption price if a qualified IPO has not occurred on the fifth anniversary of the Series B-1 Preferred Shares closing date.

On 16 July 2018, the Company renewed the memorandum that each holder of Series B-1 Preferred Shares shall have the right to redeem at the redemption price at any time commencing on the third anniversary of the Series D Preferred Shares closing date. The Company may make a request to Series B-1 Preferred Shareholders for an extension for two years.

Liquidation

Upon any liquidation, dissolution, or winding up of the Company, before any distribution or payment made to any ordinary shareholders, the preferred shareholder shall be entitled to receive an amount equal to 150% of the Series B-1 original issue price, plus all dividends accrued and unpaid with respect thereto per each preferred share. When liquidation occurs, the order of the payback is as follows: Series B-1 Preferred Shares prior to Series A Preferred Shares.

25 HYBRID FINANCIAL INSTRUMENTS (Continued)

(a) Preferred Shares (Continued)

(iii) On 24 March 2015, the Company entered into Convertible Bond Purchase Agreement with LC and Macquarie. The Series B-2 Bond had an issue price of USD1,500,000, with a maturity period of five years, bearing an interest rate of 10% per annum. On 28 September 2015, all outstanding principal and accrued and unpaid interests of the bond converted into Series B-2 Preferred Shares. Then LC held 2,250,495 Series B-2 Preferred Shares amounting to USD1,050,000 and Macquarie held 1,125,247 Series B-2 Preferred Shares amounting to USD525,000.

On 24 January 2018, the Company and LC agreed to extend the Series B-2 Preferred Shares to 1 January 2021.

On 16 July 2018, the Company entered into Amended and Restated Memorandum with Macquarie, which extended the expiry date of Series B-2 Preferred Shares to the third anniversary of the Series D Preferred Shares issue date. The Company may make a request to Series B-1 Preferred Shareholders for an extension for two years.

The key features of the Series B-2 Preferred Shares are as follows:

Conversion

Each preferred share shall be convertible, at the option of the holder of the preferred shares, at any time after the date of issuance of such preferred shares, into such number of fully paid and non-assessable ordinary shares as is determined by dividing preferred shares purchase price by the conversion price applicable to such preferred shares. The initial preferred shares conversion price shall initially equal to the preferred shares purchase price, and shall be adjusted from time to time. The initial conversion ratio for preferred shares to ordinary shares shall be 1:1.

Redemption

According to the Share Subscription Agreement of the Company on 28 September 2015, each holder of Series B-2 Preferred Shares shall have the right to redeem all or part of the Series B-2 Preferred Shares at the redemption price if a qualified IPO has not occurred on the fifth anniversary of Series B-1 closing date.

On 24 January 2018, LC and the Company agreed to extend the commencement date of redemption period of Series B-2 Preferred Shares LC held to 1 January 2021.

On 16 July 2018, the Company renewed the memorandum that Macquarie as Series B-2 Preferred Shareholder shall have the right to redeem at the redemption price at any time commencing on the third anniversary of the Series D Preferred Shares closing date. The Company may make a request to Macquarie for an extension for two years.

The redemption price of Series B-2 Preferred Shares equals to the original subscription price with interests compounded 12% per annum, plus all accrued or declared but unpaid dividends.

25 HYBRID FINANCIAL INSTRUMENTS (Continued)

(a) Preferred Shares (Continued)

Liquidation

Upon any liquidation, dissolution, or winding up of the Company, before any distribution or payment made to any ordinary shareholders, the preferred shareholder shall be entitled to receive an amount equal to 150% of the Series B-2 original issue price, plus all dividends accrued and unpaid with respect thereto per each preferred share. When liquidation occurs, the order of the payback is as follows: Series B-2 Preferred Shares together with Series B-1 Preferred Shares prior to Series A Preferred Shares.

(iv) On 16 July 2018, the Company entered into Series D Preferred Shares Purchase Agreement with VMS and North Sea Investment Company Limited (North Sea). According to the agreement, the Company would issue to VMS 7,933,017 Series D Preferred Shares, amounting to USD7,000,000; to North Sea 2,833,220 Series D Preferred Shares, amounting to USD2,500,000.

The key features of the Series D Preferred Shares are as follows:

Conversion

Each preferred share shall be convertible, at the option of the holder of the preferred shares, at any time after the date of issuance of such preferred shares, into such number of fully paid and non-assessable ordinary shares as is determined by dividing preferred shares purchase price by the conversion price applicable to such preferred shares. The initial preferred shares conversion price shall initially equal to the preferred shares purchase price, and shall be adjusted from time to time. The initial conversion ratio for preferred shares to ordinary shares shall be 1:1.

Redemption

According to the Share Subscription Agreement of the Company on 16 July 2018, each holder of Series D Preferred Shares shall have the right to redeem all or part of the Series D Preferred Shares at the redemption price if a qualified IPO has not occurred on the third anniversary of the Series D Preferred Shares closing date.

The Company may make a request to Series D Preferred Shareholders for an extension for two years.

The redemption price of Series D Preferred Shares equals to the original subscription price with interests compounded 10% per annum on original subscription price, plus all accrued or declared but unpaid dividends.

Liquidation

Upon any liquidation, dissolution, or winding up of the Company, before any distribution or payment made to any ordinary shareholders, the preferred shareholder shall be entitled to receive an amount equal to 150% of the Series D original issue price, plus all dividends accrued and unpaid with respect thereto per each preferred share. According to Amended and Restated Memorandum signed on 16 July 2018, when liquidation occurs, the order of the payback is as follows: Series D Preferred Shares prior to Series B-2 and Series B-1 prior to Series A.

25 HYBRID FINANCIAL INSTRUMENTS (Continued)

(a) Preferred Shares (Continued)

Fair value of Preferred Shares:

The Group determined fair value of preferred shares by option-pricing method and equity allocation model with the estimated probabilities regarding the scenarios of liquidation, redemption and IPO. To determine the fair value of the underlying equity value of the Company, the discount cash flow approach for 31 December 2018. Key assumptions are set as below:

	As at 31 December 2018
Discount rate	20%
Risk-free interest rate	2.60%
DLOM	9%
Volatility	40%

Probability weight under each of the liquidation, repayment and conversion scenarios was based on the directors' best estimates. The underlying equity value of the Company as at 31 December 2016 was determined based on the implied equity value of the Series C-2 Bond issued on 3 January 2017. Discount rate was estimated by weighted average cost of capital of the comparable companies in the same industry as of each appraisal date. Risk-free interest rate was estimated based on the yield of US Sovereign Bond with a maturity life equal to the expected terms as of the appraisal dates. Lack of marketability discount was estimated based on the Finnerty Option Pricing Model. Volatility was estimated based on the historical volatilities of the comparable companies in the same industry with a time horizon close to the expected expiry of the term. In addition to the assumptions adopted above, the Group's projections of future performance were also factored into the determination of the fair value of preferred shares on 31 December 2018.

If the above key assumptions used to determine the fair value of Preferred Shares had increased/decreased by 10% with all other variables held constant, the loss before income tax for the years ended 31 December 2018 would have been:

For the year ended 31 December 2018	(Decrease)/increase in the loss before income tax			
	Discount rate RMB'000	Risk-free interest rate RMB'000	DLOM RMB'000	Volatility RMB'000
Increase 10% of the key assumptions	(29,589)	(146)	(3,074)	(2,852)
Decrease 10% of the key assumptions	37,724	146	3,077	2,876

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

25 HYBRID FINANCIAL INSTRUMENTS (Continued)

(b) Convertible bond

	RMB'000
At 1 January 2018	56,380
Fair value change	3,996
Repayment	(60,376)
At 31 December 2018	—

On 28 September 2015, Chengdu Tianfu entered into Bond Investment Agreement with Ma'anshan Zijinghua Equity Investment Co., Ltd. ("Ma'anshan"). According to the agreement, Chengdu Tianfu issued Series C-1 Bond at an issue price of RMB30,000,000, with a maturity period of four years, bearing an interest rate of 10% per annum.

On 3 January 2017, Chengdu Tianfu entered into Phase II Bond Investment Agreement with Ma'anshan. The Series C-2 Bond had an issue price of RMB15,000,000, with a maturity period of four years, bearing an interest rate of 12% per annum.

According to the investment agreements, Ma'anshan had the right to choose to convert the bonds to preferred shares of the Company or Chengdu Tianfu under the premise that the Group removes the VIE structure.

On 5 September 2018, Chengdu Tianfu entered into a Repayment Agreement with Ma'anshan. According to the agreement, Ma'anshan abandoned the conversion right of preferred shares of the Company. As a result, Chengdu Tianfu repaid the Series C-1 Bond and the Series C-2 Bond with a total consideration of RMB60,376,000.

26 TRADE AND OTHER PAYABLES

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Trade payables	13,496	17,393
Accrued payroll and welfare	227,087	206,354
VAT and surcharges	35,443	32,564
Risk deposit due to customers	11,044	8,821
Listing expenses payables	21,413	7,511
Others	8,392	7,077
	316,875	279,720

As at 31 December 2019 and 2018, all trade and other payables of the Group were unsecured and non-interest bearing. The fair value of trade and other payables, except for accrued payroll and welfare and VAT and surcharges, which were not financial liabilities, approximated their carrying amounts due to short maturities.

26 TRADE AND OTHER PAYABLES (Continued)

As at 31 December 2019 and 2018, the ageing analysis of the trade payables based on invoice date was as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Trade payables		
Within 6 months	9,996	17,393
7 months to 12 months	3,500	—
	13,496	17,393

27 LEASE LIABILITIES

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Minimum lease payments due:		
Within 1 year	23,146	12,513
Between 1 and 2 years	21,264	15,545
Between 2 and 5 years	37,703	34,403
Later than 5 years	—	—
	82,113	62,461
Less: future finance charges	(8,683)	(8,699)
	73,430	53,762
Present value of lease liabilities		
Within 1 year	19,049	12,170
Between 1 and 2 years	18,570	14,123
Between 2 and 5 years	35,811	27,469
Later than 5 years	—	—
	73,430	53,762

As at 31 December 2019 and 2018, the fair value of lease liabilities approximated their carrying amounts.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

28 BORROWINGS

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Bank borrowings	—	10,000

As at 31 December 2018, bank loans of RMB10,000,000 were unsecured, and guaranteed by Mr. Zhang Jianguo and certain subsidiaries of the Company, with annual interest rates of 5.57%. In February 2019, the guarantee from Mr. Zhang Jianguo was released.

As at 31 December 2018, the carrying amounts of borrowings were denominated in RMB.

29 DIVIDENDS

No dividends were paid or declared by the Company during each of the years ended 31 December 2019 and 2018.

30 CASH GENERATED FROM OPERATIONS

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Loss before income tax	(763,671)	(140,563)
Adjustments for:		
– Depreciation of property, plant and equipment (Note 16)	24,285	18,731
– Amortisation of intangible assets (Note 17)	274	310
– Net losses on disposal of property, plant and equipment (Note 10)	87	18
– Share-based payments (Note 7)	4,954	1,543
– (Reversal of)/provision for net impairment losses on financial assets (Note 3.1(b))	(53)	2,993
– Interest income (Note 11)	(1,562)	(233)
– Interest expenses (Note 11)	5,351	1,781
– Fair value losses on hybrid financial instruments (Note 25)	878,151	196,542
– Gains on early termination of lease contracts (Note 10)	(326)	—
Operating profit before working capital changes	147,490	81,122
Change in working capital:		
– Trade and notes receivables	(9,947)	(179,715)
– Prepayments, deposits and other receivables and other non-current assets	28,794	(4,072)
– Trade and other payables	(10,577)	135,113
– Contract liabilities	(4,913)	9,295
Cash generated from operations	150,847	41,743

31 RECONCILIATION FROM OPENING TO CLOSING BALANCES OF LIABILITIES GENERATED FROM FINANCING ACTIVITIES

This section sets out an analysis of net debt and the movements in net debt for the years ended 31 December 2019 and 2018:

	Liabilities from financing activities				
	Bank borrowings RMB'000	Amounts due to related parties RMB'000	Hybrid financial instruments RMB'000	Lease Liabilities RMB'000	Total RMB'000
Liabilities from financing activities as at 1 January 2018	4,050	6,331	187,567	20,567	218,515
Cash flows	5,703	(6,641)	3,044	(18,673)	(16,567)
Fair value changes of hybrid financial instruments	—	—	196,542	—	196,542
Currency translation differences	—	—	15,045	—	15,045
Other changes (i)	247	310	—	51,868	52,425
Liabilities from financing activities as at 31 December 2018	10,000	—	402,198	53,762	465,960
Liabilities from financing activities as at 1 January 2019	10,000	—	402,198	53,762	465,960
Cash flows	(10,433)	—	—	(19,719)	(30,152)
Fair value changes of hybrid financial instruments	—	—	878,151	—	878,151
Currency translation differences	—	—	24,367	—	24,367
Conversion of preferred shares	—	—	(1,304,716)	—	(1,304,716)
Other changes (i)	433	—	—	39,387	39,820
Liabilities from financing activities as at 31 December 2019	—	—	—	73,430	73,430

(i) Other changes included mainly non-cash movements including addition of lease liabilities and accrual of interest expenses.

32 RELATED PARTY TRANSACTIONS

(a) Key management personnel compensation

Key management includes directors (executive and non-executive), chief financial officer, vice president and secretary of the board of directors, the compensation paid or payable to key management for employee services was shown below:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Wages, salaries and bonus	2,999	2,764
Social insurance and housing fund	82	83
Share-based payments	413	45
	3,494	2,892

(b) Names and relationships with related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subjected to common control. Members of key management and their close family members of the Group are also considered as related parties.

The following significant transactions were carried out between the Group and its related parties during the years presented. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

Significant related parties of the Group that had transactions or balance with the Group during the years are set out below:

Name of related parties	Relationship
Mr. Zhang Jianguo	One of the Controlling Equity Holders
Ming Feng	One of the Controlling Equity Holders

32 RELATED PARTY TRANSACTIONS (Continued)

(c) Significant transactions with related parties

Significant transactions with related parties:

		Year ended 31 December	
		2019 RMB'000	2018 RMB'000
(i)	Loan repayments to related parties		
	– Mr. Zhang Jianguo	–	2,200
	– Mr. Zhang Jianguo's spouse	–	3,000
		–	5,200
(ii)	Accrued interests due to related parties		
	– Mr. Zhang Jianguo	–	135
	– Mr. Zhang Jianguo's spouse	–	175
		–	310

(d) Balance with a related party

		As at 31 December	
		2019 RMB'000	2018 RMB'000
(i)	Amount due from a related party – non trade		
	– Ming Feng	–	18

Note: As at 31 December 2018, amount due from a related party, Ming Feng, of RMB18,000 was unsecured, unpledged and interest-free.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

33 COMMITMENTS

(a) Non-cancellable operating leases

The Group leased IT-equipment and other small items of office furniture during the years. The total commitment amount was not material.

(b) Capital commitments

Significant capital expenditure contracted for, but not recognised as liabilities was as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Property, plant and equipment	612	352

34 CONTINGENT LIABILITIES

As at 31 December 2019 and 2018, the Group had no material contingent liabilities.

35 EVENTS OCCURRING AFTER THE REPORTING PERIOD

(i) On 3 January 2020, the over-allotment option in connection with the Company's global offering was partially exercised, and the Company issued 3,130,100 new ordinary shares of USD0.00005 each at HKD26.60 per share. Gross proceeds of approximately HKD83,261,000 (equivalent to approximately RMB74,482,000) were raised and the excess over the par value of approximately RMB1,000 for the 3,130,100 shares issued net of the transaction costs of approximately RMB2,786,000 was credited to share premium account subsequently with an amount of approximately RMB71,695,000.

(ii) Subsequent to 31 December 2019, the Group subscribed for certain financial products which were measured as financial assets at fair value through profit or loss in the Company's consolidated financial statements. From 1 January 2020 to 31 March 2020, the aggregated amount of cash used in purchase of the financial products and cash generated from disposal of the financial products were approximately RMB1,435,517,000 and RMB986,408,000, respectively.

(iii) Following the outbreak of Coronavirus Disease 2019 (the "COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been implemented across the country by the Chinese government, including extension of the Chinese New Year holiday nationwide, postponement of work resumption after the Chinese New Year holiday in some regions, certain level of restrictions and controls over the travelling of people and traffic arrangements, quarantine of certain residents, heightening of hygiene and epidemic prevention requirements in offices and encouraged social distancing, etc.

The Group will pay close attention to the development of the COVID-19 outbreak and continue to evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of financial statements were authorised for issue, the Group was not aware of any material adverse effects on its financial statements as a result of the COVID-19 outbreak.

36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Note	As at 31 December 2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries		93,055	74,192
Loan to a subsidiary		—	27,453
Total non-current assets		93,055	101,645
Current assets			
Loan to a subsidiary		29,110	10,420
Prepayments, deposits and other receivables		—	2,661
Amount due from a related party		—	18
Cash and cash equivalents		875,043	13,375
Total current assets		904,153	26,474
Total assets		997,208	128,119
EQUITY/(DEFICIT)			
Share capital	23	51	18
Share premium	23	2,170,559	—
Other reserves	(a)	(29,555)	(8,995)
Accumulated losses		(1,164,258)	(269,294)
Total equity/(deficit)		976,797	(278,271)
LIABILITIES			
Non-current liabilities			
Hybrid financial instruments		—	402,198
Total non-current liabilities		—	402,198
Current liabilities			
Amounts due to subsidiaries		3,625	—
Other payables		16,786	4,192
Total current liabilities		20,411	4,192
Total liabilities		20,411	406,390
Total equity/(deficit) and liabilities		997,208	128,119

The balance sheet of the Company was approved by the Board of Directors on 31 March 2020 and was signed on its behalf.

Zhang Jianguo	**Zhang Feng**
Director	*Director*

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

(a) Reserve movement of the Company

Other reserves of the Company	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Total RMB'000
At 1 January 2018	164	1,239	1,403
Currency translation differences	—	(10,398)	(10,398)
At 31 December 2018	164	(9,159)	(8,995)
At 1 January 2019	164	(9,159)	(8,995)
Currency translation differences	—	(27,311)	(27,311)
Share-based compensation	6,751	—	6,751
At 31 December 2019	6,915	(36,470)	(29,555)