# NEWLINK TECHNOLOGY INC.

# 新紐科技有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 9600

# 2020
# ANNUAL REPORT

*For identification purpose only

# CONTENTS



# DEFINITIONS

In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings.

| | |
|---|---|
| "2021 AGM" | the AGM to be held on June 11, 2021 |
| "AGM" | the annual general meeting of the Company |
| "Articles" or "Articles of Association" | the articles of association of the Company |
| "Audit Committee" | the audit committee of the Board |
| "Beijing Newlink" | Beijing Newlink Technology Co., Ltd. (北京新紐科技有限公司), a limited liability company established under the laws of the PRC on August 15, 2011 and an indirect wholly-owned subsidiary of the Company |
| "Board" | the board of Directors |
| "Cayman Companies Act" | the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as amended, supplemented, or otherwise modified from time to time |
| "CEO" | chief executive officer of the Company |
| "CG Code" | the "Corporate Governance Code" as contained in Appendix 14 to the Listing Rules |
| "China" or "PRC" | the People's Republic of China, which for the purpose of this annual report and for geographical reference only, excludes Hong Kong, Macau and Taiwan |
| "Company", "Group", "Newlink Technology" or "we" | Newlink Technology Inc. (新紐科技有限公司*), an exempted company incorporated under the laws of Cayman Islands with limited liability on November 8, 2019, and, except where the context indicated otherwise, all of its subsidiaries or with respect to the period before our Company became the holding company of our current subsidiaries, the business operated by our present subsidiaries or their predecessors (as the case may be) |
| "Controlling Shareholders" | has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to Mr. Zhai and Nebula SC |
| "Director(s)" | the director(s) of the Company |

* *For identification purposes only*

# DEFINITIONS

| | |
|---|---|
| "Global Offering" | the Hong Kong public offering and the international offering of shares in connection with the IPO |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "IPO" | the Company's initial public offering of its Shares |
| "Listing Date" | January 6, 2021, on which the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time) |
| "Model Code" | the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Listing Rules |
| "Mr. Zhai" | Mr. ZHAI Shuchun (翟曙春), the chairman of the Board, executive Director, CEO and one of the Controlling Shareholders |
| "Nebula SC" | Nebula SC Holdings Limited, a company incorporated under the laws of the British Virgin Islands with limited liability on November 6, 2019 and wholly-owned by Mr. Zhai |
| "Nomination Committee" | the nomination committee of the Board |
| "Post-IPO Share Option Scheme" | the post-IPO share option scheme conditionally adopted by the Company on December 5, 2020 |
| "Prospectus" | the prospectus of the Company dated December 21, 2020 |
| "Remuneration Committee" | the remuneration committee of the Board |
| "Reporting Period" | the year ended December 31, 2020 |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "RPA" or "Robotic Process Automation" | the application of technology that allows IT engineers to configure computer software or a robot to capture and interpret existing applications and data for processing a transaction, manipulating data, triggering responses and communicating with other systems |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |

# DEFINITIONS

| | |
|---|---|
| "Share(s)" | ordinary share(s) of par value US$0.000001 each in the issued share capital of the Company |
| "Shareholder(s)" | holder(s) of Shares |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "US$" | United States dollars, the lawful currency of the United States of America |
| "%" | per cent |

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. ZHAI Shuchun *(Chairman and CEO)*
Ms. QIAO Huimin
Ms. QIN Yi
Mr. LI Xiaodong

### Independent Non-executive Directors

Mr. TANG Baoqi
Ms. JING Liping
Mr. YE Jinfu

## JOINT COMPANY SECRETARIES

Ms. ZHANG Xiushi
Ms. HO Wing Nga

## AUTHORISED REPRESENTATIVES UNDER THE LISTING RULES

Mr. ZHAI Shuchun
Ms. HO Wing Nga

## AUDIT COMMITTEE

Mr. YE Jinfu *(Chairman)*
Mr. TANG Baoqi
Ms. JING Liping

## REMUNERATION COMMITTEE

Ms. JING Liping *(Chairwoman)*
Mr. ZHAI Shuchun
Mr. TANG Baoqi

## NOMINATION COMMITTEE

Mr. TANG Baoqi *(Chairman)*
Mr. ZHAI Shuchun
Ms. JING Liping

## HONG KONG LEGAL ADVISOR

Wilson Sonsini Goodrich & Rosati
Suite 1509, 15/F, Jardine House
1 Connaught Place, Central
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## AUDITOR

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

## COMPLIANCE ADVISOR

Messis Capital Limited
Room 1606, 16/F, Tower 2
Admiralty Centre
18 Harcourt Road
Hong Kong

## REGISTERED OFFICE

PO Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

# CORPORATE INFORMATION

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

5/F, Tower A, Xueqing Jiachuang Building
Xueqing Road
Haidian District, Beijing
PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

46/F, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## PRINCIPAL BANKS

China CITIC Bank
Beijing Branch
Block A, Investment Plaza
No. 27 Financial Street
Xicheng District, Beijing
PRC

Huaxia Bank
Beijing Zhichun Branch
Lixiang Building
No. 111 Zhichun Road
Haidian District, Beijing
PRC

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre, 183 Queen's Road East
Wanchai
Hong Kong

## STOCK CODE

Stock code: 9600

## WEBSITE

www.xnewtech.com

# MILESTONES

| Timeline | Events |
| --- | --- |
| 2011 | Beijing Newlink was established in Beijing, China. |
| 2016 | Mr. Zhai acquired all equity interest in Beijing Newlink. |
| 2018 | We launched our RPA solution for financial institutions. |
| | We launched our over-the-counter bond bookkeeping system for financial institutions. |
| | We launched our medical quality control and safety warning system for healthcare institutions. |
| 2019 | We launched our distributed trading platform for financial institutions. |
| | We launched our clinical pathway management system for healthcare institutions. |
| 2020 | We formulated implementation resolutions for smart medical service. |
| 2021 | Our Shares are listed on the Main Board of the Stock Exchange since January 6, 2021 with stock code: 9600. |

# FINANCIAL SUMMARY

| | For the Year Ended December 31, | | | |
|---|---|---|---|---|
| | **2020** | 2019 | 2018 | 2017 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 |
| **Revenue** | **176,147** | 148,970 | 120,571 | 21,066 |
| Gross profit | **92,402** | 73,158 | 57,783 | 8,871 |
| Profit before tax | **40,284** | 38,235 | 35,410 | 1,602 |
| Income tax expenses | **(8,255)** | (5,122) | (4,287) | (63) |
| **Profit for the year** | **32,029** | 33,113 | 31,123 | 1,539 |
| **Profit attributable to:** | | | | |
| Owners of the parent | **32,029** | 33,106 | 31,123 | 1,539 |
| Non-controlling interests | **–[2]** | 7 | – | – |
| **Adjusted net profit[1]** | **50,232** | 38,263 | 31,123 | 1,539 |

| | As at December 31, | | | |
|---|---|---|---|---|
| | **2020** | 2019 | 2018 | 2017 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 |
| Total assets | **258,480** | 245,118 | 123,688 | 46,306 |
| Total liabilities | **59,107** | 58,221 | 48,404 | 17,145 |
| Equity attributable to the owners of the parent | **197,866** | 185,390 | 75,284 | 29,161 |
| Non-controlling interests | **1,507** | 1,507 | – | – |
| Total equity | **199,373** | 186,897 | 75,284 | 29,161 |

*Notes:*

1. Adjusted net profit is a non-HKFRSs measure which is calculated as the profit for the year/period excluding the effect of listing expenses.

2. Less than RMB1,000.

# CHAIRMAN'S STATEMENT

Dear Shareholders,

The year 2020 marks a milestone for Newlink Technology. On the one hand, the Company submitted its formal application to the Stock Exchange seeking for share listing on the Main Board and received subscription applications for more than 400 times of shares initially available under the Hong Kong public offering. Newlink Technology was successfully listed on the Main Board of the Stock Exchange on January 6, 2021. The listing status has enhanced the Company's brand recognition, and has become a driver to accelerate its business development. On the other hand, despite the Chinese economy facing severe adverse impacts due to the complex and changing situations both at home and abroad as well as the outbreak of COVID-19 pandemic, the Company still achieved a 18.2% increase in total revenue from RMB149.0 million in 2019 to RMB176.1 million in 2020. In particular, we have successfully achieved exponential growth in the field of healthcare big data solutions with 2020 revenue approximately 2.74 times that of 2019, which is of great strategic significance to us.

In 2020, the Company continued to expedite promoting the solutions supported by artificial intelligence and big data analysis. Such solutions generated a total revenue of RMB40.6 million in 2020, representing an increase of 154.0% from RMB16.0 million in 2019. Among them, the total revenue generated from healthcare big data solutions increased significantly to RMB33.7 million in 2020, approximately 2.74 times of RMB12.3 million in 2019. We consistently delivered excellent solutions to our customers in the healthcare industry, which ensured us with new orders from and wide recognition among our customers. By the end of 2020, our healthcare big data solutions have been successfully promoted to and applied by 90 hospitals, surpassing the total number of customers in the finance industry served in the same period. Furthermore, in 2020, 45 new hospitals started to adopt the Company's healthcare big data solutions, which is the total number of hospitals served in 2018 and 2019. While having achieved rapid growth in the field of healthcare big data solutions, the Company also focused on finance industry with its accelerating digital transformation and rapid developing trend. The Company focused on seeking opportunities in finance industry by leveraging its extensive experience in finance IT industry. Through continuously exploring new user application scenarios, the Company continued to develop and upgrade its innovative solution, i.e. the robotic process automation, or RPA platform, making it an important engine for financial customers in achieving digital transformation and constantly creating business value.

The year 2021 is the first year after the listing of Newlink Technology and the fourth year to carry out our strategic layout of artificial intelligence and big data analysis solutions. We will enhance the application of cutting-edge technologies and continuously promote the innovation of solutions, increase investment in technology R&D and marketing, and strive to attract international industry leader to join the Company. We will actively strengthen our layout in key technologies for artificial intelligence and big data analysis applications and SaaS services at the enterprise level.

In 2021, we will seize opportunities and overcome challenges to comprehensively enhance our market competitiveness. The Company will also remain committed to the R&D and upgrading of existing products to further increase the market share of RPA platform, and healthcare big data solutions. In addition, we will continue to conduct in-depth research on the business scenarios of customers in the healthcare industry, and commit ourselves to the development of application scenarios of artificial intelligence technology in the healthcare industry. Aiming at the industry peculiarities of the healthcare industry, we will achieve customized application, assist customers in the healthcare industry to reduce the large labor costs required for daily execution of various kinds of large-volume repetitive tasks, and help customers improve work efficiency with RPA solution's unique characteristics of rapid processing and timely execution with low error rate.

# CHAIRMAN'S STATEMENT

Finally, on behalf of the Board, I would like to express my deepest gratitude to all the employees and management of the Company for their commitment and unremitting efforts. I would also like to express my sincere thanks to all shareholders and partners for their firm support and trust. It is their contributions that have brought sustained and rapid development to the Company's business. We are of full confidence in the future. The Company will continue to expand its first-mover advantages of the products related to artificial intelligence and big data analysis, and continue to focus on enhancing its capabilities of technology R&D to further expand the application of more scenarios for more customers. At the same time, we will actively identify target companies with appropriate technologies, customer bases or operation modes in the target market and engage with them for acquisition, and seek more strategic cooperation with the government and large healthcare groups in the field of healthcare big data, so as to gradually expand the Company's business.

**Mr. ZHAI Shuchun**
*Chairman and Chief Executive Officer*

March 30, 2021

# DIRECTORS AND SENIOR MANAGEMENT

## OUR DIRECTORS

The Board currently consists of seven Directors, comprised of four executive Directors and three independent non-executive Directors. The following table sets forth information regarding the Directors.

| Name | Age | Position | Date of Appointment as Director |
|---|---|---|---|
| **Executive Directors** | | | |
| Mr. ZHAI Shuchun (翟曙春) | 55 | Executive Director, Chairman and CEO | November 8, 2019 |
| Ms. QIAO Huimin (喬慧敏) | 49 | Executive Director and chief financial officer | December 30, 2019 |
| Ms. QIN Yi (秦禕) | 43 | Executive Director and deputy general manager | December 30, 2019 |
| Mr. LI Xiaodong (李小東) | 33 | Executive Director and deputy general manager | December 30, 2019 |
| **Independent Non-executive Directors** | | | |
| Mr. TANG Baoqi (唐保祺) | 61 | Independent non-executive Director | December 5, 2020 |
| Ms. JING Liping (景麗萍) | 42 | Independent non-executive Director | December 5, 2020 |
| Mr. YE Jinfu (葉金福) | 45 | Independent non-executive Director | December 5, 2020 |

### Executive Directors

**Mr. ZHAI Shuchun (翟曙春)**, aged 55, is our executive Director, the chairman of the Board and chief executive officer. He is primarily responsible for the overall management of business, strategy, research and development of our Group. Mr. Zhai joined our Group in December 2016 and has been in charge of the overall management of Beijing Newlink since then. He was appointed as an executive Director in November 2019 and as our chief executive officer and chairman of the Board in December 2019. Mr. Zhai also serves as a director of all the subsidiaries of the Company. Mr. Zhai has over 25 years of experience in information technology and software development industry. Mr. Zhai has been the executive director and general manager of Beijing Yunwang Wanwei Technology Co., Ltd. (北京雲網萬維科技有限公司) since December 2017, and the chairman of the board of directors and general manager of Beijing Guanruitong E-commerce Technology Co., Ltd. (北京冠瑞通電子商務科技股份有限公司) since March 2017. From May 2001 to December 2016, Mr. Zhai was the president and chairman of the board of directors at Beijing UFC Co., Ltd. (北京聯銀通科技有限公司). He also served as a director of DHC Software Co., Ltd. (東華軟件股份公司), a company listed on the Shenzhen Stock Exchange (stock code: 002065), from May 2008 to December 2010. From October 1995 to May 2001, Mr. Zhai served as the general manager of Vanda Systems & Communications Holdings Limited (中聯系統控股有限公司). Mr. Zhai obtained a bachelor's degree in computer science from Beijing Jiaotong University (北京交通大學) in July 1989, and a master's degree in satellite remote sensing from University of Chinese Academy of Sciences (中國科學院大學) in July 1995.

# DIRECTORS AND SENIOR MANAGEMENT

**Ms. QIAO Huimin (喬慧敏)**, aged 49, is our executive Director and chief financial officer. She is primarily responsible for the overall management of financial and accounting affairs of our Group. Ms. Qiao joined our Group in October 2017 and was appointed as an executive Director in December 2019. She has served as a chief financial officer at Beijing Newlink since October 2017 and as a director of Beijing Newlink since December 2019. Ms. Qiao has over 20 years of experience in accounting and financial management. Prior to joining us, Ms. Qiao served as the chief financial officer at Beijing UFC Co., Ltd. (北京聯銀通科技有限公司) from July 2003 to October 2017. Ms. Qiao served as the accounting manager at Tairong Xinye Holding Co., Ltd. (泰融信業控股有限公司) from September 2002 to July 2003. She worked as an accountant at Beijing Dadi Technology Industry Group Company (北京市大地科技實業總公司) from June 2000 to September 2002. Ms. Qiao was teaching at Northeastern University at Qinhuangdao (東北大學秦皇島分校) from August 1994 to August 1997. Ms. Qiao graduated from Northeastern University (東北大學) in China, where she obtained a bachelor's degree in management engineering in July 1994 and a master's degree in accounting in March 2000. Ms. Qiao was accredited as a senior accountant by Beijing Municipal Human Resources and Social Security Bureau (北京市人力資源和社會保障局) in May 2012.

**Ms. QIN Yi (秦禕)**, aged 43, is our executive Director and deputy general manager. She is primarily responsible for the sales and marketing of our Group. Ms. Qin joined our Group in June 2012 and was appointed as an executive Director in December 2019. She was the head of sales and marketing department at Beijing Newlink from June 2012 to December 2016, and has served as a deputy general manager at Beijing Newlink since December 2016. Ms. Qin has over ten years of experience in sales and marketing. Prior to joining us, Ms. Qin served as a client manager at Digital China Group Co., Ltd. (神州數碼集團股份有限公司), a company listed on the Stock Exchange (stock code: 0861) and Shenzhen Stock Exchange (stock code:000034), from August 2007 to June 2012. Ms. Qin obtained a college degree in modern public relations from China University of Mining and Technology (中國礦業大學) in July 2000, and a bachelor's degree in journalism from Communication University of China (中國傳媒大學) in July 2012.

**Mr. LI Xiaodong (李小東)**, aged 33, is our executive Director and deputy general manager. He is primarily responsible for the project management of our Group. Mr. Li joined our Group in April 2015 and was appointed as an executive Director in December 2019. He was the head of project management department at Beijing Newlink from April 2015 to December 2016, and has served as a deputy general manager at Beijing Newlink since December 2016. Mr. Li has over ten years of experience in software development. Prior to joining us, Mr. Li worked at Jiangsu Kaihua Intelligent Engineering Co., Ltd. (江蘇愷華智能工程有限公司) from November 2009 to March 2015. Mr. Li graduated from Huaian College of Information Technology (淮安信息職業技術學院) in July 2008 where he majored in computer software.

# DIRECTORS AND SENIOR MANAGEMENT

## Independent Non-executive Directors

**Mr. TANG Baoqi (唐保祺)**, aged 61, is an independent non-executive Director of our Company. He is primarily responsible for supervising and providing independent judgment to our Board. Mr. Tang has served as an independent non-executive director of Luzhou Bank Co., Ltd. (瀘州銀行股份有限公司) (formerly known as Luzhou City Commercial Bank Co., Ltd. (瀘州市商業銀行股份有限公司)), a company listed on the Stock Exchange (stock code: 1983) since December 2018. Mr. Tang has over 30 years of experience in finance industry. He worked at China Cinda (HK) Holdings Company Limited (中國信達（香港）控股有限公司), a subsidiary of China Cinda Asset Management Co., Ltd. (中國信達資產管理股份有限公司) which is a company listed on the Stock Exchange (stock code: 1359; preference share stock code: 4607), as a senior manager, the general manager of risk management department, the chief risk officer and the chief financial officer since February 2000 and was a director and deputy general manager when he left China CINDA (HK) Holdings Company Limited in March 2018. Mr. Tang worked at the creditors' rights department (債權部) of China Cinda Asset Management Co., Ltd. from June 1999 to February 2000. Mr. Tang also served as a non-executive director of China Fortune Financial Group Limited (中國富強金融集團有限公司), a company listed on the Stock Exchange (stock code: 0290) from March 2016 to April 2018, a non-executive director of China National Materials Company Limited (中國中材股份有限公司), a company previously listed on the Stock Exchange (stock code: 1893) from July 2011 to July 2016, and an executive director of Silver Grant International Holdings Group Limited (銀建國際控股集團有限公司), a company listed on the Stock Exchange (stock code: 0171) from March 2008 to July 2011. Mr. Tang obtained a bachelor's degree in economics from Hubei Institute of Finance and Economics (湖北財經學院) (currently known as Zhongnan University of Economics and Law (中南財經政法大學)) in July 1983. Mr. Tang was certified as a senior economist by People's Construction Bank of China (中國人民建設銀行) (currently known as China Construction Bank Corporation (中國建設銀行股份有限公司)) in March 1996.

**Ms. JING Liping (景麗萍)**, aged 42, is an independent non-executive Director of our Company. She is primarily responsible for supervising and providing independent judgment to our Board. Ms. Jing has over 12 years of experience in computer science, artificial intelligence and machine learning. Ms. Jing has served various positions at Beijing Jiaotong University (北京交通大學), including lecturer, assistant professor, professor and the director of the department of computer science, since March 2009. From August 2015 to August 2016, Ms. Jing was a visiting scholar at the University of California, Berkley, where her research focused on machine learning and its application in big data analysis. From December 2007 to February 2009, Ms. Jing worked as a post-doctoral research fellow at the University of Texas at Dallas, where her research focused on machine learning and its application in bioinformatics, including medical data analysis and visualization. Ms. Jing also currently holds positions at academic organizations and associations, including member of the expert committee of artificial intelligence and pattern recognition by China Computer Federation (中國計算機學會), and member of the expert committee of machine learning by China Association for Artificial Intelligence (中國人工智能學會). Ms. Jing obtained a bachelor's degree and a master's degree in computer science and technology from Beijing Jiaotong University in July 2000 and May 2003, respectively. She also obtained a PhD degree in applied mathematics from the University of Hong Kong in November 2007.

# DIRECTORS AND SENIOR MANAGEMENT

**Mr. YE Jinfu (葉金福)**, aged 45, is an independent non-executive Director of our Company. He is primarily responsible for supervising and providing independent judgment to our Board. Mr. Ye has over 20 years of experience in accounting and auditing. He has worked at Da Hua Certified Public Accountants (Special General Partnership) (大華會計師事務所（特殊普通合夥）) as a partner since January 2012. Mr. Ye served as a partner at Ascenda Certified Public Accountants Ltd. (天健正信會計師事務所有限公司) from January 2009 to December 2011, and as a salary partner at Ascenda Certified Public Accountants (天健光華（北京）會計師事務所有限公司) from March 2001 to December 2008. Mr. Ye has also served as an independent non-executive director at Beijing EGOVA Co., Ltd. (北京數字政通科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300075) since November 2015, an independent non-executive director at Leyard Optoelectronic Co., Ltd. (利亞德光電股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300296) since December 2016, an independent non-executive director at Capital Securities Co., Ltd. (首創證券有限責任公司) since February 2017, and an independent non-executive director at Beijing Shiji Information Technology Co., Ltd. (北京中長石基信息技術股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002153) since November 2017. Mr. Ye obtained a bachelor's degree in accounting from Xiamen University (廈門大學) in July 1999 and a master's degree in accounting from Central University of Finance and Economics (中央財經大學) in June 2009. He also was accredited as a certified public accountant by the Chinese Institute of Certified Public Accountants in September 2002.

## SENIOR MANAGEMENT

**Mr. ZHAI Shuchun (翟曙春)**, aged 55, is our executive Director, the chairman of the Board and chief executive officer. His biographical details are set out above under the section headed "Directors and Senior Management – Our Directors" in this annual report.

**Ms. QIAO Huimin (喬慧敏)**, aged 49, is an executive Director and chief financial officer of the Company. Her biographical details are set out above under the section headed "Directors and Senior Management – Our Directors" in this annual report.

**Ms. QIN Yi (秦禕)**, aged 43, is an executive Director and deputy general manager of the Company. Her biographical details are set out above under the section headed "Directors and Senior Management – Our Directors" in this annual report.

**Mr. LI Xiaodong (李小東)**, aged 33, is an executive Director and deputy general manager of the Company. His biographical details are set out above under the section headed "Directors and Senior Management – Our Directors" in this annual report.

**Mr. MAO Qilong (毛啟龍)**, aged 36, is our deputy general manager. He is primarily responsible for human resources and administration management of our Group. Mr. Mao joined the Group in April 2012 as the head of administration department at Beijing Newlink and has served as a deputy general manager at Beijing Newlink since December 2016. Mr. Mao has over 12 years of experience in administrative management. Prior to joining us, Mr. Mao served as deputy manager of the administrative department of Changshu Xinzhuang Jixiang Auxiliary Co., Ltd. (常熟市辛莊吉祥助劑有限公司) from February 2007 to March 2012. Mr. Mao graduated from Changshu Mocheng High School (常熟市莫城中學) in June 2003.

# DIRECTORS AND SENIOR MANAGEMENT

## JOINT COMPANY SECRETARIES

**Ms. ZHANG Xiushi (張琇石)**, is a joint company secretary of our Company, being responsible for secretarial matters of our Company. Ms. Zhang joined our Group in July 2019 as the board secretary of Beijing Newlink, and was appointed as a director of Beijing Newlink in December 2019 and as a joint company secretary of our Company in February 2020. Prior to joining us, Ms. Zhang served as the deputy general manager at the investment banking department of China Galaxy Securities Co., Ltd. (中國銀河證券股份有限公司), a company listed on the Stock Exchange (stock code: 6881), from February 2015 to June 2019. Ms. Zhang worked as a senior manager of the investment banking department of Capital Securities Co., Ltd. (首創證券有限責任公司) from May 2011 to February 2015. From July 2006 to June 2008, Ms. Zhang worked at World Shipping Group Limited. (世航集團有限公司). Ms. Zhang obtained a bachelor's degree in tourism management from Beijing International Studies University (北京第二外國語學院) in July 2006, and a master's degree in accounting from St. John's University in the United States in July 2010.

**Ms. HO Wing Nga (何詠雅)** was appointed as a joint company secretary of our Company in August 2020. Ms. Ho serves as the managing director of the corporate governance and compliance department of Computershare Hong Kong Development Limited. She is currently a joint company secretary of Financial Street Property Co., Limited (金融街物業股份有限公司) (stock code: 1502) and a member of The Hong Kong Institute of Directors. Ms. Ho has over 25 years of experience in corporate secretarial services. She obtained a master's degree in corporate governance from the Hong Kong Polytechnic University in December 2006 and became an associate of The Hong Kong Institute of Chartered Secretaries in the same month. In March 2015, Ms. Ho became a fellow of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW AND OUTLOOK

### Overview

The Company was successfully listed on the Main Board of the Stock Exchange on January 6, 2021.

We are an IT solutions provider focusing primarily on traditional software-driven solutions and we are also committed to providing innovative software-driven solutions powered by artificial intelligence and big data analytics for our customers. In 2020, our customers were mainly from the finance industry and the healthcare industry among which we provide traditional IT solutions and innovative IT solutions for financial institutions and we provide innovative IT solutions, or healthcare big data solutions, for healthcare institutions.

For our customers in the finance industry, we enable them to better serve their clients in new business scenarios and adapt to changing regulatory requirements by providing them with our comprehensive IT solutions. For our customers in the healthcare industry, with application of our massive healthcare data analysis, we launched a series of healthcare big data solutions to help healthcare institutions effectively improve healthcare quality, optimize clinical pathway management, promote rationalization of healthcare service charges, and aim to shorten the time for disease diagnosis and treatment and reduce the treatment costs for patients through our constant research and development of telemedicine solutions.

In 2020, for our finance IT solutions, we primarily focused on the research and development of our over-the-counter bond bookkeeping system and RPA solution. We upgraded technology architecture from service-oriented architecture to distributed architecture for our over-the-counter bond bookkeeping system to further enhance the efficiency. As of December 31, 2020, our over-the-counter bond bookkeeping system was implemented in nine banks. For our RPA solution, we focused on the research and development for a screen recording module to enable review of robot software's actions and facilitate error spotting and process improvement. As of December 31, 2020, our RPA platform was implemented in two top-tier financial institutions in China.

In 2020, for our healthcare big data solutions, we primarily focused on the system enhancements of our medical quality control and safety warning system, including expanding the capacity by adding more indicators to the models to enable more efficient data processing based on massive medical data, and optimizing the algorithm of the models to enhance the accuracy of medical data analysis. As of December 31, 2020, we expanded the implementation of our medical quality control and safety warning system to 90 hospitals, 55 of which were Class III Grade A hospitals, and entered into cooperation arrangements with 240 hospitals, over 70% of which were Class III Grade A hospitals, to implement such system in 2021.

Our ability to compete depends on our continuous commitment to research and development and our ability to continuously enhance and broaden our solutions to meet the evolving needs of our customers. Our research and development efforts are focused on developing and testing new and complementary software-driven solutions, as well as further enhancing the usability, functionality, reliability and flexibility of our existing solutions. Our research and development personnel develops and tests customized software-driven solutions with quality assurance, and works with external experts to improve our solution offerings. As of December 31, 2020, we had 55 research and development personnel with extensive experience in the software industry. Focusing on the development of our innovative healthcare big data solutions, 34.5% of our research and development personnel are familiar with healthcare industry and have medical expertise in medical quality control and work experience in operating medical databases and management system for hospitals. As of December 31, 2020, all of our research and development personnel hold bachelor's degree or above and approximately 5.5% of our research and development personnel hold master's degree or above.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Impact of the COVID-19 outbreak

Since January 2020, the outbreak of coronavirus disease 2019 ("**COVID-19**") was spreading in China and worldwide. To reduce the risk of infection and continuously develop our business, we have adopted business contingency plans and protective measures, including transforming on-site work to remote work during the peak of COVID-19 outbreak, and establishing remote working environment and daily management process.

Our revenue generated from healthcare big data solutions in the first half of 2020 was adversely affected by the COVID-19 outbreak, primarily because most of the hospitals in China focused on dealing with COVID-19 and thus we had limited access to on-site implementation and testing for certain projects at our healthcare customers' premises. In addition, some of our potential customers in the healthcare industry may also delay their potential project initiation, engagement or implementation under the impact of COVID-19 outbreak. However, along with the ease of COVID-19 situations in China in the second half of 2020, our revenue generated from healthcare big data solutions for healthcare institutions increased significantly for the whole year of 2020. The COVID-19 outbreak had limited impact on our revenue generated from IT solutions for financial institutions, because we are able to make telecommuting work arrangement for our ongoing contracts with financial institutions and we have easier access to on-site project execution for our new contracts with financial institutions compared with that for healthcare institutions. Our revenue generated from IT solutions for other enterprises in 2020 was adversely affected by the COVID-19 outbreak, primarily due to a decreasing demand from other enterprises for IT solutions resulting from their expenditure control during the COVID-19 outbreak.

Most of our customers are from finance industry and healthcare industry in China. Different from industries such as retail and catering industry, the COVID-19 outbreak is expected to have a limited impact on the finance industry in China. Accordingly, we believe there will not be an apparent long-term impact on our operation and financial performance of our finance IT solutions. According to the Notice on Further Strengthening Financial Support for the Prevention and Control of the Outbreak of Pneumonia caused by the Novel Coronavirus (關於進一步強化金融支持防控新型冠狀病毒感染肺炎疫情的通知) issued by several regulators including PBOC, MOF and China Banking and Insurance Regulatory Commission on February 1, 2020, the PRC government will support the finance market by maintaining reasonably abundant liquidity and increasing monetary and credit support. For the healthcare industry which is our other target market, the COVID-19 outbreak has imposed a significant burden on the medical system in China, which is expected to lead to an increasing demand for more efficient and centralized hospital management and quality healthcare services. On February 6, 2020, the NHC issued the Notice to Strengthen Diagnosis and Treatment Consulting Services through the Internet to Prevent and Control the COVID-19 Outbreak (關於在疫情防控中做好互聯網診療諮詢服務工作的通知), encouraging healthcare institutions in China to utilize the Internet and telemedicine practice in providing healthcare services for the public in order to alleviate the healthcare resources constraints during the COVID-19 outbreak and reduce the risk of infection. We expect such policy will lead to a wider application and market acceptance of telemedicine technologies and may bring new business opportunities for our telemedicine system.

The COVID-19 outbreak did not have apparent impact on our liquidity positions and working capital sufficiency. Our cash and cash equivalents balance increased from RMB22.7 million as of June 30, 2020 to RMB44.4 million as of September 30, 2020 and further to RMB69.1 million as of December 31, 2020. In 2020 and as of December 31, 2020, we did not have any capital commitments. Based on our constantly improved cash flow position, our Directors believe that, our current working capital is sufficient to support our normal operation and meet our contractual obligations for the project implementation for our ongoing contracts and projects under negotiation.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Outlook

Looking forward to 2021, the application of artificial intelligence in the finance industry in China will be ushered in a high-growth stage. A large number of commercial banks are expected to adopt solutions utilizing artificial intelligence technologies, such as RPA solution, to improve operational efficiency and lower labor costs. In addition, as a new type of commercial bank business, the over-the-counter business of local government bonds will be further promoted to an increasing number of commercial banks. The demand of over-the-counter bond bookkeeping system will further grow. For healthcare industry in China, the government constantly promotes the collection, storage and sharing of healthcare big data among healthcare institutions, which leads to growing demand of healthcare big data solutions.

We will seize the market opportunity to enhance our market competitiveness and explore and promote our competitive solutions, including our innovative IT solutions for financial institution such as RPA solution, over-the-counter bond bookkeeping system, and our healthcare big data solutions such as medical quality control and safety warning system, clinical pathway management system, and intelligent healthcare platform. We will continue to invest our research and development in such solutions to constantly upgrade to cater to our customers' demands. We will enhance the application of cutting-edge technologies and continuously promote the innovation of solutions, increase investment in technology R&D and marketing, and strive to attract the world talents in the industry to join us. We will actively strengthen our layout in key technologies for artificial intelligence and big data analysis applications and SaaS services at the enterprise level. In addition, we will continue to conduct in-depth research on the business scenarios of customers in the healthcare industry, commit ourselves to the development of application scenarios of artificial intelligence technology in the healthcare industry. We will assist healthcare institutions to improve their work efficiency and reduce their labor costs required for daily execution of various repetitive tasks by leveraging our RPA solution's characteristics of rapid processing and execution with low error rate. We expect to recruit more technical staff in 2021 to expand our technical team. We also plan to acquire new customers and expand our market into more regions. We are confident in the prospect of our business in future.

## FINANCIAL REVIEW

### Revenue

Our revenue increased by 18.2% from RMB149.0 million in 2019 to RMB176.1 million in 2020, primarily driven by (1) the increase in our revenue from healthcare big data solutions for healthcare institutions from RMB12.3 million to RMB33.7 million, and (2) the increase in our revenue from IT solutions for financial institutions from RMB127.0 million to RMB136.9 million. During the same periods, our revenue from IT solutions for other enterprises decreased from RMB9.7 million to RMB5.5 million.

The following analysis sets forth a breakdown of our revenue by industry sector of end users for the year of 2019 and 2020, respectively.

*IT solutions for financial institutions*

Our revenue generated from IT solutions for financial institutions increased by 7.8% from RMB127.0 million in 2019 to RMB136.9 million in 2020, primarily due to (1) the increase in the number of our customers in the finance industry from 74 in 2019 to 85 in 2020, and (2) a growing demand from our enlarging customer base to adapt to their new business scenarios and regulatory requirements.

*IT solutions for healthcare institutions (Healthcare big data solutions)*

Our revenue generated from healthcare big data solutions increased to RMB33.7 million in 2020, approximately 2.74 times of RMB12.3 million in 2019, primarily because we have promoted our healthcare big data solutions to 90 healthcare institutions in 2020, twice as many as that of 2019.

# MANAGEMENT DISCUSSION AND ANALYSIS

*IT solutions for other enterprises*

Our revenue generated from IT solutions for other enterprises decreased by 43.3% from RMB9.7 million in 2019 to RMB5.5 million in 2020, primarily due to a decreasing demand from other enterprises for IT solutions resulting from their expenditure control during the COVID-19 outbreak.

### Cost of sales

Our cost of sales increased by 10.4% from RMB75.8 million in 2019 to RMB83.7 million in 2020, primarily due to (1) the increase in the expenses for our technical support service suppliers from RMB1.3 million to RMB9.7 million to provide for standard software services which do not require complex software development process and professional software deployment, and (2) the increase in our staff costs related to employees directly involved in our project execution from RMB64.4 million to RMB68.8 million to support our business expansion. During the same periods, our travel costs decreased from RMB3.9 million to RMB0.6 million resulting from the travel restrictions during the COVID-19 outbreak.

### Gross profit and gross profit margin

As a result of the increase in our revenue in 2020 as compared with last year and the fact that our revenue increased at a greater pace than our cost of sales, our gross profit increased by 26.2% from RMB73.2 million in 2019 to RMB92.4 million in 2020. Our gross margin slightly increased from 49.1% in 2019 to 52.5% in 2020, primarily due to our enlarged user base and business scale with enhanced project execution efficiency benefited from the system implementation experience our technical staff accumulated. We improved our employees' productivity and optimized our workforce staffing by cross selling IT solutions to existing customers and allocating technical staff responsible for the existing contracts of the customers to the new contracts for the same customers.

### Other income and gains

Other income and gains remained relatively stable at RMB1.9 million and RMB2.1 million in 2019 and 2020, respectively.

### Selling and distribution expenses

Our selling and distribution expenses increased by 49.2% from RMB6.5 million in 2019 to RMB9.7 million in 2020, primarily due to the increase in employee-related expenses of RMB1.8 million as a result of an increase in the average monthly number of our sales and marketing staff from 27 in 2019 to 35 in 2020 to support our business expansion.

### Administrative expenses

Our administrative expenses increased significantly from RMB13.7 million in 2019 to RMB30.4 million in 2020, primarily due to (1) the increase of listing expenses from RMB5.2 million in 2019 to RMB18.2 million in 2020, and (2) the increase in employee-related expenses of RMB2.2 million as a result of an increase in the bonus provided to our administrative staff.

### Research and development costs

Our research and development expenses decreased by 16.8% from RMB14.3 million in 2019 to RMB11.9 million in 2020, primarily due to a decrease in our employee-related expenses of RMB3.1 million as a result of (1) certain adjustments of the salary level during the COVID-19 outbreak for employees who worked from home in the first quarter of 2020, and (2) our allocation of more technical staff for project execution of our finance IT solutions instead of research and development activities to maintain our business growth when facing challenges brought by the COVID-19 outbreak. The staff allocation among various projects and between project execution and research and development functions varies from month to month based on our business needs.

### Other expenses

Other expenses remained relatively stable at RMB1.2 million in 2019 and RMB1.3 million in 2020, respectively.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Finance costs

Finance costs remained relatively stable at RMB1.1 million and RMB0.8 million in 2019 and 2020, respectively.

### Profit before tax

As a result of the foregoing, we recorded profit before tax of RMB40.3 million in 2020, a slight increase from RMB38.2 million in 2019.

### Income tax expenses

Our income tax expenses increased by 62.7% from RMB5.1 million in 2019 to RMB8.3 million in 2020, primarily due to an increase in our taxable income driven by the growth of our business.

### Profit for the year

Primarily as a result of the listing expenses of RMB18.2 million we incurred in 2020, our net profit slightly decreased by 3.3% from RMB33.1 million in 2019 to RMB32.0 million in 2020. Our net margin slightly decreased from 22.2% in 2019 to 18.2% in 2020.

### Non-HKFRS measure

To supplement our consolidated financial statements which are presented in accordance with HKFRSs and consistent with the measures adopted by our industry peers listed on the Stock Exchange, we also use a non-HKFRS measure, adjusted net profit, as an additional financial measure, which is not required by, or presented in accordance with, HKFRSs. We believe that such non-HKFRS measure facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that our management do not consider to be indicative of our operating performance. We believe that such measure provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of the adjusted net profit may not be comparable to similarly titled measures presented by other companies, as companies may not calculate adjusted net profit in the same manner. The use of such non-HKFRS measure has limitations as an analytical tool, because it does not reflect all items of income and expense that affect our operations, such as the impact of listing expenses. The item that is adjusted for may continue to be incurred and should be considered in the overall understanding and assessment of our operating performance. You should not consider adjusted net profit in isolation, or as substitute for analysis of, our results of operations or financial position as reported under HKFRSs. Adjusted net profit, as we present it, represents our profit for the year/period excluding the effect of listing expenses.

The following table reconciles our adjusted net profit presented to the most directly comparable financial measure calculated and presented in accordance with HKFRSs.

| | Year ended December 31, | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| **Profit for the year** | **32,029** | 33,113 |
| Add: | | |
| Listing expenses | **18,203** | 5,150 |
| **Adjusted net profit** | **50,232** | 38,263 |

# MANAGEMENT DISCUSSION AND ANALYSIS

Our adjusted net profit increased by 31.1% from RMB38.3 million in 2019 to RMB50.2 million in 2020. Our adjusted net margin, a non-HKFRS measure, was 25.7% and 28.5% in 2019 and 2020, respectively.

## Liquidity, capital resources and capital structure

In 2020, our primary uses of cash are to fund our working capital requirements and research and development of our IT solutions. We financed our capital expenditures and working capital requirements principally with cash generated from our operations and bank borrowings.

Our bank borrowings as of December 31, 2020 amounted to RMB15.0 million, among which, (1) the bank borrowings of RMB10.0 million will be mature on October 18, 2021, with fixed interest rate of 5.00% per annum; and (2) the bank borrowings of RMB5.0 million will be mature on July 15, 2021, with fixed interest rate of 5.22% per annum. All the bank borrowings as of December 31, 2020 were denominated in RMB. All of our bank borrowings was primarily used for our daily operation and business expansion.

The Company continued to maintain a healthy and sound financial position. Our net current assets increased from approximately RMB167.3 million as of December 31, 2019 to approximately RMB172.4 million as of December 31, 2020. Our cash and cash equivalents increased from approximately RMB57.3 million as of December 31, 2019 to approximately RMB69.1 million as of December 31, 2020.

## Exposure to exchange rate fluctuation

All of our operations are in China with all of our transactions being settled in RMB. We did not experience any impact or difficulties in liquidity on our operations resulting from currency exchange and we made no hedging transaction or forward contract arrangement in 2019 and 2020. In this respect, we are not exposed to any significant foreign currency exchange risk. However, our management will closely monitor foreign exchange risk to ensure that appropriate measures are implemented in a timely and effective manner.

## Capital commitments

In 2020 and as of December 31, 2020, we did not have any capital commitments.

## Contingent liabilities

As of December 31, 2020, we did not have any material contingent liability, guarantee or any litigation or claim of material importance, pending or threatened against any member of our Group.

## Future plans for material investments and capital assets

Save as disclosed in the Prospectus, as of December 31, 2020, we did not have other substantial future plans for material investments and capital assets.

## Material acquisitions and disposals of subsidiaries and affiliated companies

In 2020, we did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

## Significant investments and acquisition of capital assets

In 2020, we did not hold any significant investments nor made any significant acquisition of capital assets.

## Charge on the Group's assets

As of December 31, 2020, we had no charges on our assets.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Principal Risks and Uncertainties

The major difficulty we encountered in 2020 was the impact of COVID-19 outbreak. Our revenue generated from healthcare big data solutions in the first half of 2020 was adversely affected by the COVID-19 outbreak, primarily because most of the hospitals in China focused on dealing with COVID-19 and thus we had limited access to on-site implementation and testing for certain projects at our healthcare customers' premises. In addition, some of our potential customers in the healthcare industry may delayed their potential project initiation, engagement or implementation under the impact of COVID-19 outbreak. Our revenue generated from IT solutions for other enterprises in the first half of 2020 was also adversely affected by the COVID-19 outbreak, primarily due to a decreasing demand from other enterprises for IT solutions resulting from their expenditure control during the COVID-19 outbreak. However, along with the ease of COVID-19 situations in China in the second half of 2020, our revenue generated from healthcare big data solutions increased significantly for the whole year of 2020.

In addition, we were exposed to credit risks of our customers and our outstanding trade receivables and trade receivables turnover days remained at a relatively high level in 2020. As of December 31, 2019 and December 31, 2020, our trade receivables amounted to RMB72.3 million and RMB107.2 million, respectively. Our trade receivables turnover days in 2019 and 2020 were 174 days and 186 days, respectively. We recorded a large amount of receivables from certain customers with whom we have maintained a long-term business relationship, primarily including top-tier banks, trust companies, asset management companies and Class III Grade A hospitals, which are in good standing and have strong creditworthiness. However, such customers normally have stricter internal payment and settlement processes, which have led to a longer payment cycle of such customers. The COVID-19 outbreak in the first half of 2020 led to further extended internal process and payment cycle of our customers.

We have constantly improved our cash flow position by (1) maintaining strict control over our outstanding trade receivables and minimizing credit risk exposure; (2) implementing detailed polices covering reimbursement management, cash management, budget management and credit management; (3) constantly refining our fund management and detailing our use of fund; (4) improving employees' productivity through regular training and optimized staff allocation; and (5) obtaining bank facilities to supplement our working capital.

### Key Financial and Business Performance Indicators

The key financial and business performance indicators comprise profitability growth and return on equity. Details of our profitability growth are shown in the paragraph headed "Profit for the year" and "Non-HKFRS measure" in this section of this annual report.

Our return on equity decreased from 25.3% for 2019 to 16.6% for 2020, primarily due to the increase in our equity.

Our gearing ratio increased from nil as of December 31, 2019 to 7.5% as of December 31, 2020, as we had bank borrowings of RMB15.0 million as of December 31, 2020. The calculation of gearing ratio is based on total borrowings divided by total equity as of year end and multiplied by 100.0%.

# CORPORATE GOVERNANCE REPORT

The Board of the Company is pleased to report to its shareholders on the corporate governance of the Company for the Reporting Period.

## CORPORATE GOVERNANCE PRACTICE

The Group is committed to maintaining high standards of corporate governance. The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of its Shareholders and corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

As the Company's shares in issue were not yet listed on the Stock Exchange during the year ended December 31, 2020, the CG Code as contained in Appendix 14 to the Listing Rules was not applicable to the Company during the Reporting Period. The Company has adopted the principles and code provisions set out in the CG Code as the basis of the Company's corporate governance practices. Save as disclosed in this annual report, the Company has complied with the CG Code since the Listing Date and up to the date of this annual report. The Company will periodically review on its corporate governance policies and will propose any amendment, if necessary, to ensure compliance with the CG Code from time to time.

## MODEL CODE FOR SECURITIES TRANSACTIONS

As the shares of the Company were not yet listed on the Stock Exchange as at December 31, 2020, the Model Code was not applicable to the Company during the year ended December 31, 2020. The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as a code of conduct of the Company regarding Directors' securities transactions, which became effective on the Listing Date. Having made specific enquiries of all Directors, each of the Directors has confirmed that he/she has complied with the requirements of the Model Code since the Listing Date and up to the date of this annual report.

## BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the businesses, strategic decisions and performance of the Company and its subsidiaries and takes decisions objectively in the best interests of the Company.

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

### Board Composition

The composition of the Board and the Board committees as of the date of this annual report are as below.

*Executive Directors*
Mr. ZHAI Shuchun *(Chairman and Chief Executive Officer)*
Ms. QIAO Huimin
Ms. QIN Yi
Mr. LI Xiaodong

*Independent non-executive Directors*
Mr. TANG Baoqi
Ms. JING Liping
Mr. YE Jinfu

# CORPORATE GOVERNANCE REPORT

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

From the Listing Date to the date of this annual report, the Board has met at all times the requirements under Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has also complied with Rule 3.10A of the Listing Rules relating to the appointment of independent non-executive directors representing at least one-third of the Board.

Save as disclosed in the Prospectus and in this annual report, none of the Directors has any relationship with any other Director or chief executive.

### Meetings of Board and Board Committees and Directors' Attendance Records

Pursuant to code provision A1.1 of the CG Code, regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication.

As the shares of the Company were not listed on the Stock Exchange until the Listing Date, the relevant standards were not applicable to the Company during the year ended 31 December 2020 and up to the Listing Date. The Chairman has held a meeting with the independent non-executive Directors without the presence of other Directors during the period from the Listing Date to the date of this annual report.

A summary of the attendance records of the Directors at the meetings of the Board and the respective Board committees held during the period from the Listing Date to the date of this annual report is set out below:

| | Attendance/Number of Meeting(s) | | | |
|---|---|---|---|---|
| Name of Directors | Board | Audit Committee | Remuneration Committee | Nomination Committee |
| Mr. ZHAI Shuchun | 1/1 | N/A | 1/1 | 1/1 |
| Ms. QIAO Huimin | 1/1 | N/A | N/A | N/A |
| Ms. QIN Yi | 1/1 | N/A | N/A | N/A |
| Mr. LI Xiaodong | 1/1 | N/A | N/A | N/A |
| Mr. TANG Baoqi | 1/1 | 1/1 | 1/1 | 1/1 |
| Ms. JING Liping | 1/1 | 1/1 | 1/1 | 1/1 |
| Mr. YE Jinfu | 1/1 | 1/1 | N/A | N/A |

# CORPORATE GOVERNANCE REPORT

### Chairman and Chief Executive Officer

Pursuant to code provision A.2.1 of the CG Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. The roles of the Chairman and the CEO are held by Mr. ZHAI Shuchun. With extensive experience in the information technology industry, Mr. Zhai is responsible for the overall strategic planning and general management of the Group and is instrumental to our growth and business expansion. The Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of the Group and ensures consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. In light of the above, the Board considers that the deviation from code provision A.2.1 of the CG Code is appropriate in the circumstances of the Company.

### Confirmation of Independent Non-executive Directors

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.

### Appointment and Re-election of Directors

Each of the executive Directors has entered into a service contract with the Company on December 5, 2020 for an initial term of three years commencing from December 5, 2020.

On December 5, 2020, each of the independent non-executive Directors has entered into an appointment letter with the Company for an initial term of three years commencing from December 5, 2020.

None of the Directors has entered into a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

All the Directors are subject to retirement by rotation and re-election at the annual general meetings. Under the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Articles also provides that all Directors appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Ms. QIAO Huimin, Ms. QIN Yi and Mr. LI Xiaodong, each being an executive Director of the Company, will retire from office and, being eligible, offer themselves for re-election at the 2021 AGM.

# CORPORATE GOVERNANCE REPORT

**Responsibilities, Accountabilities and Contributions of the Board and Management**

The Board should assume responsibility for leadership and control of the Company, and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to 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 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 can bring independent judgment to the decision-making process of our Board.

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 Board reserves for its decision 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 coordinating the daily operation and management of the Company are delegated to management team.

The Company has arranged appropriate liability insurance on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities.

## CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Each newly appointed director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under the Listing Rules and relevant regulatory requirements.

In accordance with code provision A.6.5 of the CG Code with regards to continuous professional development, directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors will be arranged and reading material on relevant topics will be issued to Directors where appropriate. The Company also arranges trainings to provide Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretary of the Company has from time to time updated and provided written training materials relating to the roles, functions and duties of a director.

# CORPORATE GOVERNANCE REPORT

The Company organized training on duties and responsibilities of directors and seminar on updated laws and regulations for the Directors. Pursuant to code provision A.6.5 of the CG Code, the Company has also provided reading materials to the Directors to develop and refresh their professional knowledge. During the year ended December 31, 2020 and prior to the Listing, all of the Directors, namely, Mr. ZHAI Shuchun, Ms. QIAO Huimin, Ms. QIN Yi, Mr. LI Xiaodong, Mr. TANG Baoqi, Ms. JING Liping, and Mr. YE Jinfu received a comprehensive, formal and tailored induction on their appointments and participated in a training session on directors' duties, responsibilities and obligations under the Listing Rules and the SFO.

## BOARD COMMITTEES

The Board has established three committees on December 5, 2020, namely, the Audit Committee, Remuneration Committee and Nomination Committee, with terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules, for overseeing particular aspects of the Company's affairs. The specific written terms of reference are to deal clearly with their authority and duties, which are posted on the websites of the Company and the Stock Exchange.

### Audit Committee

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules and the CG Code. The Audit Committee consists of three independent non-executive Directors, namely Mr. YE Jinfu, Ms. JING Liping and Mr. TANG Baoqi, with Mr. YE Jinfu being the chairman of the committee.

The primary duties of the Audit Committee include, among other things, making recommendations to the Board on the appointment, reappointment and removal of the external auditor, reviewing our Group's financial information and disclosures, and overseeing our Group's financial reporting system, risk management and internal control systems.

The written terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

As the Company was only listed on the Stock Exchange on January 6, 2021, no Audit Committee meeting was held during the year ended December 31, 2020. However, subsequent to the Listing Date and up to the date of this annual report, the Audit Committee has held one meeting and performed the following works, among others:

(i) reviewed the Group's annual audited financial statements for the year ended December 31, 2020;

(ii) reviewed the Group's internal control system and related matters; and

(iii) considered and made recommendations on the re-appointment of the external auditors of the Group, and the term of engagement.

# CORPORATE GOVERNANCE REPORT

### Remuneration Committee

The Company established the Remuneration Committee in compliance with Rule 3.25 of the Listing Rules and the CG Code. The Remuneration Committee consists of three members, namely Ms. JING Liping and Mr. TANG Baoqi as independent non-executive Directors, as well as Mr. ZHAI Shuchun as the Chairman and executive Director, with Ms. JING Liping being the chairwoman of the committee.

The primary functions of the Remuneration Committee include, among other things, making recommendations to the Board for approval on our Group's remuneration policy and plan of all Directors and senior management, and the proposal of remuneration distribution plan according to the performance evaluation of Directors and senior management.

The written terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

As the Company was only listed on the Stock Exchange on January 6, 2021, no Remuneration Committee meeting was held during the year ended December 31, 2020. However, subsequent to the Listing Date and up to the date of this annual report, the Remuneration Committee has held one meeting for reviewing the remuneration of the Directors and senior management and the performance of them since the Listing Date.

### Nomination Committee

The Company has established the Nomination Committee in compliance with the CG Code. The Nomination Committee consists of three members, namely Mr. TANG Baoqi and Ms. JING Liping as independent non-executive Directors, as well as Mr. ZHAI Shuchun as the Chairman and executive Director, with Mr. TANG Baoqi being the chairman of the committee.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors and senior management, making recommendations to the Board on the nomination of candidates for Director, president, secretary of the Board and chairmen and members of the Board committees, and assessing the independence of independent non-executive Directors.

The written terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

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 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, including but not limited to gender, skills, age, professional experience, knowledge, cultural, education background, that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

# CORPORATE GOVERNANCE REPORT

As the Company was only listed on the Stock Exchange on January 6, 2021, no Nomination Committee meeting was held during the year ended December 31, 2020. However, subsequent to the Listing Date and up to the date of this annual report, the Nomination Committee has held one meeting for reviewing the independence of the independent non-executive Directors, considering the qualifications, including but not limited to gender, skills, age, professional experience, knowledge, cultural, education background and length of service, of the retiring Directors standing for re-election at the 2021 AGM, reviewing the structure, size and composition of the Board and reviewing the board diversity policy (the "**Board Diversity Policy**").

### Remuneration of Directors and Senior Management

Please refer to Note 8 to the consolidated financial statements for details of remuneration of members of the Board for the year ended December 31, 2020.

Details of the remuneration by band of senior management of the Company, whose biographies are set out on pages 11 to 15 of this annual report, for the year ended December 31, 2020 are set out below:

| Remuneration band (RMB) | Number of individuals |
|---|---|
| 0 – 500,000 | 2 |
| 500,001 – 1,000,000 | 3 |

## BOARD DIVERSITY POLICY

In order to enhance the effectiveness of the Board and to maintain the high standard of corporate governance, we have adopted the Board Diversity Policy which sets out the objective and approach to achieve and maintain diversity of the Board. Pursuant to the Board Diversity Policy, we seek to achieve board diversity through the consideration of a number of factors when selecting the candidates to the Board, including but not limited to gender, skills, age, professional experience, knowledge, cultural, education background and length of service. The ultimate decision of the appointment will be based on merit and the contribution which the selected candidates will bring to the Board.

Since the Listing Date and up to the date of this annual report, our Board comprises seven members, including four executive Directors and three independent non-executive Directors. The Directors have a balanced mix of knowledge, skills, gender, perspectives and experience, including finance and healthcare IT solution service, software development, business management and strategic development, investment and accounting. They obtained professional and academic qualifications including computer science, accounting, economics and journalism. Furthermore, the Board has a wide range of age.

The Nomination Committee is delegated by the Board to be responsible for compliance with relevant codes governing board diversity under the CG Code, and will review the Board Diversity Policy and evaluate the implementation of the Board Diversity Policy from time to time, at least annually, to ensure its continued effectiveness.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code. The Board recognizes that corporate governance should be the collective responsibility of the Directors which includes:

1. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

2. to review and monitor the training and continuous professional development of Directors and senior management;

3. to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors;

4. to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; and

5. to review the Company's compliance with the CG Code and disclosure in the corporate governance report.

## 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 misstatements or losses.

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, and establishing and maintaining appropriate and effective risk management and internal control systems.

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

In addition, the Company has various internal guidelines, written policies and procedures to monitor and alleviate the risks arising from our daily operations. The Directors and management closely monitor the implementation and assess the effectiveness of these guidelines and measures which are crucial to the Company's business sustainability.

The Company has developed system of internal control and risk management for reviewing and maintaining an adequate internal control system to safeguard the interests of the Shareholders and the assets of the Company. The Company has established a separate internal audit department; which is responsible for reviewing the Group's internal control and risk management system and supporting the Board in assessing the effectiveness of such system annually.

The Board, as supported by the Audit Committee as well as the management report and the internal control review findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended December 31, 2020, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

# CORPORATE GOVERNANCE REPORT

## DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended December 31, 2020 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

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 Company provides all members of the Board with timely updates on Company's performance, positions and prospects.

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

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

## EXTERNAL AUDITOR'S REMUNERATION

The remuneration paid/payable to the Company's external auditors, Ernst & Young, in respect of audit services and non-audit services for the year ended December 31, 2020 amounted to RMB1,800,000 and RMB7,680,000, respectively, details of which are set out below:

| **Service Category** | **Fees Paid/Payable** (RMB) |
|---|---|
| ***Audit services:*** | |
| Annual Audit for the year ended December 31, 2020 | 1,800,000 |
| ***Non-Audit services:*** | |
| Initial Public Offering | 7,680,000 |
| Total | 9,480,000 |

# CORPORATE GOVERNANCE REPORT

## JOINT COMPANY SECRETARIES

Ms. ZHANG Xiushi and Ms. HO Wing Nga have been appointed as the Company's joint company secretaries. See the section headed "Directors and Senior Management – Joint Company Secretaries" in this report for their biographies.

All Directors have access to the advice and services of the joint company secretaries on corporate governance and board practices and matters. Ms. ZHANG Xiushi, one of the joint company secretaries, has been designated as the primary contact person of the Company which would work and communicate with Ms. HO Wing Nga on the Company's corporate governance and secretarial and administrative matters.

As the Shares was not listed until the Listing Date, Ms. ZHANG Xiushi and Ms. HO Wing Nga will undertake not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules for the year of 2021.

## DIVIDEND POLICY

According to the dividend policy adopted on December 5, 2020, the Articles and applicable laws and regulations, the Company in general meeting may from time to time by ordinary resolution declare dividends in any currency to be paid to the Shareholders but no dividend shall be declared in excess of the amount recommended by the Board, provided always that in no circumstances may a dividend be paid if this would result in the Company being unable to pay its debts as they fall due in the ordinary course of business. The Company currently does not have a pre-determined or fixed dividend payout ratio. The Company will continue to re-evaluate its dividend policy in light of its financial condition and the prevailing economic environment. The determination to pay dividends will be made at the discretion of the Directors and will depend upon, among others, the financial results, business conditions and strategies, future operations and earnings, capital and investment requirements, level of indebtedness, and other factors that the Directors deem relevant.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTORS AND INVESTOR RELATIONS

### Shareholders' Rights

The Company engages with its shareholders through various communication channels.

To safeguard shareholders' interests and rights, separate resolution(s) should be proposed for each substantially separate issue at general meetings, including the election of individual director(s). 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.

# CORPORATE GOVERNANCE REPORT

### Convening an Extraordinary General Meeting at the Request of Shareholders

Pursuant to Article 12.3 of the Company, the Board may, whenever it thinks fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the written requisition of any one or more Shareholders holding together, as at the date of deposit of the requisition, shares representing not less than one-tenth of the paid up capital of the Company which carry the right of voting at general meetings of the Company. The written requisition shall be deposited 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 of the Company, specifying the objects of the meeting and signed by the requisitionist(s). 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.

### Putting Forward Proposals at General Meetings by Shareholders

There is no provision allowing the Company's shareholders to put forward new resolutions at general meetings under the Companies Law of the Cayman Islands or the Articles of the Company. The Company's shareholders who wish to put forward a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

For Shareholders' right to nominate candidates for directors, please refer to "Procedures for Shareholders to Propose a Person for Election as a Director of the Company" on the website of our Company.

### Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, shareholders of the Company may send written enquiries to the Company, the contact details of which are contained on the website of the Company (https://www.xnewtech.com).

### Communication with Shareholders and Investors

The Company considers that effective communication with its shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings.

At the annual general meeting, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

### Policies relating to Shareholders

The Company has in place a Shareholder Communication Policy to ensure that its shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

## CONSTITUTIONAL DOCUMENTS

The Articles of Association of the Company has been amended and restated with effect from the Listing Date. There was no change in the Articles of Association from Listing Date and up to the date of this annual report.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THIS REPORT

This is our first environmental, social and governance (ESG) report issued, aiming to disclose the Company's key actions and performance in environmental, social and governance (hereinafter referred to as "ESG") related aspects in 2020. This report is prepared in accordance with the "Environmental, Social and Governance Reporting Guide" (hereinafter referred to as the "ESG Reporting Guide") set out in Appendix 27 of the Main Board Listing Rules issued by the Hong Kong Exchanges and Clearing Limited (hereinafter referred to as the "HKEx"), based on the principles of materiality, quantitative, balance and consistency. For the content of corporate governance, please refer to the "Corporate Governance Report" section of the annual report.

Unless otherwise stated, the scope of this report includes the Company and its subsidiaries. The report covers the period from January 1, 2020 to December 31, 2020. The board of directors reviewed and approved this report on March 30, 2021.

## 1. OUR ESG CONCEPTS

The Group is a software service provider that focuses on the practice and application of big data and artificial intelligence related solutions and software products in the financial services and medical industries. We focus on providing comprehensive IT system products, IT technical solutions and related system development services to domestic and foreign financial services and medical industry clients.

We have always been adhering to the business value of "integrity-based, pioneering and innovative, service-oriented, and mutual development" and are committed to a harmonious development of economy, society and the environment. We actively respond to the demands of our stakeholders and strive to fulfill corporate social responsibilities while protecting the interests of shareholders and investors.

We stay tuned to and strictly abide by ESG relevant national and regional laws and regulations, and actively enforce integrating our ESG concept into our operation and management process, to reduce environmental impact while achieving our business goals, promoting employee development, establishing a reliable partnership with business partners and suppliers, and creating higher social values.

The board of directors is fully responsible for the Group's ESG governance, strategy and reporting. The ESG working group is composed of our senior management and ESG related departments. The working group performs specific tasks under the guidance of the board of directors and reports to the board of directors.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 2. STAKEHOLDERS PARTICIPATION AND MATERIALITY ASSESSMENT

We proactively listen and respond to the opinions of stakeholders and communicate with them via various channels. We understand and evaluate stakeholders' ESG concerns obtained through our established communication process which is a key attribute of the ESG governance and strategic planning. Based on the characteristics of the business, we identified the our main stakeholders and their ESG concerns as set out in the table below:

| Stakeholders | Main ESG concerns | Main communication and feedback channels |
|---|---|---|
| Employee | Employment | Employee performance appraisal and feedback |
| | Development and training | Internal communication meeting |
| | Employee health and safety | Internal announcements and emails |
| Government and regulatory agency | Anti-corruption | Information disclosure |
| | Product responsibility | Exchange of official documents |
| | Employment | Face-to-face discussion and communication |
| | Labor standards | Site inspection |
| | | Policy and regulation enforcement inspection |
| Investor/Shareholder | Product responsibility | General meeting of shareholders |
| | Employment | Performance report |
| | Anti-corruption | Key public announcement |
| Supplier | Supply chain management | Supplier management system |
| | Product responsibility | Supplier evaluation |
| | Anti-corruption | Face-to-face communication |
| Client | Product responsibility | Daily business communication |
| | Community investment | Service complaint and response |
| | Environment and natural resources | |
| Community | Emissions | Participating in community activities |
| | Use of resource | Volunteering services, events and activities |
| | Community investment | |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 3. ENVIRONMENT

### 3.1 Emissions

We continuously implement our corporate responsibility in environment protection in strict accordance with the applicable local regulations and laws including, the Environmental Protection Law of the PRC, the Energy Conservation Law of the PRC, the Environmental Prevention and Control Law of Solid Waste Pollution of the PRC, other environmental and regional environmental regulations such as the Beijing Municipal Domestic Waste Management Regulations. Based on the characteristics of our business, i.e. primarily in software development, the emissions generated from our business operations are mainly greenhouse gas emissions arising from the use of electrical equipment, automobiles, etc., where waste arising from our operations is mainly domestic waste.

Actively responding to the national call, we strictly abide by Beijing's waste classification requirements, and implement waste classification for more effective environment protection where waste generated from our office is divided into recyclable waste, hazardous waste, kitchen waste, and others.

The Group has established specific treatment procedures for hazardous waste such as waste batteries, waste lamps and waste toner cartridges. All hazardous waste is stored in a secure place and is regularly disposed via a centralized and standardized approach.

We have also adopted various measures to reduce emissions. The Group provides relevant trainings to enhance employees' awareness and knowledge of waste classification. Idle computers of technical department that are still performing, are re-used by the functional departments as office computers to reduce e-waste and improve the Group's utilization of resources. In addition, we have formulated a strict management system for the use of our vehicles. We expedite replacing obsolete vehicles that do not meet the requirements of energy saving and environmental protection. We implement policies to reduce fuel consumption of vehicles such as refueling, repair and maintenance policies and unified car insurance arrangements.

### 3.2 Use of Resource

We focus on resource conservation. We have formulated policies and put in place Energy Conservation and Emission Reduction Management Measures to comprehensively manage efficient use of resources and reduce emissions.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

*Power Consumption Management*

The Group tends to purchase and use environment-friendly and energy-saving appliances and equipment and lighting system to reduce power consumption. We progressively eliminate energy-intensive and low-efficient facilities and equipment, and lighting system. In addition, we strictly manage our daily operation of lighting system and use of electrical equipment, to reduce the Company's electricity consumption including:

- We use natural lights as much as possible, reduce use of electrical lights and turn off the lights before leaving or not in use for public places such as office areas and conference rooms, during the daytime.

- Before leaving office, employees are required to turn off all indoor electrical facilities such as desktops, water dispensers and lights. In addition, we inspect the office area every day to turn off unnecessary use of lights and air-conditioning equipment.

- We require setting of air-conditioning system at reasonable temperature in offices and conference rooms. The cooling temperature requirement in summer is set not lower than 26ºC, and the heating temperature requirement in winter is set not higher than 20ºC. When the air conditioner is turned on, we ensure doors and windows are closed.

- We minimize use of office equipment such as computers, copiers, printers, and paper shredders are set with automated low-power sleep modes or are timely turned off when not in use to reduce power consumption.

*Water management*

We set up water-saving reminder signs at water facilities to remind and help employees develop the habit of saving water. In addition, we regularly inspects water supply facilities such as water pipes, faucets, and water supply systems, strengthens the maintenance and management of water equipment, to strictly prevent water leakage and unnecessary waste. We conduct multiple inspections every day in office areas to ensure timely turning off water faucets. We implement wiping before washing measure in our office pantry to save water.

*Save office supplies*

Office supplies are the main resources used by the Group in addition to water and electricity consumption. We continue to strengthen the management of the use of office supplies, standardize the procurement and requisition process of office supplies, and encourage the use of environmentally friendly, high-quality, low-cost, and low carbon office equipment.

We advocate paperless office. An online office system is used to communicate and promote reducing use of paper printing and faxing. We advocate recycling use of paper and double-sided printing as far as possible to improve efficient use of paper.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### 3.3 Environment and natural resources

Our business operations on its own do not give rise to significant impact on the environment and natural resources. However, we still regard the protection of the environment and natural resources as an important responsibility of the Group and advocate a low carbon culture within the Group to promote environmental protection. The Group will continue to promote and implement environmentally friendly behaviors and practices during the course of our operations and adhere to the path of sustainable development.

*Environmental performance indicators*

**Emissions[1]**

| Indicators | 2020 Data |
|---|---|
| Total greenhouse gas emissions (scope 1 and scope 2) (tons)[2] | 86.53 |
| Greenhouse gas emissions per square meter of floor area (tons/square meter) | 0.034 |
| Greenhouse gas emissions per employee (tons/person) | 0.19 |
| Direct greenhouse gas emissions (scope 1) (tons) | 15.01 |
| Fuel consumption of official vehicles | 13.91 |
| Natural gas | 1.10 |
| Indirect greenhouse gas emissions (scope 2) (tons) | 71.52 |
| Power purchased | 71.52 |
| Hazardous waste (kg)[3] | 3.50 |
| Hazardous waste per employee (kg/person) | 0.0077 |
| Non-hazardous waste (tons)[4] | 4.00 |
| Non-hazardous waste per employee (tons/person) | 0.0088 |

Notes:

1 The data covers the Group.

2 Based on the operating characteristics, our major air emission is greenhouse gas emissions generated. Greenhouse gas emission inventory includes $CO_2$, $CH_4$ and $N_2O$, which are mainly derived from purchased electricity, natural gas and fuel. Greenhouse gas data is presented in carbon dioxide equivalent and is based on the "2019 China Regional Grid Baseline Emission Factors for Emission Reduction Projects" issued by the Ministry of Ecology and Environment of the People's Republic of China and the "2006 IPCC Guidelines for National Greenhouse Gas Inventory(2019)" issued by the Intergovernmental Panel on Climate Change (IPCC).

3 Hazardous waste generated in the Group's operations are mainly waste lead-acid batteries and waste toner cartridge.

4 Non-hazardous waste generated in the Group's operations mainly include domestic waste, kitchen waste and recyclables, which is processed by a third party. The data is provided by a third-party cleaning company.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**Use of Resource**

| Indicators[1] | 2020 Data |
|---|---|
| Total energy consumption (MWh)[2] | 163.60 |
| Energy consumption per square meter of floor area (MWh/square meter) | 0.08 |
| Energy consumption per employees (MWh/person) | 0.36 |
| Direct energy consumption (MWh) | 62.44 |
| Natural gas | 5.62 |
| Official vehicles fuel consumption | 56.81 |
| Indirect energy consumption (MWh) | 101.16 |
| Purchased power | 101.16 |
| Water consumption (tons)[3] | 365 |
| Water consumption per employee (tons/person) | 0.81 |

Notes:

1. Based on its business characteristics, packaging material data is not applicable.

2 The energy consumption is calculated according to the electricity and gasoline consumption and the conversion factors stipulated in the national standard "General Principles for Comprehensive Energy Consumption Calculation" (GB/T 2589-2008).

3. The Group's water comes from municipal water supply, and there are no issues in sourcing water that is fit for its operation purpose.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 4. WORKPLACE

Talent is a key cornerstone for enterprise development. We have always adhered to the people-oriented concept and established a sound talent management system. We believe that the development of our employees is as important as the success of the Group. In 2020, we strived to protect the rights and interests of employees and improved our reward and welfare benefit mechanism for our employees, to promote a mutual development of our employees and the Group.

### 4.1 Employment

The Group strictly abides by the Labor Law of the PRC, the Labor Contract Law of the PRC, Regulation on Work-Related Injury Insurance and other relevant laws and regulations, and formulated Human Resources Work Manual, in implementing employment policies that cover management of recruitment, salary, worktime, dismissal, vacation and other relevant aspects. The Group regulates employment in accordance with the law and enters into labor contracts with employees in accordance with requirements of relevant laws and regulations to effectively protect the rights and interests of employees. The Group prohibits child labor and forced labor, adheres to the principles of openness, fairness and anti-discrimination in recruitment. We also value equal opportunities and diversity.

As a high-tech company, we always believe that attracting, retaining and motivating talents is essential to the success of the Group. The Group recruits talents through campus recruitment, online recruitment, internal referral, headhunting companies and agency recruitment to meet the needs in the Group's development. We adopt strict and unified recruitment procedures in our recruitment process, to ensure quality of new recruitments. We enter into labor contracts with all employees with terms and conditions such as salary and holidays in accordance with relevant laws and regulations to protect the legitimate rights and interests of both parties. The Group has also established a dismissal policy, including work procedures related to resignation and dismissal and relevant compensation regulations, to effectively protect the legitimate rights and interests of employees.

The Group adopts a standard working hour system with established employees attendance policies. A vacation and overtime management system are set up to manage working hours of employees. We provide employees with annual leave, wedding leave, maternity leave and other types of leaves in addition to national statutory holidays. We have formulated a Newlink Technology Attendance Management Regulation policy to regulate and manage employee attendance.

The Group provides employees with market-competitive salaries, ensures our employees enjoy legal and fair benefits, and takes care of our employees. The Group also provides various premiums to our employees, including free physical examination, personal accident insurance, communication allowance, holiday gifts, etc.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group is committed to creating equal and fair promotion opportunities for employees regardless of their origins, religions etc. The Group has issued several policies such as Management Regulations on Staffing Management, Regulations on Employee Development Management, Post Evaluation Related Job Instructions, Management Regulations on the Selection and Appointment of Management Sequence Personnel, Administrative Measures for the Evaluation of Staff Positions, Performance Appraisal System and Employee Code of Conduct, to ensure fairness. Based on business needs, we recruit externally for new or vacant positions from time to time or allow employees to transfer between departments, and help each employee to take the best advantage of his/her talents to achieve a career success.

The Group recognizes the importance of continuous communications with employees. We believe that listening and timely response to employee demands is one of the key factors to achieve a high employee satisfaction. The Group provides effective employee communication channels and establishes employee satisfaction survey mechanism. Employees can raise their requests and demands through several communication channels, they can also provide feedbacks or report on violations via the reporting hotline, emails or normal mails. In addition, we set up WeChat groups based on different departments and project teams to facilitate policy communications, announcements and project implementation, and receiving feedbacks from employees.

The Group pursues an equal and diverse culture and strives to ensure that employees will not be discriminated against or unfairly treated due to personal characters such as ethnicity, nationality, religion, color, age, gender, sexual orientation, marital status, disability or pregnancy. The Group's Employee Code of Conduct has clearly stated the scope and definition of undesirable discriminatory behaviors that are not allowed.

| Indicators category | | Indicators | Unit | Data |
|---|---|---|---|---|
| **Number of employees** | Total number of employees | | Person | 453 |
| | Total number of employees by gender | Number of male employees | Person | 338 |
| | | Number of female employees | Person | 115 |
| | Total number of employees by age | Number of employees aged 30 and below | Person | 204 |
| | | Number of employees aged 31-50 | Person | 242 |
| | | Number of employees aged over 50 | Person | 7 |
| | Total number of employees by region | Number of employees in Beijing | Person | 368 |
| | | Number of employees in non-Beijing area | Person | 85 |
| | Total number of employees by employee category | Total number of full-time contract employees | Person | 453 |
| | | Number of interns | Person | 0 |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### 4.2 Health and safety

The Group strictly abides by occupational health and safety related the PRC laws and regulations, such as Regulation on Work-Related Injury Insurance, Administrative Measures for Assessing the Work Capacity of Employees Sustaining Work-Related Injuries, the Occupational Health Inspection and Management Regulations, and provides employees with necessary health and safety guidelines in workplace. We are committed to ensuring the occupational health and safety of employees. The Group has formulated Administrative Measures for Employee Physical Examination and provides free physical examination once a year for all employees who have been employed for more than one year. The Group provides customized physical examination packages for male employees, female single and married employees. In addition, we also organize employee activities such as "green travel", "I love reading", physical fitness training activities, and health and occupational disease lectures to help enhance and maintain physical and mental health of our employees.

The Group constantly strives to create a safe workplace. We actively organize fire safety training to our employees to enhance their safety awareness. In accordance with the requirements of relevant laws and regulations, we provide employees with medical insurance, work injury insurance, and personal accident insurance, and establish work injury protection measures. We have put proper arrangements in place in accordance with relevant laws and regulations to ensure that our employees receive timely medical treatment for work injury. In 2020, the Group has no work-related employee accidents.

In early 2020, the Group established an epidemic response team led by with the chairman immediately when the pandemic outbreaks to ensure health and safety of our employees. The epidemic response team holds regular meetings to discuss issues based on the actual situations and actively responds to the impact of the pandemic such as making appropriate work arrangements according to each business lines. In 2020, the Group has no cases of COVID-19 infection.

In order to ensure stability and health of all employees in Hubei in early 2020, the Group provided them with a flexible office working mechanism, as well as actively tracking their living and health conditions. The Group timely helped employees to solve their difficulties in life, provided epidemic prevention subsidies and appeased employees' emotions. The Group mobilized resources to purchase and distribute the epidemic prevention materials to employees to ease their urgent needs in response to the difficulties in obtaining epidemic prevention materials at the beginning of the outbreak.

The Group has established a tracking mechanism covering all employees' living conditions and physical health. Each department assigns an epidemic prevention and control commissioner to be responsible for the daily health monitoring of the employees. A health daily report mini program is launched to facilitate collect timely health information of employees.

The Group encourages minimal numbers of people gathering or physical meeting at the office working premise to reduce risk of infection. We also implemented effective epidemic prevention and control measures for office areas, including putting in place stringent daily disinfection measures, in particular more frequent disinfection for those densely used common areas such as pantries, elevators, and restrooms, setting up specified disposal sites for discarded masks, and carrying out training on epidemic prevention knowledge.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### 4.3 Development and training

The Group is committed to the development and training of talents and has established a sound talent development mechanism. We have formulated Training Management System based on the Human Resources Work Manual. The Group has established a complete training system that facilitates the use of both internal and external resources.

The Group provides induction trainings for new recruits and provides various professional skills training for incumbents according to the their job functions and positions. In addition to offline training courses, we provide various online courses to allow more flexibility to our employees.

We have also formulated career development programs within our Employee Development Management Regulations to actively help employees plan their personal career development path. We encourage and guide employees to receive academic re-education, and obtain specialized professional skills and qualification certificates to help employees plan their career development and grow together with the Group.

### 4.4 Labor Standards

The Group strictly abides by the Provisions on the Prohibition of Child Labor, the Law of the PRC on the Protection of Minors, the Provisions on the Special Protection of Minors and other laws and regulations.

In order to avoid hiring child labor, the Group conducts due diligence and background vetting procedures of newly recruited employees. We have also formulated proper remedial measures when there are any violates in accordance with laws and regulations.

In terms of avoiding forced labor, the Group has established an attendance and vacation management system. In accordance with relevant laws and regulations, the Group provides employees with annual leave and other holidays and monitors the working hours of employees through attendance management system. We have also established employee reporting and communication channels and encourage employees to report issues in their work.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 5. SUPPLY CHAIN MANAGEMENT

The Group's suppliers mainly include software suppliers, technical support service providers, electronic equipment suppliers, decoration service providers and human resources service providers. The Group formulates and implements procurement policies as outlined in the Group Procurement and Bidding Management Measures to manage business procurement processes and ensure quality suppliers complying with the Bidding Law of the PRC. We strictly carry out supplier management and require all our suppliers to comply with applicable national and local laws and regulations. We sign off contracts with all our suppliers, and the terms include price, payment method, the rights and obligations of the contracting parties, confidentiality, and contract termination, etc.

We take into account environmental and social performance as one of the key factors for supplier access. We strictly review the supplier's background, relevant qualifications and performance records, including past violations of laws and regulations. For equipment suppliers, we give priority to energy-saving and environment-friendly products and require that the products they supply meet relevant national environmental protection requirements. For HR outsourcing service providers, we require them to strictly abide by laws and regulations such as the Labor Law of the PRC, the Labor Contract Law of the PRC, Regulation on Work-Related Injury Insurance to protect the legitimate rights and interests of their employees. For decoration service providers, we require them to use materials that meet national environment and safety standards and conduct environmental and safety management during the decoration process.

## 6. PRODUCT RESPONSIBILITY

Based on principle of responsible operation, the Group strives to provide our customers with quality products and services. We abide by the Product Quality Law of the PRC, Consumer Rights and Interests Protection Law of the PRC and other relevant important laws and regulations, and are committed to winning customer trusts by product innovation and adopting high business ethics standards.

### 6.1 Clients service and communications

The Group recognizes the importance of quality products and services. We have formulated policies as stipulated in our Newlink Pre-sale Project Management Measures to carry out project-based management. We put in place mechanism to manage and ensure that customer needs are recorded, and special personnel are arranged to deal with their needs within the specified time to reach the expected goal.

During the progress of the projects, we carry out targeted quality service management based on different service categories. We provide clients with multiple communication channels, they connect with us via Sales Department, project leaders, and Group senior management to maintain convenient and efficient communications on the progress, risks, and quality of the project. By these ways, we can also better understand clients' views and opinions, and respond to their needs in a timely manner to ensure quality services. During the year, the Group did not receive any major complaints related to our products and services.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### 6.2 Product quality and security management

The Group has always set its goal to continue to provide clients with stable and high-quality products. Our software product research and development has passed CMMI5 and ISO9001 quality certification. We have established a technical management committee to be responsible for the management of quality product development. We have formulated a hierarchical supervision and management system in our software development projects. We classify projects according to their complexity and importance. We establish management processes for projects of different categories and organize reviews on key aspects such as business structure, application structure, data structure and technology structure etc.

The Group has also established a quality management team to formulate and execute quality management plans for R&D projects. We monitor the quality of software development process to ensure that the quality of our software products meets the expected requirements.

The Group uses mature encryption, anti-attack, anti-tampering and other technical means during the product development to ensure product quality and safety. We carry out professional testing of software product functions and performance before the final delivery of software products. In addition, after the product delivery, we provide our clients with necessary technical support and training to ensure that the solutions we provide can run smoothly and effectively.

### 6.3 Data security and privacy

The Group is committed to data security and privacy protection. The Group strictly implements policies adhering to the Cybersecurity Law of the PRC, the Personal Data (Privacy) Regulations, the Administrative Measures on Standards, Security and Services of National Healthcare Big Data and other relevant national and industry laws and regulations, as well as clients' data confidentiality and privacy rules. The Group signs data information confidentiality agreements with all employees. Employees working in key product development are required to sign off additional and stricter supplementary confidentiality agreements. Employees working at client sites also sign confidentiality agreements with the client where necessary. The Group specifically sets up a safe development environment for product development and ensures that any sensitive test data used in the product development process are desensitized in strict accordance with the confidential requirements.

In addition, we strictly follow clients' contractual requirements and may only provide client-related information to other parties upon obtaining client's prior written agreement or authorization, and any information provided will strictly follow the "minimum sufficient and need to know" principle. At present, our software products such as the banking business integration platform, core front-end system, and electronic government bond system, demonstrate excellent performance in data security and transaction processing capabilities. They fulfill the compliance standards in the financial services industry and are successfully applied by several domestic banks.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### 6.4 Intellectual property and trademark management

The Group continuously improves its intellectual property management and recognizes the importance of intellectual property protection. We put in place policies that strictly abide by the Patent Law of the PRC, the Trademark Law of the PRC and the Copyright Law of the PRC and other intellectual property related laws and regulations. A designate Program Management Committee is established to be responsible for our intellectual property and patent management. Based on national regulatory requirements and general industry norms, we have issued guidance and policies under our Program Management Committee Management Measures setting out necessary approval procedures for internal and external application of intellectual property to ensure the validity, rationality and compliance.

The Group assigns specific personnel to review and manage our trademarks to ensure the uniform and standardized use of trademarks. The Group regularly conducts internal review to ensure that our brand and trademarks used have been approved and registered by relevant state agencies to ensure compliance. At present, we have approved registrations of 1 domain name, 51 software copyrights, 1 trademark and 1 patent in China.

In addition to protecting its own legitimate rights and interests, the Company also puts in various measures to avoid infringing on the intellectual property rights of others. The Group requires employees to strictly abide by the terms of any applicable proprietary information and invention agreements. When using other's name, trademark, logo, data or software, internal review and approval of its legality is required in accordance with our policy with documented audit trail in our system. Written authorization from the intellectual property owners is required to be obtained in accordance with relevant laws.

### 6.5 Advertising

The Group strictly abides by the Advertising Law of the PRC and other related laws and regulations in conducting its external publicity, and our Administrative Measures of the Program Management Committee provides policies and guidance on the standardized process and contents of external advertising and marketing materials. We require external promotional materials to be strictly reviewed. Following review by the originating department, departments from legal and compliance, intellectual property and trademark management are required to further review and approve the content. We have also put in place policies and procedures in managing withdrawals of promotion materials, when in particular those promotional materials that need to be withdrawn due to time limit or non-compliance.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 7. ANTI-CORRUPTION

The Group always adheres to a high standard of business integrity and ethics. We strictly abide by laws and regulations relating to anti-corruption, bribery, extortion, fraud and money laundering, such as the Criminal Law of the PRC, Anti-Unfair Competition Law of the PRC and the Bribery Prevention Regulations in conducting our business. In order to ensure compliance operations, the Group has formulated policies under our Anti-fraud and Reporting and Complaint Management Measures and has established a comprehensive anti-fraud management system. The system includes fraud prevention and control measures, reporting and complaint system, case investigation and reporting mechanism, and related remedial measures and the punishment mechanism.

In addition, we implement several internal management measures to prevent and manage corruption and fraud risks, such as conducting background integrity checks on prospective employees, including education background, work experience and criminal record (including any bribery and corruption behaviors). We regularly provide employees with trainings related to anti-bribery and anti-corruption laws and regulations and professional ethics. Our Human Resource Department under the oversight and management from both the board and senior management, plays a significant role in anti-corruption work of the Group, including receiving whistle-blowing reports, conducting case investigations, drafting investigation reports, proposing opinions and follows up.

## 8. COMMUNITY INVESTMENT

Since the Group is founded, we strive to pay back to the society by fulfilling our corporate responsibilities. We actively participate in social welfare activities and encourage our employees to participate more in community activities, to contribute to the establishment of a better society.

When carrying out community activities, the Group actively listens to the community's expectations, understands their needs, and considers the impacts arising from our business operations on the communities. In 2020, the Group actively participated in relevant seminars and trainings on epidemic prevention, safety, etc. organized by the community administration, property management company and police stations, and we cooperated with the related community parties during the inspections by local authorities.

# DIRECTORS' REPORT

The Directors are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended December 31, 2020.

## PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands on November 8, 2019 as an exempted company with limited liability under the Companies Act of the Cayman Islands. The Company is an investment holding company, and its subsidiaries established in the PRC are primarily engaged in providing IT solutions for financial and healthcare institutions.

The activities and particulars of the Company's subsidiaries are shown under Note 1 to the consolidated financial statements. An analysis of the Group's revenue and operating profit for the year ended December 31, 2020 by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report and Note 4 to the consolidated financial statements.

## BUSINESS REVIEW

A review of the Group's business during the year ended December 31, 2020, which includes a discussion of the principal risks and uncertainties faced by the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year, and an indication of likely future developments in the Group's business, could be found in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" in this annual report. A discussion on relationships with its key stakeholders is included in the sections headed "Management Discussion and Analysis", "Corporate Governance Report" and "Environmental, Social and Governance Report" in this annual report. In addition, a description of the environmental policies and performance of the Company is set out in the section headed "Environmental, Social and Governance Report" in this annual report. These discussions form part of this directors' report.

## RESULTS AND DIVIDEND

The consolidated results of the Group for the year ended December 31, 2020 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 63 to 64 of this annual report.

The Board has resolved not to recommend payment of any final dividend for the year ended December 31, 2020 (2019: Nil).

## USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Shares were listed and commenced trading on the Main Board of the Stock Exchange on the Listing Date, whereby 200,000,000 new Shares were issued at the offer price of HK$4.36 each by the Company. The net proceeds from the Global Offering, after deduction of the underwriting fees and other related expenses, was approximately HK$790.4 million. The Company intends to apply the proceeds in the manner as described under the section headed "Future Plans and Use of Proceeds" in the Prospectus.

Since the Listing Date up to the date of this report, the Company has not utilized any of the net proceeds raised from the Global Offering.

# DIRECTORS' REPORT

## CLOSURE OF THE REGISTER OF MEMBERS FOR 2021 AGM

For determining the entitlement to attend and vote at the 2021 AGM to be held on June 11, 2021, the register of members of the Company will be closed from June 8, 2021 to June 11, 2021, both days inclusive, and during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2021 AGM, unregistered holders of Shares should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. (Hong Kong time) on June 7, 2021.

## FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last four financial years is set out on page 8 of this annual report.

## PROPERTY AND EQUIPMENT

Details of the movements in property and equipment of the Group during the year ended December 31, 2020 are set out in Note 13 to the consolidated financial statements in this annual report.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended December 31, 2020 are set out in Note 26 to the consolidated financial statements in this annual report.

## EQUITY-LINKED AGREEMENTS

During the year ended December 31, 2020, other than the Post-IPO Share Option Scheme as set out in the section under "Post-IPO Share Option Scheme", the Company has not entered into any equity-linked agreement.

## RESERVES

Details of the movement in the reserves of the Group and of the Company during the year ended December 31, 2020 are set out in Note 27 to the consolidated financial statements in this annual report.

## DISTRIBUTABLE RESERVES

As at December 31, 2020, the Company's distributable reserves were RMB85.0 million.

## BORROWINGS

Details of the borrowings are set out in the section headed "Management Discussion and Analysis" in this annual report and Note 24 to the consolidated financial statements.

## DONATIONS

During the year ended December 31, 2020, the Group had charitable donations of RMB2.7 million (2019: Nil).

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold, or redeemed any of the Company's listed securities during the year ended December 31, 2020.

# DIRECTORS' REPORT

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to its existing Shareholders.

## DIRECTORS

The Board from the Listing Date and up to the date of this annual report consists of the following seven Directors:

### Executive Directors

Mr. ZHAI Shuchun *(Chairman and Chief Executive Officer)*
Ms. QIAO Huimin
Ms. QIN Yi
Mr. LI Xiaodong

### Independent Non-executive Directors

Mr. TANG Baoqi
Ms. JING Liping
Mr. YE Jinfu

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 retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

In accordance with article 16.2 of the Articles, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed pursuant to Article 16.2 shall not be taken into account in determining the number of Directors and which Directors are to retire by rotation. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

Accordingly, at the forthcoming 2021 AGM, Ms. QIAO Huimin, Ms. QIN Yi and Mr. LI Xiaodong, who have consent, shall retire from office and have offered themselves for re-election at the 2021 AGM.

## BIOGRAPHICAL DETAILS OF THE DIRECTORS AND THE SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group as at the date of this annual report are set out on pages 11 to 15 in the section headed "Directors and Senior Management" in this annual report.

## DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

On December 5, 2020, each of the executive Directors has entered into a service contract with the Company, and each of the independent non-executive Directors has entered into a letter of appointment with the Company. The service contracts with each of the executive Directors are for an initial fixed term of three years commencing from December 5, 2020. The letters of appointment with each of the independent non-executive Directors are for an initial fixed term of three years commencing from December 5, 2020. The service contracts and the letters of appointment are subject

# DIRECTORS' REPORT

to termination in accordance with their respective terms or by either party giving to the other not less than three-month prior written notice. The appointment of the Directors is subject to the provisions of retirement and rotation of Directors under the Articles. Save as disclosed above, none of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

## CONTRACT WITH CONTROLLING SHAREHOLDER

No contract of significance has been entered into between the Company or any of its subsidiaries and the Controlling Shareholders or any of their respective subsidiaries during the year ended December 31, 2020.

## DIRECTOR'S INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT

No transaction, arrangement or contract of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party, and in which a Director or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2020.

## COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The emoluments of the Directors and senior management of the Group are decided by the Board with reference to the recommendation given by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

The remuneration (including salaries, allowances, pension scheme contributions and other benefits) paid to the Directors in aggregate for the year ended December 31, 2020 was approximately RMB2.3 million.

The five highest paid individuals of our Group for the year ended December 31, 2020 included one Director, whose remuneration is included in the aggregate amount we paid to the relevant Directors set out above. The remuneration (including salaries, allowances, pension scheme contributions and other benefits) paid to the remaining four highest paid individuals in aggregate for the year ended December 31, 2020 was approximately RMB2.8 million.

For the year ended December 31, 2020, no emoluments were paid by the Group to any Director or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any emoluments for the year ended December 31, 2020.

Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in Note 8 and Note 9 to the consolidated financial statements in this annual report.

Save as disclosed above, no other payments have been made or are payable, for the year ended December 31, 2020, by the Group to or on behalf of any of the Directors.

## DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN COMPETING BUSINESS

During the year ended December 31, 2020, none of the Directors nor the Controlling Shareholders or their respective associates (as defined in the Listing Rules) had any interest in a business that competed or was likely to compete, either directly or indirectly, with the business of the Group.

# DIRECTORS' REPORT

## PENSION SCHEME

Details of the pension scheme of the Company are set out in Note 2 to the consolidated financial statements in this annual report.

## INDEMNITY OF DIRECTORS

Under the Articles of Association, every Director or other officers of the Company acting in relation to any of the affairs of the Company shall be entitled to be indemnified against all actions, costs, charges, losses, damages and expenses which he may incur or sustain in or about the execution of his duties in his office. The Company has arranged appropriate insurance cover in respect of legal action against its directors and officers.

## MANAGEMENT CONTRACTS

Other than the Directors' service contracts and letters of appointment as disclosed in this annual report, no contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or in existence as at the end of the year or at any time during the year ended December 31, 2020.

## LOAN AND GUARANTEE

During the year ended December 31, 2020, the Group had not made any loan or provided any guarantee for any loan, directly or indirectly, to the Directors, senior management, its Controlling Shareholders or their respective connected persons.

## DISCLOSURE REQUIRED UNDER RULE 13.18 OF THE LISTING RULES

As at December 31, 2020, there were no matters that gave rise to a disclosure required under Rule 13.18 of the Listing Rules.

## POST-IPO SHARE OPTION SCHEME

On December 5, 2020, the Company adopted the Post-IPO Share Option Scheme, which falls within the ambit of, and is subject to, the regulations under Chapter 17 of the Listing Rules.

The purpose of the Post-IPO Share Option Scheme is to attract, retain and motivate employees, Directors and other participants, and to provide a means of compensating them through the grant of options for their contribution to the growth and profits of the Group, and to allow such employees, Directors and other persons to participate in the growth and profitability of the Group.

Qualified participants of the Post-IPO Share Option Scheme include (i) any employee (whether full time or part time) of the Company or its subsidiaries, including any officer or executive Director, (ii) any independent non-executive Director, and (iii) any consultant of the Company or its subsidiaries as the Board may in its absolute discretion select.

The Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme shall not exceed 80,000,000 Shares, representing 10.00% of the total issued share capital of the Company on the Listing Date and the date of this annual report.

The total number of Shares issued and to be issued upon the exercise of the options granted to or to be granted to each eligible person under the Post-IPO Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue.

# DIRECTORS' REPORT

The Post-IPO Share Option Scheme will remain in force for a period of 10 years from December 5, 2020 and the options granted have a 10-year exercise period. Options may be vested over such period(s) as determined by the Board in its absolute discretion subject to compliance with the requirements under any applicable laws, regulations or rules.

The exercise price of share options under the Post-IPO Share Option Scheme is determined by the Board, but shall not be less than the higher of (i) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

No share options have been granted under the Post-IPO Share Option Scheme since its adoption and up to the date of this annual report.

A summary of the terms of the Post-IPO Share Option Scheme has been set out in the section headed "D. Post-IPO Share Option Scheme" in Appendix IV of the Prospectus.

## INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SECURITIES

As at the date of this annual report, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which (a) were 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 he/she was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

### Long position in Shares of the Company

| Name of Director | Capacity | Number of ordinary Shares interested | Approximate percentage of the Company's issued share capital[1] |
|---|---|---|---|
| Mr. ZHAI | Interest in a controlled corporation | 327,600,000 | 40.95% |

*Note:*

(1) The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at the date of this annual report.

Save as disclosed above and to the best knowledge of the Directors, as at the date of this annual report, none of the Directors or the chief executive of the Company has any interests and/or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were 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 he/she was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

# DIRECTORS' REPORT

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at the date of this annual report, to the best knowledge of the Directors, the following corporations/persons had interests of 5% or more in the issued Shares according to the register of interests required to be kept by the Company under section 336 of the SFO:

### Long position in Shares

| Name | *Note* | Capacity | Number of ordinary Shares interested | Approximate percentage of the Company's issued share capital[3] |
|---|---|---|---|---|
| Nebula SC | | Beneficial owner | 327,600,000 | 40.95% |
| Mr. ZHAI | *(1)* | Interest of a controlled corporation | 327,600,000 | 40.95% |
| Earnest Kai Holdings Limited | | Beneficial owner | 218,400,000 | 27.30% |
| Mr. YUAN Yukai | *(2)* | Interest of controlled corporations | 218,400,000 | 27.30% |

*Notes:*

(1) Mr. ZHAI is deemed to be interested in the entire interests upon Listing held by Nebula SC, a company wholly-owned by him.

(2) Mr. YUAN Yukai is deemed to be interested in the entire interests upon Listing held by Earnest Kai Holdings Limited, a company wholly-owned by him.

(3) The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at the date of this annual report.

Save as disclosed above and to the best knowledge of the Directors, as at December 31, 2020, no person had registered an interest or a short position in the Shares or underlying Shares as recorded in the register of interests required to be kept by the Company under section 336 of the SFO.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the Post-IPO Share Option Scheme, at no time during the year ended December 31, 2020 was the Company, its holding company, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate.

# DIRECTORS' REPORT

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the Group's largest customers accounted for approximately 18.1% of the Group's total revenue from continuing operations. The Group's five largest customers accounted for approximately 48.6% of the Group's total revenue from continuing operations.

In the year under review, the Group's largest suppliers accounted for approximately 22.0% of the Group's total purchases. The Group's five largest suppliers accounted for 78.7% of the Group's total purchases.

None of the Directors or any of their close associates (as defined under the Listing Rules) or any Shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) has any beneficial interest in the Group's five largest suppliers or the Group's five largest customers.

## TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

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

## EMPLOYEES

As of December 31, 2020, we had 453 employees. The staff costs including Directors' emoluments were approximately RMB95.7 million in 2020.

Remuneration of the Group's employees includes basic salary, bonuses and cash subsidies. We determine our employees' compensation based on each employee's performance, qualifications, position and seniority.

We recognize the importance of keeping the Directors updated with the latest information of duties and obligations of a director of a company whose shares are listed on the Stock Exchange and the general regulatory and environmental requirements for such listed company. To meet this goal, we are committed to our employees' continuing education and development.

We provide pre-employment and regular continuing trainings to our employees, which we believe are effective in equipping them with the skill set and work ethics that we require. Also, we continuously provide comprehensive trainings to our technical staff, equipping them with knowledge and skills to perform a variety of functions on different projects and allowing us to quickly find qualified and suitable replacement internally in the event of employee's demission.

## RETIREMENT BENEFITS SCHEME

The Group does not have any employee who is required to participate in the Mandatory Provident Fund in Hong Kong. The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The employees of the PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefits scheme is to make the required contributions under the scheme.

# DIRECTORS' REPORT

## CONTINUING CONNECTED TRANSACTION

During the year ended December 31, 2020, the Group has not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Rule 14A.71 of the Listing Rules following the completion of the Global Offering.

## RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the year ended December 31, 2020 are set out in Note 30 to the consolidated financial statements contained herein.

None of the related party transactions constitutes a connected transaction or continuing connected transaction subject to independent Shareholders' approval, annual review and all disclosure requirements in Chapter 14A of the Listing Rules.

## SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the Board, as at the date of this annual report, the Company has maintained the public float as required under the Listing Rules.

## AUDITOR

Ernst & Young was appointed as the auditor of the Company during the Reporting Period. The consolidated financial statements of the Group for the year ended December 31, 2020 were audited by Ernst & Young.

Ernst & Young shall retire at the 2021 AGM and, being eligible, will offer itself for re-appointment. A resolution for the re-appointment of Ernst & Young as auditor of the Company will be proposed at the 2021 AGM.

## COMPLIANCE WITH LAWS AND REGULATIONS

For the year ended December 31, 2020, the Company is in compliance with the applicable laws and regulations in all material respects.

On behalf of the Board

**ZHAI Shuchun**
*Chairman*

March 30, 2021

# INDEPENDENT AUDITOR'S REPORT

**To the shareholders of Newlink Technology Inc.**
*(Incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of Newlink Technology Inc. (the "Company") and its subsidiaries (the "Group") set out on pages 63 to 130, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2020, 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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

# INDEPENDENT AUDITOR'S REPORT

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| **Revenue recognition** | |
| Revenue from software development services is recognised over time because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. For the contracts with a fixed price, the Group recognises revenue from software development services based on the actual direct costs incurred relative to the total expected costs to be incurred to satisfy the performance obligations of an individual contract. Total expected costs and their corresponding contract revenue require estimations from management based on the understanding of the performance of the contract, quotations from suppliers and subcontractors, and the Group's historical experience.<br><br>Revenue arising from contracts for software development services using the input method accounted for about 38% of the Group's total revenue. The contract assets derived from these revenue contracts accounted for about 15% of the Group's total assets as at 31 December 2020.<br><br>Significant management judgements are involved in the estimation of the total contract costs including the assessment of the remaining contingencies that a project is or could be facing until completion.<br><br>References are made to the financial statements in note 2.4 "Summary of significant accounting policies", note 3 "Significant accounting judgements and estimates", and note 5 "Revenue, other income and gains" for the relevant disclosures. | Our audit procedures included, among others, the following:<br><br>– Tested the controls designed and implemented by the Group over its process to record contract costs, contract revenue and the calculation of the progress;<br><br>– Evaluated the significant estimates made by management by examining project documentation including the project budget, together with related supporting such as quotations from subcontractors, planned labour resources allocation, etc, and discussing the status of selected projects with management, finance, and technical staff of the Group;<br><br>– Assessed the reliability of management's estimates by comparing the gross profit margin with similar completed projects;<br><br>– Discussed the rationality of any modification of estimated contract costs with management and checked the related documents such as new quotations from suppliers and the change requests approved by management;<br><br>– Performed tests of details on costs incurred, including checking invoices and timesheet to ensure that the costs are directly attributable to the contracts tested;<br><br>– Performed confirmation procedures for the invoiced contract amount and the total contract amount;<br><br>– Performed substantive analytical procedures; and<br><br>– Performed cut-off procedures at the period-end date to determine whether transactions are recorded in the proper period and to the proper accounts. |

# INDEPENDENT AUDITOR'S REPORT

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| **Collectability of trade receivables and contract assets** | |
| Trade receivables and contract assets accounted for about 41% and 16% of total assets in the consolidated statement of financial position as at 31 December 2020, respectively.<br><br>The Group adopted a forward-looking model for the assessment of the expected credit loss provision for trade receivables and contract assets.<br><br>This involves judgements as the expected credit losses reflect information about past events, current conditions and forecasts of future conditions, as well as the time value of money.<br><br>Due to the significant accounts of trade receivables and contract assets, and the related estimation uncertainty, this is considered a key audit matter.<br><br>References are made to the financial statements in note 3 "Significant accounting judgements and estimates", note 16 "Trade receivables", and note 17 "Contract assets" for the relevant disclosures. | Our audit procedures included, among others, the following:<br><br>– Tested on a sampling basis the ageing of trade receivables and contract assets at the end of the year;<br><br>– Test checked receipts after the year-end to determine any remaining exposure as at 31 December 2020;<br><br>– Assessed whether the calculation of expected credit losses was in accordance with HKFRS 9；<br><br>– Evaluated the loss rate statistics of the trade receivables and contract assets by checking to published credit ratings of customers by credit agents;<br><br>– Evaluated the forward-looking data used in the impairment models by considering the customers' expected payment pattern along with macroeconomic information;<br><br>– Assessed whether the time value of money was considered in the expected credit loss impairment model and checked the mathematical accuracy of the calculations; and<br><br>– Assessed the adequacy of the Group's disclosures in relation to trade receivables and contract assets included in the financial statements. |

# INDEPENDENT AUDITOR'S REPORT

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| **Capitalisation of development costs** | |
| The specific criteria that need to be met for the capitalisation of development costs involve significant management judgements and estimates, such as technical feasibility, intention and ability to complete the development, ability to use or sell the asset, generation of future economic benefits and ability to measure the costs reliably.<br><br>References are made to the financial statements in note 2.4 "Summary of significant accounting policies", note 3 "Significant accounting judgements and estimates", and note 15 "Intangible assets" for the relevant disclosures. | Our audit procedures included, among others, the following:<br><br>– Tested the controls designed and implemented by the Group over its process to capitalise development costs;<br><br>– Evaluated the nature of development costs incurred that are capitalised into intangible assets;<br><br>– Assessed the reasonableness of the capitalisation by reviewing the related documents such as the project plan, the feasibility report, the market analysis report and approval from management;<br><br>– Discussed the key assumptions used and estimates made in capitalising development costs with management; and<br><br>– Considered whether the capitalised projects can generate future economic benefits by examining the relevant sales contracts signed with the customers and estimated contract costs. |

## OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises 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.

# INDEPENDENT AUDITOR'S REPORT

## RESPONSIBILITIES OF THE DIRECTORS 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made 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.

# INDEPENDENT AUDITOR'S REPORT

- 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, actions taken to eliminate threats of safeguards applied.

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 TJEN, Michael.

**Ernst & Young**
*Certified Public Accountants*
Hong Kong
30 March 2021

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

| | Notes | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|---|
| **REVENUE** | *5* | **176,147** | 148,970 |
| Cost of sales | *6* | **(83,745)** | (75,812) |
| **Gross profit** | | **92,402** | 73,158 |
| Other income and gains | *5* | **2,058** | 1,852 |
| Selling and distribution expenses | | **(9,682)** | (6,515) |
| Administrative expenses | | **(30,427)** | (13,690) |
| Research and development costs | *6* | **(11,939)** | (14,276) |
| Other expenses | | **(1,342)** | (1,156) |
| Finance costs | *7* | **(786)** | (1,138) |
| **PROFIT BEFORE TAX** | *6* | **40,284** | 38,235 |
| Income tax expense | *10* | **(8,255)** | (5,122) |
| **PROFIT FOR THE YEAR** | | **32,029** | 33,113 |
| Attributable to: | | | |
| Owners of the parent | | **32,029** | 33,106 |
| Non-controlling interest | | **–*** | 7 |
| | | **32,029** | 33,113 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | | | |
| Basic and diluted | *12* | **RMB5.34 cents** | RMB34.38 cents |

* Less than RMB1,000.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| **OTHER COMPREHENSIVE INCOME** | | |
| Other comprehensive income that may be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of foreign operations | (488) | – |
| Net other comprehensive income to be reclassified to profit or loss in subsequent periods | (488) | – |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX** | (488) | – |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | 31,541 | 33,113 |
| Attributable to: | | |
| Owners of the parent | 31,541 | 33,106 |
| Non-controlling interest | –* | 7 |
| | 31,541 | 33,113 |

* Less than RMB1,000.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property and equipment | *13* | **2,361** | 3,030 |
| Right-of-use assets | *14* | **9,222** | 13,354 |
| Contract assets | *17* | **1,402** | 795 |
| Long-term deposits | | **1,478** | 1,450 |
| Intangible assets | *15* | **18,195** | 11,140 |
| Deferred tax asset | *23* | **333** | 128 |
| **Total non-current assets** | | **32,991** | 29,897 |
| **CURRENT ASSETS** | | | |
| Trade receivables | *16* | **107,248** | 72,289 |
| Contract assets | *17* | **40,507** | 22,635 |
| Prepayments, deposits and other receivables | *18* | **8,603** | 4,697 |
| Amounts due from related parties | *30* | **–** | 2,232 |
| Amounts due from shareholders | *25* | **–** | 56,014 |
| Pledged deposits | | **–** | 15 |
| Cash and cash equivalents | *19* | **69,131** | 57,339 |
| **Total current assets** | | **225,489** | 215,221 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | *20* | **6,265** | 897 |
| Contract liabilities | *21* | **1,371** | 1,500 |
| Other payables and accruals | *22* | **22,870** | 3,879 |
| Lease liabilities | *14* | **2,639** | 2,111 |
| Interest-bearing bank borrowings | *24* | **15,000** | – |
| Amounts due to shareholders | *25* | **–** | 37,000 |
| Tax payable | | **4,917** | 2,578 |
| **Total current liabilities** | | **53,062** | 47,965 |
| **NET CURRENT ASSETS** | | **172,427** | 167,256 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **205,418** | 197,153 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Lease liabilities | *14* | **6,045** | 10,256 |
| **Total non-current liabilities** | | **6,045** | 10,256 |
| Net assets | | **199,373** | 186,897 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | *26* | **4** | 4 |
| Reserves | *27* | **197,862** | 185,386 |
| | | **197,866** | 185,390 |
| **Non-controlling interest** | | **1,507** | 1,507 |
| **Total equity** | | **199,373** | 186,897 |

Zhai Shuchun
*Director*

Qiao Huimin
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

| | Attributable to owners of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Issued capital RMB'000 (Note 26) | Share premium RMB'000 (Note 27) | Merger reserve RMB'000 (Note 27) | Statutory surplus reserve RMB'000 (Note 27) | Exchange fluctuation reserve RMB'000 RMB'000 (Note 27) | Retained profits RMB'000 | Total RMB'000 | Non-controlling interest RMB'000 | Total RMB'000 |
| At 1 January 2019 | – | – | 45,000 | 3,112 | – | 27,172 | 75,284 | – | 75,284 |
| Profit for the year | – | – | – | – | – | 33,106 | 33,106 | 7 | 33,113 |
| Total comprehensive income for the year | – | – | – | – | – | 33,106 | 33,106 | 7 | 33,113 |
| Capital contribution from a non-controlling shareholder of a subsidiary | – | – | – | – | – | – | – | 1,500 | 1,500 |
| Capital contribution by then shareholders of a subsidiary | – | – | 5,000 | – | – | – | 5,000 | – | 5,000 |
| Capital contribution by shareholders of the Company | 4 | 71,996 | – | – | – | – | 72,000 | – | 72,000 |
| Transfer to statutory surplus reserve | – | – | – | 3,308 | – | (3,308) | – | – | – |
| At 31 December 2019 and 1 January 2020 | 4 | 71,996* | 50,000* | 6,420* | –* | 56,970* | 185,390 | 1,507 | 186,897 |
| Profit for the year | – | – | – | – | – | 32,029 | 32,029 | –** | 32,029 |
| Exchange differences on translation of foreign operations | – | – | – | – | (488) | – | (488) | – | (488) |
| Total comprehensive income for the year | – | – | – | – | (488) | 32,029 | 31,541 | –** | 31,541 |
| Deemed distribution to shareholders in group reorganisation | – | – | (73,539) | – | – | – | (73,539) | – | (73,539) |
| Capital contribution by then shareholders of a subsidiary | – | – | 51,007 | – | – | – | 51,007 | – | 51,007 |
| Capital contribution by shareholders of the Company | – | 3,467 | – | – | – | – | 3,467 | – | 3,467 |
| Transfer from retained profits | – | – | – | 4,195 | – | (4,195) | – | – | – |
| At 31 December 2020 | **4** | **75,463*** | **27,468*** | **10,615*** | **(488)*** | **84,804*** | **197,866** | **1,507** | **199,373** |

* These reserve accounts comprise the consolidated reserves of RMB197,862,000 (2019: RMB185,386,000) in the consolidated statement of financial position.

** Less than RMB1,000.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **40,284** | 38,235 |
| Adjustments for: | | | |
| Finance costs | *7* | **786** | 1,138 |
| Bank interest income | *5* | **(213)** | (128) |
| Fair value gains on financial assets at fair value through profit or loss | *5* | **(129)** | – |
| Depreciation of property and equipment | *6* | **732** | 1,847 |
| Amortisation of intangible assets | *6* | **3,328** | 1,508 |
| Depreciation of right-of-use assets | *6* | **4,258** | 4,486 |
| COVID-19-related rent concessions from lessors | *6* | **(330)** | – |
| Loss on disposal of items of property and equipment | | **20** | – |
| Foreign exchange differences, net | *5* | **111** | (12) |
| Impairment losses recognised for trade receivables | *6* | **902** | 809 |
| Impairment losses recognised for contract assets | *6* | **310** | 46 |
| | | **50,059** | 47,929 |
| (Increase)/decrease in long-term deposits | | **(28)** | 369 |
| Increase in trade receivables | | **(35,861)** | (3,061) |
| Increase in contract assets | | **(18,789)** | (14,811) |
| Increase in prepayments, deposits and other receivables | | **(3,907)** | (2,294) |
| Decrease/(increase) in amounts due from related parties | | **2,232** | (1,122) |
| Increase/(decrease) in trade payables | | **5,368** | (3,616) |
| Decrease in contract liabilities | | **(129)** | (2,741) |
| Decrease/(increase) in pledged deposits | | **15** | (15) |
| Increase/(decrease) in other payables and accruals | | **18,991** | (16,469) |
| Cash generated from operations | | **17,951** | 4,169 |
| Bank interest received | | **213** | 128 |
| Income tax paid | | **(6,121)** | (5,078) |
| Interest paid | | **(172)** | (358) |
| Interest element of rental payments | | **(614)** | (780) |
| Net cash flows generated from/(used in) operating activities | | **11,257** | (1,919) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of items of property and equipment | 13 | (83) | (1,131) |
| Additions to intangible assets | 15 | (10,383) | (9,431) |
| Purchases of financial assets at fair value through profit or loss | | (28,640) | – |
| Receipt of financial assets at fair value through profit or loss | | 28,769 | – |
| Net cash flows used in investing activities | | (10,337) | (10,562) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| New bank loans | 28 | 15,000 | 30,000 |
| Repayment of bank loans | 28 | – | (30,000) |
| Capital contribution from a non-controlling shareholder | | – | 1,500 |
| Capital contribution by the then shareholders of a subsidiary | | 14,008 | 5,000 |
| Capital contribution by shareholders of the Company | | 59,481 | 15,986 |
| Deemed distribution to shareholders in group reorganisation | | (73,539) | – |
| Principal portion of lease payments | 28 | (3,480) | (5,193) |
| Loans from shareholders | 28 | – | 37,000 |
| Net cash flows generated from financing activities | | 11,470 | 54,293 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | 12,390 | 41,812 |
| Cash and cash equivalents at beginning of year | | 57,339 | 15,515 |
| Effect of foreign exchange rate changes, net | | (598) | 12 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | 69,131 | 57,339 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | 19 | 69,131 | 57,339 |
| **CASH AND CASH EQUIVALENTS AS STATED IN THE CONSOLIDATED STATEMENT OF CASH FLOWS** | 19 | 69,131 | 57,339 |

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 1. CORPORATE INFORMATION

Newlink Technology Inc. (the "Company") was incorporated in the Cayman Islands on 8 November 2019 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The registered address of the Company is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 6 January 2021.

The principal activity of the Company is investment holding. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the business of software development and maintenance in the People's Republic of China (hereafter, the "PRC"). Mr. Zhai Shuchun is the controlling shareholder of the Group. There has been no significant change in the Group's principal activities during the year ended 31 December 2020.

As of the date of approval of the financial statements, the Company has direct and indirect interests in the following entities:

| Company name | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Percentage of equity interests attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Newlink Holdings Limited | British Virgin Islands | US$1 | 100 | – | Investment holding |
| Newlink Technology Holdings (Hong Kong) Limited | Hong Kong | HK$1 | – | 100 | Investment holding |
| Newlink Technology (Beijing) Co., Ltd. ("Newlink Technology") (紐領科技（北京）有限公司)*/** | PRC/ Mainland China | US$15,000,000 | – | 100 | Investment holding |
| Beijing Newlink Technology Company Limited ("Beijing Newlink") (北京新紐科技有限公司)** | PRC/ Mainland China | RMB101,010,101 | – | 100 | Software development and maintenance |
| Beijing Newlink Healthcare Information Technology Company Limited (北京新紐醫訊科技有限公司)** | PRC/ Mainland China | RMB30,000,000 | – | 90 | Software development and maintenance |

* Newlink Technology is registered as a wholly-foreign-owned enterprise under PRC law.

** The English names of these companies represent the best effort made by the management of the Company to directly translate the Chinese names as they do not register any official English names.

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interest, even if this results in the non-controlling interest having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 2.1 BASIS OF PREPARATION (CONTINUED)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| Amendment to HKFRS 16 | *COVID-19-Related Rent Concessions* (early adopted) |
| Amendments to HKAS 1 and HKAS 8 | *Definition of Material* |

Amendments to HKFRS 3 and the revised HKFRSs are described as below. Amendments to HKFRS 9, HKAS 39, and HKFRS 7 are not relevant to the preparation of the Group's financial statements.

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. The Group has early adopted the amendment to HKFRS 16 that has been issued but is not yet effective on 1 January 2020.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group's office buildings have been reduced or waived by the lessors upon reducing the scale of production as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of RMB$330,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

(c) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the preparation of the financial statements.

| | |
|---|---|
| Amendments to HKFRS 3 | *Reference to the Conceptual Framework*[1] |
| Amendments to HKAS 1 | *Classification of Liabilities as Current or Non-current*[2] |
| Amendments to HKAS 16 | *Property, Plant and Equipment: Proceeds before Intended Use*[1] |
| Amendments to HKAS 37 | *Onerous Contracts – Cost of Fulfilling a Contract1* |
| Annual Improvements to HKFRSs 2018-2020 | Amendments to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41[1] |

1 Effective for annual periods beginning on or after 1 January 2022
2 Effective for annual periods beginning on or after 1 January 2023

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the Conceptual Framework for Financial Reporting issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

*Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than contract assets, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

### Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or a parent of the Group;

or

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Related parties (Continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personal services to the Group or to the parent of the Group.

### Property and equipment and depreciation

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

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Property and equipment and depreciation (Continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Electronic equipment and furniture | 20% |
| Leasehold improvements | Shorter of estimated useful lives or remaining lease terms |

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents leasehold improvements under construction, which is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to leasehold improvements when completed and ready for use.

### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

*Software*

Purchased software is stated at cost less any impairment losses and amortised on the straight-line basis over its estimated useful life of 5 years.

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Intangible assets (other than goodwill) (Continued)

*Research and development costs*

All research costs are charged to profit or loss as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the Group's ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding three years, commencing from the date when the products are put into commercial production.

### Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*Group as a lessee*

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

| | |
|---|---|
| Office premises | 2 to 5 years |

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Leases (Continued)

*Group as a lessee (Continued)*

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

### Investments and other financial assets

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("OCI"), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue from contracts with customers" below.

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments and other financial assets (Continued)

*Initial recognition and measurement (Continued)*

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

*Financial assets at amortised cost (debt instruments)*

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Derecognition of financial assets (Continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### Impairment of financial assets

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

*General approach*

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

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Impairment of financial assets (Continued)

*General approach (Continued)*

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

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

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

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

*Simplified approach*

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has used a loss rate approach and develops loss-rate statistics on the basis of the amount expected to be written off over the life of the financial assets by reference to the credit rating of the customers, and then adjust these loss trends for current conditions and expectations about the future.

For trade receivables and contract assets that contain a significant financing component, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

### Financial liabilities

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and lease liabilities.

*Subsequent measurement*

The measurement of financial liabilities depends on their classification as described below:

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial liabilities (Continued)

*Subsequent measurement (Continued)*

*Financial liabilities at amortised cost (loans and borrowings)*

This is the category most relevant to the Group. After initial recognition, interest-bearing loans are subsequently measured at amortised cost using the effective interest rate (EIR) method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in profit or loss.

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks which are not restricted as to use.

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Income tax (Continued)

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

### Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

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

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

(a) *Software development services*

Revenue from software development services is recognised over time, using an appropriate method to measure progress towards complete satisfaction of the services, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. For the contracts with a fixed price, the Group uses the input method, which the Group recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the services. For the contracts with a fixed amount billed for each hour of service provided, the Group uses the practical expedient to recognise revenue in the amount to which the Group has a right to invoice.

Contracts for bundled sales of software development services and technical and maintenance services (i.e., training, upgrade, service-type warranties) are comprised of separate performance obligations because the promises to transfer the software and provide those services are capable of being distinct and separately identifiable. Accordingly, the transaction price is allocated based on the relative stand-alone selling prices of each performance obligation.

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue from contracts with customers (Continued)

*(b)* *Technical and maintenance services*

Revenue from the technical and maintenance services is recognised over the scheduled period on a straight-line basis or based on the actual time/work incurred, because the customer simultaneously receives and consumes the benefits provided by the Group.

*(c)* *Sale of standard software*

Revenue from the sale of standard software is recognised at the point in time when the right to use the software is transferred to the customer, generally upon the acceptance by the customers.

Contracts for bundled sales of standard software, installation, technical and maintenance services (i.e., training, upgrade) are comprised of separate performance obligations because these promises are capable of being distinct and separately identifiable. Accordingly, the transaction price is allocated based on the relative stand-alone selling prices of each performance obligation.

### Interest income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial assets.

### Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

### Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

### Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Employee benefits

*Pension scheme*

The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries operating in Mainland China are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

*Housing fund – Mainland China*

The Group contributes on a monthly basis to a defined contribution housing fund plan operated by the local municipal government. Contributions to this plan by the Group are expensed as incurred.

### Borrowing costs

All the borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### Foreign currencies

The financial statements are presented in RMB because the Group's principal operations are carried out in Mainland China. The functional currency of the Company and certain oversea subsidiaries incorporated outside Mainland China is US$ and the functional currency of the subsidiaries established in Mainland China is RMB, which is the currency of the primary economic environment in which those entities operate. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Foreign currencies (Continued)

The functional currencies of the Company and certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of each reporting period and their statements of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and certain overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and certain overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

*Withholding tax arising from the distribution of dividends*

The Group's determination, as to whether to accrue deferred tax liabilities in respect of withholding taxes arising from the distributions of dividends by certain subsidiaries according to the relevant tax rules enacted in the jurisdictions, is subject to judgement on the plan of the distribution of dividends. Such plan is influenced by projected future market and economic conditions and future financing requirements of the Group, and the management of the Group considers that it is not probable that such subsidiary will distribute dividends in the foreseeable future given the Group's expansion and development in Mainland China.

*Significant judgement in determining the lease term of contracts with renewal options*

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

### Judgements (Continued)

*Identification of performance obligations*

The Group analyses agreements with more than one element, or deliverable. The Group identifies the deliverables within the agreement and evaluates which deliverables represent separate units of accounting. Analysing the agreements to identify deliverables requires the use of judgement. A deliverable is considered a separate unit of accounting when deliverable has value to the customers on a standalone basis based on the consideration of the relevant facts and circumstances for each agreement. In addition, the Group also considers whether the other deliverables can be used for their intended purpose without the receipt of the remaining elements, whether the value of the deliverable is dependent on the undelivered items and whether there are other vendors that can provide the undelivered elements.

### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

*Revenue from contracts with customers*

For the contracts with a fixed price, the Group recognises revenue from software development services based on the actual direct costs incurred relative to the total expected costs to be incurred to satisfy the performance obligations of an individual contract. Total expected costs and their corresponding contract revenue require estimations from management based on understanding of the performance of the contract, quotations from suppliers and subcontractors, and the Group's historical experience. Due to the nature of the activity undertaken in the contracts, the date at which the activity is entered into and the date at which the activity is completed usually fall into different accounting periods. Hence, the Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each contract as the contract progresses. Where the actual contract revenue is less than expected or actual contract costs are more than expected, a provision for onerous contract may arise.

In addition, when the Group determines the transaction price, the Group considers factors such as whether there is any financing component. The Group considers whether the payment schedule is commensurate with the Group's performance and whether the delayed payment is for financing purposes.

*Provision for expected credit losses on trade and other receivables and contract assets*

The Group uses a loss rate approach to calculate ECLs for trade receivables and contract assets. The loss rates are based on groupings of various customer segments that have similar loss patterns (i.e., by customer type and rating).

The Group develops loss-rate statistics on the basis of the amount expected to be written off over the life of the financial assets by reference to the credit rating of the customers, and then adjust these loss trends for current conditions and expectations about the future. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults, the determined loss-rate is adjusted. At each reporting date, the loss-rate statistics are updated and changes in the forward-looking estimates are analysed.

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

### Estimation uncertainty (Continued)

*Provision for expected credit losses of trade and other receivables and contract assets (Continued)*

The assessment of the correlation among the loss-rate statistics, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's expected default data and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in notes 16 and 17 to the financial statements, respectively.

*Leases – Estimating the incremental borrowing rate*

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

*Development costs*

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At the end of each reporting period, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. As at 31 December 2020, the carrying amount of deferred development costs included in intangible assets was RMB4,716,000 (2019: RMB899,000).

## 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) the financial institutions segment providing comprehensive and integrated solutions for our customers in the finance industry, such as banks, trust companies and other financial institutions;

(b) the medical institutions segment providing medical quality control and safety warning system that enable hospitals to analyse key clinical data, improve clinical effectiveness and lower the risk of medical malpractice; and

(c) the other segment providing IT solutions to customers from industries other than financial institutions and hospitals.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of gross profit.

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 4. OPERATING SEGMENT INFORMATION (CONTINUED)

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

| Year ended 31 December 2020 | Financial institutions RMB'000 | Medical institutions RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Segment revenue:** | | | | |
| Sales to external customers | 136,945 | 33,674 | 5,528 | 176,147 |
| **Segment results** | 62,943 | 25,633 | 3,826 | 92,402 |
| *Reconciliation:* | | | | |
| Other income and gains | | | | 2,058 |
| Selling and distribution expenses | | | | (9,682) |
| Administrative expenses | | | | (30,427) |
| Research and development costs | | | | (11,939) |
| Other expenses | | | | (1,342) |
| Finance costs | | | | (786) |
| Profit before tax | | | | 40,284 |
| **Segment assets** | 107,722 | 35,784 | 5,652 | 149,158 |
| *Reconciliation:* | | | | |
| Corporate and other unallocated assets | | | | 109,322 |
| Total assets | | | | 258,480 |
| **Segment liabilities** | 1,337 | 34 | – | 1,371 |
| *Reconciliation:* | | | | |
| Corporate and other unallocated liabilities | | | | 57,736 |
| Total liabilities | | | | 59,107 |

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 4. OPERATING SEGMENT INFORMATION (CONTINUED)

| Year ended 31 December 2019 | Financial institutions RMB'000 | Medical institutions RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Segment revenue:** | | | | |
| Sales to external customers | 126,974 | 12,294 | 9,702 | 148,970 |
| **Segment results** | 62,103 | 6,374 | 4,681 | 73,158 |
| *Reconciliation:* | | | | |
| Other income and gains | | | | 1,852 |
| Selling and distribution expenses | | | | (6,515) |
| Administrative expenses | | | | (13,690) |
| Research and development costs | | | | (14,276) |
| Other expenses | | | | (1,156) |
| Finance costs | | | | (1,138) |
| Profit before tax | | | | 38,235 |
| **Segment assets** | 85,188 | 9,052 | 1,479 | 95,719 |
| *Reconciliation:* | | | | |
| Corporate and other unallocated assets | | | | 149,399 |
| Total assets | | | | 245,118 |
| **Segment liabilities** | 1,500 | – | – | 1,500 |
| *Reconciliation:* | | | | |
| Corporate and other unallocated liabilities | | | | 56,721 |
| Total liabilities | | | | 58,221 |

### Geographical information

During the year, the Group operated within one geographical segment because all of its revenue was generated in Mainland China and all of its long-term assets/capital expenditure were located/incurred in Mainland China. Accordingly, no geographical segment information is presented.

## 4. OPERATING SEGMENT INFORMATION (CONTINUED)

### Information about major customers

Aggregated revenue of approximately RMB58,823,000 (2019: RMB60,780,000) was derived from sales by the financial institutions and medical institutions segments to the following single customers, which individually accounted for more than 10% of the Group's total revenue.

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Customer 1 | 26,875 | 23,870 |
| Customer 2 | 31,948 | 21,414 |
| Customer 3 | N/A* | 15,496 |

* The corresponding revenue of the customer is not disclosed as the revenue individually did not account for 10% or more of the Group's revenue for the respective years.

## 5. REVENUE, OTHER INCOME AND GAINS

### Revenue from contracts with customers

*(a) Disaggregated revenue information*

| For the year ended 31 December 2020 | Financial institutions<br>RMB'000 | Medical institutions<br>RMB'000 | Others<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| **Types of goods or services** | | | | |
| Software development services | 110,454 | 18,281 | 3,350 | 132,085 |
| Technical and maintenance services | 17,507 | – | – | 17,507 |
| Sale of standard software | 8,984 | 15,393 | 2,178 | 26,555 |
| Total revenue from contracts with customers | 136,945 | 33,674 | 5,528 | 176,147 |
| **Timing of revenue recognition** | | | | |
| Goods transferred at a point in time | 8,984 | 15,393 | 2,178 | 26,555 |
| Services transferred over time | 127,961 | 18,281 | 3,350 | 149,592 |
| Total revenue from contracts with customers | 136,945 | 33,674 | 5,528 | 176,147 |

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

### Revenue from contracts with customers (Continued)

*(a) Disaggregated revenue information (Continued)*

| For the year ended 31 December 2019 | Financial institutions RMB'000 | Medical institutions RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Types of goods or services** | | | | |
| Software development services | 96,498 | 12,294 | 7,140 | 115,932 |
| Technical and maintenance services | 18,899 | – | – | 18,899 |
| Sale of standard software | 11,577 | – | 2,562 | 14,139 |
| Total revenue from contracts with customers | 126,974 | 12,294 | 9,702 | 148,970 |
| **Timing of revenue recognition** | | | | |
| Goods transferred at a point in time | 11,577 | – | 2,562 | 14,139 |
| Services transferred over time | 115,397 | 12,294 | 7,140 | 134,831 |
| Total revenue from contracts with customers | 126,974 | 12,294 | 9,702 | 148,970 |

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

| | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|
| Revenue recognised that was included in contract liabilities at the beginning of the reporting period: | | |
| Software development services | **1,384** | 4,027 |
| Technical and maintenance services | **116** | 214 |
| | **1,500** | 4,241 |

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

### Revenue from contracts with customers (Continued)

*(b)* *Performance obligations*

Information about the Group's performance obligations is summarised below:

***Software development services***

The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 to 180 days upon issuance of invoice and receipt of acceptance from customers on milestones as agreed by both parties. A certain percentage of payment is retained by customers until the end of the retention period.

***Technical and maintenance services***

The performance obligation is satisfied over time as services are rendered and the credit period granted to the customers is normally due upon completion of the service, which is normally for periods of one year or less, or are billed based on the actual time/work incurred, which are due within 30 to 180 days from the date of billing.

***Sale of standard software***

The performance obligation is satisfied upon acceptance of software and payment is generally due within 30 to 180 days from acceptance by customers, except for new customers, where payment in advance is normally required.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Amounts expected to be recognised as revenue: | | |
| Within one year | **18,631** | 17,936 |
| After one year | **7,462** | 3,754 |
| | **26,093** | 21,690 |

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

### Revenue from contracts with customers (Continued)

*(b) Performance obligations (Continued)*

***Sale of standard software (Continued)***

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised after one year relate to software development services and technical services, of which the performance obligations are to be satisfied within two years. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained and revenue that will be recognised using the right to invoice practical expedient.

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| **Other income and gains** | | |
| Bank interest income | 213 | 128 |
| Interest income arising from revenue contracts | 39 | 63 |
| Foreign exchange differences | – | 12 |
| VAT refunds and other tax subsidies* | 1,677 | 1,649 |
| Other interest income from financial assets at fair value through profit or loss | 129 | – |
| | 2,058 | 1,852 |

* Refunds of VAT on software products represent the refund upon payment of VAT with respect to the portion of any effective VAT rate in excess of 3% in respect of software product sales of the Group pursuant to the principles of the State Council document entitled "Certain Policies to Encourage the Development of Software Enterprise and the IC Industry" and the approval of the state taxation authorities.

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | *Notes* | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|---|
| Cost of services rendered | | **83,745** | 75,812 |
| Research and development costs: | | | |
| Deferred expenditure amortised | *15* | **788** | – |
| Current year expenditure | | **11,151** | 14,276 |
| | | **95,684** | 90,088 |
| Employee benefit expense (including directors' and chief executives' remuneration *(note 8)*): | | | |
| Wages and salaries | | **75,579** | 69,272 |
| Pension scheme contributions (defined contribution scheme) | | **11,968** | 13,112 |
| | | **87,547** | 82,384 |
| Depreciation of property and equipment | *13* | **732** | 1,847 |
| Depreciation of right-of-use assets | *14* | **4,258** | 4,486 |
| COVID-19-related rent concessions from lessors | *14* | **(330)** | – |
| Amortisation of intangible assets | *15* | **3,328** | 1,508 |
| Impairment losses recognised for trade receivables | *16* | **902** | 809 |
| Impairment losses recognised for contract assets | *17* | **310** | 46 |
| Foreign exchange differences, net | | **111** | (12) |
| Bank interest income | *5* | **(213)** | (128) |
| Listing expenses | | **18,203** | 5,150 |
| Auditors' remuneration | | **1,800** | 38 |

## 7. FINANCE COSTS

| | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|
| Interest on bank loans | **202** | 358 |
| Interest on lease liabilities *(note 14)* | **584** | 780 |
| | **786** | 1,138 |

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Mr. Zhai Shuchun, Ms. Qin Yi, Ms. Qiao Huimin and Mr. Li Xiaodong have been appointed as executive directors of the Company since 2019. Mr. Tang Baoqi, Ms. Jing Liping and Mr. Ye Jinfu have been appointed as independent non-executive directors of the Company since 2020.

Certain of the directors received remuneration from a subsidiary now comprising the Group for their appointment as directors or senior management of this subsidiary. The remuneration of each of these directors as recorded in the financial statements of the subsidiary is set out below:

| | **2020** **RMB'000** | 2019 RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **2,033** | 1,464 |
| Pension scheme contributions | **240** | 248 |
| | **2,273** | 1,712 |

### (a) Executive directors, non-executive directors and the chief executive

| **2020** | **Salaries, allowances and benefits in kind RMB'000** | **Pension scheme contributions RMB'000** | **Total remuneration RMB'000** |
|---|---|---|---|
| Executive director and the chief executive: | | | |
| Mr. Zhai Shuchun | **655** | **94** | **749** |
| Executive directors: | | | |
| Ms. Qin Yi | **476** | **54** | **530** |
| Ms. Qiao Huimin | **725** | **83** | **808** |
| Mr. Li Xiaodong | **177** | **9** | **186** |
| Independent non-executive directors: | | | |
| Mr. Tang Baoqi | **–** | **–** | **–** |
| Mr. Ye Jinfu | **–** | **–** | **–** |
| Ms. Jing Liping | **–** | **–** | **–** |
| | **2,033** | **240** | **2,273** |

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

### (a) Executive directors, non-executive directors and the chief executive (Continued)

| 2019 | Salaries, allowances and benefits in kind RMB'000 | Pension scheme contributions RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|
| Executive director and the chief executive: | | | |
| Mr. Zhai Shuchun | 360 | 91 | 451 |
| Executive directors: | | | |
| Ms. Qin Yi | 513 | 52 | 565 |
| Ms. Qiao Huimin | 479 | 91 | 570 |
| Mr. Li Xiaodong | 112 | 14 | 126 |
| Independent non-executive directors: | | | |
| Mr. Tang Baoqi | – | – | – |
| Mr. Ye Jinfu | – | – | – |
| Ms. Jing Liping | – | – | – |
| | 1,464 | 248 | 1,712 |

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included 1 director (2019: 2), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining 4 (2019: 3) highest paid employees who are neither a director nor chief executive of the Group during the year are as follows:

| | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **2,502** | 1,496 |
| Pension scheme contributions | **330** | 251 |
| | **2,832** | 1,747 |

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 9. FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

| | Number of employees | |
|---|---|---|
| | **2020** | 2019 |
| Nil to HK$1,000,000 | **4** | 3 |

During the year, no highest paid employees waived or agreed to waive any remuneration and no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

## 10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax.

Pursuant to the PRC Enterprise Income Tax ("EIT") Law and the respective regulations, the subsidiaries in Mainland China are subject to income tax at a statutory rate of 25% during the year.

A preferential tax treatment is available to Beijing Newlink, which was recognised as a High and New Technology Enterprise in October 2017 in Mainland China and a lower corporate income tax of 15% has been applied since then. The certificate of High and New Technology Enterprise has to be renewed every three years and Beijing Newlink has to re-apply for it every six years. The applicable tax rate was 15% during the year.

Hong Kong profits tax has been provided at the rate of 16.5% on the Group's assessable profits derived from Hong Kong during the reporting period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

The major components of the income tax expense for the year are as follows:

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Current tax- Mainland China | **8,460** | 5,250 |
| Deferred tax (note 23) | **(205)** | (128) |
| Total tax charge for the year | **8,255** | 5,122 |

## 10. INCOME TAX (CONTINUED)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate of Mainland China (i.e., 25%) where the main operating entity is domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

| | 2020<br>RMB'000 | <br>% | 2019<br>RMB'000 | <br>% |
|---|---|---|---|---|
| Profit before tax | 40,284 | | 38,235 | |
| Tax at the statutory tax rate | 10,071 | 25.0 | 9,559 | 25.0 |
| Effect of different applicable tax rates for specific jurisdictions or enacted by local authority | (4,028) | (10.0) | (3,824) | (10.0) |
| Super deduction for research and development expenses | (1,291) | (3.2) | (1,483) | (3.9) |
| Expenses not deductible for tax | 3,503 | 8.8 | 870 | 2.3 |
| Tax charge at the Group's effective tax rate | 8,255 | 20.5 | 5,122 | 13.4 |

Pursuant to the PRC EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2020, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, the Group's earnings will be retained in Mainland China for the expansion of the Group's operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The total amount of temporary difference associated with the investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised was approximately RMB109,120,000 as at 31 December 2020 (2019: RMB57,529,000).

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC, enterprises engaging in research and development activities are entitled to claim 150% of the research and development expenses from 1 January 2008 to 31 December 2017, and 175% of the research and development expenses from 1 January 2018 to 31 December 2020 as tax deductible expense.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

At the end of the year, the Group has no tax losses arising in Mainland China which can be utilised to offset against future taxable profits.

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 11. DIVIDENDS

No dividends have been paid or declared by the Group during the year ended 31 December 2020 (2019: nil).

## 12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 600,000,000 (2019: 96,300,000) in issue during the year.

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share and diluted earnings per share for the year ended 31 December 2019 has been retrospectively adjusted for the effect of capitalisation issue as described more fully in note 26 to the financial statements.

The Group had no potentially diluted ordinary shares in issue during the years ended 31 December 2020 and 2019.

The calculations of basic and diluted earnings per share are based on:

| | **2020** | 2019 |
|---|---|---|
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculation (RMB'000) | **32,029** | 33,106 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation | **600,000,000** | 96,300,000 |
| Basic and diluted earnings per share | **RMB5.34 cents** | RMB34.38 cents |

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 13. PROPERTY AND EQUIPMENT

| | Electronic equipment and furniture RMB'000 | Leasehold improvements RMB'000 | Total RMB'000 |
|---|---|---|---|
| **31 December 2020** | | | |
| At 1 January 2020: | | | |
| Cost | 1,974 | 4,393 | 6,367 |
| Accumulated depreciation | (786) | (2,551) | (3,337) |
| Net carrying amount | 1,188 | 1,842 | 3,030 |
| At 1 January 2020, net of accumulated depreciation | 1,188 | 1,842 | 3,030 |
| Additions | 83 | – | 83 |
| Disposals | (20) | – | (20) |
| Depreciation provided during the year (note 6) | (357) | (375) | (732) |
| At 31 December 2020, net of accumulated depreciation | 894 | 1,467 | 2,361 |
| At 31 December 2020: | | | |
| Cost | 2,037 | 4,393 | 6,430 |
| Accumulated depreciation | (1,143) | (2,926) | (4,069) |
| Net carrying amount | 894 | 1,467 | 2,361 |

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 13. PROPERTY AND EQUIPMENT (CONTINUED)

| | Electronic equipment and furniture RMB'000 | Leasehold improvements RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **31 December 2019** | | | | |
| At 1 January 2019: | | | | |
| Cost | 1,307 | 2,014 | 1,915 | 5,236 |
| Accumulated depreciation | (439) | (1,051) | – | (1,490) |
| Net carrying amount | 868 | 963 | 1,915 | 3,746 |
| At 1 January 2019, net of accumulated depreciation | 868 | 963 | 1,915 | 3,746 |
| Additions | 667 | 464 | – | 1,131 |
| Transfer | – | 1,915 | (1,915) | – |
| Depreciation provided during the year (note 6) | (347) | (1,500) | – | (1,847) |
| At 31 December 2019, net of accumulated depreciation | 1,188 | 1,842 | – | 3,030 |
| At 31 December 2019: | | | | |
| Cost | 1,974 | 4,393 | – | 6,367 |
| Accumulated depreciation | (786) | (2,551) | – | (3,337) |
| Net carrying amount | 1,188 | 1,842 | – | 3,030 |

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 14. LEASES

### The Group as a lessee

The Group has lease contracts for office buildings used in its operations. They generally have lease terms between 2 and 5 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) *Right-of-use assets*

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

| | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|
| At the beginning of the year | **13,354** | 17,176 |
| Additions | **126** | 664 |
| Depreciation charge *(note 6)* | **(4,258)** | (4,486) |
| At the end of the year | **9,222** | 13,354 |

(b) *Lease liabilities*

The carrying amount of lease liabilities and the movements during the reporting period are as follows:

| | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|
| Carrying amount at 1 January | **12,367** | 16,896 |
| New leases | **126** | 664 |
| Accretion of interest recognised during the year *(note 7)* | **584** | 780 |
| Payments | **(4,063)** | (5,973) |
| COVID-19-related rent concessions from lessors | **(330)** | – |
| Carrying amount at 31 December | **8,684** | 12,367 |
| Analysed into: | | |
| Current portion | **2,639** | 2,111 |
| Non-current portion | **6,045** | 10,256 |

The maturity analysis of lease liabilities is disclosed in note 33 to the financial statements.

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 14. LEASES (CONTINUED)

### The Group as a lessee (Continued)

*(c)* The amounts recognised in profit or loss in relation to leases are as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Interest on lease liabilities *(note 7)* | 584 | 780 |
| Depreciation charge of right-of-use assets *(note 6)* | 4,258 | 4,486 |
| COVID-19-related rent concessions form lessors | (330) | – |
| Total amount recognised in profit or loss | 4,512 | 5,266 |

*(d)* The total cash outflow for leases is disclosed in note 28(c) to the financial statements.

## 15. INTANGIBLE ASSETS

| | Software license<br>RMB'000 | Deferred development costs<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|
| **31 December 2020** | | | |
| At 1 January 2020: | | | |
| Cost | 12,439 | 899 | 13,338 |
| Accumulated amortisation | (2,198) | – | (2,198) |
| Net carrying amount | 10,241 | 899 | 11,140 |
| At 1 January 2020, net of accumulated amortisation | 10,241 | 899 | 11,140 |
| Additions | 5,778 | 4,605 | 10,383 |
| Amortisation provided during the year *(note 6)* | (2,540) | (788) | (3,328) |
| At 31 December 2020, net of accumulated amortisation | 13,479 | 4,716 | 18,195 |
| At 31 December 2020: | | | |
| Cost | 18,217 | 5,504 | 23,721 |
| Accumulated amortisation | (4,738) | (788) | (5,526) |
| Net carrying amount | 13,479 | 4,716 | 18,195 |

## 15. INTANGIBLE ASSETS (CONTINUED)

| | Software license RMB'000 | Deferred development costs RMB'000 | Total RMB'000 |
|---|---|---|---|
| **31 December 2019** | | | |
| At 1 January 2019: | | | |
| Cost | 3,907 | – | 3,907 |
| Accumulated amortisation | (690) | – | (690) |
| Net carrying amount | 3,217 | – | 3,217 |
| At 1 January 2019, net of accumulated amortisation | 3,217 | – | 3,217 |
| Additions | 8,532 | 899 | 9,431 |
| Amortisation provided during the year *(note 6)* | (1,508) | – | (1,508) |
| At 31 December 2019, net of accumulated amortisation | 10,241 | 899 | 11,140 |
| At 31 December 2019: | | | |
| Cost | 12,439 | 899 | 13,338 |
| Accumulated amortisation | (2,198) | – | (2,198) |
| Net carrying amount | 10,241 | 899 | 11,140 |

## 16. TRADE RECEIVABLES

| | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|
| Trade receivables | **109,091** | 73,230 |
| Impairment | **(1,843)** | (941) |
| | **107,248** | 72,289 |

Trade receivables represented the outstanding invoiced values for software development services, technical and maintenance services and sale of standard software receivable from the customers.

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 16. TRADE RECEIVABLES (CONTINUED)

The Group's trading terms with its customers are mainly on credit. For software development services, the credit period granted to the customers is normally 30 to 180 days upon issuance of invoice and receipt of acceptance from customers during the course of contracts. The forms of acceptance evidenced the satisfaction from the customers of the progress of completion. For the sale of standard software, the credit period granted to the customers is normally 30 to 180 days after the goods were accepted by the customers, except for new customers, where payment in advance is normally required. For technical and maintenance services, the credit period granted to the customers is normally due upon completion of the service or 30 to 180 days from the date of billing.

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise the credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a number of the largest state-owned financial institutions and hospitals in Mainland China, there is certain concentration of credit risk, details of which are set out in note 33 to the financial statements. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of each of the reporting period, based on the recognition date of gross trade receivables and net of provision, is as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Within 90 days | **46,507** | 33,368 |
| 91 to 180 days | **14,592** | 15,912 |
| 181 days to 1 year | **22,627** | 4,453 |
| 1 year to 2 years | **23,522** | 18,556 |
| | **107,248** | 72,289 |

The movements in the allowance for expected credit losses of trade receivables are as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| At beginning of year | **941** | 132 |
| Provision for expected credit losses | **902** | 809 |
| At the end of year | **1,843** | 941 |

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 16. TRADE RECEIVABLES (CONTINUED)

An impairment analysis is performed at each reporting date using a loss rate approach to measure expected credit losses. The loss rates are based on groupings of various customer segments with similar loss patterns (i.e., customer type and rating). The Group develops loss-rate statistics on the basis of the amount expected to be written off over the life of the financial assets by reference to the credit rating of the customers, and also adjusted these loss trends for current conditions and expectations about the future. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of future recovery.

| 31 December 2020 | Amount<br>RMB'000 | Expected credit loss rate<br>RMB'000 | Impairment |
|---|---|---|---|
| Trade receivables aged: | | | |
| Within 1 year | 84,443 | 0.85% | 717 |
| 1 to 2 years | 24,648 | 4.57% | 1,126 |
| | 109,091 | | 1,843 |

| 31 December 2019 | Amount<br>RMB'000 | Expected credit loss rate<br>RMB'000 | Impairment |
|---|---|---|---|
| Trade receivables aged: | | | |
| Within 1 year | 53,814 | 0.15% | 81 |
| 1 to 2 years | 19,416 | 4.43% | 860 |
| | 73,230 | | 941 |

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 17. CONTRACT ASSETS

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Contract assets | **42,277** | 23,488 |
| Impairment | **(368)** | (58) |
| | **41,909** | 23,430 |
| Analysed into: | | |
| Current portion | **40,507** | 22,635 |
| Non-current portion | **1,402** | 795 |

Contract assets are initially recognised for revenue earned from software development services as the receipt of consideration is conditional on the successful acceptance by the customers. Upon completion of the contracts and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables. The increase in contract assets in 2020 was the result of the increase in software development services at the end of the year.

The expected timing of recovery or settlement for contract assets as at 31 December is as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Within one year | **40,507** | 22,635 |
| After one year | **1,402** | 795 |
| Total contract assets | **41,909** | 23,430 |

The movements in the loss allowance for impairment of contract assets are as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| At beginning of year | **58** | 12 |
| Provision for expected credit losses | **310** | 46 |
| At end of year | **368** | 58 |

## 17. CONTRACT ASSETS (CONTINUED)

An impairment analysis is performed at each reporting date using a loss rate approach to measure expected credit losses. The loss rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases, and groupings of various customer segments with similar loss patterns (i.e., customer type and rating). These loss trends determined by referencing to credit rating data are then adjusted for current conditions and expectations about the future. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's contract assets based on loss-rate statistics:

| | **2020** | 2019 |
|---|---|---|
| Expected credit loss rate | **0.87%** | 0.25% |
| Gross carrying amount (RMB'000) | **42,277** | 23,488 |
| Expected credit losses (RMB'000) | **368** | 58 |

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Non-current portion | | |
| Deposits | **1,478** | 1,450 |
| Current portion | | |
| Prepayments | **6,935** | 2,157 |
| Deposits and other receivables | **1,668** | 2,540 |
| | **8,603** | 4,697 |

At the end of each reporting period, the amounts due from non-trade debtors were unsecured and interest-free. None of the above assets was either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The credit exposures of the above balances have no significant increase in credit risk since initial recognition, the Group is required to provide for 12-month expected credit losses. In calculating the expected credit loss rate, the Group considers the historical loss rate and adjusts for forward looking macroeconomic data. During the reporting period, the Group estimated the expected loss rate for the above receivables to be insignificant.

## 19. CASH AND CASH EQUIVALENTS

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Cash and bank balances | **69,131** | 57,339 |
| Denominated in: | | |
| RMB | **68,393** | 40,622 |
| US$ | **687** | 16,717 |
| HK$ | **51** | – |

As at 31 December 2020, the cash and bank balances of the Group denominated in RMB amounted to RMB68,393,000 (2019: RMB40,622,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

## 20. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of each reporting period, based on the invoice date, is as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Within 3 months | 6,248 | 841 |
| 3 to 6 months | 3 | 14 |
| 6 months to 1 year | – | 17 |
| Over 1 year | 14 | 25 |
| | 6,265 | 897 |

The trade payables are non-interest-bearing and are normally settled on 180-day terms.

## 21. CONTRACT LIABILITIES

The Group has recognised the following revenue-related contract liabilities, which represented the unsatisfied performance obligations as at 31 December that are expected to be recognised within one year:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| *Short-term advances received from customers* | | |
| Software development services | 1,210 | 1,384 |
| Technical and maintenance services | 161 | 116 |
| | 1,371 | 1,500 |

Contract liabilities include short-term advances received to provide software development services and technical and maintenance services. The decrease in contract liabilities in 2020 was mainly due to the decrease in short-term advances received from customers in relation to the provision of software development services and technical and maintenance services at the end of the period.

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 22. OTHER PAYABLES AND ACCRUALS

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Salaries and welfare payables | 8,527 | 460 |
| Other tax payables | 2,401 | 2,198 |
| Audit fee | 1,703 | – |
| Listing fee | 10,128 | 956 |
| Other payables | 111 | 265 |
| | 22,870 | 3,879 |

Other payables are non-interest-bearing and repayable on demand.

## 23. DEFERRED TAX

| Deferred tax asset | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| At 1 January | 128 | – |
| Deferred tax credited to profit or loss during the year *(note 10)* | 205 | 128 |
| At 31 December | 333 | 128 |

## 24. INTEREST-BEARING BANK BORROWINGS

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Effective interest rate (%) | Maturity | RMB'000 | Effective interest rate (%) | Maturity | RMB'000 |
| Current | | | | | | |
| Bank loans – unsecured | 5-5.2 | 2021 | 15,000 | – | – | – |
| | | | 15,000 | | | – |

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Analysed into: | | |
| Bank loans repayable: | | |
| Within one year | 15,000 | – |
| | 15,000 | – |

## 25. AMOUNTS DUE FROM/TO SHAREHOLDERS

### Amounts due from shareholders

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Silver Cooperation RP Info Consulting Co., Ltd. | – | 40,000 |
| Tampu Technology Limited | – | 14 |
| Well Fancy Development Ltd. | – | 8,000 |
| Charlie Waffle Holdings Limited | – | 8,000 |
| | – | 56,014 |

### Amounts due to shareholders

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Mr. Zhai Shuchun | – | 17,000 |
| Mr. Yuan Yukai | – | 20,000 |
| | – | 37,000 |

The amounts due from/to shareholders are non-trade in nature, unsecured, interest-free and repayable on demand. As at 31 December 2020, all the above balances had been settled.

## 26. ISSUED CAPITAL

The Company was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands as an exempted company with limited liability on 8 November 2019 with authorised share capital of US$50,000 divided into 50,000 shares of US$1 each. On the same day, 300 and 200 shares of the Company were issued to Nebular SC Holdings Limited and Earnest Kai Holdings Limited, which were wholly owned by Mr. Zhai Shuchun and Mr. Yuan Yukai, respectively.

On 29 November 2019, the Company issued 5.0505 shares with a par value of US$1.00 each to Silver Cooperation RP Info Consulting Co., Ltd.

On 30 December 2019, each of the issued and unissued shares of the Company with a par value of US$1.00 was subdivided into 1,000,000 shares with a par value of US$0.000001 each, after which, the authorised share capital of the Company was US$50,000 divided into 50,000,000,000 shares with a par value of US$0.000001 each.

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 26. ISSUED CAPITAL (CONTINUED)

On 30 December 2019, immediately after the subdivision of shares, the Company issued (i) 22,422,000 shares with a par value of US$0.000001 each to Silver Cooperation RP Info Consulting Co., Ltd., (ii) 10,989,000 shares with a par value of US$0.000001 each to Tampu Technology Limited, (iii) 5,494,500 shares with a par value of US$0.000001 each to Charlie Waffle Holdings Limited, and (iv) 5,494,500 shares with a par value of US$0.000001 each to Well Fancy Development Ltd.

On 30 December 2019 and immediately after the subdivision of shares, 50,549,500 shares were issued to existing shareholders of the Company from the capital reserve account of the Company, after which, the issued number of shares increased to 600,000,000.

### Shares

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Authorised: | | |
| 50,000,000,000 ordinary shares of US$0.000001 each | **349** | 349 |
| Issued and fully paid: | | |
| 600,000,000 ordinary shares of US$0.000001 each | **4** | 4 |

A summary of movements in the Company's issued capital is as follows:

| | **Number of shares in issue** | **Par value** | **Issued capital** | **Issued capital** |
|---|---|---|---|---|
| | | US$ | US$ | RMB'000 |
| As at 1 January 2019 | – | – | – | – |
| Upon establishment | 500 | 1 | 500 | 3 |
| Issue of shares on 29 November 2019 | 5 | 1 | 5 | –* |
| Share subdivision (1/1,000,000) | 505,049,995 | – | – | – |
| After share subdivision | 505,050,500 | 0.000001 | 505 | 3 |
| Issue of shares on 30 December 2019 | 44,400,000 | 0.000001 | 44 | 1 |
| Capitalisation issue | 50,549,500 | 0.000001 | 51 | –* |
| As at 31 December 2019 and 2020 | 600,000,000 | 0.000001 | 600 | 4 |

* Less than RMB1,000.

## 27. RESERVES

The amounts of the Group's reserves and the movements therein for the year ended 31 December 2020 are presented in the consolidated statement of changes in equity on page 67 of the financial statements.

### (a) Share premium

The share premium represents the difference between the par value of the shares issued and the consideration received.

### (b) Merger reserve

The merger reserve represents the difference between the aggregate of the paid up share capital of the subsidiaries and the consideration paid by the Group for the business combination under common control.

### (c) Statutory surplus reserve

In accordance with the Company Law of the PRC and the respective articles of association of the subsidiaries of the Group, each of the companies that is domiciled in the PRC is required to allocate 10% of its profit after tax, as determined in accordance with PRC generally accepted accounting principles, to the statutory surplus reserve until the reserve reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

Statutory surplus reserve is non-distributable except in the event of liquidation and, subject to certain restrictions set out in the relevant PRC regulations, can be used to offset accumulated losses or be capitalised as paid-up capital.

### (d) Exchange fluctuation reserve

The translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 27. RESERVES (CONTINUED)

### (d) Exchange fluctuation reserve (Continued)

A summary of the Company's reserves is as follows:

| | Share premium | Exchange fluctuation reserve | Accumulated losses | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2019 | – | – | – | – |
| Capital contribution by shareholders of the Company | 71,996 | – | – | 71,996 |
| At 31 December 2019 and 1 January 2020 | 71,996 | – | – | 71,996 |
| Exchange fluctuation reserve | – | (4,335) | – | (4,335) |
| Loss for the year | – | – | (9,766) | (9,766) |
| Total comprehensive income for the year | – | (4,335) | (9,766) | (14,101) |
| Capital contribution by shareholders of the Company | 3,467 | – | – | 3,467 |
| At 31 December 2020 | **75,463** | **(4,335)** | **(9,766)** | **61,362** |

## 28. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Major non-cash transactions

For the year ended 31 December 2020, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB126,000, respectively, in respect of lease arrangements for office buildings (2019: RMB664,000).

During the year ended 31 December 2020, amounts due to shareholders of RMB37,000,000 were transferred to the share capital of Beijing Newlink.

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 28. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOW (CONTINUED)

### (b) Changes in liabilities arising from financing activities

| | Lease liabilities RMB'000 | Interest-bearing bank borrowings RMB'000 | Amounts due to shareholders RMB'000 |
|---|---|---|---|
| **At 1 January 2020** | 12,367 | – | 37,000 |
| Changes from financing cash flows | (3,480) | – | – |
| Transfer to the share capital of a subsidiary | – | – | (37,000) |
| New bank loans | – | 15,000 | – |
| New leases | 126 | – | – |
| COVID-19-related rent concessions from lessors | (330) | – | – |
| Interest expense | 614 | – | – |
| Interest paid classified as operating cash flows | (614) | – | – |
| At 31 December 2020 | 8,683 | 15,000 | – |

| | Lease liabilities RMB'000 | Interest -bearing bank borrowings RMB'000 | Amounts due to shareholders RMB'000 |
|---|---|---|---|
| **At 1 January 2019** | 16,896 | – | – |
| Changes from financing cash flows | (5,193) | – | 37,000 |
| New bank loans | – | 30,000 | – |
| Repayment of bank loans | – | (30,000) | – |
| New leases | 664 | – | – |
| Interest expense | 780 | – | – |
| Interest paid classified as operating cash flows | (780) | – | – |
| At 31 December 2019 | 12,367 | – | 37,000 |

### (c) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statement of cash flows is as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Within operating activities | 614 | 780 |
| Within financing activities | 3,480 | 5,193 |

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 29. COMMITMENTS

The Group did not have any significant commitments at 31 December 2020.

## 30. RELATED PARTY TRANSACTIONS

| Name of related party | Relationship with the Group |
|---|---|
| Beijing Guanruitong E-Commerce Technology Company Limited ("Guanruitong") | Entity controlled by the controlling shareholder |
| Beijing Yunwang Wanwei Technology Company Limited ("Yunwang") | Entity controlled by the controlling shareholder |
| Mr. Zhai Shuchun | The controlling shareholder and chief executive |
| Mr. Yuan Yukai | A shareholder |

In addition to the transactions detailed elsewhere in the financial statements, the Group had the following material related party transactions during the years ended 31 December 2019 and 2020:

### a) Transactions with a related party

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Purchase of office supplies from Guanruitong | **21** | 89 |

The provision of technical services to the related party and the purchase of office supplies from the related party were made according to the prices and terms agreed between the parties.

### b) Outstanding balances with related parties

As disclosed in the consolidated statement of financial position, the Group did not have outstanding balances with related parties at 31 December 2020.

*Amounts due from related parties*

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Yunwang | **–** | 10 |
| Guanruitong | **–** | 2,222 |
| | **–** | 2,232 |

## 30. RELATED PARTY TRANSACTIONS (CONTINUED)

### b) Outstanding balances with related parties (Continued)

*Amounts due from related parties (Continued)*

The amounts due from related parties are unsecured, interest-free and repayable on demand. The amount due from Yunwang is non-trade in nature and the amount due from Guanruitong is trade in nature. As at 31 December 2020, all the above balances had been settled.

An impairment analysis is performed at each reporting date using a loss rate approach to measure expected credit losses. During the reporting period, the Group estimated that the expected loss rate for the above receivables is insignificant.

As at 31 December 2020, the Company had amounts due from subsidiaries of RMB70,380,000 and due to a subsidiary of RMB2,000. These balances are non-trade in nature, unsecured, interest-free and repayable on demand.

### c) Compensation of key management personnel of the Group:

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Salaries, allowances and benefits in kind | **2,033** | 1,464 |
| Pension scheme contributions | **240** | 248 |
| | **2,273** | 1,712 |

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Group as at the end of each reporting period are as follows:

### Financial assets at amortised cost

| | **2020** **RMB'000** | 2019 RMB'000 |
|---|---|---|
| Trade receivables | **107,248** | 72,289 |
| Financial assets included in prepayments, deposits and other receivables | **1,668** | 2,540 |
| Long term deposits | **1,478** | 1,450 |
| Amounts due from related parties | **–** | 2,232 |
| Amounts due from shareholders | **–** | 56,014 |
| Pledged deposits | **–** | 15 |
| Cash and cash equivalents | **69,131** | 57,339 |
| | **179,525** | 191,879 |

### Financial liabilities at amortised cost

| | **2020** **RMB'000** | 2019 RMB'000 |
|---|---|---|
| Trade payables | **6,265** | 897 |
| Lease liabilities | **8,684** | 12,367 |
| Amounts due to shareholders | **–** | 37,000 |
| Financial liabilities included in other payables and accruals | **11,942** | 1,221 |
| | **26,891** | 51,485 |

## 32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

As at 31 December 2020, the fair values of the Group's financial assets or liabilities approximated to their respective carrying amounts.

Management has determined that the carrying amounts of cash and cash equivalents, pledged deposits, trade receivables, financial assets included in prepayments, deposits and other receivables, amounts due from related parties, amounts due from/to shareholders, trade payables, lease liabilities, and financial liabilities included in other payables and accruals reasonably approximate to their fair values because these financial instruments are mostly short-term in nature.

During the reporting period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and liabilities.

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents. The Group has various other financial assets and liabilities such as trade receivables, contract assets, other receivables, trade payables and other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing both of these risks and they are summarised below.

### Interest rate risk

The Group is exposed to interest rate risk in relation to lease liabilities at 31 December 2019 and 2020. The Group's fair value interest rate risk mainly arises from the fluctuations of the market rates from banks.

The Group has not used any interest rate hedging policy to mitigate its exposure associated with interest rate risk. However, the management of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

In the opinion of the directors, the expected change in interest rate will not have a significant impact on the Group.

### Credit risk

The credit risk of the Group's financial assets, which comprise cash and cash equivalents, financial assets at fair value through profit or loss, pledged deposits, trade receivables, deposits and other receivables, and amounts due from related parties/shareholders, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables and other receivables are disclosed in notes 16 and 18 to the financial statements.

Since the Group trades mainly with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are analysed by customer/counterparty, by geographical region and by product type.

The following table demonstrates the concentrations of credit risk of the total trade receivables which were due from the Group's five largest debtors.

| | **2020** | 2019 |
|---|---|---|
| | **%** | % |
| Percentage of total trade receivables due from: | | |
| Group's five largest trade debtors | **53** | 74 |

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on credit rating unless other information is available without undue cost or effort, as at 31 December 2019 and 2020. The amounts presented are gross carrying amounts for financial assets.

| As at 31 December 2020 | 12-month ECLs | Lifetime ECLs | | | |
|---|---|---|---|---|---|
| | Stage 1<br>RMB'000 | Stage 2<br>RMB'000 | Stage 3<br>RMB'000 | Simplified approach<br>RMB'000 | Total<br>RMB'000 |
| Contract assets* | – | – | – | 42,277 | 42,277 |
| Trade receivables * | – | – | – | 109,091 | 109,091 |
| Financial assets included in prepayments, deposits and other receivables | | | | | |
| – Normal ** | 3,146 | – | – | – | 3,146 |
| Cash and cash equivalents – Not yet past due | 69,131 | – | – | – | 69,131 |
| | 72,277 | – | – | 151,368 | 223,645 |

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Maximum exposure and year-end staging (Continued)

| **As at 31 December 2019** | 12-month ECLs | Lifetime ECLs | | | |
|---|---|---|---|---|---|
| | Stage 1 RMB'000 | Stage 2 RMB'000 | Stage 3 RMB'000 | Simplified approach RMB'000 | Total RMB'000 |
| Contract assets* | – | – | – | 23,488 | 23,488 |
| Trade receivables * | – | – | – | 73,230 | 73,230 |
| Financial assets included in prepayments, deposits and other receivables | | | | | |
| – Normal ** | 3,990 | – | – | – | 3,990 |
| Amounts due from shareholders | | | | | |
| – Normal ** | 56,014 | – | – | – | 56,014 |
| Amounts due from related parties | | | | | |
| – Normal ** | 2,232 | – | – | – | 2,232 |
| Pledged deposits | | | | | |
| – Not yet past due | 15 | – | – | – | 15 |
| Cash and cash equivalents – Not yet past due | 57,339 | – | – | – | 57,339 |
| | 119,590 | – | – | 96,718 | 216,308 |

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the loss rate approach is disclosed in notes 16 and 17 to the financial statements, respectively.

** The credit quality of the financial assets included in prepayments, deposits and other receivables, and amounts due from shareholders and related parties are considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of internally generated cash flows from operation and bank borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

| | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | On demand RMB'000 | Less than three months RMB'000 | 3 months to 1 year RMB'000 | 1 year to 2 years RMB'000 | Over 2 years RMB'000 | Total RMB'000 |
| Trade payables | 6,251 | – | – | 14 | – | 6,265 |
| Lease liabilities | – | 1,079 | 1,988 | 4,429 | 1,872 | 9,368 |
| Amounts due to shareholders | – | – | – | – | – | – |
| Financial liabilities included in other payables and accruals | – | 11,942 | – | – | – | 11,942 |
| | 6,251 | 13,021 | 1,988 | 4,443 | 1,872 | 27,575 |

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | On demand RMB'000 | Less than three months RMB'000 | 3 months to 1 year RMB'000 | 1 year to 2 years RMB'000 | Over 2 years RMB'000 | Total RMB'000 |
| Trade payables | 872 | 25 | – | – | – | 897 |
| Lease liabilities | – | 1,070 | 1,653 | 4,296 | 6,642 | 13,661 |
| Amounts due to shareholders | 37,000 | – | – | – | – | 37,000 |
| Financial liabilities included in other payables and accruals | – | 1,221 | – | – | – | 1,221 |
| | 37,872 | 2,316 | 1,653 | 4,296 | 6,642 | 52,779 |

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Capital management

The Group's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of business.

The directors of the Company review the asset-liability ratio, which is total assets divided by total liability, on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. The current capital structure of the Group only includes equity comprising issued capital, reserves and retained profits. The Group will balance its overall capital structure through the raising of new debts as well as the redemption of any existing debts and manage the asset-liability ratio. The Group's overall strategy remained unchanged during the reporting period.

The asset-liability ratio as at the end of each reporting period is as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Total assets | 258,480 | 245,118 |
| Total liabilities | 59,107 | 58,221 |
| Asset-liability ratio | 23% | 24% |

## 34. EVENTS AFTER THE REPORTING PERIOD

On 6 January 2021, the Company issued 200,000,000 shares at an offer price of HK$4.36 per share in the Global Offering and has been listed on the Main Board of the Stock Exchange since then.

Save as disclosed above, no other significant events of the Group occurred after the end of 2020.

# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Investment in a subsidiary | | –* | –* |
| **Total non-current assets** | | –* | –* |
| **CURRENT ASSETS** | | | |
| Due from shareholders | *25* | – | 56,014 |
| Due from subsidiaries | *30* | 70,380 | – |
| Prepayments, deposits and other receivables | | 1,196 | – |
| Cash and cash equivalents | | 9 | 15,986 |
| **Total current assets** | | 71,585 | 72,000 |
| **CURRENT LIABILITIES** | | | |
| Other payables and accruals | | 10,217 | – |
| Due to a subsidiary | *30* | 2 | – |
| **Total current liabilities** | | 10,219 | – |
| **NET CURRENT ASSETS** | | 61,366 | 72,000 |
| **Net assets** | | 61,366 | 72,000 |
| **EQUITY** | | | |
| Issued capital | *26* | 4 | 4 |
| Reserves | *27* | 61,362 | 71,996 |
| **Total equity** | | 61,366 | 72,000 |

* Less than RMB1,000.

## 36. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the board of directors on 30 March 2021.