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Renrui Human Resources Technology Holdings Limited

人瑞人才科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6919)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

SUMMARY OF ANNUAL RESULTS

	For the year ended 31 December		Change
	2019 RMB'000	2018 RMB'000	
<u>RESULTS</u>			
Revenue	2,287,601	1,615,891	41.6%
Operating profit	118,269	57,527	105.6%
Loss for the year	(779,831)	(136,935)	469.5%
Net cash generated from operating activities	150,512	41,743	260.6%
<u>NON-HKFRS MEASURES</u>			
Adjusted net profit ⁽¹⁾	134,262	67,690	98.3%
Adjusted net margin (%) ⁽²⁾	5.9	4.2	1.7
<i>Notes:</i>			
(1) Adjusted net profit refers to the net loss for the year excluding fair value losses on hybrid financial instruments and listing expenses. Adjusted net profit for the year is not a measure required by or presented in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). The use of this non-HKFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results or operations or financial condition as reported under HKFRS.			
(2) Adjusted net margin is calculated as the adjusted net profit as a percentage of the revenue for the year.			
	As at 31 December		Change
	2019	2018	
Number of flexible staffing employees	25,118	19,464	29.0%

The board (the “Board”) of directors (the “Directors”) of Renrui Human Resources Technology Holdings Limited (the “Company”) does not recommend the payment of a final dividend for the year ended 31 December 2019.

ANNUAL RESULTS

The Board is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2019 with comparative figures for the year ended 31 December 2018 as follows:

CONSOLIDATED INCOME STATEMENT AND CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

For the year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Revenue	3	2,287,601	1,615,891
Cost of revenue		<u>(2,046,716)</u>	<u>(1,460,935)</u>
Gross profit		240,885	154,956
Selling and marketing expenses		(42,868)	(42,394)
Research and development expenses		(13,372)	(13,088)
Administrative expenses		(89,750)	(48,095)
Reversal of/(provision for) net impairment losses on financial assets		53	(2,993)
Other income	4	21,158	9,409
Other gains/(losses), net	5	<u>2,163</u>	<u>(268)</u>
Operating profit		118,269	57,527
Finance income	6	1,562	233
Finance costs	6	(5,351)	(1,781)
Fair value losses on hybrid financial instruments		<u>(878,151)</u>	<u>(196,542)</u>
Loss before income tax		(763,671)	(140,563)
Income tax (expense)/credit	7	<u>(16,160)</u>	<u>3,628</u>
Loss for the year attributable to equity holders of the Company		<u>(779,831)</u>	<u>(136,935)</u>
Loss per share (expressed in RMB per share)			
– Basic and diluted loss per share	8	<u>(12.42)</u>	<u>(2.36)</u>
Loss for the year		<u>(779,831)</u>	<u>(136,935)</u>
Other comprehensive loss			
<i>Items that may not be reclassified subsequently to profit or loss:</i>			
Currency translation differences		<u>(28,932)</u>	<u>(12,858)</u>
Other comprehensive loss for the year		<u>(28,932)</u>	<u>(12,858)</u>
Total comprehensive loss for the year attributable to equity holders of the Company		<u>(808,763)</u>	<u>(149,793)</u>

CONSOLIDATED BALANCE SHEET

As at 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		84,499	62,069
Intangible assets		768	603
Other non-current assets		6,005	4,641
Deferred income tax assets		14,935	26,091
Total non-current assets		106,207	93,404
Current assets			
Trade and notes receivables	9	341,452	331,444
Prepayments, deposits and other receivables		7,246	7,990
Amount due from a related party		—	18
Cash and cash equivalents		1,029,456	40,341
Total current assets		1,378,154	379,793
Total assets		1,484,361	473,197
EQUITY/(DEFICIT)			
Share capital		51	18
Share premium		2,170,559	—
Other reserves		(30,911)	(6,933)
Accumulated losses		(1,072,328)	(292,497)
Total equity/(deficit)		1,067,371	(299,412)
LIABILITIES			
Non-current liabilities			
Hybrid financial instruments		—	402,198
Lease liabilities		54,381	41,592
Total non-current liabilities		54,381	443,790
Current liabilities			
Trade and other payables	10	316,875	279,720
Contract liabilities	3	22,016	26,929
Current income tax liabilities		4,669	—
Borrowings	11	—	10,000
Lease liabilities		19,049	12,170
Total current liabilities		362,609	328,819
Total liabilities		416,990	772,609
Total equity/(deficit) and liabilities		1,484,361	473,197

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

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

NOTES

1 General information

The Company was incorporated in the Cayman Islands on 14 October 2011 as an exempted company with limited liability. The registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Group are principally engaged in the provision of flexible staffing services, professional recruitment services and other human resources (“**HR**”) solutions services in the People’s Republic of China (the “**PRC**”). The ultimate controlling parties of the Company are Mr. Zhang Jianguo, Mr. Zhang Feng and Ms. Zhang Jianmei (collectively, the “**Controlling Equity Holders**”).

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

The consolidated financial information in this announcement are presented in Renminbi (“**RMB**”), unless otherwise stated.

2 Summary of significant accounting policies

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

(i) Compliance with HKFRS and HKCO

The consolidated financial statements of the Company have been prepared in accordance with HKFRS and requirements of the Hong Kong Companies Ordinance Cap. 622.

(ii) Historical cost convention

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

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

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

HKFRS 16 – Leases

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

Amendments to HKAS 28 – Long-term Interests in Associates and Joint Ventures

Annual Improvements to HKFRS Standards 2015 – 2017 Cycle

Amendments to HKAS 19 – Plan Amendment, Curtailment or Settlement

Interpretation 23 Uncertainty over Income Tax Treatments

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

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

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

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

3 Segment information and revenue

(a) Description of segments and principal activities

The Group's business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions. As a result of this evaluation, the Group determined that it has operating segments as follows:

The CODM assesses the performance of the operating segments mainly based on segment revenues and segment gross profit. Thus, segment result would present revenue and gross profit for each segment, which is in line with CODM's performance review.

Flexible staffing

The flexible staffing segment offers contingent workers for customers who wish to manage their own headcount or only require worker for limited time or a specific project. The Group provides contingent workers contracted with the Group that the Group finds suitable for the job descriptions and assign them to the customers.

Professional recruitment

The professional recruitment segment offers headhunting service. The Group assists customers search for, identify and recommend suitable candidates for the job vacancies. Also, the Group assists customers' hiring process, which includes candidate assessments, screening and conducting candidate interviews.

Other HR solutions

The Group provides other human resource solutions such as business process outsourcing ("BPO"), corporate training and labour dispatch.

The principal operating entities of the Group are domiciled in the PRC. Accordingly, almost all of the Group's revenue are derived in the PRC.

(b) Segment results and other information

The segment information provided to the Group's CODM for the reportable segments for the year ended 31 December 2019 was as follows:

	Year ended 31 December 2019			Total RMB'000
	Flexible staffing RMB'000	Professional recruitment RMB'000	Other HR solutions RMB'000	
Segment revenue	<u>2,150,950</u>	<u>63,509</u>	<u>73,142</u>	<u>2,287,601</u>
Segment gross profit	<u>192,078</u>	<u>22,536</u>	<u>26,271</u>	<u>240,885</u>
Unallocated:				
Selling and marketing expenses				(42,868)
Research and development expenses				(13,372)
Administrative expenses				(89,750)
Other income (<i>Note 4</i>)				21,158
Fair value losses on hybrid financial instruments				(878,151)
Other gains (<i>Note 5</i>)				2,163
Reversal of net impairment losses on financial assets				53
Finance costs, net (<i>Note 6</i>)				<u>(3,789)</u>
Loss before income tax				(763,671)
Income tax expense (<i>Note 7</i>)				<u>(16,160)</u>
Loss for the year				<u><u>(779,831)</u></u>

The segment information provided to the Group's CODM for the reportable segments for the year ended 31 December 2018 was as follows:

	Year ended 31 December 2018			Total RMB'000
	Flexible staffing RMB'000	Professional recruitment RMB'000	Other HR solutions RMB'000	
Segment revenue	1,514,950	68,369	32,572	1,615,891
Segment gross profit	113,119	31,053	10,784	154,956
Unallocated:				
Selling and marketing expenses				(42,394)
Research and development expenses				(13,088)
Administrative expenses				(48,095)
Other income (<i>Note 4</i>)				9,409
Fair value losses on hybrid financial instruments				(196,542)
Other losses (<i>Note 5</i>)				(268)
Net impairment losses on financial assets				(2,993)
Finance costs, net (<i>Note 6</i>)				(1,548)
Loss before income tax				(140,563)
Income tax credit (<i>Note 7</i>)				3,628
Loss for the year				<u>(136,935)</u>

(c) Segment assets and segment liabilities

No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM.

(d) **Disaggregation of revenue from contracts with customers**

(i) The Group derived revenue in the following types:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Flexible staffing	2,150,950	1,514,950
Professional recruitment		
– Recruitment	57,629	62,434
– Paid membership	5,880	5,935
Other HR solutions		
– BPO	51,753	22,964
– Corporate training	1,616	965
– Labour dispatch	7,067	8,643
– Other miscellaneous services ^(Note)	12,706	—
	<u>2,287,601</u>	<u>1,615,891</u>

Note: For the year ended 31 December 2019, other miscellaneous services mainly included tailored employee management solutions to the customers, which was recognised over time as the customers simultaneously received and consumed the benefits provided by the Group's performance.

(ii) The Group derived revenue from the transfer of services over time and at a point in time in the following major service lines:

2019	Flexible staffing RMB'000	Professional recruitment RMB'000	Other HR solutions RMB'000	Total RMB'000
Timing of revenue recognition				
At a point in time	—	61,951	1,616	63,567
Over time	2,150,950	1,558	71,526	2,224,034
	<u>2,150,950</u>	<u>63,509</u>	<u>73,142</u>	<u>2,287,601</u>
2018	Flexible staffing RMB'000	Professional recruitment RMB'000	Other HR solutions RMB'000	Total RMB'000
Timing of revenue recognition				
At a point in time	—	68,332	965	69,297
Over time	1,514,950	37	31,607	1,546,594
	<u>1,514,950</u>	<u>68,369</u>	<u>32,572</u>	<u>1,615,891</u>

(iii) Information about major customers

The major customer group from whom the individual customer group's revenue amounted to 10% or more of the Group's total revenue was as below:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Customer group A	<u>784,621</u>	<u>345,850</u>

(e) **Liabilities related to contracts with customers**

The Group recognised the following liabilities related to contracts with customers:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Contract liabilities - professional recruitment	19,889	19,890
Contract liabilities - flexible staffing	1,425	4,161
Contract liabilities - other HR solutions	<u>702</u>	<u>2,878</u>
	<u>22,016</u>	<u>26,929</u>

Contract liabilities represent non-refundable advanced payments received from customers for services that have not yet been provided to the customers, which are expected to be satisfied during one year or less.

All of the Group's revenue is made directly with the customers. For flexible staffing, BPO and labour dispatch, the customers are usually billed on a monthly basis. For other services, the period of the services are generally within one year. As a practical expedient under HKFRS 15, transaction price allocated to these unsatisfied contracts is not disclosed.

During the years ended 31 December 2019 and 2018, all brought-forward contract liabilities at the beginning of the financial year were fully recognised as revenue.

4 Other income

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Government grants (i)	18,111	9,108
Additional deduction of input value-added tax (“VAT”) (ii)	2,881	—
Others	166	301
	<u>21,158</u>	<u>9,409</u>

- (i) The government grants mainly represented financial support funds from local government. There were no specific conditions or other contingencies attaching to these grants, and therefore, the Group recognised the grants upon receipts.
- (ii) Pursuant to the “Announcement on Relevant Policies for Deepening the Value-added Tax Reform” (Cai Shui Haiguan [2019] No.39) (「關於深化增值稅改革有關政策的公告」(財稅海關[2019]第39號)) jointly issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs, the Company’s certain subsidiaries qualified for an additional 10% deduction of input VAT from output VAT from 1 April 2019 to 31 December 2021.

5 Other gains/(losses), net

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Net losses on disposal of property, plant and equipment	(87)	(18)
Exchange gains/(losses) - net	2,136	(129)
Gains on early termination of lease contracts	326	—
Others	(212)	(121)
	<u>2,163</u>	<u>(268)</u>

6 Finance income and costs

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
<i>Finance income</i>		
Interest income on cash and cash equivalents	1,562	233
Finance income	1,562	233
<i>Finance costs</i>		
Interest expense		
– lease liabilities	(4,854)	(1,224)
– amounts due to related parties	—	(310)
– borrowings	(497)	(247)
Finance costs expensed	(5,351)	(1,781)
Finance costs, net	(3,789)	(1,548)

7 Income tax (expense)/credit

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Current income tax	(5,004)	—
Deferred income tax	(11,156)	3,628
	(16,160)	3,628

Cayman Islands

Under the current laws of the Cayman Islands, the Company incorporated in the Cayman Islands is not subject to tax on income or capital gain. Additionally, the Cayman Islands do not impose a withholding tax on payments of dividends to equity holders.

Hong Kong

Hong Kong profits tax rate is 16.5%. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax during the years ended 31 December 2019 and 2018.

PRC corporate income tax (“CIT”)

CIT provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% during the years ended 31 December 2019 and 2018 except for those as discussed below.

According to the “Notice on the Tax Policies of Further Implementation of the Western Region Development Strategy” (Caishui [2011] No.58) (「關於深入實施西部大開發戰略有關稅收政策問題的通知」(財稅[2011]第58號))” issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs, companies set up in the western region and falling into certain encouraged industry catalogue promulgated by the PRC government will be entitled to a preferential tax rate of 15%. Certain subsidiaries within the Group were set up in the western development region and fell into the encouraged industry catalogue, and therefore they were entitled to the above said preferential tax rate of 15%.

Pursuant to the “Circular on Income Tax Policies for Further Encouraging the Development of Software Industry and Integrated Circuit Industry” (Cai Shui [2012] No.27) (「關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知」(財稅[2012]第27號)), certain subsidiary of the Group was entitled to a two-year exemption from income taxes followed by three year of a 50% tax reduction, commencing from the first year when taxable income amount is greater than zero. Certain subsidiary within the Group was qualified for this policy and enjoyed the exemption from income taxes from 1 January 2018.

Withholding tax on undistributed dividends

According to CIT law, distribution of profits earned by PRC companies since February 2015 is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investor, upon the distribution of profits to overseas-incorporated immediate holding companies. During years ended 31 December 2019 and 2018, the PRC subsidiaries within the Group did not have any profit distribution plan.

8 Loss per share

(a) Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to the ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2019	2018
Loss attributable to the equity holders of the Company (RMB'000)	<u>(779,831)</u>	<u>(136,935)</u>
Weighted average number of ordinary shares in issue (thousands)	62,779	57,960
Total basic loss per share attributable to the ordinary equity holders of the Company (RMB per share)	<u>(12.42)</u>	<u>(2.36)</u>

(b) Diluted loss per share

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company had three categories of dilutive potential ordinary shares: preferred shares, share options and convertible bonds. As the Group incurred losses for the years ended 31 December 2019 and 2018, the dilutive potential ordinary shares were not included in the calculation of diluted loss per share as their inclusion would be anti-dilution.

Accordingly, diluted loss per share for the years ended 31 December 2019 and 2018 were the same as basic loss per share of the respective years.

9 Trade and notes receivables

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade receivables	338,600	337,545
Less: provision for impairment of trade receivables	(5,916)	(6,101)
	<u>332,684</u>	<u>331,444</u>
Trade receivables - net	332,684	331,444
Notes receivables	8,768	—
	<u>341,452</u>	<u>331,444</u>

The directors of the Company considered that the carrying amounts of the trade and notes receivables balances approximated their fair values at 31 December 2019 and 2018.

The Group generally allows a credit period of 10 to 70 days to its customers. Ageing analysis of trade receivables based on recognition date before provision for impairment was as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade receivables		
– within 3 months	304,100	320,168
– 4 months to 6 months	30,070	12,491
– 7 months to 9 months	752	244
– 10 months to 12 months	10	118
– Over 12 months	3,668	4,524
	<u>338,600</u>	<u>337,545</u>

Impairment and risk exposure

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

10 Trade and other payables

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade payables	13,496	17,393
Accrued payroll and welfare	227,087	206,354
VAT and surcharges	35,443	32,564
Risk deposit due to customers	11,044	8,821
Listing expenses payables	21,413	7,511
Others	8,392	7,077
	<u>316,875</u>	<u>279,720</u>

As at 31 December 2019 and 2018, all trade and other payables of the Group were unsecured and non-interest bearing. The fair value of trade and other payables, except for accrued payroll and welfare and VAT and surcharges which were not financial liabilities, approximated their carrying amounts due to short maturities.

As at 31 December 2019 and 2018, the ageing analysis of the trade payables based on invoice date was as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade payables		
Within 6 months	9,996	17,393
7 months to 12 months	3,500	—
	<u>13,496</u>	<u>17,393</u>

11 Borrowings

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Bank borrowings	<u>—</u>	<u>10,000</u>

As at 31 December 2018, bank loans of RMB10,000,000 were unsecured, and guaranteed by Mr. Zhang Jianguo and certain subsidiaries of the Company, with annual interest rates of 5.57%. In February 2019, the guarantee from Mr. Zhang Jianguo was released.

As at 31 December 2018, the carrying amounts of borrowings were denominated in RMB.

12 Dividends

No dividends have been paid or declared by the Company during each of the years ended 31 December 2019 and 2018.

13 Events occurring after the reporting period

- (i) On 3 January 2020, the over-allotment option in connection with the Company's global offering was partially exercised, and the Company issued 3,130,100 new ordinary shares of US\$0.00005 each at HK\$26.60 per share. Gross proceeds of approximately HK\$83,261,000 (equivalent to approximately RMB74,482,000) was raised and the excess over the par value of approximately RMB1,000 for the 3,130,100 shares issued net of the transaction costs of approximately RMB2,786,000 was credited to share premium account subsequently with an amount of approximately RMB71,695,000.
- (ii) Following the outbreak of Coronavirus Disease 2019 (the "**COVID-19 outbreak**") in early 2020, a series of precautionary and control measures have been implemented across the country by the Chinese government, including extension of the Chinese New Year holiday nationwide, postponement of work resumption after the Chinese New Year holiday in some regions, certain level of restrictions and controls over the travelling of people and traffic arrangements, quarantine of certain residents, heightening of hygiene and epidemic prevention requirements in offices and encouraged social distancing, etc.

The Group will pay close attention to the development of the COVID-19 outbreak and continue to evaluate its impact on the financial position and operating results of the Group. As at the date of this announcement, the Group was not aware of any material adverse effects on its financial statements as a result of the COVID-19 outbreak.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

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

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

BUSINESS REVIEW

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

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

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

Flexible Staffing

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

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

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

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

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

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

Notes:

- (1) Contract employees represent only flexible staffing employees.
- (2) New economy generally refers to industries that rely inherently on technological advancements, such as the internet, business services, hardware and software technologies, media and entertainment industries, and traditional industries that are being transformed as a result of innovations, such as retail, healthcare, finance and new energy industries, according to the latest CIC's report issued in 2020.
- (3) Others mainly include offline education, retail, logistics and manufacturing.

Professional Recruitment

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

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

Other HR Solutions

BPO

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

Corporate Training

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

Labour Dispatch Services

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

Other Miscellaneous Services

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

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

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

- (a) Optimisation of existing systems and platforms:
 - (i) new features were added to the Xiang Recruitment Platform to facilitate job candidates’ interaction to enhance our recruitment process;
 - (ii) a new interview module was introduced for our clients through the Rui Recruitment System (瑞聘, our proprietary recruitment process management system) to satisfy the increasing needs of our clients;
 - (iii) new functions were added to the Rui Home Platform (瑞家園, our proprietary management platform) for our contract employees to handle their benefits, including reimbursement of expenses, and insurance-related matters; and

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

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

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

(c) Application of five software copyrights:

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

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

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

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

Our Suppliers

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

Human Resources

As at 31 December 2019, we had a total of 31,675 employees based in various cities in China. Among which, we had 645 internal employees, representing an increase of 45 employees, or approximately 7.5%, as compared to that in 2018. The average age of our internal employees was less than 29 years old, and approximately 99.5% of our internal employees had a university degree or above.

Young employees provide more energy and motivation to our entire team, and their good education background enables us to provide clients with more professional HR services. The table below sets forth the total number of employees by function as at 31 December 2019:

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

- (1) Our sales and marketing employees include our major client sales team of approximately 61 salespersons.
- (2) Others mainly include back-office support staff, such as legal department, finance department, and HR department.

The Group offers competitive remuneration packages to its internal employees, which are determined in accordance with the relevant laws and regulations in the places where the Group operates and the individual qualifications, experience, performance of the employees concerned, as well as market salary levels. In addition, the Group provides employees with other comprehensive benefits, including social insurance and housing provident funds, in accordance with the regulations of the labour contract signing companies and the applicable laws of the cities where the employees are actually based. For the year ended 31 December 2019, the Group's labour costs amounted to approximately RMB2,029.7 million, of which internal labour costs amounted to approximately RMB112.4 million, representing an increase of approximately RMB10.7 million or approximately 10.5% as compared to that in

2018, which was mainly due to the increase in the number of internal employees, the advancement in remuneration packages and the new employment of a number of mid-level management personnel with competitive remunerations to enhance our professional capabilities in terms of flexible staffing services and recruitment skills.

Pursuant to the two pre-IPO share option schemes adopted by the Group on 12 March 2019 (namely, the Mid-senior Level Management Pre-IPO Share Option Scheme and the Non-managerial Employee Pre-IPO Share Option Scheme), a total of 22,904,600 share options were granted, of which 40,000 share options were lapsed in December 2019 and 22,864,600 share options remained unvested as at 31 December 2019. The Group also adopted the post-IPO share option scheme (the “**Post-IPO Share Option Scheme**”) and the post-IPO share award scheme (the “**Post-IPO Share Award Scheme**”) on 26 November 2019. As at 31 December 2019, no share options nor share awards had been granted under these two schemes.

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

Financial Review

Revenue

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

Cost of Revenue

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

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

Gross Profit and Gross Profit Margin

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

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

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

Selling and Marketing Expenses

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

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

R&D Expenses

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

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

Administrative Expenses

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

Our administrative expenses for the year ended 31 December 2019 amounted to approximately RMB89.8 million, representing an increase of approximately RMB41.7 million or approximately 86.7% as compared to approximately RMB48.1 million for the year ended 31 December 2018, which was mainly due to (i) the listing expenses for the year ended 31 December 2019 increased by approximately RMB27.8 million to approximately RMB35.9 million in 2019 as compared to approximately RMB8.1 million in 2018, as most of our listing expenses were incurred in 2019 as our preparation for the listing (the “**Listing**”) of our shares (the “**Shares**”) on the Stock Exchange commenced in September 2018 and was completed in December 2019; (ii) the employee benefit expenses for our management personnel increased by approximately RMB8.7 million as compared to approximately RMB23.3 million in 2018, of which approximately RMB5.2 million was used mainly for the hiring of number of additional management personnel and department heads, with an increase in the salary of management personnel. Also, the issuance of the last two batches of share options under our pre-IPO share option schemes was completed in 2019, therefore generating an expenditure of share-based payment of approximately RMB5.0 million, representing an increase of approximately RMB3.5 million as compared to approximately RMB1.5 million in 2018; and (iii) the increase in annual fees to our auditor incurred after the Listing as compared to those incurred before the Listing, as the charges for audit and non-audit services amounted to approximately RMB2.4 million in total, representing an increase of approximately RMB2.0 million as compared to that for 2018. At the same time, the professional services providers such as legal advisers, compliance adviser and company secretary engaged after the Listing contributed to the increase in professional service fees by approximately RMB1.2 million as compared to that of 2018. In summary of the above, our administrative expenses as a percentage of revenue increased from approximately 3.0% for the year ended 31 December 2018 to approximately 3.9% for the year ended 31 December 2019, which was primarily due to the listing expenses incurred in 2019.

Other Income

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

Other Gains/(Losses), Net

For the year ended 31 December 2019, other gains amounted to approximately RMB2.2 million. For the year ended 31 December 2018, other losses amounted to approximately RMB0.3 million. Such change was mainly due to the exchange gains from the net proceeds from the Listing (the “**Net Proceeds**”).

Operating Profit

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

Net Finance Costs

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

Fair Value Losses on Hybrid Financial Instruments

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

Loss before Income Tax

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

Loss for the Year

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

Non-HKFRS Measures

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

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

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

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

Net Current Assets

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

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

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

Trade and Notes Receivables

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

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

Notes:

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

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

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

Prepayments, Deposits and Other Receivables

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

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

Trade and Other Payables

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

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

Property, Plant and Equipment

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

Other Non-current Assets

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

Deferred Income Tax Assets

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

Key Financial Ratio

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

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

Notes:

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

- (2) Gross margin equals gross profit divided by revenue for the year and multiplied by 100%.
- (3) Adjusted net margin (non-HKFRS) is calculated as the adjusted net profit as a percentage of the revenue for the same year.
- (4) Adjusted current ratio is calculated as the adjusted current assets divided by the current liabilities at the end of each financial year. The adjusted current assets is defined as the current assets excluding the Net Proceeds received, where applicable.

Adjusted Net Profit

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

Adjusted Net Margin

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

Adjusted Current Ratio

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

Liquidity and Capital Resources

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

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

Cash Flows

Net Cash Generated from Operating Activities

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

Net Cash Used in Investing Activities

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

Net Cash Generated from Financing Activities

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

Capital Structure

Indebtedness

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

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

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

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

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

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

Capital Expenditure

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

Off-balance Sheet Commitments and Arrangements

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

Outlook and Future Strategies

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

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

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

Focusing on Serving New Economy Companies

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

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

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

Increasing Investment in R&D

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

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

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

Enlarge the Scale of BPO Services

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

Enhance the Professional Service Capabilities of Our Team

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

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

Future Plans on Significant Investments

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

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

USE OF NET PROCEEDS FROM THE LISTING

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

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

			Amount of Net Proceeds utilised up to 31 December 2019	Balance of Net Proceeds unutilised as at 31 December 2019 (HK\$)	Intended timetable for the use of unutilised Net Proceeds	
	Intended use of Net Proceeds	Original allocation (Percentage)	Original allocation (HK\$)			
(i)	Expand our geographic coverage to better support our clients and new opportunities	20%	184.4 million	Nil	184.4 million	By/ before 31 December 2022
(ii)	Expand our industry coverage, mainly through acquisition and also through organic growth in the next three years, to capture demand for flexible staffing services we have observed in certain underserved and expanding industries, and specifically, to target our services to more financial institution, IT industry and new retail clientele	17%	156.7 million	Nil	156.7 million	By/ before 31 December 2022

			Amount of Net Proceeds utilised up to 31 December 2019	Balance of Net Proceeds unutilised as at 31 December 2019	Intended timetable for the use of unutilised Net Proceeds
Intended use of Net Proceeds	Original allocation (Percentage)	Original allocation (HK\$)		(HK\$)	
(iii) Expand our existing BPO and headhunting service offerings in the next three years in order to capture the expected growth potential in both service sectors	13%	119.9 million	Nil	119.9 million	By/ before 31 December 2022
(iv) Further enhance our integrated HR ecosystem and build up our capabilities in artificial intelligence and data mining technology	22%	202.8 million	Nil	202.8 million	By/ before 31 December 2024
(v) Further promote our brand and launch marketing and promotion activities	10%	92.2 million	Nil	92.2 million	By/ before 31 December 2022
(vi) Support our global expansion strategy in the next four years	8%	73.8 million	Nil	73.8 million	By/ before 31 December 2023
(vii) Working capital and general corporate purposes	10%	92.2 million	Nil	92.2 million	By/ before 31 December 2022

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

DIVIDENDS

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

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEEING 2020

The annual general meeting of the Company will be held on Wednesday, 10 June 2020. For the purpose of determining the equity holders eligibility to attend at the annual general meeting, the register of members of the Company will be closed from Friday, 5 June 2020 to Wednesday, 10 June 2020, both days inclusive. In order to be eligible to attend and vote at the annual general meeting, all completed Share transfer forms accompanied by the relevant Share certificates, must be lodged with the Company's Branch Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 4 June 2020.

CORPORATE GOVERNANCE CODE

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

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

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be segregated and should not be performed by the same individual. According to the current structure of the Board, the positions of the chairman and chief executive officer of the Company are held by Mr. Zhang Jianguo. The Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company, given that: (i) decision to be made by the Board requires approval by at least a majority of the Directors and that the Board comprises three independent non-executive Directors out of eight Directors, and the Board believes there is sufficient check and balance on the Board; (ii) Mr. Zhang Jianguo and the other Directors are aware of and undertake to fulfil their fiduciary duties as Directors, which require, among other things, that he acts for the benefit and in the best interests of the Company and will make decisions of the Group accordingly; and (iii) the balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting the operations of the Group. Moreover, the overall strategic and other key business, financial and operational policies of the Group are made collectively after thorough discussion at both the Board and senior management levels. Finally, as Mr. Zhang Jianguo is our principal founder, the Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning and internal communication for the Group. The Board will continue to review the effectiveness of the corporate governance structure of the Group in order to assess whether separation of the roles of chairman and chief executive officer is necessary.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code from the Listing Date up to 31 December 2019.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

AUDIT COMMITTEE

The audit committee of the Board (the “**Audit Committee**”) comprises three members, including two independent non-executive Directors, namely Mr. Leung Ming Shu and Ms. Chan Mei Bo Mabel and one non-executive Director, namely Mr. Chow Siu Lui. Mr. Leung Ming Shu is the chairman of the Audit Committee. The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, provide advice and comments to the Board and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Group.

The Group's annual results for the year ended 31 December 2019 have been reviewed by the Audit Committee.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated financial statements for the year ended 31 December 2019 as set out in this announcement have been agreed by the Group's external auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year then ended. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by PricewaterhouseCoopers on this announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.renruih.com). The annual report of the Company for the year ended 31 December 2019 containing all information required by the Listing Rules will be dispatched to the equity holders of the Company and published on the same websites in due course.

By order of the Board

Renrui Human Resources Technology Holdings Limited

Zhang Jianguo

Chairman and Chief Executive Officer

The PRC, 31 March 2020

As at the date of this announcement, the Board of the Company comprises Mr. Zhang Jianguo, Mr. Zhang Feng and Ms. Zhang Jianmei as executive Directors; Mr. Chen Rui and Mr. Chow Siu Lui as non-executive Directors; and Ms. Chan Mei Bo Mabel, Mr. Shen Hao and Mr. Leung Ming Shu as independent non-executive Directors.