

Quarterly Activities Report - December 2021

Highlights

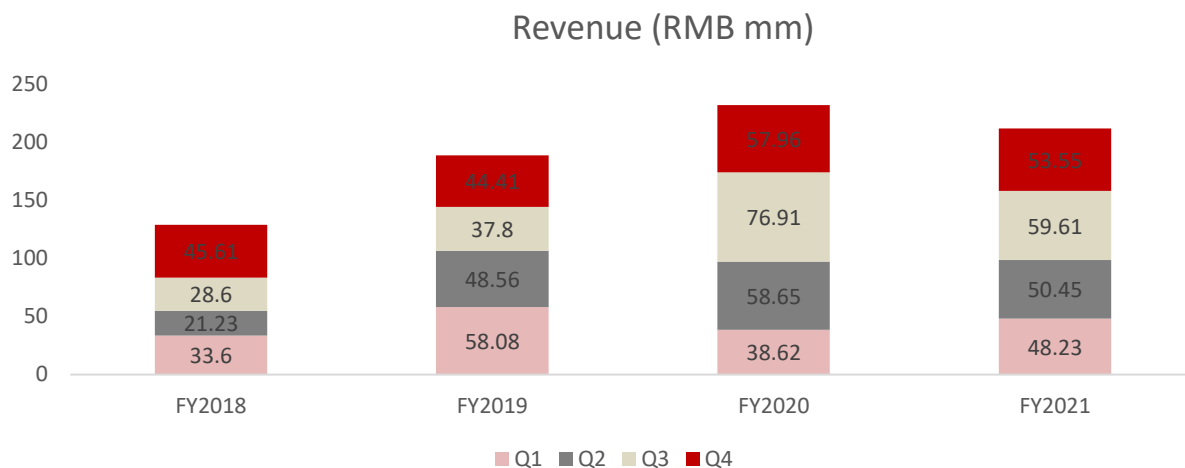
- Continued strong growth trajectory in insurance brokerage segment with 72% growth in revenue compared with FY2020
- The total revenue in FY2021 representing 91% of the revenues in FY2020
- Group revenue saw a 7.6% yoy decline in Q4 2021, an improvement versus the 22.5% yoy decline in seen in Q3
- Weak macroeconomic conditions were offset by new revenue streams and strong cost control while continuing to improve technology and customer breadth and depth
- Cash balance of RMB 27.75 million (AUD 5.96 million) as of 31 December 2021

99 Loyalty Limited (ASX: 99L) (**99 Loyalty Technology** or the **Company**) is pleased to provide an update on activities for the period ending 31 December 2021.

Financial Performance¹ Update

The Company reported revenue for Q4 2021 of RMB 53.55 million (AUD 11.50 million)¹, This brings the 2021 Year to Date revenue to RMB 211.85 million (unaudited), representing 91% of total revenues in FY2020. The Company maintained cash balances of RMB 27.75 million (AUD 5.96 million) as of December 31 2021.

¹ Figures based on management accounts that have not been audited or reviewed.



A\$11.50m in Revenue (Q4 2021)	A\$11.25m in Gross Profit (Q4 2021)	-A\$1.71m in EBITDA (Q4 2021)	A\$5.96m in Cash (31 December 2021)
---	--	--	--

FY2021 Figures based on management accounts that have not been audited or reviewed

*Using average exchange rate during 2021 Q4, AUD/RMB= 4.6569 to eliminate the exchange rate impact.

(Source: <http://www.safe.gov.cn/>)

Commentary on Financial Performance

Q4 2021 completed another strong year for insurance related revenue growth. Total revenue delivered from all insurance offerings in the fiscal year of 2021 was RMB 154 million, up from RMB 89 million in 2020 (72% growth rate):

- ✓ The rapid growth achieved in Q4 2021 is a continuation of four years strong growth in insurance related revenue since the company obtained its PRC insurance broking license in late 2017 to take advantage of strong secular growth trends. China's insurance penetration rate remains low currently at 4.30% versus the global average of 5.40% and advanced economies such as the UK and US with 9.9% and 7.3% respectively. China is a large underpenetrated high growth market that has significant capacity for high long term insurance sector growth.
- ✓ Increasing insurance platform use by existing agents and the addition of 68 new agent groups to the platform over the quarter.

- ✓ Increased consumer awareness of the need for risk protection and insurance products due to the Covid-19 pandemic lockdown policy measures also encouraged the use of online platforms for the distribution of insurance products, fueling demand for the virtual insurance goods offered via 99 Loyalty Technology's online platform.

Group revenue saw a 7.6% yoy decline in Q4 2021, an improvement versus the 22.5% yoy decline in seen in Q3. Total revenue in FY2021 accounted for 91% of total revenue in FY2020. Weak macroeconomic conditions were offset by new revenue streams and strong cost control while continuing to improve technology and customer breadth and depth:

- ✓ Sluggish China economic growth due to impact of the COVID-19 pandemic and associated lockdown responses. The weak economic and financial conditions continue to result in the Company's enterprise clients remaining conservative in marketing activities.
- ✓ In light of the challenging operating conditions the Company has focused on upgrading and optimising systems, maintaining and growing relationships with business partners through the expansion of financial products as virtual goods, and the maintenance of strong cost control measures.
- ✓ The Company remains optimistic on conditions improving in 2022 given the upbeat Central Economic Work Conference held in December 2021.

Cash Flow Commentary²

The Company held cash balances of RMB 27.75 million (AUD 5.96 million) at the end of Q4 2021 from RMB 61.33 million at the end of Q3 2021. This was a managed outcome as the Company settled a variety of current liabilities (decreased by 38% compared to Q3) and made prepayments (increased by 6% compared to Q3) to suppliers to meet the expected needs related to the upcoming Chinese Lunar New Year.

² Figures based on management accounts that have not been audited or reviewed.

Related Party Payments

RMB 201,900 (AUD 43,355) paid to Investorlink Direct Limited for the directors' fees from July to September 2021 (Ryan, Benson and Woodfull) during the quarter. No payments were made to any other related parties of the entity and associates.

-ENDS-

Released with authority of the board.

For further information, please contact:

Ross Benson

Chairman

rbenson@investorlink.com.au

+61 418 254 548

Mark Flynn

Investor Relations

mf@irxadvisors.com

+61 416 068 733

Rowan Parchi

Investor Relations

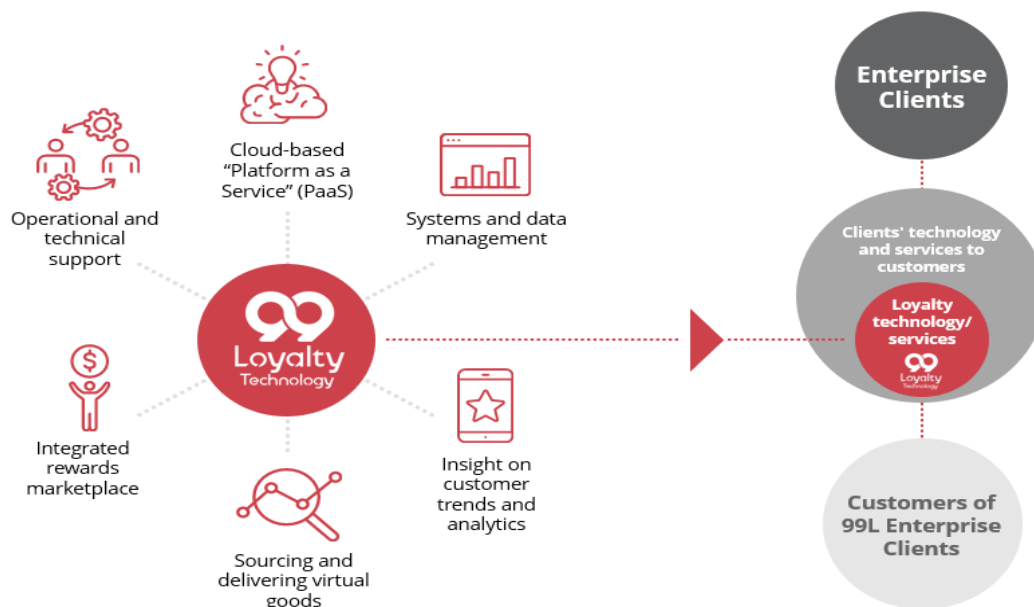
rowan.parchi@praxispath.com

+61 402 539 380

About 99 Loyalty

99 Loyalty Technology delivers a platform and insights that enables China's leading banks and insurance companies to enhance customer loyalty and win new business.

99 Loyalty Technology is a business to business (B2B) enterprise technology solution with greater than 200 enterprise clients. It delivers the "technology behind the scenes", integrating seamlessly into the client's own ecosystem. This allows users to interact in the client's ecosystem as per normal, with an enhanced experience. The enterprise client benefits from access to a full suite of technology services – which ranges from security to full analysis, virtual goods and payments.



99 Loyalty Technology's Redemption Management Technology helps clients acquire and retain customers through loyalty programs. 99 Loyalty Technology provides the technology platform to manage rewards points, manage points redemptions, and the sourcing and delivery of rewards within the client's own digital assets. This service is predominantly used by Chinese banks.

99 Loyalty Technology's Interactive Marketing Technology helps clients acquire and retain customers through interactive marketing campaigns. 99 Loyalty Technology provides the technology platform that includes drawing customers into the client's app, gamification of app activities, and the sourcing and delivery of rewards for that activity. This service is predominantly used by Chinese insurance companies. Importantly 99 Loyalty Technology is also licensed to use its technology platform for brokering insurance policies in China.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

99 LOYALTY LIMITED

ABN

164 764 729

Quarter ended ("current quarter")

December 2021

Consolidated statement of cash flows	Current quarter RMB	Year to date 31 Dec 2021 RMB
1. Cash flows from operating activities		
1.1 Receipts from customers	497,514,396	2,310,975,700
1.2 Payments for		
(a) research and development	-1,256,553	-4,758,422
(b) product manufacturing and operating costs	-453,289,099	-2,178,869,311
(c) advertising and marketing	-42,122,764	-141,393,818
(d) leased assets		
(e) staff costs	-10,614,566	-53,326,856
(f) administration and corporate costs	-6,227,049	-23,442,402
1.3 Dividends received (see note 3)		
1.4 Interest received	55,443	272,752
1.5 Interest and other costs of finance paid	-2,727,111	-11,366,833
1.6 Income taxes paid	-108,087	-1,513,999
1.7 Government grants and tax incentives	324,000	2,901,160
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	-18,451,390	-100,522,029
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		

Consolidated statement of cash flows		Current quarter RMB	Year to date 31 Dec 2021 RMB
	(c) property, plant and equipment	-801,572	-1,349,107
	(d) investments		
	(e) intellectual property	-	-
	(f) other non-current assets		
2.2	Proceeds from disposal of:		
	(g) entities		
	(h) businesses		
	(i) property, plant and equipment		
	(j) investments		
	(k) intellectual property		
	(l) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	Net cash from / (used in) investing activities	-801,572	-1,349,107

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)		
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities		
3.5	Proceeds from borrowings	38,000,000	135,000,000
3.6	Repayment of borrowings	-52,300,000	-122,300,000
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	Net cash from / (used in) financing activities	-14,300,000	12,700,000

Consolidated statement of cash flows		Current quarter RMB	Year to date 31 Dec 2021 RMB
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	61,330,761	116,895,180
4.2	Net cash from / (used in) operating activities (item 1.9 above)	-18,451,390	-100,522,029
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-801,572	-1,349,107
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-14,300,000	12,700,000
4.5	Effect of movement in exchange rates on cash held	-26,773	26,982
4.6	Cash and cash equivalents at end of period	27,751,026	27,751,026

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter RMB	Previous quarter RMB
5.1	Bank balances	27,751,026	61,330,761
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	27,751,026	61,330,761

6.	Payments to related parties of the entity and their associates	Current quarter RMB
6.1	Aggregate amount of payments to related parties and their associates included in item 1	201,900
6.2	Aggregate amount of payments to related parties and their associates included in item 2	

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

7.	Financing facilities <i>Note: the term “facility” includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end RMB	Amount drawn at quarter end RMB
7.1	Loan facilities	81,700,000	72,700,000
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	Total financing facilities	81,700,000	72,700,000
7.5	Unused financing facilities available at quarter end	9,000,000	
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
<div>99 Loyalty has entered into receivables financing contracts with several lenders to supplement its working capital, interest rates range up to 18% per annum. 99 Loyalty pledged its accounts receivable to the lenders to guarantee repayment. Please see details of the facilities as below:</div> <div>Lender: Shenzhen Qianhaiyibainian Business Factoring Co., Ltd. Credit Limit: RMB 50,000,000 Interest rate: 18% per annum Contract Period: Until 25th May 2025</div> <div>Lender: Nanpingyingjie Business Factoring Co., Ltd. Credit Limit: RMB 12,700,000 Interest rate: 10% per annum Renew the contract on every 180 days</div> <div>Lender: Xinghe Business Factoring Co., Ltd. Credit Limit: RMB 15,000,000 Interest rate: 15% per annum Renew the contract on every 90 days</div> <div>Lender: Bank of Communications Credit Limit: RMB 4,000,000 Interest rate: 4% per annum</div>			

8.	Estimated cash available for future operating activities	RMB
8.1	Net cash from / (used in) operating activities (item 1.9)	-18,451,390
8.2	Cash and cash equivalents at quarter end (item 4.6)	27,751,026
8.3	Unused finance facilities available at quarter end (item 7.5)	9,000,000
8.4	Total available funding (item 8.2 + item 8.3)	36,751,026
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.99
<p><i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i></p>		
8.6	<p>If item 8.5 is less than 2 quarters, please provide answers to the following questions:</p> <p>8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?</p> <div> <p>Answer:</p> <p>No.</p> <p>The reason for the current low level of net operating cash flows is:</p> <ul style="list-style-type: none"> To meet the expected needs resulting from the upcoming Chinese Lunar New year, the Company has been proactive and made prepayments to suppliers. Prepayments have increased by 6% compared to Q3. The Company provided long credit term to specific enterprise clients, for example, China Construction Bank. This resulted in a delay of operating cash inflows in Q4. In Q4, the Company repaid current liabilities by 38% compared to Q3. <p>The Company is striving to develop business activity and improve the revenue. Operating cash flows are expected to improve because:</p> <ul style="list-style-type: none"> Total revenue in FY2021 represents 91% total revenue in FY2020 under weak market sentiment demonstrating the Company's ability to generate strong revenues across varied market conditions while maintaining cash inflows. The insurance brokerage segment has enjoyed a continuing growth. Compared with FY2020, its revenue has increased 72%. This constitutes a significant and growing element of the Company's revenue. The Company has stable and long-term relationships with enterprise clients and suppliers. This will underpin the Company's sustainable development. The Company's sales and accounting departments are improving client quality assessment policies to reduce accounts receivable aging and to accelerate collection processes. Cost controls are in place and strict controls will help eliminate unnecessary expenses. <p>All above these would help to improve the Company's operating cash flows.</p> </div>	

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

Yes.

- The Company has unused loan facilities which will provide reliable funding to the Company.
- The Company is exploring other loan funding agreements with new lenders to support working capital. Potential loan facility providers include CCB Trust, Bank of Hangzhou, etc.
- The Company's accounting department is working with the sales department to optimise client quality assessment systems to improve the accounts receivable turnover ratio, including but not limited to:
 - ✓ Reward policy for enterprise clients who made prepayments.
 - ✓ Review enterprise clients' credit terms quarterly and upgrade score mechanism annually.
 - ✓ Review accounts receivable summary reporting monthly.

With all these steps, the Company's cash resources will improve.

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

Yes.

- 99 Loyalty has over 10-year business experience in this industry in China and has a strong relationship with suppliers and enterprise clients.
- In the upcoming New Year, the Company has devised strategic development plans for short-term and long-term objectives and has assigned the Company's goal to each department's goals. The Company is striving to improve revenues and gross profits.
- With customisable technology solutions, mature data analysis, large amount of software patents, experienced management teams and committed employees, 99 Loyalty will be able to continue developing its business and explore new customer segments.

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Date: 31 January 2022.....

Authorised by: ...Board of directors.....

(Name of body or officer authorising release)

Notes

1. The definitions in, and provisions of, IAS 7: Statement of Cash Flows applies to this report except for any additional disclosure requirements requested by IAS 7 that are not already itemised in this report.
2. The Company has adopted accounting policies that comply with International Financial Reporting Standards (IFRS) and the figures in this report are prepared in accordance with applicable IFRS. The figures disclosed in the report are in Chinese Renminbi (RMB), the official currency of The People's Republic of China, which is the functional currency of the Company.
3. 99 Loyalty has entered into business factoring contracts, bank and other loan funding agreements with several lenders to supplement its working capital. 99 Loyalty has pledged its accounts receivables to guarantee repayment. More details about the financing facilities are disclosed in Item 7.
4. 99 Loyalty continues to maintain a focussed and disciplined approach to cash flow management and growth of the cloud delivered services whilst actively pursuing a range of financing options to support the growth of this business segment over the long term.