



99 LOYALTY LIMITED
(FORMERLY KNOWN AS 99 TECHNOLOGY LIMITED)
(incorporated in Hong Kong with limited liability)

**Directors' Report and
Financial Statements**
For the year ended 31 December 2021

99 LOYALTY LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

CONTENTS

	Page
Directors' Report	1
Independent Auditor's Report	11
Consolidated Statement of Profit or Loss and Other Comprehensive Income	17
Consolidated Statement of Financial Position	18
Consolidated Statement of Changes in Equity	19
Consolidated Statement of Cash Flows	20
Notes to the Financial Statements	22

99 LOYALTY LIMITED

DIRECTORS' REPORT

The directors of 99 Loyalty Limited (“the Company”) present their annual report together with the audited consolidated financial statements for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities and other particulars of the Company’s subsidiaries are set out in note 32 to the financial statements.

FINANCIAL STATEMENTS AND APPROPRIATIONS

The financial performance of the Group for the year ended 31 December 2021 and the financial position of the Group as at that date are set out in the consolidated financial statements on pages 17 to 88.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2021.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:-

Ms. Amalisia Zhang (“Ms. Zhang”)

Mr. Christopher Ryan

Mr. Haoming Yu

Mr. Ross Benson

Mr. Simon Woodfull

Mr. Wen Tao

Mr. Henry Chen (appointed on 27 January 2022)

In accordance with the Company’s articles of association, the directors retire and, being eligible, offer themselves for re-election.

99 LOYALTY LIMITED

DIRECTORS' REPORT

DIRECTORS - Continued

The directors of the Company's subsidiaries included in the consolidated financial statements during the year and up to the date of this report were as follows:

Ms. Cheng Xiao Ling
Mr. Ding Zhi Wei
Mr. Jiang Chuan Wen
Ms. Liu Pan Pan
Ms. Liu Yan
Mr. Ma Jian Guo
Ms. Qian Jing Wen
Mr. Sheng Yun Dong
Mr. Tang Jian Bin
Mr. Tong Nan
Mr. Wang Hao Qi
Mr. Wen Tao
Ms. Xu Yi Sha
Ms. Zhang
Ms. Zhang Qi
Mr. Zhang Ying Jin
Mr. Zhou Hong Lin

MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Ms. Zhang, a beneficial shareholder in Jiangsu Ofpay E-commerce Limited, held an interest in contracts for the provision of mobile recharge services of Renminbi ("RMB") 71,181,151 with Shanghai Handpal Information Technology Co., Ltd ("Shanghai Handpal"), a subsidiary of the Company. The directors are of the opinion that these services are based on standard commercial terms, published prices and conditions similar to those offered to the major customers of the service provider.

Save as disclosed above and elsewhere in the financial statements, no contracts of significance to which the Company's holding companies or subsidiaries was a party and in which a director of the Company or an entity connected with a director had a material interest, whether directly or indirectly, subsisted during or at the end of the financial year.

99 LOYALTY LIMITED

DIRECTORS' REPORT

EQUITY-LINKED AGREEMENTS

In November 2017, the Group obtained three equity-linked loans with principal amounts of Australian dollar ("A\$") 950,000 (equivalent to RMB4,974,105), RMB6,250,000 and RMB5,000,000 (collectively "Equity-linked Loans I") respectively for general working capital purpose. Equity-linked Loans I carry a coupon rate of 10% per annum, which are paid quarterly in arrears on 17 February 2018, 17 May 2018, 17 August 2018 and 17 November 2018. The lenders of Equity-linked Loans I are entitled to unlisted call options which would provide the lenders the right to acquire a maximum of total 31,429,825 CDIs of the Company at a fixed price of A\$0.1 per option at any time prior to 17 November 2020.

In November 2018, the Company and a subsidiary redeemed part of the Equity-linked Loans I at a price equal to the sum of principal amount of RMB4,056,026 upon maturity. The terms and conditions of the principal amount of outstanding Equity-linked Loans I of RMB12,168,079 ("the Modified Equity-linked Loans I") were amended and modified. The Maturity Date of Modified Equity-linked Loans I was extended by four months, from 17 November 2018 to 17 March 2019.

The coupon rate is adjusted from 10% to 13% per annum. The Call Options I were extended by six months and convertible at any time prior to 17 May 2021. Except for the above, all other terms and conditions of the Modified Equity-linked Loans I remain unchanged from the original terms.

In January 2018, the Group obtained an equity-linked loan with principal amount of A\$250,000 (equivalent to RMB1,271,050) ("Equity-linked Loan II") for general working capital purpose. Equity-linked Loan II carries a coupon rate of 10% per annum, which is paid quarterly in arrears on 22 April 2018, 22 July 2018, 22 October 2018 and 22 January 2019. The lender of Equity-linked Loan II is entitled to unlisted call options which would provide the lender the right to acquire a maximum of total 3,000,000 CDIs of the Company at a fixed price of A\$0.1 per option at any time prior to 22 January 2021.

In February 2018, the Group obtained an equity-linked loan with principal amount of RMB1,500,000 ("Equity-linked Loan III") for general working capital purpose. Equity-linked Loan III carries a coupon rate of 10% per annum, which is paid quarterly in arrears on 20 May 2018, 20 August 2018, 20 November 2018 and 20 February 2019. The lender of Equity-linked Loan III is entitled to unlisted call options which would provide the lender the right to acquire a maximum of total 3,000,000 CDIs of the Company at a fixed price of A\$0.1 per option at any time prior to 20 February 2021.

During the year ended 31 December 2019, the Group has redeemed the entire outstanding balances of Modified Equity-linked Loans I, Equity-linked Loan II and Equity-linked Loan III at a price equal to the sum of principal amounts upon their maturity. During the year ended 31 December 2021, all unlisted call options were not exercised and were lapsed.

99 LOYALTY LIMITED

DIRECTORS' REPORT

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding companies, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

PERMITTED INDEMNITY PROVISIONS

During the financial year and as at the date of this report, a qualifying indemnity provision made by the Company for the benefit of the directors of the Company is in force.

BUSINESS REVIEW

Business overview and key operating and financial metrics

The Group is a loyalty technology services provider in financial services that enables China's leading banks and insurance companies to enhance customer loyalty and win new business. 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.

The Group's Redemption Management Technology helps clients acquire and retain customers through loyalty programs. It 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.

The Group's Interactive Marketing Technology helps clients acquire and retain customers through interactive marketing campaigns. It 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 the Company is also licensed to use its technology platform for brokering insurance policies in China.

In 2021, the Group's insurance brokerage services experienced a strong growth and its revenues rose 72% thanks to the low insurance penetration rate in China and the increased consumer awareness of the need for risk protection and insurance products. However, the Group's total revenues was decreased by 10%, as the lockdown responses to Covid-19 and its variants have heavily impacted many cities in China, causing a low consumer demand; plus China's industry restructuring has impacted macro-economic development and the financial risk control measures led the Group's enterprise clients to being cautious across loyalty and marketing activities. All these factors lowered the Company's revenue in 2021. As a result, the Group generated revenues of RMB208.13 million and gross profits of RMB207.05 million in the year.

99 LOYALTY LIMITED

DIRECTORS' REPORT

BUSINESS REVIEW - Continued

Business overview and key operating and financial metrics - Continued

The Group reported a net loss of RMB74.23 million (equivalent to appropriately AUD15.32 million). The loss was attributed to a decrease in revenues, an increase in selling expenses for rapid growth of insurance brokerage services, and accounting treatments for the derecognition of financial assets at amortised cost of RMB36.38 million due to the restructuring of payment terms, and for a total impairment loss of RMB16.23 million on intangible assets and goodwill due to the decline in revenues and the market conditions.

Looking forward, given the upbeat tone set by the Central Economic Work Conference for China's economic development in 2022 with sustainable economic growth, it is expected the Chinese government and related parties to encourage the development of markets and enterprises with a full range of policy tools including fiscal and financial levers. The Group will catch the opportunities with core competencies and will actively participate in the development of China's digital economy. The Group will continuously provide best-fit loyalty solutions and services integrated with "Technology + Operation + Marketing" to enterprise clients. The Group will diversify the enterprise client base across China and will further broaden the scope of virtual products, building on the success already seen with the use of insurance products. The Group expects strong growth from insurance brokerage services being augmented with a recovery in loyalty and marketing services when the Covid-19 pandemic comes to an end and external conditions normalize.

Environmental policies and compliance

The Group sources substantially its revenue from China and our operations are therefore impacted by the economic, political and legal factors in the country. The Group strives to capture favorable external factors and comply with all applicable laws, rules and regulations to ensure that our business can be carried out effectively.

In 2021, China and the rest of the world continuously faced impacts and challenges caused by the COVID-19 and its variants. China's Gross Domestic Product ("GDP") in 2021 demonstrated a sluggish growth, and the year-on-year growth rate was down to 4.0% in the fourth quarter, from 4.9% in the third quarter, 7.9% in the second quarter, 18.3% in the first quarter. According to the National Bureau of Statistics, total amount of GDP surpassed RMB114 trillion, which rose by an average of 8.1%. Based on the GDP forecasts provided by IMF and many economic analysis institutions, China's economy will grow by 5% to 6% in 2022.

2021 is the first year of China's 14th five year plan. According to the plan, China emphasizes the core position of innovation in China's modernization and take the self-reliance and self-improvement of science and technology as the strategic support for national development. China targets to improve financial support innovation system and vigorously develop the supply chain in financial industries. In addition, China will further promote the digital transformation of China's economic development through the innovation of financial science and technology. At the beginning of 2021, the Chinese Government issued and implemented a series of policies related to data security and financial risk control to strengthen supervision of online commerce and financial service industries which impacts the market and companies in different aspects. The rapid implementation of the policy has slowed down the development of financial services. However, for long term, this is not only a challenge but an opportunity for the Group's business development.

99 LOYALTY LIMITED

DIRECTORS' REPORT

BUSINESS REVIEW - Continued

Environmental policies and compliance - Continued

In December 2021, China Banking and Insurance Regulatory Commission successively issued new regulations to protect consumers and bring about more orderly growth and development for insurance industry. The new regulation started to be implemented in February 2022. It is expected that a concentration and rationalisation of the industry structure will lead the Group, as a licensed insurance brokerage service provider to benefiting from the new regulatory environment.

Risk factors

Risk identification is crucial, neglect of which could adversely impact the Group.

External risk factors include:

- **Risks with law, rules and regulation:**
The government has implemented relevant laws, rules and regulations in recent years to strictly monitor and regulate the financial service industry, digital industry, and insurance industry, etc., however, there are still some uncertainties in the interpretation and enforcement of relevant laws, rules and regulations. Besides, the Government may issue new laws, rules and regulations to fit in the developing digital business and insurance related business, to require the market players to react promptly. The Group is constantly following up any change in laws, rules and regulations and takes action immediately to avoid any non-compliance.
- **Risks with the macro economy:**
Although China's GDP grew at an average rate of 8.1% in 2021, it showed a downward trend quarterly. In 2022, China's GDP is estimated to be 5 % to 6%. As a comprehensive index related to employment, investment, consumption, import and export, the fluctuation of GDP growth shows that China's economy is facing many challenges and uncertainties. Externally, the pace of oversea economic recovery may bring about a series of new changes on China's exporting market. And the war between Russia and Ukraine may have an impact on global and even China's economy. Internally, the recovery of China's household consumption is facing challenges, including debt repayment burden, employment pressure, and the continuing impacts of COVID19 among cities. In response to the above risks and challenges, it needs Chinese government taking steps in all aspects to avoid contraction of total demand. The Group will develop its core competencies to face these challenges and catch opportunities to grow in the digital economy.

99 LOYALTY LIMITED

DIRECTORS' REPORT

BUSINESS REVIEW - Continued

Risk factors - Continued

External risk factors include: - Continued

- **Risks with COVID-19:**
The COVID-19 and its variants have a significant impact on the global economy, resulting in a slowing down of global trade growth. On one hand, the continuous emergence of variants and their accelerated spread around the world have led to many uncertainties and a setback in investor confidence in financial and capital market. On the other hand, countries have strictly restricted the movement of people and transportation to control the spread. This pressed the pause button on the economy and put pressure on the economic operation from two sides of consumption and production. The persistent variation of COVID-19 makes the epidemic still in a global pandemic. If the situation is not improved in 2022, it will still have an adverse impact on the economy, therefore, on the Group's business performance.
- **Risks with suppliers:**
As to certain special categories of products, the stability of supply in the future may be uncertain. For instance, the Group has added petrol cards to its product portfolio, and the ultimate suppliers are those Chinese oil companies who are dominant in the oil industry. If they decide not to distribute petrol cards online any longer, then it will be hard to source substitutes. The oil industry is different from other competitive markets so the attitude of petrol card suppliers toward Internet distribution also constitutes risk.
- **Risks with business partners:**
Many of the Group's business partners are financial institutions, such as banks and insurance companies, the development of which is easily influenced by policy, regulation and economic environment. If the economy declines or the regulations are tightened, the demands of the Group's business partners will decrease, which will adversely affect the Group's business development. In 2021, we have experienced our business partners in financial service industry having been impacted by newly introduced data security and financial risk control related regulations. The Group will always maintain vigilance to these changes and develop appropriate business strategies to deal risks that arise.

99 LOYALTY LIMITED

DIRECTORS' REPORT

BUSINESS REVIEW - Continued

Risk factors - Continued

Internal risk factors include:

- **Risks in strategic business development:**
The Group pursues long term sustainable interests in the process of business development, which requires large up-front investment and working capital commitment for new projects, prepayments for rewards redemption business, expenditure on marketing activities, etc. There is a time lag to get investment reimbursed and generate considerable profits, which cannot be immediately reflected in short term financial results.
- **Risks in knowing consumers:**
Providing comprehensive products and services and meeting the needs of consumers are the Group's competitive advantages. A good understanding of consumers' preferences and habits can also help the Group offer best-fit solutions to business partners. With the development of times, consumers' preferences and behaviors are constantly changing. If the Group do not recognise these changes in time and accurately, it will bring losses to the Group. To leverage the risk, the Group continues learning from the market and improving our core competences to deal with all changes.
- **Risks with technology & information:**
With the continuous development of the Group and the continuous increases in business volume, it is necessary to have higher load capacity and faster processing speed. Any failure in maintaining technical infrastructure, upgrading systems, enhancing hardware, and optimizing database may lead to system collapse and affect the normal operation of the business. Slow responses and delay processing will also cause dissatisfaction of business partners and consumers, which will bring long-term losses to the Group.

To better manage technology & information risks, the Group has established comprehensive risk control and management mechanisms to prevent and quickly response to risks. On quarterly basis, the Chief Technology Officer leads a business risk-alert team, composed of talents from quality and risk control department, business lines, and relevant supportive functions to assessing the risks associated with the external environment, internal operations, and projects on different scenarios, as well as proposing relevant emergency-response plans and procedures in response.

99 LOYALTY LIMITED

DIRECTORS' REPORT

BUSINESS REVIEW - Continued

Employee relations management

The Group always regards employees as one of its most valuable resources and takes well-defined measures to continually improve employee relationship management. The Group recruits high quality professional in technology, sales and finance fields and provides them with competitive compensation packages. The Group also offers employees various and flexible benefits to deliver a message of employee care. Moreover, the Group helps employees with their career development by providing training and effective, transparent and reasonable promotion mechanisms to ensure fairness and employee satisfaction.

Business partner relations management

The Group provides Redemption Management Technology and Interactive Marketing Technology for business partners to help them enhance customer loyalty and win business. Having long-term and solid partnership is a key factor of business success, so the Group is always committed to maintaining and strengthening the partnership while developing new business partners. With the improvement of the Group's capabilities in technology, data mining, research and all other aspects, the Group have a better understanding of the evolving needs of business partners and further strengthened the relationship with them.

Consumer relations management

The Group is devoted to offering outstanding consumer service and experience. The Group has a 7*24 hotline and diversified online consumer service platforms such as WeChat terminals to handle inquiries, problems and complaints from consumers on a timely manner. The Group's efficient consumer service team and consumer relations management system are well recognized by consumers, as well as business partners.

Merchant relations management

The Group has a set of merchant management mechanisms including the merchant admittance mechanism which obligates rigorous checking of potential merchants' qualifications, background and industry reputation. The merchant evaluation mechanism which reviews their products and services on a regular basis. The Group actively sources high quality and diversified merchants, boards them onto the platform to improve offerings and provide incentives. For those merchants who fail the admittance and evaluation process, the Group will not include them into the portfolio or will temporarily take their products and services off the platform and send notifications to them requiring immediate rectification for re-evaluation later. In this way, the Group ensures a high quality merchant mix and product mix.

99 LOYALTY LIMITED

DIRECTORS' REPORT

AUDITOR

The consolidated financial statements for the year have been audited by BDO Limited. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as auditor of the Company.

On behalf of the Board



Mr. Ross Benson
Chairman

Hong Kong, 31 March 2022

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF 99 LOYALTY LIMITED
(FORMERLY KNOWN AS 99 TECHNOLOGY LIMITED)**

(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of 99 Loyalty Limited (formerly known as 99 Technology Limited) ("the Company") and its subsidiaries (herein referred to as the "Group") set out on pages 17 to 88, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to note 3(b) to the consolidated financial statements, which indicates that the Group recorded a loss for the year of approximately RMB74.2 million for the year ended 31 December 2021. These conditions, along with other matters as set forth in note 3(b) to the consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF 99 LOYALTY LIMITED
(FORMERLY KNOWN AS 99 TECHNOLOGY LIMITED)**

(incorporated in Hong Kong with limited liability)

Key Audit Matters

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

Recoverability of trade and other receivables

Refer to notes 4(f)(ii), 5(e), 21 and 36(a) to the financial statements

The balance of trade and other receivables were significant to the Group and constituted a substantial portion of the Group's total assets as at 31 December 2021. Management performed periodic assessment on the recoverability of the trade and other receivables. The assessment of impairment allowances is based on information including credit profile of different debtors, ageing of the receivables, historical settlement records, expected timing and amount of realisation of outstanding balances, and on-going trading relationships with the relevant debtors. Management also considered forward-looking information that may impact the debtors' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment.

We focused on this area due to the impairment assessment of trade and other receivables under the expected credit losses model involved the use of significant management judgements and estimates.

Our response:

Our audit procedures on the recoverability of the Group's trade and other receivables included:

- Assessing the recoverability of trade and other receivables and the appropriateness of any impairment allowance to be recognised taking into account facts and circumstances for the Group's debtors;
- Engaging internal valuation expert to assist us in assessing the impairment allowances of trade and other receivables;
- Reviewing the repayment history and credit worthiness of the Group's debtors; and
- Assessing the adequacy of the Group's disclosures regarding impairment assessment of trade and other receivables, including credit risk assessment and ageing analysis.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF 99 LOYALTY LIMITED
(FORMERLY KNOWN AS 99 TECHNOLOGY LIMITED)**

(incorporated in Hong Kong with limited liability)

Key Audit Matters - Continued

Impairment assessment of property, plant and equipment, intangible assets and goodwill
Refer to notes 4(m), 4(n), 5(d), 16, 17 and 18 to the consolidated financial statements

Property, plant and equipment of approximately RMB10.8 million, intangible assets of approximately RMB49.9 million, and goodwill of approximately RMBnil represent significant balances recorded in the consolidated statement of financial position of the Group as at 31 December 2021. These assets are allocated to the cash generating unit ("CGU") in relation to the Group's provision of services on an online marketplace in the People's Republic of China.

The CGU to which goodwill has been allocated is tested for impairment annually and whenever there is indication that the CGU may be impaired. Management determined the recoverable amount of this CGU based on cash flow projections, which included management judgements and estimates of growth rates and discount rates. Any shortfall in the recoverable amount against the carrying amount of this CGU would be recognised as impairment loss. The determination of recoverable amount requires significant management judgement and estimates, and valuations prepared by independent professional valuer were obtained in order to support these judgements and estimates.

Based on above assessment performed, management concluded that total impairment loss of approximately RMB12,785,709 and RMB3,440,400 was made in respect of the Group's intangible assets and goodwill respectively for the year ended 31 December 2021.

Our response:

Our audit procedures on the impairment assessment of the Group's property, plant and equipment, intangible assets and goodwill included:

- Understanding and evaluating the reasonableness of key assumptions used by management in the value-in-use calculation, who was assisted by an independent professional valuer as engaged by the Group (the "Management Expert"), taking into account the Group's historical performance and future operating plans;
- Assessing the qualification and competence of the Management Expert;
- Engaging internal valuation expert to assist us in assessing the discount rate applied in the VIU calculation and the FVLCD of non-current assets (other than financial assets; and
- Assessing the valuation methodology and key inputs of the value-in-use calculation, including the growth rates and discount rates.



**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF 99 LOYALTY LIMITED
(FORMERLY KNOWN AS 99 TECHNOLOGY LIMITED)**

(incorporated in Hong Kong with limited liability)

Other Information in the Annual Report

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon. Prior to the date of this auditor's report, we have obtained the directors' report but have not obtained the remaining other information included in the annual report (the "Remaining Other Information"), which is expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Remaining Other Information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit and Risk Management Committee and take appropriate action considering our legal rights and obligations.

Directors' Responsibilities for the Consolidated Financial Statements

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

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit and Risk Management Committee assists the directors in discharging their responsibility in this regard.



**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF 99 LOYALTY LIMITED
(FORMERLY KNOWN AS 99 TECHNOLOGY LIMITED)**

(incorporated in Hong Kong with limited liability)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF 99 LOYALTY LIMITED
(FORMERLY KNOWN AS 99 TECHNOLOGY LIMITED)**

(incorporated in Hong Kong with limited liability)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements - Continued

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

BDO Limited
Certified Public Accountants
Lui Chi Kin
Practising Certificate Number P06162

Hong Kong, 31 March 2022

99 LOYALTY LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 RMB	2020 RMB
Revenue	7	208,131,952	231,734,330
Cost of sales		<u>(1,084,154)</u>	<u>(686,880)</u>
Gross profit		207,047,798	231,047,450
Other revenue	8	5,165,310	6,345,001
Other gains and losses, net	9	3,299,281	34,975,498
Selling and distribution expenses		(181,438,472)	(147,845,135)
Administration expenses		(55,915,048)	(62,084,382)
Loss arising from derecognition of financial assets measured at amortised cost	21(b)	(36,378,870)	-
Provision for impairment losses on trade and other receivables	36(a)	<u>(633,585)</u>	<u>(287,636)</u>
Operating (loss)/profit		(58,853,586)	62,150,796
Finance costs	10	<u>(14,790,879)</u>	<u>(15,642,209)</u>
(Loss)/profit before income tax	11	(73,644,465)	46,508,587
Income tax expense	13	<u>(587,117)</u>	<u>(14,949,047)</u>
(Loss)/profit for the year and total comprehensive income for the year		<u><u>(74,231,582)</u></u>	<u><u>31,559,540</u></u>
(Loss)/earnings per share (RMB)	14		
- Basic		<u>(0.064)</u>	<u>0.027</u>
- Diluted		<u>(0.064)</u>	<u>0.026</u>

99 LOYALTY LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Notes	2021 RMB	2020 RMB
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment	16	10,796,414	16,367,407
Intangible assets	17	49,941,021	66,055,631
Goodwill	18	-	3,440,400
Other receivable	21	115,000,000	-
Deferred tax assets	26	1,177,508	1,177,508
Total non-current assets		<u>176,914,943</u>	<u>87,040,946</u>
CURRENT ASSETS			
Inventories	20	5,373,910	153,606
Trade and other receivables	21	288,940,778	495,140,236
Amount due from a related party	19	20,278	1,066
Tax recoverable		4,619,565	3,417,927
Cash and bank balances	22	27,752,548	117,506,895
Total current assets		<u>326,707,079</u>	<u>616,219,730</u>
NON-CURRENT LIABILITIES			
Lease liabilities	29	2,935,939	8,164,447
Deferred tax liabilities	26	5,372,944	6,874,743
Total non-current liabilities		<u>8,308,883</u>	<u>15,039,190</u>
CURRENT LIABILITIES			
Trade and other payables	23	59,465,523	75,486,249
Contract liabilities	7	61,605,971	152,446,550
Amount due to a director	19	40,000	3,590,000
Derivative financial instruments	24	-	821,730
Bank and other loans	25	89,000,000	94,620,000
Lease liabilities	29	5,705,670	5,724,185
Current tax liabilities		1,009,739	2,814,954
Total current liabilities		<u>216,826,903</u>	<u>335,503,668</u>
NET CURRENT ASSETS		<u>109,880,176</u>	<u>280,716,062</u>
NET ASSETS		<u>278,486,236</u>	<u>352,717,818</u>
EQUITY			
Share capital	27	313,675,893	313,675,893
Reserves	28	(35,189,657)	39,041,925
TOTAL EQUITY		<u>278,486,236</u>	<u>352,717,818</u>

The consolidated financial statements on pages 17 to 88 were approved by and authorised for issue by the board of directors on 31 March 2022 and are signed on its behalf by:



Mr. Ross Benson
Director



Mr. Wen Tao
Director

99 LOYALTY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital RMB (Note 27)	Statutory reserve * RMB (Note 28)	Other reserve * RMB (Note 28)	Retained earnings/ (accumulated losses) * RMB	Total RMB
Balances at 1 January 2020	313,675,893	1,840,198	(2,500,000)	8,142,187	321,158,278
Profit for the year and total comprehensive income for the year	-	-	-	31,559,540	31,559,540
Transfer to statutory reserve	-	3,743,523	-	(3,743,523)	-
Balance at 31 December 2020	313,675,893	5,583,721	(2,500,000)	35,958,204	352,717,818
Loss for the year and total comprehensive income for the year	-	-	-	(74,231,582)	(74,231,582)
Transfer to statutory reserve	-	974,023	-	(974,023)	-
Balance at 31 December 2021	<u>313,675,893</u>	<u>6,557,744</u>	<u>(2,500,000)</u>	<u>(39,247,401)</u>	<u>278,486,236</u>

* These reserve accounts comprise the consolidated deficit of RMB35,189,657 (2020: reserves of RMB39,041,925) in the consolidated statement of financial position.

99 LOYALTY LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 RMB	2020 RMB
Cash flows from operating activities		
(Loss)/profit before income tax	(73,644,465)	46,508,587
Adjustments for:		
Interest income	(245,651)	(845,339)
Finance costs	14,790,879	15,642,209
Depreciation of property, plant and equipment	7,538,232	8,331,841
Written off of property, plant and equipment	52,717	-
Written off of intangible assets	64,726	-
Amortisation of intangible assets	3,387,760	4,308,036
Amortisation of deferred initial differences on derivative financial liabilities	30,738	504,250
Provision for impairment loss of trade receivables	633,585	287,636
Change in fair value of derivative financial instruments	(852,468)	(1,405,983)
Exchange (gain)/loss, net	(26,869)	83,747
Loss arising from derecognition of financial assets measured at amortised cost	36,378,870	-
Impairment loss on goodwill	3,440,400	-
Impairment loss on other intangible assets	12,785,709	-
Operating profit before changes in working capital	4,334,163	73,414,984
(Increase)/decrease in inventories	(5,220,304)	171,703
Decrease in trade and other receivables	54,187,003	15,275,568
Decrease in trade and other payables and contract liabilities	(106,861,305)	(67,784,106)
Increase in balance with a related party	(19,212)	(18,322)
Cash (used in)/generated from operations	(53,579,655)	21,059,827
Interest received	245,651	845,339
Income taxes paid	(5,095,769)	(244,281)
Net cash (used in)/generated from operating activities	(58,429,773)	21,660,885
Cash flows from investing activities		
Purchases of property, plant and equipment	(1,346,420)	(22,552)
Additions of intangible assets	(123,585)	(148,706)
Repayment from a director	-	40,000,000
Decrease in pledged bank deposit	-	10,000,000
Net cash (used in)/generated from investing activities	(1,470,005)	49,828,742

99 LOYALTY LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 RMB	2020 RMB
Cash flows from financing activities		
Repayment of advance from a director	(3,550,000)	(42,090,000)
Proceeds from borrowings	72,700,000	84,070,000
Repayments of borrowings	(78,320,000)	(72,150,000)
Interest paid	(14,790,879)	(15,642,209)
Repayment of principal portion of lease liabilities	(5,920,559)	(6,211,856)
Net cash used in financing activities	(29,881,438)	(52,024,065)
Net (decrease)/increase in cash and cash equivalents	(89,781,216)	19,465,562
Cash and cash equivalents at the beginning of year	112,506,895	93,125,080
Effect of exchange rate changes on cash and cash equivalents	26,869	(83,747)
Cash and cash equivalents at the end of year	22,752,548	112,506,895

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. GENERAL

99 Loyalty Limited (formerly known as 99 Technology Limited) (the “Company”) is a limited liability company incorporated in Hong Kong. The Company passed a special resolution on 24 May 2021 to change its name from 99 Technology Limited to 99 Loyalty Limited and the approval of the Registrar in Hong Kong on the change of name was obtained on 30 May 2021. Its CHESS Depositary Interests (“CDIs”) are listed on the Australian Securities Exchange (stock code: 99L (formerly known as NNT)). The principle place of business is located at 3F, Hong Kong Prosperity Tower, Meng Zi Rd, Huangpu District, Shanghai, 200023. The address of the registered office is located at 27/F., Alexandra House, 18 Chater Road, Central, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of subsidiaries are described in note 32 to the financial statements. The Company and its subsidiaries are referred to as the “Group” hereinafter.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(a) Adoption of new/revised HKFRSs - effective 1 January 2021

In current year, the Group has adopted, for the first time, the following new and revised standards, amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants which are relevant to the Group’s operations and effective for its financial statements for the annual period beginning on 1 January 2021:

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform - Phase 2 ²
Amendments to HKFRS 16	Covid-19-Related Rent Concessions

The new or amended HKFRSs did not have any material impact on the Group’s results and financial position for the current or prior period. The Group has not early applied any new or amended HKFRSs which are not yet effective for the current accounting period.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) - Continued

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group’s financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group’s current intention is to apply these changes on the date they become effective.

Amendments to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 ¹
Amendments to HKAS 16	Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts - Cost of Fulfilling a Contract ²
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Annual Improvements to HKFRSs	Annual Improvements to HKFRSs 2018-2020 ²
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ³
Amendments to HKAS 1	Disclosure of Accounting Policies ³
Amendments to HKAS 8 and HKFRS Practice statement 22	Definition of Accounting Estimates ³
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ³
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ³

¹ Effective for annual periods beginning on or after 1 April 2021.

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

³ Effective for annual periods beginning on or after 1 January 2023.

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far the Group has concluded that the application of these amendments will have no material impact on the consolidated financial statements.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

3. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs, HKASs and Interpretations (hereinafter collectively referred to as the “HKFRS”) and the provisions of the Hong Kong Companies Ordinance which concern the preparation of financial statements.

(b) Basis of measurement and going concern assumption

The financial statements have been prepared under the historical cost basis, except for derivative financial instruments which are measured at fair value as explained in the accounting policies set out below.

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group recorded a loss for the year of RMB74,231,582 for the year ended 31 December 2021, which may cast significant doubt on the Group’s ability to continue as a going concern. Nevertheless, the directors of the Company have adopted going concern basis in the preparation of the consolidated financial statements of the Group based on that the Group had net current assets of RMB109,880,176 as at 31 December 2021 and the following factors:

- the Group can generate sufficient cash flows from future operations to cover its operating costs and to meet its financing commitments;
- the Group can recover sufficient advance from its investing activities; and
- the Group can obtain sufficient financing from financial institutions through the existing facilities;

There is a material uncertainty related to the outcomes of the above events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern, and, therefore that the Group may not be able to realise its assets and discharge its liabilities in the normal course of business. Should the Group be unable to continue its business as a going concern, adjustments would have to be made in the consolidated financial statements to write down the values of the assets to their net realisable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of such adjustments has not yet been reflected in the financial statements.

(c) Functional and presentation currency

The consolidated financial statements are presented in Renminbi (“RMB”), which is the same as the functional currency of the Company as the majority of the Group’s transactions are denominated in RMB.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

4. PRINCIPAL ACCOUNTING POLICIES

A summary of significant accounting policies adopted by the Group is set out below.

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Group. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

4. PRINCIPAL ACCOUNTING POLICIES - Continued

(a) Business combination and basis of consolidation - Continued

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Company considers all relevant facts and circumstances, including:

- The size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights;
- Substantive potential voting rights held by the Company and other parties who hold voting rights;
- Other contractual arrangements; and
- Historic patterns in voting attendance

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

4. PRINCIPAL ACCOUNTING POLICIES - Continued

(c) Goodwill

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units ("CGU") that are expected to benefit from the synergies of the acquisition. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A CGU to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount (see note 4(n)), and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit on pro-rata basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value-in-use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

4. PRINCIPAL ACCOUNTING POLICIES - Continued

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

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

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Leasehold improvements	The shorter of lease terms and 5 years
Electronic and office equipment	3 years
Motor vehicles	4 years
Buildings leased for own use	Lease terms

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

4. PRINCIPAL ACCOUNTING POLICIES - Continued

(e) Leasing

The Group as a lessee

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases; and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset is recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

4. PRINCIPAL ACCOUNTING POLICIES - Continued

(e) Leasing - Continued

The Group as a lessee - Continued

Lease liability - Continued

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modification, or to reflect revised in-substance fixed lease payments.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

When the Group renegotiates the contractual terms of a lease with the lessor, if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease, in all other cases, where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

4. PRINCIPAL ACCOUNTING POLICIES - Continued

(e) Leasing - Continued

The Group as a lessee - Continued

Lease liability - Continued

With the exception to which the practical expedient for Covid-19-Related Rent Concessions applies, if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date and the right-of-use asset is adjusted by the same amount.

The practical expedient for Covid-19-Related Rent Concessions applies only to rent concessions occurring as a direct consequence of Covid-19 pandemic and only if all of the following criteria are satisfied: (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (b) the reduction in lease payments affects only payments originally due on or before 30 June 2021; and (c) there is no substantive change to other terms and conditions of the lease.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

4. PRINCIPAL ACCOUNTING POLICIES - Continued

(f) Financial instruments

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit and loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

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

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

4. PRINCIPAL ACCOUNTING POLICIES - Continued

(f) Financial instruments - Continued

(i) Financial assets - Continued

Debt instruments - Continued

FVTPL: Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at FVOCI are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

(ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit losses ("ECLs") on trade receivables, and financial assets measured at amortised cost. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

4. PRINCIPAL ACCOUNTING POLICIES - Continued

(f) Financial instruments - Continued

(ii) Impairment loss on financial assets - Continued

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group applies simplified approach in HKFRS 9 to measure loss allowance for all trade receivables at an amount equal to lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a default event occurs when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

4. PRINCIPAL ACCOUNTING POLICIES - Continued

(f) Financial instruments - Continued

(ii) Impairment loss on financial assets - Continued

The Group considers a financial asset to be credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

4. PRINCIPAL ACCOUNTING POLICIES - Continued

(f) Financial instruments - Continued

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at FVTPL are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at FVTPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at FVTPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

4. PRINCIPAL ACCOUNTING POLICIES - Continued

(f) Financial instruments - Continued

(iii) Financial liabilities - Continued

Financial liabilities at amortised cost

Financial liabilities at amortised cost, including trade and other payables, amount due to a director and bank and other loans, are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Convertible loan notes

The component of convertible loan notes that exhibits characteristics of a liability is recognised as a liability in the consolidated statement of financial position, net of transaction costs. On issuance of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible notes; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

If the conversion option of convertible loan notes exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible loan notes is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible loan notes based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the statement of profit or loss.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

4. PRINCIPAL ACCOUNTING POLICIES - Continued

(f) Financial instruments - Continued

(v) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(vi) Equity instrument

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Under the Hong Kong Companies Ordinance, Cap. 622, shares of the Company do not have a nominal value. Consideration received or receivable for the issue of shares is credited to share capital. Commissions and expenses are allowed to be deducted from share capital.

(vii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at FVTPL is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the loss allowance, being the ECL provision measured in accordance with principles of the accounting policy set out in 4(f)(ii); and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the principles of HKFRS 15.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

4. PRINCIPAL ACCOUNTING POLICIES - Continued

(f) Financial instruments - Continued

(viii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

(g) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within 3 months of maturity at acquisition. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in note 4(f)(ii).

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

4. PRINCIPAL ACCOUNTING POLICIES - Continued

(i) Revenue recognition

Revenue recognition

Commission and service income

Commission and service income is derived from various comprehensive services such as provision of mobile recharge, online game recharge and merchandise sourcing services on mobile and online marketplaces in the Peoples' Republic of China (the "PRC"). Revenue is recognised upon on the completion of sourcing services.

Sale of merchandises

The Group's contracts with customers for the sale of merchandises generally include one performance obligation. The Group has concluded that revenue from sale of merchandises should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the merchandises.

No element of financing is deemed present as the revenue are generally made with a credit term of 0 to 45 days, which is consistent with market practice.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Principal versus agent considerations

Determining whether the Group is acting as a principal or as an agent in the provision of services and sale of merchandises requires judgements and considerations of all relevant facts and circumstances. The Group is a principal in a transaction if the Group obtains control of services/merchandises provided before they are transferred to customers. If control is unclear, when the Group is primarily responsible for fulfilling the promise to provide the specified good or service in a transaction, has inventory risk and/or has latitude in establishing price and selecting supplier, or has several but not all of these indicators, the Group records revenues on a gross basis. Otherwise, the Group records the net amount earned.

Contract liability

A contract liability represents the Group's obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

4. PRINCIPAL ACCOUNTING POLICIES - Continued

(j) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on interests in subsidiaries and an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

4. PRINCIPAL ACCOUNTING POLICIES - Continued

(k) Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the “functional currency”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

4. PRINCIPAL ACCOUNTING POLICIES - Continued

(l) Employee benefits

(i) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(ii) Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(iii) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

(iv) Other employee entitlements

Employee entitlements to annual leave are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of reporting period. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

4. PRINCIPAL ACCOUNTING POLICIES - Continued

(m) Intangible assets

(i) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is provided on a straight-line basis over their useful lives as follows. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. The amortisation expense is recognised in profit or loss and included in administrative expenses.

Licensing arrangement	30 years
Insurance license	25 years
Computer software	3 to 4 years

(ii) Impairment

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that they may be impaired. Intangible assets are tested for impairment by comparing their carrying amounts with their recoverable amounts (see note 4(n)).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease to the extent of its revaluation surplus.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

4. PRINCIPAL ACCOUNTING POLICIES - Continued

(n) Impairment of assets (other than financial assets)

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment under cost model;
- investments in subsidiaries; and
- goodwill.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value-in-use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKFRS.

Value-in-use is based on the estimated future cash flows expected to be derived from the asset or CGU (see note 4(c)), discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

99 LOYALTY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

4. PRINCIPAL ACCOUNTING POLICIES - Continued

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, and it is probable to result in an outflow of economic benefits that can be reliably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Government grants

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

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

4. PRINCIPAL ACCOUNTING POLICIES - Continued

(q) Related Parties

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of key management personnel of the Group or the Company's parent.
- (b) An entity is related to the Group if any of the following conditions apply:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Except as discussed below, the directors of the Company are of the opinion that there are no significant effects on amounts recognised in the financial statements arising from the judgement used by management.

(a) Revenue recognition for m-Commerce transaction business

Certain m-Commerce transactions for mobile recharge, online game recharge, and merchandise sourcing services are recognised on a net basis. In assessing the recognition basis, the management concluded that the Group did not obtain control of goods or services provided before they are transferred to customers, while the Group mainly offers the service in sourcing the content providers on behalf of the customers, collecting money on behalf of the content providers as well as customer service to end users through the mobile marketplace. Therefore, the management reports the revenue of these m-Commerce transactions on a net basis.

(b) Income taxes

The Group is subject to income taxes in the jurisdiction it operates. Significant judgement is required in determining the amount of provision for income taxes as well as deferred tax assets and liabilities. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY - Continued

(c) Depreciation and amortisation

Property, plant and equipment are depreciated and intangible assets are amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual values. The Group reviews the estimated useful lives of the assets regularly. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(d) Impairment assessment of property, plant and equipment and intangible assets

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment and intangible assets, recoverable amounts of these assets need to be determined. The recoverable amount is the greater of the fair value less costs of disposal and the value-in-use. It is difficult to precisely estimate fair value less costs of disposal because quoted market prices for these assets may not be readily available. In determining the value-in-use, expected cash flows generated by the assets are discounted to their present values, which require significant judgement relating to items such as level of sales, selling price, amount of operating costs and discount rate. The Group uses all readily available information in determining amounts that are reasonable approximations of recoverable amounts, including estimates based on reasonable and supportable assumptions and projections of items such as sales volume, selling price and amount of operating costs.

(e) Impairment assessment of trade and other receivables

In considering the impairment losses that may be required for receivables, future cash flows need to be determined. One of the key assumptions that have to be applied is the ability of the debtors to settle the receivables. Although the Group has used all available information to make this estimation, inherent uncertainty exists and actual may be different from the amount estimated.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

6. SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The Group's operating activities are attributable to a single operating segment focusing on provision of offering various services.

The Group's chief operating decision maker monitors assets and liabilities on a consolidated basis and not by reportable segment. Accordingly, no additional information on assets and liabilities is presented.

(a) Geographical information

All of the Group's operations and assets are located in the PRC (including Hong Kong), in which all of its revenue was derived.

(b) Information about major customers

No revenue are derived from customers which individually contributed more than 10% to the Group's revenue for the year ended 31 December 2020 and 2021.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

7. REVENUE

Revenue includes the net invoiced value of goods sold and commission income earned by the Group. Revenue from contracts with customer within the scope of HKFRS 15 during the year are disaggregated by each significant category of revenue and timing of revenue recognition as follows:

Significant category

	2021 RMB	2020 RMB
Revenue from contracts with customers		
- Commission and service income	207,049,382	231,387,473
- Sale of merchandises	1,082,570	346,857
Total	208,131,952	231,734,330

Timing of revenue recognition

	2021 RMB	2020 RMB
Revenue recognised at point in time	208,131,952	231,734,330

The following table provides information about trade receivables and contract liabilities from contracts with customers:

	2021 RMB	2020 RMB
Receivables	142,463,130	192,668,698
Contract liabilities	61,605,971	152,446,550

The contract liabilities mainly relate to the advance considerations received from customers. Contract liabilities as at 1 January 2021 was RMB152,446,550 (1 January 2020: RMB168,993,418), of which RMB152,446,550 (2020: RMB168,993,418) was recognised as revenue during the year and the contract liabilities as at 31 December 2021 was arising from the advance considerations received from customers.

The Group has applied the practical expedient and decided not to disclose the amount of the remaining performance obligations for contracts as performance obligations under the contracts had an original expected duration of one year or less.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

8. OTHER REVENUE

	2021 RMB	2020 RMB
Interest income		
- Bank deposits	245,651	535,339
- Loan to a director	-	310,000
Government grants*	3,474,226	4,746,699
Others	1,445,433	752,963
	<u>5,165,310</u>	<u>6,345,001</u>

* The Group received unconditional discretionary grants from the relevant PRC government authorities in support of enterprises operating in specified industry.

9. OTHER GAINS AND LOSSES, NET

	2021 RMB	2020 RMB
Exchange gain/(loss), net	26,869	(83,747)
Change in fair value of derivative financial instruments (note 24)	852,468	1,405,983
Reversal of Value-added Tax ("VAT") payable (note 23)	18,646,053	33,653,262
Impairment loss on goodwill	(3,440,400)	-
Impairment loss on other intangible assets	(12,785,709)	-
	<u>3,299,281</u>	<u>34,975,498</u>

10. FINANCE COSTS

	2021 RMB	2020 RMB
Interest on bank loans	240,444	756,888
Interest on other loans	13,546,554	14,217,511
Interest on lease liabilities	1,003,881	667,810
	<u>14,790,879</u>	<u>15,642,209</u>

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

11. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax is arrived at after charging:

	2021 RMB	2020 RMB
Auditor's remuneration	916,366	982,348
Cost of inventories recognised as an expense	741,753	249,243
Employee costs (including directors) comprise:		
- Contribution on defined contribution retirement plan	10,405,143	6,386,954
- Salaries and staff benefits	41,827,773	51,021,655
	<u>52,232,916</u>	<u>57,408,609</u>
Short-term leases expenses	195,565	106,130
Amortisation of intangible assets (note 17)	3,387,760	4,308,036
Depreciation of property, plant and equipment (note 16)		
- Owned property, plant and equipment	1,378,311	2,023,715
- Right-of-use-assets	6,159,921	6,308,126
	<u>7,538,232</u>	<u>8,331,841</u>

12. DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to Section 383 of the Hong Kong Companies Ordinance (Cap. 622) and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap.622G) is as follows:

	2021 RMB	2020 RMB
Directors' fees	1,065,216	960,000
Salaries, bonuses, allowances and benefits	2,340,000	2,310,000
Contribution on defined contribution retirement plan	217,529	74,061
	<u>3,622,745</u>	<u>3,344,061</u>

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

13. INCOME TAX EXPENSE

	2021 RMB	2020 RMB
Current tax - PRC		
- Tax for the year	2,088,916	2,457,476
Deferred tax (note 26)	<u>(1,501,799)</u>	<u>12,491,571</u>
Income tax expense	<u>587,117</u>	<u>14,949,047</u>

Hong Kong Profits Tax is calculated at 16.5% (2020: 16.5%) on estimated assessable profits arising in Hong Kong, except the first HK\$2,000,000 of qualified entity's assessable profit is calculated at 8.25% (2020: 8.25%). No provision for Hong Kong Profits Tax has been made as the Company had no assessable profits for the year.

PRC Enterprise Income Tax ("EIT") is provided at the rates applicable to the subsidiaries in the PRC on the income for statutory reporting purpose, adjusted for income and expense items which are not assessable or deductible for income tax purposes based on existing PRC income tax regulations, practices and interpretations thereof. By reference to the EIT Law of the PRC as approved by the National People's Congress on 16 March 2007, EIT rate applicable to PRC group companies for the current year is 25% (2020: 25%).

Shanghai Handpal Information Technology Co., Ltd. ("Shanghai Handpal") and Shanghai Handqian Information Technology Co., Ltd. ("Shanghai Handqian") has been accredited as a High-tech Enterprise by the Accrediting Bodies under the Administrative Measures for Determination of High and New Technology Enterprises on 2 December 2019 and is subject to preferential tax rate of 15% for three years commencing from 1 January 2019, on the condition that the annual written approval from the relevant government authorities is obtained.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

13. INCOME TAX EXPENSE - Continued

The income tax expense for the year can be reconciled to the (loss)/profit per the consolidated statement of comprehensive income as follows:

	2021 RMB	2020 RMB
(Loss)/profit before income tax	<u>(73,644,465)</u>	<u>46,508,587</u>
Tax calculated at the PRC EIT	(18,394,230)	11,627,147
Effect of non-taxable and non-deductible items, net	13,982,593	2,936,604
Effect of tax losses not recognised	5,245,915	1,107,732
Utilisation of tax losses previously not recognised	-	(2,743)
Others	<u>(247,161)</u>	<u>(719,693)</u>
Income tax expense	<u>587,117</u>	<u>14,949,047</u>

14. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

(Loss)/earnings

	2021 RMB	2020 RMB
(Loss)/earnings for the purposes of basic earnings per share	(74,231,582)	31,559,540
Effect of dilutive potential ordinary shares - call options	<u>(821,730)</u>	<u>(901,733)</u>
(Loss)/earnings for the purpose of diluted earnings per share	<u>(75,053,312)</u>	<u>30,657,807</u>

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

14. (LOSS)/EARNINGS PER SHARE - Continued

Number of shares

	2021	2020
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	1,159,682,763	1,159,682,763
Effect of dilutive potential ordinary shares - call options	12,209,277	36,929,825
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	<u>1,171,892,040</u>	<u>1,196,612,588</u>

15. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2020 and 2021, nor has any dividend been proposed since the end of reporting period.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB	Electronic and office equipment RMB	Motor vehicle RMB	Buildings leased for own use RMB	Total RMB
Cost					
At 1 January 2020	4,300,638	13,059,150	1,229,060	10,932,735	29,521,583
Additions	13,028	9,524	-	127,459	150,011
Write off	-	-	-	(8,825,777)	(8,825,777)
Effect of lease modification	-	-	-	14,907,251	14,907,251
At 31 December 2020	4,313,666	13,068,674	1,229,060	17,141,668	35,753,068
Additions	781,716	29,204	535,500	673,536	2,019,956
Write off	-	(782,492)	-	-	(782,492)
At 31 December 2021	5,095,382	12,315,386	1,764,560	17,815,204	36,990,532
Accumulated depreciation and impairment					
At 1 January 2020	3,623,622	9,091,921	1,167,607	5,996,447	19,879,597
Charge for the year	646,930	1,315,332	61,453	6,308,126	8,331,841
Write off	-	-	-	(8,825,777)	(8,825,777)
At 31 December 2020	4,270,552	10,407,253	1,229,060	3,478,796	19,385,661
Charge for the year	46,296	1,236,589	95,426	6,159,921	7,538,232
Write off	-	(729,775)	-	-	(729,775)
At 31 December 2021	4,316,848	10,914,067	1,324,486	9,638,717	26,194,118
Net book value					
At 31 December 2021	778,534	1,401,319	440,074	8,176,487	10,796,414
At 31 December 2020	43,114	2,661,421	-	13,662,872	16,367,407

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

17. INTANGIBLE ASSETS

	Licensing arrangement RMB (note (b))	Insurance license RMB (note (c))	Computer software RMB	Total RMB
Cost				
At 1 January 2020	55,760,000	27,000,000	6,348,703	89,108,703
Additions	-	-	148,706	148,706
At 31 December 2020	55,760,000	27,000,000	6,497,409	89,257,409
Additions	-	-	123,585	123,585
Written off	-	-	(388,350)	(388,350)
At 31 December 2021	55,760,000	27,000,000	6,232,644	88,992,644
Accumulated amortisation				
At 1 January 2020	12,236,223	2,160,000	4,497,519	18,893,742
Amortisation expense	1,858,667	1,080,000	1,369,369	4,308,036
At 31 December 2020	14,094,890	3,240,000	5,866,888	23,201,778
Amortisation expense	1,858,667	1,080,000	449,093	3,387,760
Written off	-	-	(323,624)	(323,624)
Impairment loss	12,785,709	-	-	12,785,709
At 31 December 2021	28,739,266	4,320,000	5,992,357	39,051,623
Carrying amounts				
At 31 December 2021	27,020,734	22,680,000	240,287	49,941,021
At 31 December 2020	41,665,110	23,760,000	630,521	66,055,631

Notes:

(a) Amortisation expenses have been included in:

	2021 RMB	2020 RMB
Consolidated statement of profit or loss and other comprehensive income:		
- Administration expenses	3,387,760	4,308,036

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

17. INTANGIBLE ASSETS - Continued

Notes: - Continued

- (b) In accordance with a licensing agreement entered into between the Group and Shanghai Handpay Information & Technology Co., Ltd (“Handpay”) in 2013 and the relevant supplementary agreements entered into in 2015 (together the “Handpay Service Agreements”), the Group acquired all rights, title and interest to the operating results of mobile marketplace. The licensing period is 30 years and RMB55,760,000 was paid by the Group to Handpay in 2013 in accordance with the Handpay Service Agreements. As at 31 December 2021, the licensing agreement has a remaining amortisation period of 21 years (2020: 22 years).

99 mobile marketplace conducts its business mainly in business to business to consumer platforms by linking business partners (“Business Partners”) and merchants (“Merchants”), which forms the underlying platforms of all principal business of the Group. Business Partners include large scale companies from the banking, finance, insurance and telecommunication sectors with strong customer bases and merchant resources. Merchants include telecommunication companies, online game providers and travel agents which can provide goods or service to customers through 99loyaltytech.com mobile marketplace.

- (c) In 2017, the Group entered into an equity transfer agreement and a series of supplementary agreements (together the “Beijing Dingli Agreements”) with the shareholders of Beijing Dingli Insurance Brokers Limited (“Beijing Dingli”) (“Dingli Vendors”) to acquire 95% equity interests of Beijing at a consideration of RMB27,000,000.

Beijing Dingli is principally engaged in provision of agency services on insurance products in the PRC. The directors have assessed and considered the major asset as obtained from the acquisition of Beijing Dingli was an insurance brokerage license (the “Insurance License”), which would enhance the diversity and flexibility of insurance services and products offered on 99loyaltytech.com mobile marketplace.

In accordance with the Beijing Dingli Agreements, the operations, assets (excluding the Insurance License and a restricted bank balance (note 22) and liabilities of Beijing Dingli existed on the acquisition completion date are beneficially owned by Dingli Vendors after the acquisition completion date whilst Dingli Vendors will not be entitled to any profit or loss of Beijing Dingli after the acquisition completion date irrespective of their holding of 5% equity interests in Beijing Dingli.

In 2020, the Group has entered into a supplementary agreement with Dingli Vendor to acquire the remaining 5% equity interests in Beijing Dingli at a consideration of RMB2,500,000. Upon completion of the acquisition, Beijing Dingli became an indirect wholly-owned subsidiary of the Company.

As at 31 December 2021, the Insurance License has a remaining amortisation period of 21 years (2020: 22 years).

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

17. INTANGIBLE ASSETS - Continued

Notes: - Continued

- (d) During the year ended 31 December 2021, management of the Group identified impairment indicator of other intangible assets due to decline performance of the CGU in relation to the Group's provision of services via online marketplace. The Group assessed the recoverable amount of the other intangible assets allocated to the CGU and as a result the carrying amount of the other intangible assets was written down to its recoverable amount. Accordingly an impairment loss on licensing arrangement of RMB12,785,709 was recognised for the year ended 31 December 2021 (2020: nil).

18. GOODWILL

	2021 RMB	2020 RMB
As at 1 January	3,440,400	3,440,400
Impairment loss	<u>(3,440,400)</u>	<u>-</u>
As at 31 December	<u>-</u>	<u>3,440,400</u>

For the purpose of impairment testing, goodwill is allocated to the CGU in relation to the Group's provision of services via online marketplace in the PRC.

The recoverable amount of the CGU has been determined from value-in-use calculation based on cash flow projections from formally approved budgets covering a five-year period. The pre-tax discount rate applied to the cash flow projections is 22% (2020: 20%). Cash flows beyond the five-year period are extrapolated using an estimated average growth rate of 5% (2020: 5%), which does not exceed the long-term growth rate for the mobile payment industry in the PRC.

The discount rate used is pre-tax and reflect specific risks relating to the relevant CGU. Average annual growth rate over the five-year forecast period is based on past performance and management's expectations of market development.

Due to decline performance of the CGU in relation to the Group's provision of services via online marketplace, an impairment loss on goodwill of RMB3,440,400 (2020: nil) was recognised for the year ended 31 December 2021 to write down the CGU to its recoverable amount of RMB189,000,000.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

19. AMOUNT DUE FROM A RELATED PARTY AND AMOUNT DUE TO A DIRECTOR

- (a) The amount due from a related party represent an amount due from Superio Pty Limited in which Mr Ross Benson and Mr Christopher Ryan, are directors and key management personnel of the Company, are beneficial owners. The balance is unsecured, interest-free and repayable on demand.

Name of the related party	31 December 2021 RMB	Maximum amount outstanding during the year RMB	31 December 2020 RMB	Maximum amount outstanding during the year RMB	1 January 2020 RMB
Superio Pty Limited	<u>20,278</u>	<u>20,278</u>	<u>1,066</u>	<u>1,066</u>	<u>-</u>

- (b) As at 31 December 2021 and 2020, the amount due to a director represent an amount due to Ms. Zhang which was unsecured, interest-free and repayable on demand.

20. INVENTORIES

	2021 RMB	2020 RMB
Marketing merchandise	<u>5,373,910</u>	<u>153,606</u>

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

21. TRADE AND OTHER RECEIVABLES

	Notes	2021 RMB	2020 RMB
Non-current			
Other receivable from Handpay	(b)	<u>115,000,000</u>	<u>-</u>
Current			
Trade receivables	(a)	142,463,130	192,668,698
Prepayments to suppliers		81,122,776	87,250,664
Other prepayments		11,275,157	2,130,607
Deposits		1,683,546	2,119,844
Other receivables		7,396,169	14,461,194
Other receivable from Handpay	(b)	<u>45,000,000</u>	<u>196,509,229</u>
		<u>288,940,778</u>	<u>495,140,236</u>

Notes:

- (a) Trade receivables arose from m-Commerce transactions and mobile marketing business.

During the year, the Group discounted part of its trade receivables with full recourse to financial institutions. In the event of default by the debtors, the Group is obliged to pay the financial institutions the amount in default. Interest is charged ranging from 17% to 22.5% (2020:17.5% to 22.5%) on the proceeds received from the financial institutions until the date the debtors pay. The Group is therefore exposed to the risks of credit losses and late payment in respect of the discounted debts.

As the Group retains substantially significant risks and rewards relating to these trade receivables, it continues to recognise the full carrying amount of these trade receivables, and includes the proceeds received from the discounting transactions as other loans (note 25(b)). At 31 December 2021, trade receivables of RMB57,255,661 (31 December 2020: RMB40,751,316) have been legally transferred to the financial institutions. The carrying amount of the transferred assets and their associated liabilities approximates their fair values as at 31 December 2021 and 2020.

The Group did not have the authority to determine the disposition of the trade receivables under discounting transactions because these trade receivables have been transferred to the financial institutions legally.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

21. TRADE AND OTHER RECEIVABLES - Continued

- (b) Other receivable due from Handpay is mainly derived from the operation of 99 mobile marketplace. In accordance with the Handpay Service Agreements, during the transition period, Handpay would continue to perform all third party contracts entered into with respect to the 99loyaltytech.com mobile marketplace until renewal of existing contracts. Handpay also collects revenue and pay expenses on behalf of the Group. As at 31 December 2020, the amount was unsecured, interest-free and repayable on demand.

On 31 December 2021, the Company and Handpay agreed an modification on the terms of other receivable from Handpay of RMB196,378,870, under which modified other receivable from Handpay would be settled by instalments with maturity date extended to 31 December 2023 (the “Handpay Modification”). Except for the above, all other terms and conditions of modified other receivable from Handpay remain unchanged from the original terms.

In the opinion of the management, as the Handpay Modification results in a significant extension of the maturity date, it is a substantial modification and accounted for as derecognition of the original financial assets. The difference of RMB36,378,870 between the carrying amount of the outstanding other receivable from Handpay of RMB196,378,870 prior to the Handpay Modification and the amount recognised as new financial assets, being the fair value of the modified other receivable from Handpay, has been recognised in the consolidated statement of comprehensive income as loss arising from derecognition of financial asset measured at amortised cost during the year ended 31 December 2021. The fair value of modified other receivable from Handpay at the date of the Handpay Modification determined by a firm of independent professional valuer, based on discounted cash flows method that does not only use data from observable markets, was RMB160,000,000.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

22. CASH AND BANK BALANCES

	2021 RMB	2020 RMB
Cash and bank balances	27,752,548	117,506,895
Less:		
Deposit restricted for insurance brokerage work (note)	<u>(5,000,000)</u>	<u>(5,000,000)</u>
Cash and cash equivalents for the purpose of the consolidated statement of cash flows	<u>22,752,548</u>	<u>112,506,895</u>

Note:

In accordance with relevant provision of Insurance Law of the PRC, Beijing Dingli has placed an amount equal to 10% of its paid-up capital as restricted deposits. On the condition that approval is obtained from China Insurance Regulatory Commission, the deposits can be withdrawn by the Group.

23. TRADE AND OTHER PAYABLES

	2021 RMB	2020 RMB
Trade payables	41,903,474	31,678,084
Accruals and other payables (note)	<u>17,562,049</u>	<u>43,808,165</u>
	<u>59,465,523</u>	<u>75,486,249</u>

Note:

The Group is in progress to finalise certain tax treatment in relation to VAT amounted to RMB10,281,220 as at 31 December 2021 (2020: RMB28,898,686) filing with relevant tax authority in the PRC. As at 31 December 2021, VAT amounted to RMB18,646,053 (2020: RMB33,653,262) was reversed in accordance with relevant regulation in the PRC and recognised as other gain for the year ended 31 December 2021 (note 9). In the opinion of the management, there is possibility that VAT of RMB10,281,220 (31 December 2020: RMB28,898,686) may be reversed.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

24. DERIVATIVE FINANCIAL INSTRUMENTS

Equity-linked Loans I

In November 2017, the Group obtained three equity-linked loans with principal amounts of Australian Dollars (“A\$”) 950,000 (equivalent to RMB4,974,105), RMB6,250,000 and RMB5,000,000 (collectively “Equity-linked Loans I”) respectively for general working capital purpose. Equity-linked Loans I carry a coupon rate of 10% per annum, which are paid quarterly on 17 February 2018, 17 May 2018, 17 August 2018 and 17 November 2018 (“Maturity Date I”). The lenders of Equity-linked Loans I are entitled to unlisted call options (“Call Options I”) which would provide the lenders the right to acquire a maximum of total 31,429,825 CDIs of the Company at a fixed price of A\$0.1 per option at any time prior to 17 November 2020.

On 17 November 2018, the Company redeemed part of the Equity-linked Loans I at a price equal to the sum of principal amount of RMB4,056,026 upon its maturity. The terms and conditions of the principal amount of RMB12,168,079 (the “Modified Equity-linked Loans I”) were amended and modified (the “Modification”). The Maturity Date I of Modified Equity-linked Loans I is extended by four months, from 17 November 2018 to 17 March 2019. The coupon rate is adjusted from 10% to 13% per annum. The Call Options I are extended by six months and convertible at any time prior to 17 May 2021. Except for the above, all other terms and conditions of the Modified Equity-linked Loans I remain unchanged from the original terms.

Equity-linked Loan II

In January 2018, the Group obtained an equity-linked loan with principal amount of A\$250,000 (equivalent to RMB1,271,050) (“Equity-linked Loan II”) for general working capital purpose. Equity-linked Loan II carries a coupon rate of 10% per annum, which is paid quarterly on 22 April 2018, 22 July 2018, 22 October 2018 and 22 January 2019 (“Maturity Date II”). The lender of Equity-linked Loan II is entitled to unlisted call options (“Call Options II”) which would provide the lender the right to acquire a maximum of total 2,500,000 CDIs of the Company at a fixed price of A\$0.1 per option at any time prior to 22 January 2021.

Equity-linked Loan III

In February 2018, the Group obtained an equity-linked loan with principal amount of RMB1,500,000 (“Equity-linked Loan III”) (together with the Equity-linked Loans I and Equity-linked Loan II referred as the “Equity-linked Loans”) for general working capital purpose. Equity-linked Loan III carries a coupon rate of 10% per annum, which is paid quarterly on 20 May 2018, 20 August 2018, 20 November 2018 and 20 February 2019 (together with the Maturity Date I and Maturity Date II referred as the “Maturity Dates”). The lender of Equity-linked Loan III is entitled to unlisted call options (together with the Call Options I and Call Options II referred as the “Call Options”) which would provide the lender the right to acquire a maximum of total 3,000,000 CDIs of the Company at a fixed price of A\$0.1 per option at any time prior to 20 February 2021.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

24. DERIVATIVE FINANCIAL INSTRUMENTS - Continued

Equity-linked Loan III - Continued

In the event Call Options are exercised by the lenders prior to Maturity Dates, the proceeds from Call Options exercised will be repaid by the Group to the lenders as a loan reduction of the principal within 30 days of receipt of the proceeds of Call Options exercised from the lenders. During the period, no Call Options have been exercised and converted into CDI of the Company by lenders.

The Group determined that the feature of Call Options will not result in settlement by the exchange of a fixed amount of cash for a fixed number of the Company's shares. Each of the Equity-linked Loans is separately recognised as derivative financial liabilities consisting of Call Options, and a liability component consisting of a straight debt element. The Call Options are separated into two portions where options with a term same as the liability components ("Initial Options"); and standalone options with a term of two years subject to the condition if the lenders forfeit the liability components by exercising Initial Options ("Subsequent Options").

In the opinion of the management, the total transaction prices of Equity-linked Loans I, Equity-linked Loan II and Equity-linked Loan III of RMB16,224,105, RMB1,271,050 and RMB1,500,000 respectively were not the best evidence of their aggregated fair values as the total fair values of Equity-linked Loans I, Equity-linked Loan II and Equity-linked Loan III at initial recognition determined by a firm of independent professional valuer, based on Binominal model that does not only use data from observable markets, were RMB25,405,571, RMB1,827,887 and RMB1,954,025 respectively.

The total loss on initial recognition of Call Options and debt elements determined by the initial differences between fair values and transaction price are deferred and allocated to the carrying amounts of Call Options and debt elements respectively. After initial recognition, the deferred initial differences are recognised as gains or losses only to the extent that they arise from a change in a factor (including time) that market participants would take into account when pricing the Equity-linked Loans. The unamortised deferred initial differences as at 31 December 2020 amounted to RMB30,738 and was fully amortised during the year ended 31 December 2021.

The Modification of Equity-linked Loans I is accounted for as an extinguishment of the original financial liabilities of the Equity-linked Loans I as the discounted present value of the cash flow of the Modified Equity-linked Loans I is more than 10% difference from the discounted present value of the cash flow of the outstanding Equity-linked Loans I prior to the Modification. The difference between the carrying amounts of the outstanding Equity-linked Loans I prior to the Modification and the amount recognised as new financial liabilities, being the fair values of the Modified Equity-linked Loans I, has been recognised in other gains or losses during the year ended 31 December 2018. The total fair values of Modified Equity-linked Loans I at the date of the Modification determined by a firm of independent professional valuer, based on Binominal model that does not only use data from observable markets, were RMB14,994,150.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

24. DERIVATIVE FINANCIAL INSTRUMENTS - Continued

In 2019, the Group has redeemed the entire outstanding balances of Modified Equity-linked Loans I, Equity-linked Loan II and Equity-linked Loan III at a price equal to the sum of principal amounts upon their maturity. The derivative financial liabilities as at 31 December 2020 of RMB821,730 represent the fair values of Subsequent Options. During the year ended 31 December 2021, all Subsequent Options were not exercised and were lapsed.

The carrying values and movements of derivative financial liabilities which are the Call Options of Equity-linked Loans are as follows:

	Derivative financial liabilities RMB
Carrying amount as at 1 January 2020	1,723,463
Change in fair value of derivative financial liabilities (note 9)	(1,405,983)
Amortisation of deferred initial differences on derivatives financial liabilities	504,250
Carrying amount as at 31 December 2020	821,730
Change in fair value of derivative financial liabilities (note 9)	(852,468)
Amortisation of deferred initial differences on derivatives financial liabilities	30,738
Carrying amount as at 31 December 2021	-
Carrying amount as at 31 December 2020	
Current portion	821,730
Carrying amount as at 31 December 2021	
Current portion	-

The change in the fair value of the derivative financial liabilities during the year ended 31 December 2021 results in a fair value gain of RMB852,468 (2020: RMB1,405,983) (note 9). For more detailed information in relation to the fair value measurement of derivative financial liabilities, please refer to note 36.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

25. BANK AND OTHER LOANS

	Notes	2021 RMB	2020 RMB
Bank loan - unsecured	(a)	4,000,000	20,000,000
Other loans - secured	(b)	56,000,000	40,000,000
Other loans - unsecured	(c)	29,000,000	34,620,000
		<u>89,000,000</u>	<u>94,620,000</u>

The Group's bank and other loans are repayable as follows:

	2021 RMB	2020 RMB
Within one year or on demand	<u>89,000,000</u>	<u>94,620,000</u>

The carrying amounts of the Group's bank and other loans are denominated in the following currency:

	2021 RMB	2020 RMB
RMB	<u>89,000,000</u>	<u>94,620,000</u>

Notes:

- (a) As at 31 December 2021, the effective interest rate of the Group's unsecured bank loan was at 4% per annum (2020: 4.35%).

As at 31 December 2021, bank loan of RMB4,000,000 (2020: RMB20,000,000) was guaranteed by Ms. Zhang.

- (b) As at 31 December 2021, the effective interest rates of the Group's secured other loans were ranging from 15% to 18% per annum (2020: 8% to 22.5%).

As at 31 December 2021, other loans of RMB56,000,000 (2020: RMB40,000,000) represents the amounts of financing obtained from financial institutions in factoring transactions on the Group's trade receivables with full recourse (note 21(a)).

- (c) As at 31 December 2021, the effective interest rates of the unsecured other loans were ranging from 10% to 15% per annum (2020: 10% to 15%)

As at 31 December 2021, the Group's unsecured other loan of RMB12,700,000 (31 December 2020: nil) was due to Nanping Yingjie Enterprise Management Partnership ("Nanping Yingjie"), a related company of which Ms. Zhang was the controlling equity holder.

99 LOYALTY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

26. DEFERRED TAXATION

The component of deferred tax assets recognised in the consolidated statement of financial position and the movements during the years are as follows:

	Tax losses RMB
As at 1 January 2020	13,975,759
Charged to profit or loss for the year	<u>(12,798,251)</u>
As at 31 December 2020 and 2021	<u><u>1,177,508</u></u>

Deferred tax assets are recognised for tax losses carried forward to the extent that utilisation of the related tax losses through the future taxable profits is probable. As at 31 December 2021, the Group has unrecognised tax losses of RMB32,220,539 (2020: RMB11,236,879). The tax losses can be utilised for offsetting future taxable profits of the Group, and will be subject to expiry within next five financial years.

The component of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the years are as follows:

	Fair value adjustment of intangible assets RMB
As at 1 January 2020	7,181,423
Credited to profit or loss for the year	<u>(306,680)</u>
As at 31 December 2020	6,874,743
Credited to profit or loss for the year	<u>(1,501,799)</u>
As at 31 December 2021	<u><u>5,372,944</u></u>

Under the EIT Law of the PRC, withholding income tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. As at 31 December 2021, no deferred tax liability has been recorded on temporary differences of RMB10,187,872 (2020: RMB16,383,173) relating to the undistributed earnings of PRC subsidiaries because the Group is in a position to control the dividend policies of these subsidiaries and it is probable that these earnings will not be distributed in the foreseeable future.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

27. SHARE CAPITAL

	Number of ordinary shares	RMB
Issued and fully paid up:		
At 1 January 2020, 31 December 2020 and 31 December 2021	<u>1,159,682,763</u>	<u>1,159,682,763</u>

All issued shares have no par value and rank pari passu in all respects including all rights as to dividends, voting and return of capital.

28. RESERVES

The Group

(a) Statutory reserve

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the PRC subsidiaries, it is required to appropriate 10% of the annual net profits of the PRC subsidiaries, after offsetting any prior years' losses as determined under the relevant PRC accounting standards, to their respective statutory reserves before distributing any net profit. When the balances of the statutory reserves reach 50% of their respective registered capital, any further appropriation is at the discretion of shareholders. Subject to certain restrictions set out in the relevant laws and regulations in the PRC, part of the statutory reserves may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

(b) Other reserve

Other reserve represents the gain or loss arising from changes in ownership in interests of a subsidiary that did not result in change in control.

The Company

	Retained earnings/ (accumulated losses) RMB
At 1 January 2020	48,530,768
Loss for the year	<u>(10,513,761)</u>
At 31 December 2020	38,017,007
Loss for the year	<u>(77,523,549)</u>
At 31 December 2021	<u>(39,506,542)</u>

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

29. LEASES

Nature of leasing activities (in the capacity as lessee)

The Group leases a number of buildings in the jurisdictions from which it operates. In those jurisdictions the periodic rent of property leases is fixed over the lease term. As at 31 December 2021, the Group had 7 lease contracts (2020: 9) with the fixed monthly rent ranging from RMB1,500 to RMB411,352 (2020: RMB1,500 to RMB411,352).

Right-of-use assets

The net book value of the underlying assets of right-of-use assets is as follows:

	2021 RMB	2020 RMB
Buildings leased for own use, carried at depreciated cost	<u>8,176,487</u>	<u>13,662,872</u>

Future lease payments are due as follows:

	Minimum lease payments RMB	Interest RMB	Present value RMB
As at 31 December 2021			
Not later than one year	6,230,965	525,295	5,705,670
Later than one year and not later than two years	3,061,675	141,735	2,919,940
Later than two years and not later than five years	<u>16,667</u>	<u>668</u>	<u>15,999</u>
	<u>9,309,307</u>	<u>667,698</u>	<u>8,641,609</u>
As at 31 December 2020			
Not later than one year	6,711,860	987,675	5,724,185
Later than one year and not later than two years	8,771,199	640,437	8,130,762
Later than two years and not later than five years	<u>36,667</u>	<u>2,982</u>	<u>33,685</u>
	<u>15,519,726</u>	<u>1,631,094</u>	<u>13,888,632</u>

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

29. LEASES - Continued

The present value of future lease payments are analysed as:

	2021 RMB	2020 RMB
Current liabilities	5,705,670	5,724,185
Non-current liabilities	2,935,939	8,164,447
	<u>8,641,609</u>	<u>13,888,632</u>
	2021 RMB	2020 RMB
Short term lease expense	195,565	106,130
Aggregate undiscounted commitments for short term leases	52,320	65,648

Operating lease payments represent rentals payable by the Group for its offices. Leases are negotiated for terms of one to five years at fixed rental.

30. CAPITAL COMMITMENT

There is no material capital commitment for the Group at the end of reporting year (2020: nil).

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2021 RMB	2020 RMB
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Intangible asset		27,020,734	41,665,110
Interests in subsidiaries	32	97,090,535	119,966,535
Other receivables		115,000,000	-
Goodwill		-	3,440,400
Total non-current assets		239,111,269	165,072,045
CURRENT ASSETS			
Other receivables		26,599,615	175,332,350
Amounts due from subsidiaries		15,454,182	18,454,182
Amount due from shareholder		20,278	1,066
Cash and cash equivalents		831,602	1,924,118
Total current assets		42,905,677	195,711,716
NON-CURRENT LIABILITIES			
Deferred tax liabilities		5,372,944	6,874,743
Total non-current liabilities		5,372,944	6,874,743
CURRENT LIABILITIES			
Other payables		2,474,651	1,394,388
Derivative financial instruments		-	821,730
Total current liabilities		2,474,651	2,216,118
NET CURRENT ASSETS		40,431,026	193,495,598
NET ASSETS		274,169,351	351,692,900
EQUITY			
Share capital	27	313,675,893	313,675,893
(Accumulated losses)/retained earnings	28	(39,506,542)	38,017,007
TOTAL EQUITY		274,169,351	351,692,900

Approved by and authorised for issue by the board of directors on 31 March 2022 are signed on its behalf by:



Mr. Ross Benson
Director



Mr. Wen Tao
Director

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

32. INTERESTS IN SUBSIDIARIES

	2021 RMB	2020 RMB
Unlisted equity interest, at cost	126,338,535	126,338,535
Provision for impairment	<u>(29,248,000)</u>	<u>(6,372,000)</u>
	<u>97,090,535</u>	<u>119,966,535</u>

Particulars of the principal subsidiaries at 31 December 2021 are as follows:

Name	Form of business structure	Place and date of incorporation	Place of operation and principal activity	Paid up capital/ registered capital	Percentage of ownership interest
<u>Direct</u>					
Ninety nine Trading (Shanghai) Co., Ltd. 耐特耐商贸(上海) 有限公司	Limited liability company	PRC, 2 July 2013	Investment holding in PRC	HK\$40,000,000	100%
Kyonichi Trading Limited 京日貿易有限公司	Limited liability company	Hong Kong, 27 November 2015	Investment holding	HKD10,000	100%
Aide Trading Limited 艾德貿易有限公司	Limited liability company	Hong Kong, 28 July 2016	Investment holding	HKD10,000	100%
<u>Indirect</u>					
Shanghai Xinshunhui Trading Co., Ltd. 上海鑫顺汇商贸有 限公司	Limited liability company	PRC, 27 June 2013	Investment holding in PRC	RMB30,100,000	100%

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

32. INTERESTS IN SUBSIDIARIES - Continued

Particulars of the principal subsidiaries at 31 December 2021 are as follows: - Continued

Name	Form of business structure	Place and date of incorporation	Place of operation and principal activity	Paid up capital / registered capital	Percentage of ownership interest
					<u>Indirect</u>
Shanghai Handpal 上海瀚之友信息技术 服务有限公司	Limited liability company	PRC, 4 July 2013	Provision of services on a mobile marketplace in PRC	RMB30,000,000	100%
Shanghai Handqian 上海瀚乾信息技术 服务有限公司	Limited liability company	PRC, 20 April 2015	Provision of services on a mobile marketplace in PRC	RMB10,000,000	100%
上海诚度信息技术 有限公司	Limited liability company	PRC, 12 January 2016	Provision of services on a mobile marketplace in PRC	Nil	100%
上海邦道信息技术有 限公司	Limited liability company	PRC, 12 January 2016	Provision of services on a mobile marketplace in PRC	RMB10,000,000	100%

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

32. INTERESTS IN SUBSIDIARIES - Continued

Particulars of the principal subsidiaries at 31 December 2021 are as follows: - Continued

Name	Form of business structure	Place and date of incorporation	Place of operation and principal activity	Paid up capital / registered capital	Percentage of ownership interest
					<u>Indirect</u>
上海瀚栋信息技术有限公司 (“Shanghai Handdong”) (Note)	Limited liability company	PRC, 14 September 2016	Investment holding in PRC	RMB10,000,000	100%
上海层畅信息技术有限公司	Limited liability company	PRC, 14 March 2017	Provision of services on a mobile marketplace in PRC	Nil	100%
上海易河信息技术有限公司	Limited liability company	PRC, 10 March 2017	Provision of services on a mobile marketplace in PRC	Nil	100%
Beijing Dingli 北京鼎立保险经纪有限责任公司	Limited liability company	PRC, 13 May 2014	Provision of insurance brokerage services	RMB50,000,000	100%
海南安鸿信息技术有限公司	Limited liability company	PRC, 19 June 2018	Provision of services on a mobile marketplace in PRC	Nil	100%

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

32. INTERESTS IN SUBSIDIARIES - Continued

Particulars of the principal subsidiaries at 31 December 2021 are as follows: - Continued

Name	Form of business structure	Place and date of incorporation	Place of operation and principal activity	Paid up capital / registered capital	Percentage of ownership interest
天津豐邁資訊技術有限公司	Limited liability company	PRC, 12 April 2019	Provision of services on a mobile marketplace in PRC	Nil	100%
上海志華資訊技術有限公司	Limited liability company	PRC, 23 April 2019	Provision of services on a mobile marketplace in PRC	Nil	100%
上海禎菱信息技術有限公司	Limited liability company	PRC, 14 January 2020	Provision of services on a mobile marketplace in PRC	Nil	100%
江苏嘉魁信息技术有限公司	Limited liability company	PRC, 14 July 2021	Dormant	Nil	100%
江苏延僕信息技术有限公司	Limited liability company	PRC, 14 July 2021	Dormant	Nil	100%
上海祯鸣贸易有限公司	Limited liability company	PRC, 13 October 2021	Dormant	Nil	100%

Note:

In 2017, Mr. Wang Haoqi signed a trust agreement with the Group to hold the 100% equity interest in Shanghai Handdong for and on behalf of the Group and became the registered shareholder of Shanghai Handdong. In the opinion of the independent PRC legal advisor of the Group, the trust agreement is legally enforceable, and complies with the relevant PRC laws and regulations.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

33. RELATED PARTY TRANSACTIONS

Transactions with key management personnel/Material interests of directors in transactions, arrangements or contracts

- (a) All members of key management personnel are the directors of the Company. The remuneration paid to them during the year was disclosed in note 12.
- (b) In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following material related party transactions:

	Type of transaction	2021 RMB	2020 RMB
Superio Pty Limited	Professional services fee	1,626,942	535,033
Ms. Zhang	Interest income	-	310,000
Nanping Yingjie	Interest expense	<u>1,616,944</u>	<u>-</u>

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

- (a) Cash and cash equivalents comprise

	2021 RMB	2020 RMB
Cash available on demand	<u>22,752,548</u>	<u>112,506,895</u>

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

34. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS - Continued

(b) Reconciliation of liabilities arising from financing activities:

	Bank loans (notes 25(a)) RMB	Other loans (notes 25(b)&(c)) RMB	Lease liabilities (note 29) RMB	Amount due to a director RMB	Equity-linked Loans (note 24) RMB
At 1 January 2020	9,500,000	73,200,000	5,065,778	45,680,000	1,723,463
Changes from cash flows:					
Proceeds from borrowings	20,000,000	64,070,000	-	-	-
Repayments of borrowings	(9,500,000)	(62,650,000)	-	-	-
Repayment of advance from a director	-	-	-	(42,090,000)	-
Lease payments	-	-	(6,211,856)	-	-
Interest paid	(756,888)	(14,217,511)	(667,810)	-	-
Other changes:					
Change in fair value	-	-	-	-	(1,405,983)
Interest expenses	756,888	14,217,511	667,810	-	-
Additions in leases liabilities	-	-	127,459	-	-
Effect of modification of leases term	-	-	14,907,251	-	-
Amortisation of deferred initial differences on derivatives financial liabilities	-	-	-	-	504,250
At 31 December 2020	20,000,000	74,620,000	13,888,632	3,590,000	821,730
Changes from cash flows:					
Proceeds from borrowings	4,000,000	68,700,000	-	-	-
Repayments of borrowings	(20,000,000)	(58,320,000)	-	-	-
Repayment of advance from a director	-	-	-	(3,550,000)	-
Lease payments	-	-	(5,920,559)	-	-
Interest paid	(240,444)	(13,546,554)	(1,003,881)	-	-
Other changes:					
Change in fair value	-	-	-	-	(852,468)
Interest expenses	240,444	13,546,554	1,003,881	-	-
Additions in leases liabilities	-	-	673,536	-	-
Amortisation of deferred initial differences on derivatives financial liabilities	-	-	-	-	30,738
At 31 December 2021	4,000,000	85,000,000	8,641,609	40,000	-

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

35. CAPITAL RISK MANAGEMENT

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

The capital structure of the Group consists of debts, which includes amount due to a director, bank and other loans and equity attributable to owners of the Company (including share capital and reserves). The Group's management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

The Group monitors capital using a gearing ratio, which is total debts divided by the total shareholders' equity. Total shareholders' equity comprises all components of equity attributable to the equity holders. The Group's policy is to maintain the gearing ratio at a reasonable level. The gearing ratios as at the reporting dates were as follows:

	2021 RMB	2020 RMB
Total debts	<u>89,040,000</u>	<u>98,210,000</u>
Total shareholders' equity	<u>278,486,236</u>	<u>352,717,818</u>
Gearing ratio	<u>32%</u>	<u>28%</u>

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

36. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk and currency risk.

These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group exposed to credit risk from loan and receivables. The Group assesses credit risk based on debtor's past due record, trading history, financial condition or credit rating.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each debtor. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Group has a certain concentration of credit risk of financial instruments as 40% (2020: 40%) of the total trade and other receivables was due from the one largest debtor of the Group.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade customers and, where appropriate, credit guarantee insurance cover is purchased. Trade receivables are due within 0 to 45 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

36. FINANCIAL RISK MANAGEMENT - Continued

(a) Credit risk - Continued

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

	Expected loss rate (%)	Gross carrying amount (RMB)	Loss allowance (RMB)
<u>As at 31 December 2021</u>			
Neither past due nor impaired	0.2%	85,323,620	170,646
Less than 1 month past due	1.0%	26,237,460	262,375
1 to 3 months past due	2.0%	28,607,810	572,156
More than 3 months	5.7%	3,498,852	199,435
		<u>143,667,742</u>	<u>1,204,612</u>
<u>As at 31 December 2020</u>			
Neither past due nor impaired	0.2%	180,092,192	360,184
Less than 1 month past due	1.0%	9,729,819	97,298
1 to 3 months past due	2.0%	90,253	1,805
More than 3 months	5.7%	3,327,461	111,740
		<u>193,239,725</u>	<u>571,027</u>

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2021 RMB	2020 RMB
Balance at 1 January	571,027	283,391
Provision for impairment loss determined under HKFRS 9	<u>633,585</u>	<u>287,636</u>
Balance at 31 December	<u>1,204,612</u>	<u>571,027</u>

Increase in long overdue trade receivables resulted in an increase in loss allowance of RMB633,585 during the year ended 31 December 2021.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

36. FINANCIAL RISK MANAGEMENT - Continued

(b) Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents and have available funding through bank and other borrowings to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities of the Group for its non-derivative financial liabilities. The table has been drawn up using undiscounted cash flows of financial liabilities based on the earlier of the contractual date or when the Group is expected to pay. The table includes both interest and principal cash flows.

	Carrying amount RMB	Total contractual undiscounted cash flows RMB	Within one year or on demand RMB	More than 1 year but less than 2 years RMB	More than 2 years but Less than 5 years RMB
At 31 December 2021					
Trade and other payables	54,357,805	54,357,805	54,357,805	-	-
Amount due to a director	40,000	40,000	40,000	-	-
Bank and other loans	89,000,000	94,157,903	94,157,903	-	-
Lease liabilities	8,641,609	9,309,307	6,230,965	3,061,675	16,667
	<u>152,039,414</u>	<u>157,865,015</u>	<u>154,786,673</u>	<u>3,061,675</u>	<u>16,667</u>
At 31 December 2020					
Trade and other payables	46,587,563	46,587,563	46,587,563	-	-
Amount due to a director	3,590,000	3,590,000	3,590,000	-	-
Bank and other loans	94,620,000	102,354,378	102,354,378	-	-
Lease liabilities	13,888,632	15,519,726	6,711,860	8,771,199	36,667
	<u>158,686,195</u>	<u>168,051,667</u>	<u>159,243,801</u>	<u>8,771,199</u>	<u>36,667</u>

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

36. FINANCIAL RISK MANAGEMENT - Continued

(c) Interest rate risk

The Group's cash flow interest rate risk mainly arises from bank balances at floating rates as disclosed in notes 22 and 19 while the Group's fair value interest-rate risk mainly arises from bank and other loans at fixed rates as disclosed in note 25. The Group's policy is manage its interest rate risk, working within an agreed framework, to ensure there no undue exposures to significant interest rate movements and rates are approximately fixed when necessary. The directors considered that the Group's interest rate risk is minimal and the Group has not used any financial instruments to hedge potential fluctuations in interest rates.

The interest rates and terms of repayment of the Group's bank and other loans are disclosed in notes 25.

(d) Currency risk

The following table indicates the approximate change in the Group's (loss)/profit for the year and (accumulated losses)/retained earnings and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of reporting period. A positive number in the sensitivity analysis below indicates a decrease/increase in (loss)/profit and other equity where the RMB weakens against the relevant currency. For a strengthening of the RMB against the relevant currency, there would be an equal and opposite impact on the (loss)/profit and other equity, and the balances below would be negative.

The carrying amounts of the Group's foreign currency denominated assets and monetary liabilities at the reporting date are as follows respectively:

	2021 RMB	2020 RMB
Denominated in HK\$		
Cash and bank balances	318,089	634,709
Overall net exposure	<u>318,089</u>	<u>634,709</u>
Denominated in A\$		
Cash and bank balances	18,448	62,720
Derivative financial instruments	-	(821,730)
Overall net exposure	<u>18,448</u>	<u>(759,010)</u>

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

36. FINANCIAL RISK MANAGEMENT - Continued

(d) Currency risk - Continued

The carrying amounts of the Group's foreign currency denominated assets and monetary liabilities at the reporting date are as follows respectively: - Continued

	Increase/ (decrease) in foreign exchange rates %	Effect on loss for the year ended 31 December 2021 and accumulated losses RMB	Increase/ (decrease) in foreign exchange rates %	Effect on profit for the year ended 31 December 2020 and retained profits RMB
HK\$	+5%	15,904	+5%	31,735
	-5%	(15,904)	-5%	(31,735)
A\$	+5%	922	+5%	(37,951)
	-5%	<u>(922)</u>	-5%	<u>37,951</u>

(e) Fair value measurements recognised in the consolidated statement of financial position

The fair values of trade and other receivables, cash and bank balances, trade and other payables, amount due to a director and bank and other loans approximate to their carrying amounts largely due to the short term maturities of these instruments.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

36. FINANCIAL RISK MANAGEMENT - Continued

(e) Fair value measurements recognised in the consolidated statement of financial position - Continued

Fair value hierarchy

The following tables present financial liabilities measured at fair value in the consolidated statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial liabilities. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The financial liabilities measured at fair value in the consolidated statement of financial position at the reporting date are grouped into the fair value hierarchy as follows:

	Level 1 RMB	Level 2 RMB	Level 3 RMB	Total RMB
As at 31 December 2020				
Financial liabilities at FVTPL				
Derivative financial instruments - unlisted call options	-	-	821,730	821,730

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

36. FINANCIAL RISK MANAGEMENT - Continued**(e) Fair value measurements recognised in the consolidated statement of financial position - Continued**

The Group's policy is to recognise transfers between levels of fair value hierarchy at the date of the event or change in circumstances that caused the transfer. There were no significant transfers between levels 1 and 2 and no transfers into or out of level 3 during the years.

The fair value of the derivative financial instruments was calculated using the Binomial model with the major inputs used in the model as follows:

	2020
Stock price	A\$0.087
Volatility	40%-43%
Risk free rate	0.21%-0.23%

Any changes in the major inputs into model will result in changes in the fair value of the derivative component. Increase in the average expected volatility, stock price and risk free rate would increase the fair value of the unlisted call options.

As at 31 December 2020, assuming all other variables is held constant; an increase in stock price by 10% would increase the unlisted call options by a further RMB58,204, an increase in volatility by 10% would increase the unlisted call options by RMB116,843, and an addition in risk free rate by 0.2% would increase the unlisted call options by RMB626.

99 LOYALTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

37. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2021 and 2020 may be categorised as follows:

	2021 RMB	2020 RMB
Financial assets		
Assets measured at amortised cost:		
Trade and other receivables	311,542,845	405,758,965
Amount due from a related party	20,278	1,066
Cash and bank balances	27,752,548	117,506,895
	<u>339,315,671</u>	<u>523,266,926</u>
Financial liabilities		
Liabilities measured at amortised cost:		
Trade and other payables	54,357,805	46,587,563
Amount due to a director	40,000	3,590,000
Lease liabilities	8,641,609	13,888,632
Bank and other loans	89,000,000	94,620,000
	<u>152,039,414</u>	<u>158,686,195</u>
Liabilities measured at FVTPL:		
Derivative financial instruments	-	821,730
	<u>152,039,414</u>	<u>159,507,925</u>