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NEWLINK TECHNOLOGY INC.

新紐科技有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 9600)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Revenue	116,045	67,404
Gross profit	33,204	30,301
Profit before taxation	19,363	2,335
Income tax expense	(1,964)	(1,104)
Profit for the period	17,399	1,231
	As of	As of
	30 June	31 December
	2022	2021
	RMB'000	RMB'000
Total assets	915,183	873,338
Total liabilities	37,581	34,067
Total equity	877,602	839,271

In this announcement, “we”, “us”, “our” and “Newlink Technology” refer to the Company (as defined below) and where the context otherwise requires, the Group (as defined below).

The board (the “**Board**”) of directors (the “**Directors**”) of Newlink Technology Inc. (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to announce the unaudited consolidated results of the Group for the six months ended 30 June 2022 (the “**Reporting Period**”), together with the comparative figures for the corresponding period in 2021.

* For identification purposes only

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Notes	For the six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited) (restated)
Revenue	3	116,045	67,404
Cost of sales	7	<u>(82,841)</u>	<u>(37,103)</u>
Gross profit		33,204	30,301
Other income and gains	4	2,303	2,184
Fair value gain on equity investments at fair value through profit or loss		13,640	–
Selling and distribution expenses		(5,489)	(5,153)
Administrative expenses		(11,331)	(15,956)
Research and development expenses	7	(7,074)	(6,745)
Other expenses		(5,351)	(1,677)
Finance costs	5	<u>(539)</u>	<u>(619)</u>
Profit before taxation	7	19,363	2,335
Income tax expense	6	<u>(1,964)</u>	<u>(1,104)</u>
Profit for the period		<u>17,399</u>	<u>1,231</u>
Other comprehensive income/(expense): <i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising from translation of foreign operations		<u>20,932</u>	<u>(48)</u>
Total comprehensive income for the period		<u>38,331</u>	<u>1,183</u>
Profit/(loss) for the period attributable to:			
Owners of the Company		17,400	1,232
Non-controlling interests		<u>(1)</u>	<u>(1)</u>
		<u>17,399</u>	<u>1,231</u>
Total comprehensive income/(expense) for the period attributable to:			
Owners of the Company		38,332	1,184
Non-controlling interests		<u>(1)</u>	<u>(1)</u>
		<u>38,331</u>	<u>1,183</u>
Earnings per share			
Basic and diluted	9	<u>RMB2.21</u> <u>cents</u>	<u>RMB0.16</u> <u>cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

		30 June 2022	31 December 2021
	<i>Notes</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Non-current assets			
Property and equipment	<i>10</i>	6,170	4,288
Right-of-use assets		4,299	6,480
Intangible assets	<i>11</i>	80,325	52,157
Investment in an associate		4,017	4,017
Equity investments at fair value through profit or loss		18,200	2,280
Contract assets	<i>13</i>	1,358	1,036
Long-term deposits	<i>14</i>	1,744	1,602
Deferred tax asset		1,738	1,334
		<u>117,851</u>	<u>73,194</u>
Current assets			
Trade receivables	<i>12</i>	241,348	178,724
Contract assets	<i>13</i>	75,901	64,066
Prepayments, deposits and other receivables	<i>14</i>	13,040	5,430
Amount due from a related party		1,892	2,102
Other current assets		–	1,041
Pledged deposits		–	1
Restricted bank deposits		1	24,522
Bank balances and cash		465,150	524,258
		<u>797,332</u>	<u>800,144</u>
Current liabilities			
Trade payables	<i>15</i>	11,860	11,651
Contract liabilities		1,884	616
Other payables and accruals	<i>16</i>	1,248	6,044
Interest-bearing bank borrowings	<i>17</i>	15,000	5,000
Lease liabilities		3,093	3,365
Tax payable		2,450	5,209
		<u>35,535</u>	<u>31,885</u>
Net current assets		<u>761,797</u>	<u>768,259</u>
Total assets less current liabilities		<u>879,648</u>	<u>841,453</u>

		30 June 2022	31 December 2021
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
Non-current liabilities			
Lease liabilities		–	2,182
Deferred tax liability		2,046	–
		<u>2,046</u>	<u>–</u>
		2,046	2,182
		<u>2,046</u>	<u>2,182</u>
Net assets		877,602	839,271
		<u>877,602</u>	<u>839,271</u>
Capital and reserves			
Share capital	18	5	5
Reserves		876,091	837,759
		<u>876,091</u>	<u>837,759</u>
Equity attributable to owners of the Company		876,096	837,764
Non-controlling interests		1,506	1,507
		<u>1,506</u>	<u>1,507</u>
Total equity		877,602	839,271
		<u>877,602</u>	<u>839,271</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

1. BASIS OF PREPARATION

Newlink Technology Inc. (the “Company”) was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 8 November 2019 with its shares listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 6 January 2021.

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The condensed consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except otherwise indicated.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2021.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2022 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 3	Conceptual framework for financial report
Amendments to HKAS 16	Property, plant and equipment: proceeds before intended use
Amendments to HKAS 37	Provisions, contingent liabilities and contingent assets: Onerous contracts – cost of fulfilling a contract
Annual improvements to HKFRSs 2018 – 2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND OPERATING SEGMENT INFORMATION

The Group is a service provider providing IT solutions to customers in Mainland China.

In prior years the Group managed its business based on the industry sectors of the customers and had three reportable operating segments being the financial institutions, the medical institutions and the other segment. In 2021, the Group increased the promotion of its artificial intelligence and big data solutions in various fields. In addition to maintaining its advantages of serving specific industries, such solutions were further applied to large and medium-sized state-owned and private enterprises, and were extended to various customers in coal power, the Internet of Things, the Internet, information technology services and other sectors. The Group also further captured a higher market share through strategic cooperation. Therefore, the Group has only one reportable operating segment which is the provision of IT solution services and management has no longer monitored the results based on the industry sectors of the customers. The financial information reported to the chief operating decision maker is reflected through the overall operating performance of the Group for resource allocation and performance evaluation. Accordingly, no operating segment information is presented.

Geographical information

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

Information about major customers

Aggregated revenue of approximately RMB39,824,000 (30 June 2021: approximately RMB21,361,000) was derived from the following single customers, which individually accounted for more than 10% of the Group's total revenue.

	For the six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Customer 1	25,956	11,021
Customer 2	13,868	10,340

Revenue from contracts with customers

(a) Disaggregated revenue information

	For the six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Types of goods or services		
Software development services	100,177	48,577
Technical and maintenance services	10,033	8,105
Sale of standard software	5,835	10,722
Total revenue from contracts with customers	116,045	67,404
Timing of revenue recognition		
Goods transferred at a point in time	5,835	10,722
Services transferred over time	110,210	56,682
Total revenue from contracts with customers	116,045	67,404

The following table shows the amounts of revenue recognised in the Reporting Period that were included in the contract liabilities at the beginning of the Reporting Period:

	For the six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenue recognised that was included in contract liabilities at the beginning of the Reporting Period:		
Software development services	270	1,210
Technical and maintenance services	131	161
	401	1,371

4. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bank interest income	1,253	139
Value Added Tax (“VAT”) refunds and other tax subsidies (<i>Note</i>)	1,050	1,903
Foreign exchange differences, net	–	142
	<u>2,303</u>	<u>2,184</u>

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

5. FINANCE COSTS

	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest expense on bank borrowings	381	373
Interest on lease liabilities	158	246
	<u>539</u>	<u>619</u>

6. INCOME TAX EXPENSE

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

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

Pursuant to the People’s Republic of China (the “PRC”) Enterprise Income Tax (“EIT”) Law and the respective regulations, the subsidiaries in the PRC are subject to income tax at a statutory rate of 25% during the Reporting Period. A preferential tax treatment is available to Beijing Newlink Technology Company Limited (“Beijing Newlink”), a subsidiary of the Group, which was recognised as a High and New Technology Enterprise in December 2020 in the PRC and a lower corporate income tax of 15% has been applied in 2021 and 2022. The certificate of High and New Technology Enterprise has to be renewed every three years and Beijing Newlink has to re-apply for it every six years.

Hong Kong profits tax have been provided at the rate of 16.5% on the Group’s assembled profit derived from Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

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

	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax:		
PRC EIT	321	1,351
Deferred tax	<u>1,643</u>	<u>(247)</u>
Income tax expense	<u>1,964</u>	<u>1,104</u>

7. PROFIT BEFORE TAXATION

The Group's profit before taxation has been arrived at after charging:

	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories and services rendered	<u>82,841</u>	<u>37,103</u>
Research and development expenses:		
Deferred expenditure amortised	3,230	929
Current year expenditure	<u>3,844</u>	<u>5,816</u>
	<u>7,074</u>	<u>6,745</u>
Employee benefit expense (including directors' and chief executives' remuneration):		
Wages and salaries	50,005	39,094
Pension scheme contributions (defined contribution scheme)	<u>8,328</u>	<u>6,660</u>
	<u>58,333</u>	<u>45,754</u>
Auditors' remuneration	–	50
Depreciation of property and equipment	1,053	434
Depreciation of right-of-use assets	2,181	2,081
Amortisation of intangible assets (<i>Note (i)</i>)	7,874	3,075
Impairment losses recognised for trade receivables (<i>Note (ii)</i>)	1,974	1,329
Impairment losses recognised for contract assets (<i>Note (ii)</i>)	120	341
Foreign exchange difference, net (<i>Note (ii)</i>)	2,974	–
Listing expenses	<u>–</u>	<u>7,446</u>

Notes:

- (i) The amortisation of deferred development costs is included in the amortisation of intangible assets. The amortisation of intangible assets for the period is included in cost of sales, selling and distribution expenses, administrative expenses and research and development expenses in the condensed consolidated statement of profit or loss and other comprehensive income.
- (ii) Included in "other expenses" in the condensed consolidated statement of profit or loss and other comprehensive income.

8. DIVIDENDS

No dividends have been paid or declared by the Group during the six months ended 30 June 2022 (30 June 2021: nil).

9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the period attributable to owners of the Company, and the weighted average number of 786,514,400 (30 June 2021: 794,444,444) ordinary shares in issue at the end of the Reporting Period.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2022 and 30 June 2021.

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

	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to owners of the Company, used in the basic and diluted earnings per share calculation	17,400	1,232
Number of shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	786,514,400	794,444,444
Basic and diluted earnings per share	RMB2.21 cents	RMB0.16 cents

10. PROPERTY AND EQUIPMENT

During the six months ended 30 June 2022, the Group acquired assets with total cost of approximately RMB2,935,000 (30 June 2021: approximately RMB1,595,000), including electronic devices and leasehold improvements.

11. INTANGIBLE ASSETS

The intangible assets represent software license and deferred development costs incurred on projects to develop software which are used to provide services or goods to customers. The software license costs will be amortised on the straight-line basis over its estimated useful life of 5 years, and the capitalised development costs will be amortised on the straight-line basis over its estimated useful life of not more than three years, commencing from the date when the software is put into commercial use.

During the six months ended 30 June 2022, the additions and amortisation of intangible assets were approximately RMB36,042,000 (30 June 2021: approximately RMB16,537,000) and RMB7,874,000 (30 June 2021: approximately RMB3,075,000) respectively.

12. TRADE RECEIVABLES

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Trade receivables	249,185	184,587
Less: allowance for expected credit losses	<u>(7,837)</u>	<u>(5,863)</u>
	<u>241,348</u>	<u>178,724</u>

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

The following is an ageing analysis of the trade receivables as at the end of the Reporting Period, based on the recognition date of gross trade receivables and net of allowance for expected credit losses:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Within 90 days	58,909	60,434
91 to 180 days	17,627	27,765
181 days to 1 year	98,098	34,400
1 year to 2 years	64,213	44,995
2 years to 3 years	<u>2,501</u>	<u>11,130</u>
	<u>241,348</u>	<u>178,724</u>

13. CONTRACT ASSETS

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Contract assets	78,953	66,676
Less: allowance for expected credit losses	<u>(1,694)</u>	<u>(1,574)</u>
	<u>77,259</u>	<u>65,102</u>
Less: non-current portion included in non-current assets	<u>(1,358)</u>	<u>(1,036)</u>
	<u>75,901</u>	<u>64,066</u>

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Prepayments	1,689	3,172
Deposits (<i>Note</i>)	9,744	1,602
Other receivables	2,035	2,258
Refundable VAT	1,316	–
	<u>14,784</u>	<u>7,032</u>
Less: non-current portion included in non-current assets	(1,744)	(1,602)
	<u>13,040</u>	<u>5,430</u>

Note: Deposits at 30 June 2022 included a refundable deposit paid for the acquisition of a subsidiary amounted to RMB8,000,000 (31 December 2021: Nil).

15. TRADE PAYABLES

The aging analysis of trade payables at the end of the Reporting Periods presented based on the invoice date is as follows:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Within 90 days	1,041	10,345
91 to 180 days	–	–
181 days to 1 year	10,805	1,306
Over 1 year	14	–
	<u>11,860</u>	<u>11,651</u>

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

16. OTHER PAYABLES AND ACCRUALS

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Other payables	1,202	4,342
Accrued staff costs	46	25
Other tax payables	–	1,677
	<u>1,248</u>	<u>6,044</u>

17. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	30 June 2022 RMB'000 (Unaudited)	Effective interest rate (%)	Maturity	31 December 2021 RMB'000 (Audited)
Current:						
Bank loans – unsecured	4.6	2023	15,000	4.6	2022	5,000

18. SHARE CAPITAL

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Authorised:		
50,000,000,000 ordinary shares of US\$0.000001 each	349	349
Issued and fully paid:		
786,514,400 ordinary shares of US\$0.000001 each	5	5

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

	Number of shares in issue	Par value US\$	Share capital US\$	Share capital RMB'000
At 1 January 2021	600,000,000	0.000001	600	4
Issue of shares on 6 January 2021 (Note (a))	200,000,000	0.000001	200	1
Shares repurchased (Note (b))	(13,485,600)	0.000001	(13)	–*
As at 31 December 2021, 1 January 2022 and 30 June 2022	786,514,400	0.000001	787	5

* Less than RMB1,000.

Notes:

- (a) On 6 January 2021, the Company was listed on the Main Board of the Stock Exchange and made an offering of 200,000,000 ordinary shares at a price at HK\$4.36 per share.
- (b) During the year ended 31 December 2021, the Company purchased 13,485,600 of its shares on the Hong Kong Stock Exchange at a total consideration of HK\$29,685,424 which was paid wholly out of cash in accordance with section 257 of the Hong Kong Companies Ordinance. The repurchased shares were cancelled during the year ended 31 December 2021 and the total amount paid for the repurchase of the shares of HK\$29,685,424 has been charged to share capital and share premium of the Company.

BUSINESS REVIEW AND OUTLOOK

Overview

As a leading technology-driven IT solution service provider based on its software products in China, Newlink Technology vigorously researched and developed innovative solutions and further deployed SaaS services in combination with cloud computing technology by actively deploying cutting-edge technologies such as artificial intelligence and big data analysis. On the one hand, it has steadily established an industry-leading position in providing IT-based services to users in specific industries such as finance and medical care. On the other hand, with its active follow-up of market demand, Newlink Technology launched and promoted more industry-specific or generic innovative solutions powered by artificial intelligence and big data analysis, enabling innovative IT solution service business to gradually establish a market competitive edge, which has become the main driving force for the Group's development.

In the first half of 2022, large-scale pandemic outbreaks were seen in Shanghai, Beijing and other places across China. The Group's principal business premises and operating areas were affected by the pandemic. All staff of the Group responded actively and overcame the adverse effects brought by working from home and the cyclical nature of its business, thereby ensuring the steady development of its principal business and achieving encouraging progress.

In the first half of 2022, the Group continued to focus on increasing investment in the research and development of artificial intelligence and big data solutions and its promotion of the same in various industries. Revenue from innovative IT solution service business amounted to RMB71.4 million, accounting for 61.6% of the revenue from its principal business, thus further consolidating the Group's strategic development direction that revenue from its principal business income shall be mainly derived from innovative solutions as well as its market positioning as an artificial intelligence and big data solution service provider.

In the first half of 2022, under the positive influence of the wider promotion of innovative solutions including RPA solutions, RPA Integrated Machine and medical and health big data-based intelligent management solutions, the Group saw a significant increase in its revenue, gross profit and profit for the period as compared with the corresponding period of the previous year. Specifically, the Company recorded a revenue of RMB116.0 million, representing an increase of 72.2% as compared with the corresponding period in 2021, and a gross profit of RMB33.2 million, representing an increase of 9.6% as compared with the corresponding period in 2021. Under the combined effect of the substantial increase in revenue from its principal business and the realization of fair value gain on equity investments at fair value through profit or loss, the Group recorded a profit for the period of RMB17.4 million, representing an increase of RMB16.2 million as compared with the corresponding period in 2021.

Outlook

Looking into the second half of 2022, affected by the normalization of the pandemic situation, and in order to be responsive to market demand, reduce operational risks and improve market competitiveness, the Group will vigorously adjust its regional market presence in a timely manner, and further develop the market in Southwest China. The Company will set up a main office area and R&D center based in Chengdu and with a business coverage in Midwest China and Southwest China, which will shorten the radius of serving customers in the Southwest China, thereby improving its customer response efficiency, minimizing the business restriction risks that may be brought by adverse factors such as the pandemic and other social environmental changes and caused by the centralized office area, and optimizing its management and financial structure. In addition, by integrating acquired subsidiaries in various aspects including corporate governance, corporate culture, business operation, technology research and development and financial and human management, the Group will give full play to its advantages of complementary resources, and accelerate the research and development of more innovative technology applications while effectively converting and promoting competitive products among different customer groups.

In the second half of 2022, under its overall strategic goal of making progress while maintaining stability, the Group will continue to improve the collaborative operation capability of research and development, promotion and service of innovative technology. Consistently regarding the traditional IT solution service business as its foundation, the Group will accelerate the promotion of wider application of innovative IT solutions, consolidate its market positioning as an artificial intelligence and big data solution service provider, and expand its leading edge of innovative products in the industry.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

During the Reporting Period, the Group derived all revenue from the IT solution service business. The IT solution service business of the Group is to provide customers with various solutions comprising software development services, technical and maintenance services, sales of standard software and other services and products by applying IT technology according to their needs. Depending on the specific application technology, the Group's IT solutions can be divided into traditional solutions and innovative solutions, among which innovative solutions are solutions powered by key technologies such as artificial intelligence and big data analysis. During the Reporting Period, the Group's innovative solutions were applied not only in specific industries such as finance and medical care, but also in general industries, while its traditional solutions were mainly used in the finance industry.

During the Reporting Period, the Group recorded a revenue of RMB116.0 million, representing an increase of 72.2% from RMB67.4 million in the corresponding period of last year, mainly due to the significant increase in revenue from software development services as compared with the corresponding period of last year. During the Reporting Period, the Group's innovative solutions business maintained a momentum of rapid development and achieved a revenue of RMB71.4 million, accounting for 61.6% of the total revenue. Specifically:

Software development services

During the Reporting Period, the Group's revenue from provision of software development services was RMB100.2 million, representing an increase of 106.2% from RMB48.6 million in the corresponding period of last year. Notably, revenue from its traditional solutions reached RMB36.9 million, and revenue from its innovative solutions amounted to RMB63.3 million. Revenue from innovative solutions accounted for 63.2% of the revenue from software development services. During the Reporting Period, the Group's innovative solutions that generate revenue through the software development service model mainly include Robotic Process Automation ("RPA") solutions, medical and health care big data intelligent management solutions and solution services powered by a series of technologies such as data mining and analysis, cloud-based computing, distributed database management, intelligent control, knowledge graph and deep learning, which were sold to financial institutions, medical institutions, large sized state-owned and private enterprises, etc.

Technical and maintenance services

During the Reporting Period, the Group's revenue from provision of technical and maintenance services was RMB10.0 million, representing an increase of 23.8% from RMB8.1 million in the corresponding period of last year. Specifically, revenue from traditional solutions reached RMB6.9 million, and revenue from innovative solutions amounted to RMB3.1 million.

Sale of standard software

During the Reporting Period, the Group's revenue from sale of standard software was RMB5.8 million, representing a decrease of 45.6% from RMB10.7 million in the corresponding period of last year. Among the revenue from sale of standard software, revenue from its innovative solutions amounted to RMB4.9 million, accounting for 84.5%. During the Reporting Period, the Group's innovative solutions that generate revenue through the sales of standard software mainly include products such as the application system in artificial intelligence image text recognition, clinical intelligent knowledge base system, and quality control software for medical records and disease course.

Cost of sales

The Group's cost of sales increased by 123.3% from RMB37.1 million for the six months ended 30 June 2021 to RMB82.8 million for the corresponding period in 2022, mainly due to the increase in technical staff and remuneration, the prolonged project implementation as a result of the long-term impact of the novel coronavirus (COVID-19) pandemic, the increase in cost investment as well as the increased procurement scale of hardware and software to further promote our innovative solutions.

Gross profit and gross profit margin

The Group's gross profit increased by 9.6% from RMB30.3 million for the six months ended 30 June 2021 to RMB33.2 million for the corresponding period in 2022. The Group's gross margin decreased from 45.0% for the six months ended 30 June 2021 to 28.6% for the corresponding period in 2022, which was due to, in addition to the slower year-on-year growth of our revenue as compared with that of our cost of sales with reasons as discussed above, we made appropriate adjustments to the business expansion method and sales pricing strategy for some innovative solutions in order to rapidly expand the innovative solution market, increase its market share and maintain sufficient market opportunities.

Other income and gains

The Group's other income and gains for the six months ended 30 June 2022 amounted to RMB2.3 million, representing a slight increase of 5.4% as compared with RMB2.2 million for the corresponding period in last year, primarily due to the substantial increase in bank interest income, partially offset by the decrease in the VAT refunds and other tax subsidies.

Fair value gains on equity investments at fair value through profit or loss

For the six months ended 30 June 2022, the Group recorded fair value gains of RMB13.6 million from equity investments at fair value through profit or loss, mainly due to the appreciation of minority interests held in Beijing Fuhuaaixian Business Incubator Company Limited.

Selling and distribution expenses

The Group's selling and distribution expenses increased by 6.5% from RMB5.2 million for the six months ended 30 June 2021 to RMB5.5 million for the corresponding period in 2022, mainly due to the increase in sales staff and remuneration.

Administrative expenses

The Group's administrative expenses decreased by 29.0% from RMB16.0 million for the six months ended 30 June 2021 to RMB11.3 million for the corresponding period in 2022, primarily due to the combined effects of the decrease in listing intermediary fee and the increase in staff remuneration.

Research and development expenses

The Group's research and development expenses slightly increased by 4.9% from RMB6.7 million for the six months ended 30 June 2021 to RMB7.1 million for the corresponding period in 2022, mainly due to the increase in amortisation of intangible assets.

Other expenses

The Group's other expenses increased by 219.1% from RMB1.7 million for the six months ended 30 June 2021 to RMB5.4 million for the corresponding period in 2022, mainly due to the increase of RMB3.0 million in foreign exchange loss as compared with the corresponding period in 2021 and the increase of RMB0.4 million in assets impairment losses as compared with the corresponding period in 2021.

Finance costs

The Group's finance costs slightly decreased from RMB0.6 million for the six months ended 30 June 2021 to RMB0.5 million for the six months ended 30 June 2022, mainly due to the slight decrease in interest expense on lease liabilities.

Profit before taxation

As a result of the foregoing, the Group's profit before taxation substantially increased by 7.3 times from RMB2.3 million for the six months ended 30 June 2021 to RMB19.4 million in the corresponding period in 2022.

Income tax expense

The Group's income tax expenses increased by 77.9% from RMB1.1 million for the six months ended 30 June 2021 to RMB2.0 million for the corresponding period in 2022, primarily due to the increase in total profit before taxation of the Group for the six months ended 30 June 2022.

Profit for the six months ended 30 June 2022

As a result of the foregoing, the Group's profit for the period increased by 13.1 times from RMB1.2 million for the six months ended 30 June 2021 to RMB17.4 million for the corresponding period in 2022, mainly due to the increase in profit brought by the increased revenue from its principal business and the realization of fair value gain on equity investments at fair value through profit or loss.

Liquidity, capital resources and capital structure

For the six months ended 30 June 2022, the Group's primary uses of cash are to fund our working capital requirements and research and development of our IT solutions. The Group financed our capital expenditures and working capital requirements principally with cash generated from our operations, bank borrowings and the net proceeds from the Global Offering.

The Group's bank borrowings as of 30 June 2022 amounted to RMB15.0 million, among which, (1) the bank borrowings of RMB9.55 million will be mature on 13 January 2023, with fixed interest rate of 4.6% per annum, and (2) the bank borrowings of RMB5.45 million will be mature on 11 February 2023, with fixed interest rate of 4.6% per annum. All the bank borrowings as of 30 June 2022 were denominated in Renminbi. All of the Group's bank borrowings were primarily used for our daily operation and business expansion.

The Group continued to maintain a healthy and sound financial position. Due to the continuous and rapid expansion of its business scale, the Group recorded a decrease in net current assets and balance of cash and cash equivalents as at 30 June 2022. Specifically, net current assets decreased from approximately RMB768.3 million as of 31 December 2021 to approximately RMB761.8 million as of 30 June 2022. The Group's cash and cash equivalents decreased from approximately RMB524.3 million as of 31 December 2021 to approximately RMB465.2 million as of 30 June 2022.

Exposure to exchange rate fluctuation

For the six months ended 30 June 2022, most of the Group's monetary assets were mainly denominated in Hong Kong dollars and Renminbi. Exchange rates are affected by local and international economic developments and political changes, as well as the supply and demand of Renminbi. Any appreciation or depreciation of Renminbi against Hong Kong dollars may affect the Group's results. The Group currently has not implemented any foreign currency hedging policy, but the management will closely monitor the risks and will consider the hedging of significant foreign currency risks when necessary.

Capital commitments

Save as disclosed in this announcement, for the six months ended and as of 30 June 2022, the Group did not have any other capital commitments.

Contingent liabilities

As of 30 June 2022, the Group did not have any material contingent liability, guarantee or any litigation or claim of material importance, pending or threatened against any member of the Group.

Future plans for material investments and capital assets

Save as disclosed in this announcement, as of 30 June 2022, the Group did not have other future plans for material investments and capital assets.

Material acquisitions and disposals of subsidiaries and affiliated companies

On 20 June 2022, Newlink Technology (Beijing) Co., Ltd., a wholly-owned subsidiary of the Company, entered into the Equity Transfer and Capital Increase Agreement (the “**Neusoft Yuetong Acquisition**”) with shareholders of Beijing Neusoft Yuetong Software Technology Co., Ltd. (the “**Target Company**” or “**Neusoft Yuetong**”) (the “**Sellers**”) and the Target Company, pursuant to which Newlink Technology (Beijing) Co., Ltd. has conditionally agreed to purchase, and the Sellers have conditionally agreed to sell, 100% equity interest in the Target Company, and Newlink Technology (Beijing) Co., Ltd. has conditionally agreed to make a capital increase to the Target Company, and in this regard, Newlink Technology (Beijing) Co., Ltd. agreed: (1) to pay the Sellers the Equity Transfer Consideration of RMB80,000,000 in total (subject to the performance compensation arrangement); (2) to succeed the capital contribution obligations of RMB7,430,769 for the Unpaid Registered Capital in the equity interest transferred by Dai Linlin, being one of the Sellers; and (3) to make a capital increase of RMB18,000,000 to the Target Company. For details, please refer to the announcement of the Company dated 20 June 2022.

Save as disclosed above, for the six months ended 30 June 2022, we did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

Charge on Group’s assets

As of 30 June 2022, the Group had no charges on our assets.

Key Financial and Business Performance Indicators

The Group’s return on equity increased from 1.6% for 2021 to 2.0% for the six months ended 30 June 2022, primarily due to higher profit for the six month ended 30 June 2022.

The Group’s gearing ratio increased from 0.6% as at 31 December 2021 to 1.7% as at 30 June 2022, primarily due to the increase in balance of bank borrowings at the end of June 2022 as compared with the corresponding period in 2021. The calculation of gearing ratio is based on total borrowings divided by total equity as of the period end and multiplied by 100.0%.

Employees, Training and Remuneration Policies

As of 30 June 2022, the Group had 657 employees. The staff costs including Directors' emoluments were approximately RMB71.4 million for the six months ended 30 June 2022.

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

The Group adopted the Post-IPO share option scheme on 5 December 2020, which falls within the ambit of, and is subject to, the regulations under Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The purpose of the Post-IPO share option scheme is to provide incentives and rewards to eligible persons for their contribution to, and continuing efforts to promote the interest of, the Group.

The Group recognizes the importance of keeping the Directors updated with the latest information of duties and obligations of a director of a company whose shares are listed on the Stock Exchange and the general regulatory and environmental requirements for such listed company. To meet this goal, the Group is committed to our employees' continuing education and development. The Group provides pre-employment and regular continuing trainings to our employees, which the Group believes are effective in equipping them with the skill set and work ethics that it requires. Also, the Group continuously provides comprehensive trainings to its technical staff, equipping them with knowledge and skills to perform a variety of functions on different projects and allowing the Group to quickly find qualified and suitable replacement internally in the event of employee's demission.

OTHER INFORMATION

Use of Proceeds from the Global Offering

The issued shares of the Company were listed on the Stock Exchange on 6 January 2021, whereby 200,000,000 new shares were issued at the offer price of HK\$4.36 each by the Company. The net proceeds (after deduction of underwriting fees and commissions and related costs and expenses) received by the Company from the Global Offering amounted to approximately HK\$790.4 million (with a surplus of HK\$140.3 million) (being net proceeds of HK\$3.952 per new Share) (the “**IPO Proceeds**”).

In order to better utilize the financial resources of the Group and to capture favourable investment opportunities, the Board has reviewed the utilization of the IPO Proceeds and resolved to reallocate not more than HK\$71 million of the surplus to pay the equity transfer consideration, to pay the capital increase monies and to fulfill or pay capital contribution obligations for the acquisition of Neusoft Yuetong (the “**Re-allocation**”).

The following table sets forth the details of the use of the IPO Proceeds during the Reporting Period:

	Original allocation of the IPO Proceeds		Allocation of IPO Proceeds after the Re-allocation		Utilized amount during the Reporting Period	Unutilized amount as at the end of the Reporting Period	Expected timeline for the use of unutilized proceeds ⁽¹⁾
	Percentage	Amount	Percentage	Amount	HK\$ million	HK\$ million	
	%	HK\$ million	%	HK\$ million			
For developing new solutions and upgrading existing solutions							
– to develop and upgrade the Group’s medical quality control warning system	80.0	632.3	72.8	575.5	74.1	420.9	
– to develop the Group’s clinical pathway management system	20.0	158.1	18.2	143.9	6.2	122.6	
– to develop the Group’s telemedicine system	20.0	158.1	18.2	143.9	9.4	127.5	
– to develop a new solution of intelligent healthcare platform	10.0	79.0	9.1	71.9	8.9	60.8	
– to upgrade the Group’s RPA solution	10.0	79.0	9.1	71.9	9.9	45.1	By December 2025
For enhancing the Group’s sales and marketing efforts	20.0	158.1	18.2	143.9	39.7	64.9	
For working capital and other general corporate purposes	10.0	79.1	9.1	72.0	6.7	51.2	
Funds proposed to be used for the Neusoft Yuetong Acquisition	10.0	79.0	9.1	71.9	1.5	5.9	
	–	–	9.0	71	–	71	
Total	100.0	790.4	100.0	790.4	82.3	549.0	

Notes:

- (1) The expected timeline for utilising the unutilized funds is based on the best estimation of the future market condition made by the Group. It may be subject to change based on the current and future development of market conditions.
- (2) On 7 January 2022, the Board resolved to use no more than RMB100 million from the idle IPO Proceeds that are expected to remain idle for more than one year to subscribe for principal-protected short-term structured deposit products from qualified financial institutions subject to the following conditions: Neither the amount of any single structured deposit product subscribed by the Group nor the aggregate balance of the unmatured structured deposit products held by the Group at any time shall exceed RMB100 million. The proceeds to be generated from such subscribed structured deposit products will be used for the same purpose as the use of the IPO Proceeds. Term of any single principal-protected short-term structured deposit product subscribed by the Group shall not exceed six months. For further details, please refer to the announcement of the Company dated 7 January 2022.
- (3) On 7 January 2022, Beijing Newlink Technology Co., Ltd. used RMB100 million from the idle IPO Proceeds to subscribe for the principal-protected floating structured deposit issued by Bank of Ningbo Co., Ltd. for a term of 91 days.
- (4) Any discrepancy arising in the decimal figures in the table above is due to the effect of rounded figures.

Compliance with Corporate Governance Code

The Company recognizes the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the Shareholders as a whole. The Company has adopted the principles and code provisions set out in the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) contained in Appendix 14 to the Listing Rules. as the basis of the Company’s corporate governance practices. During the Reporting Period, the Company has complied with the code provisions under the CG Code, save and except for the deviation to paragraph C.2.1 of the CG Code below.

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

Compliance with the Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) contained in Appendix 10 to the Listing Rules as its code of conduct regarding directors’ securities transactions. Having made specific enquiries of all Directors, each of the Directors has confirmed that he/she has complied with the requirements of the Model Code during the Reporting Period.

The Group’s employees, who are likely to be in possession of inside information of the Group, have also been subject to the Model Code for securities transactions. No incident of non-compliance of the Model Code by the employees was noted by the Company during the Reporting Period.

Purchase, Sale or Redemption of the Company’s Listed Securities

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.

Audit Committee and Review of Financial Statements

The audit committee of the Company (the “**Audit Committee**”) was established with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The Audit Committee comprises three members, namely Mr. Ye Jinfu, Mr. Tang Baoqi and Ms. Yang Juan, with Mr. Ye Jinfu being the chairman of the Audit Committee.

The financial information for the six months ended 30 June 2022 set out in the interim report is unaudited but has been reviewed by the Company’s external auditor, CCTH CPA Limited, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity,” and by the Audit Committee. The Audit Committee has reviewed this announcement and was satisfied that the Company’s unaudited financial information contained in this announcement was prepared in accordance with applicable accounting standards.

The Audit Committee has considered and reviewed the accounting principles and practices adopted by the Group, and discussed matters in relation to, among others, risk management, internal control and financial reporting of the Group with management and the Company’s external auditor. The Audit Committee is of the view that the interim financial results for the six months ended 30 June 2022 have complied with relevant accounting standards, rules and regulations, and have been officially and properly disclosed.

Interim Dividends

The Board has resolved not to recommend the payment of interim dividends for the six months ended 30 June 2022 to the shareholders.

SUBSEQUENT EVENTS

Ernst & Young (“**EY**”) has resigned as the auditor of the Company with effect from 26 July 2022, as the Company and EY could not reach a consensus in respect of the audit fee of the Company for the financial year ending 31 December 2022. On the same date, the Board, with the recommendation from the Audit Committee, has appointed CCTH CPA Limited as the new auditor of the Company with effect from 26 July 2022. For details, please refer to the announcement of the Company dated 26 July 2022.

On 15 August 2022, Beijing Newlink Technology Co., Ltd (“**Beijing Newlink**”), a wholly-owned subsidiary of the Company, entered into the Commercial Property Sale and Purchase Agreements with Sichuan Ocean Land Development Company Limited* (四川海洋置地發展有限公司), pursuant to which Beijing Newlink will purchase an office premise in Chengdu, which will be used for the office and R&D of Beijing Newlink in the Southwest region. The change in the location of the offices proposed to be purchased is merely an update to the specific implementation plans for the use of proceeds from the global offering and does not materially change the use of proceeds from the global offering. For details, please refer to the announcements of the Company dated 15 August 2022 and 21 August 2022.

On 26 August 2022, Newlink Technology (Beijing) Co., Ltd., a wholly-owned subsidiary of the Company, entered into the equity transfer agreement with third parties (the “**Seller**”), pursuant to which Newlink Technology (Beijing) Co., Ltd. has conditionally agreed to purchase and the Seller has conditionally agreed to sell, 100% equity interest in Beijing Jiafutong Network Technology Co., Ltd. (北京佳付通網絡科技有限公司), and in this regard, Newlink Technology (Beijing) Co., Ltd. agreed to pay the Seller the equity transfer consideration of RMB54,370,000 in total (subject to the performance compensation arrangement). This acquisition does not constitute a notifiable transaction under the Chapter 14 of the Listing Rules.

Save as disclosed above, no other significant events of the Group occurred after the six months ended 30 June 2022 and up to the date of this announcement.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company’s website (www.xnewtech.com). The interim report of the Company for the six months ended 30 June 2022 will be dispatched to the Shareholders and published on the aforesaid websites in due course.

APPRECIATION

On behalf of the Board, I would like to thank all our colleagues for their diligence, dedication, loyalty and integrity. I would also like to thank all our Shareholders, customers, bankers and other business associates for their trust and support.

By order of the Board
Newlink Technology Inc.
ZHAI Shuchun

Chairman of the Board and Chief Executive Officer

Beijing, the PRC, 30 August 2022

As at the date of this announcement, the executive Directors are Mr. ZHAI Shuchun, Ms. QIAO Huimin, Ms. QIN Yi and Mr. LI Xiaodong, and the independent non-executive Directors are Mr. TANG Baoqi, Ms. YANG Juan and Mr. YE Jinfu.

** For identification purposes only*