MEGAIN technology

MEGAIN Holding (Cayman) Co., Ltd.
美佳音控股有限公司*

(incorporated in the Cayman Islands with limited liability)

Stock code: 6939

GLOBAL OFFERING

Sole Sponsor

民銀資本 CMBC CAPITAL HOLDINGS LIMITED

Sole Global Coordinator

民銀資本 CMBC CAPITAL HOLDINGS LIMITED

* *For identification purpose only*

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

MEGAIN Holding (Cayman) Co., Ltd.
美佳音控股有限公司*

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GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	125,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	12,500,000 Shares (subject to reallocation)
Number of International Offer Shares	:	112,500,000 Shares (subject to reallocation and the Over-allotment Option)
Offer Price (subject to a Downward Offer Price Adjustment)	:	Not more than HK$1.35 per Offer Share and expected to be not less than HK$1.15 per Offer Share plus brokerage of 1.00%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application subject to refund) (If the Offer Price is set at up to 10% below the bottom end of the indicative Offer Price range after making a Downward Offer Price Adjustment, the minimum Offer Price will be HK$1.04 per Offer Share)
Nominal value	:	HK$0.01 per Share
Stock code	:	6939

Sole Sponsor

Sole Global Coordinator, Joint Bookrunner and Joint Lead Manager

Other Joint Bookrunners and other Joint Lead Managers

Other Joint Lead Managers

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Appendix VI — Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Registrar of Companies in Hong Kong and the Securities and Futures Commission of Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

The Offer Price is currently expected to be fixed by an agreement between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Price Determination Date, which is expected to be on or about Tuesday, 23 March 2021 or such other date as may be agreed between our Company and the Sole Global Coordinator. The Offer Price is expected to be not more than HK$1.35 per Offer Share and not less than HK$1.15 per Offer Share (subject to a Downward Offer Price Adjustment), unless otherwise announced. If, for any reason, the Offer Price is not agreed on or before Wednesday, 24 March 2021, between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering will not proceed and will lapse.

The Sole Global Coordinator (for itself and on behalf of the Underwriters), with the consent of our Company, may extend or reduce the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering should the Sole Global Coordinator considers it appropriate (for instance, if the level of interest is below the indicative Offer Price range). If this occurs, a notice of extension or reduction of the indicative Offer Price range will be published on the Stock Exchange's website at **www.hkexnews.hk** and our Company's website at **http://www.megaincayman.com** not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the sections headed "Structure of the Global Offering" and "How to apply for Hong Kong Offer shares" in this prospectus.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including but not limited to the risk factors set out in the section headed "Risk Factors" in this prospectus.

Prospective investors of the Offer Shares should note that the obligations of the Underwriters under the Underwriting Agreements to procure subscribers for or themselves to subscribe for the Offer Shares are subject to the termination by the Sole Global Coordinator (for itself and on behalf of the Underwriters) upon the occurrence of any of the events set out under the paragraph headed "Underwriting - Grounds for Termination" in this prospectus, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Should the Sole Global Coordinator (for itself and on behalf of the Underwriters) terminate the Underwriting Agreements, the Global Offering will not proceed and will lapse.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons, except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

* *For identification purpose only*

18 March 2021

Our Company will issue an announcement on the Stock Exchange's website at **www.hkexnews.hk** and our Company's website at **http://www.megaincayman.com** if there is any change in the following expected timetable of the Global Offering.

	Date and time *(Note 1)*
Hong Kong Public Offering commences and **WHITE** and **YELLOW** Application Forms available from	9:00 a.m. on Thursday, 18 March 2021
Latest time for completing electronic applications under the **HK eIPO White Form** service through one of the below ways:	
(1) the designated website **www.hkeipo.hk**	
(2) the **IPO App**, which can be downloaded by searching "**IPO App**" in App Store or Google Play or downloaded at **www.hkeipo.hk/IPOApp** or **www.tricorglobal.com/IPOApp** *(Note 2)*	11:30 a.m. on Tuesday, 23 March 2021
Application lists open *(Note 3)*	11:45 a.m. on Tuesday, 23 March 2021
Latest time to complete payment of **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Tuesday, 23 March 2021
Latest time to give **electronic application instructions** to HKSCC *(Note 4)*	12:00 noon on Tuesday, 23 March 2021
Latest time to lodge **WHITE** and **YELLOW** Application Forms	12:00 noon on Tuesday, 23 March 2021
Application lists close *(Note 3)*	12:00 noon on Tuesday, 23 March 2021
Expected Price Determination Date *(Note 5)*	Tuesday, 23 March 2021
Where applicable, announcement of the Offer Price being set below the bottom end of the indicative Offer Price range after making a Downward Offer Price Adjustment (please refer to the section headed "Structure of the Global Offering — Pricing and Allocation") on the Stock Exchange's website at **www.hkexnews.hk** and our company's website at **www.megaincayman.com** on or before	Friday, 26 March 2021

(1) Announcement of the final Offer Price; an indication of the level of interest in the International Offering; the level of applications in the Hong Kong Public Offering; and the basis of allocation of the Hong Kong Offer Shares to be published on the Stock Exchange's website at **www.hkexnews.hk** *(Note 3)* and our Company's website at **www.megaincayman.com** *(Note 3)* on or before . . . . Tuesday, 30 March 2021

(2) Results of allocation in the Hong Kong Public Offering to be available through a variety of channels (please refer to the section headed "How to Apply for Hong Kong Offer Shares — 11. Publication of Results" in this prospectus from . . . . Tuesday, 30 March 2021

(3) Results of allocations in the Hong Kong Public Offering will be available at **www.tricor.com.hk/ipo/result** (Alternatively **www.hkeipo.hk/IPOResult**) with a "search by ID" function from . . . . Tuesday, 30 March 2021

Despatch/collection of **HK eIPO White Form** e-Auto Refund payment instructions/refund cheques in respect of wholly or partially successful applications if the final Offer Price is less than the price payable on application (if applicable) and wholly or partially unsuccessful applications pursuant to the Global Offering on or before (*Notes 6 to 11)* . . . . Tuesday, 30 March 2021

Despatch/collection of Share certificates in respect of wholly or partially successful applications pursuant to the Global Offering on or before *(Notes 6 to 8 and 10)* . . . . Tuesday, 30 March 2021

Dealings in the Shares on the Main Board expected to commence at 9:00 a.m. on . . . . Wednesday, 31 March 2021

Notes:

1. In this prospectus, unless otherwise stated, all times and dates refer to Hong Kong local times and dates. If there is any change to the above expected timetable, our Company will make an appropriate announcement to inform investors accordingly.

2. You will not be permitted to submit your application through the designated website at **www.hkeipo.hk** or **IPO App** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of the application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

3. If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 23 March 2021, the application list will not open or close on that day. For further details, please refer to the section headed "How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists" in this prospectus.

4. Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for Hong Kong Offer Shares — 6. Applying by giving electronic application instructions to HKSCC via CCASS" in this prospectus.

5. The Price Determination Date is expected to be at or before 6:00 p.m. on Tuesday, 23 March 2021 (or such later date or time as agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters)), in any event, no later than Wednesday, 24 March 2021. If the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on the Price Determination Date or such later date or time as agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering will not become unconditional and will lapse.

6. Share certificates for the Hong Kong Offer Shares are expected to be issued on or before Tuesday, 30 March 2021 but will only become valid certificates of title at 8:00 a.m. on Wednesday, 31 March 2021 provided that (a) the Global Offering has become unconditional in all respects; and (b) the Underwriting Agreement has not been terminated in accordance with its terms.

7. Applicants who apply for 1,000,000 Hong Kong Offer Shares or more on **WHITE** Application Forms or through the **HK eIPO White Form** service (as the case may be) who have provided all information required in their relevant Application Forms may collect their refund cheques (where relevant) and/or Share certificates (where relevant) personally from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, from 9:00 a.m. to 1:00 p.m. on Tuesday, 30 March 2021 or any other day as announced by us as the date of despatch of Share certificates/e-Auto Refund payment instructions/refund cheques.

8. Individuals who are eligible for personal collection must not authorise any other person(s) to make collection on their behalf. Corporate applicants which are eligible for personal collection must attend by their authorised representative(s) bearing a letter of authorisation from such corporation(s) stamped with the corporation's chop. Both individuals and authorised representative(s) (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar. Applicants who apply for 1,000,000 Hong Kong Offer Shares or more on **YELLOW** Application Forms may collect their refund cheques, if any, in person but may not collect their Share certificates personally, which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participants' stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

9. Applicants who applied through the **HK eIPO White Form** service and paid their applications monies through single bank account may have refund monies (if any) despatched to their application payment bank account, in the form of e-Auto Refund payment instructions. Applicants who apply through the **HK eIPO White Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) despatched to the address as specified in their application instructions to the **HK eIPO White Form** Service Provider, in the form of refund cheques, by ordinary post at their own risk.

10. Uncollected Share certificates and refund cheques (if any) will be despatched by ordinary post at the applicant's own risk to the address specified in the relevant Application Form. For further information, applicants should refer to the section headed "How to Apply for Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies" in this prospectus.

11. Refund cheques/e-Auto Refund payment instructions will be despatched in respect of wholly or partially unsuccessful applications and in respect of successful applicants if the final Offer Price is less than the maximum Offer Price of HK$1.35 per Hong Kong Offer Share.

For details of the structure of the Global Offering, including conditions of the Global Offering, applicants should refer to the section headed "Structure of the Global Offering" in this prospectus.

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Hong Kong Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Hong Kong Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made nor contained in this prospectus must not be relied on by you as having been authorised by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, advisers, agents, representatives or affiliates of any of them or any other persons or parties involved in the Global Offering.

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This summary aims to give you an overview of the information contained in this prospectus and should be read in conjunction with the full text of this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus, including our financial statements and the accompanying notes, before you decide to invest in the Offer Shares. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you invest in the Offer Shares.

OVERVIEW

We are one of the leading providers of compatible cartridge chips based in the PRC. According to the CIC Report, we ranked second with a market share of approximately 11.1% in terms of external sales (being the sales of compatible cartridge chips made by the providers other than to members of the same group, with sales to other members of the same group excluded in 2019), whereas our two largest competitors, Listed Group A and Listed Group B, being the two largest integrated compatible cartridge manufacturers in the PRC, ranked first and third respectively with a respective market share of 41.5% and 9.2% in terms of external sales in 2019. In terms of production volume (being the total volume of compatible cartridge chips produced by the providers), we ranked third with a market share of approximately 4.3% in the PRC compatible cartridge chip market in 2019, while Listed Group A and Listed Group B ranked first and second respectively with a respective market share of 61.4% and 8.8%. In 2019, the compatible cartridge chips market accounted for approximately 24.3% of the cartridge chips market by volume in the PRC. Our products are one of the core components of compatible cartridges, which are printer consumables designed and manufactured by third-party cartridge manufacturers and include ink cartridges for use in inkjet printers and toner cartridges for use in laser printers. The principal functions of a compatible cartridge chip include facilitating communication between a compatible cartridge and the original-brand printer in which such a cartridge is installed, and monitoring cartridge usage.

Our Business Development

The compatible toner cartridge chip business has always been at the heart of our Group's operations. Since our establishment, we have been committed to the research and development, production and sales of compatible toner cartridge chips. In 2012, we became the first market player to offer compatible cartridge chips designed for several specific laser printer models, and had remained the exclusive supplier of such compatible cartridge chips in the global market until one year after they were launched by our Group. This paved the way for the initial expansion of our compatible toner cartridge chip business. Building on the success, we have been actively developing other models of compatible toner cartridge chips over the years so as to enrich our product portfolio and increase our competitive strength, thereby firmly establishing our position as one of the leading market players, being the second largest compatible toner cartridge chip provider in the PRC by external sales in 2019. Given the limited research and development resources of our Group and the fact that our compatible toner cartridge chip business had been performing well, we had not devoted substantial effort to the development of compatible ink cartridge chips prior to the Track Record Period. Before 2019, we had only been offering a narrow range of compatible ink cartridge chip models, which were proactively designed by us for recycled compatible ink cartridges and launched in 2015. The relatively small amount of sales of compatible ink cartridge chips recorded in 2017 and 2018 was wholly attributable to such older chip models. Other than these chip models, our Group had not launched any other compatible ink cartridge chip models before 2019. As it was foreseeable that the number of new printer models to be launched by the original-brand printer companies in 2019 would remain limited, our Directors resolved in 2018 that our Group should actively explore other opportunities in the market by diverting more of our product development resources into compatible ink cartridge chips. In 2019 (mostly in the second or third quarter), we successfully launched the Ink Cartridge Chip Models, being several new models of compatible ink cartridge chips with advanced quality, functionality and upward compatibility for compatible ink cartridge models having high popularity and demand in the market. The majority of the sales of such chip models were made to Listed Group A during the Track Record Period, as we have not focused our sales and marketing efforts on promotion of the Ink Cartridge Chip Models to other independent customers given that it would be advisable to minimise direct competitions with Listed Group A (being the dominant market player) when we have yet to gain a significant position as a market player with highly established operations or a comprehensive product portfolio in the compatible ink cartridge chip market. The launch of such chip models helped our Group cope with the significant decline in the average market selling price of compatible toner cartridge chips in 2019 as expected. While our market share in the compatible ink cartridge chip market was small in 2017 and 2018 amounting to approximately 4.2% and 3.9% by external sales and 1.3% and 1.3% by external sales volume respectively, due to the launch of such chip models with significant prevailing market demand, we became the second largest compatible ink cartridge chip provider in the PRC by external sales in 2019. That being the case, our operations in the compatible ink cartridge chip market remain relatively limited – in terms of external sales volume, in 2019, our market share as a provider of compatible ink cartridge chips in the PRC was approximately 3.2% only, whereas we had a market share of 8.1% in the compatible toner cartridge chip market in the PRC. Please refer to the section headed "Business — Our Products — Compatible Toner Cartridge Chips as Our Major Business Focus since Establishment" in this prospectus for further details of our historical business developments.

OUR BUSINESS SUSTAINABILITY

Despite, among other things, (i) the deterioration in our financial performance with fluctuations in our sales and profits during the Track Record Period (as explained in the sub-paragraphs headed "Fluctuations in Our Financial Performance during the Track Record Period" below); (ii) the surge in our sales to Listed Group A since 2019 which gave rise to concentration of sales (as detailed in the paragraphs headed "Our Business Relationship and Dealings with Listed Group A" below in this section); and (iii) the patent infringement risks in the compatible cartridge and compatible cartridge chip industries (as described in the sub-paragraphs headed "Our Exposure to Risks Relating to Infringements of Third-Party Intellectual Property Rights" below), our Directors believe that this is a temporary phenomenon and does not cause serious concern on our business sustainability.

Fluctuations in Our Financial Performance during the Track Record Period

Our profit for the years ended 31 December 2017, 2018 and 2019 and 10M2019 and 10M2020 was approximately RMB63.1 million, RMB62.6 million, RMB41.3 million, RMB7.0 million and RMB25.6 million respectively. The majority of our revenue generated during the Track Record Period was derived from the sale of compatible cartridge chips. For the years ended 31 December 2017, 2018 and 2019 and 10M2019 and 10M2020, our revenue from sale of compatible cartridge chips was approximately RMB194.2 million, RMB220.6 million, RMB150.6 million, RMB81.4 million and RMB122.8 million, representing 91.3%, 89.7%, 95.6%, 94.3% and 91.9% of our total revenue, and we sold 11.3 million, 13.2 million, 17.1 million, 10.6 million and 17.2 million pieces of compatible cartridge chips, respectively.

The deterioration in our financial performance during the Track Record Period was principally attributable to the decrease in our revenue from sales of compatible cartridge chips in 2019. Despite the increase in our overall sales volume of chips from 2018 to 2019, there was a significant decrease in the average selling price of our chips for desktop laser printers, which have been our major business focus since establishment as discussed in the paragraphs headed "Overview — Our Business Development" above in this section. From 2018 to 10M2019, the average selling price of our chips for desktop laser printers dropped from approximately RMB19.0 to RMB7.0, resulting in a reduction in the overall average selling price of our chips from RMB16.8 to RMB7.7; correspondingly, our gross profit margin in respect of sales of chips for desktop laser printers fell from 52.5% to 42.4%, and our overall gross profit margin in respect of sales of chips decreased from 50.2% to 44.6%.

The significant decrease in the average selling price of our compatible toner cartridge chips as described above was occasioned by various factors, including, among other things:

(i) the industry-wide pricing pressure on compatible cartridge chips, with a greater impact on those chip models that were relatively new and sold at higher prices previously, as a result of

(a) the tariffs imposed by the US government on cartridges imported from China in the US-China trade war, which had reduced the price advantage of and the demand for the Chinese compatible cartridges in the US market;

(b) the limited number of new printer models launched by the original-brand printer companies in 2018 and 2019, causing the compatible cartridge chip providers to focus on offering chip models designed for older printer models and increasing market competitions in respect of such older chip models; and

(c) the vertical and horizontal integration initiated by the major market players in the compatible cartridge industry in the PRC, following which they would increase the proportion of their chip demand satisfied through intra-group purchases, rendering it necessary for the other compatible cartridge chip providers to cut their prices in order to gain market share;

(ii) the further intensification of market competitions as (a) more competitors had successfully developed chip models with features similar to those of our products which were offered at significantly lower prices to capture market share; and (b) Listed Group A, being the dominant market player, had adopted a price-cutting strategy in response to the development of market competitions and under the prevailing downward pressure on the market prices; and

(iii) the decline in selling prices of our products along their product life cycle. As a feature of the compatible cartridge chip industry, the price and profit margin of a new model of compatible cartridge chips peak when it is first introduced to the market and being offered exclusively by a few compatible cartridge chip providers, and tend to go down later on following the launch of more products with similar features by other market players as competitions in the market become more intense. Despite the superior quality, functionality and upward compatibility of some of our chip models, during the price negotiations with our customers, we will also make reference to the prices of similar products offered by other suppliers and, where practicable, generally price our chip models slightly below the competing products in order to ensure market competitiveness and thus sales volume of our products. Hence, the selling prices of our chip models may generally gradually decrease along the product life cycle.

As explained in the paragraphs headed "Overview — Our Business Development" above in this section, in view of the extreme adverse market developments, we launched the Ink Cartridge Chip Models in 2019, mostly in the second or third quarter. Such Ink Cartridge Chip Models launched in the second or third quarter of 2019 contributed to a rebound in our financial performance shortly afterwards, as we were able to register a gross profit margin of approximately 81.6% in respect of sales of such chip models in 4Q2019. 4Q2019 had seen a significant increase in our sales of such chip models and also our overall sales to Listed Group A – our overall sales to Listed Group A during 4Q2019 represented approximately 96.2% of our total sales to Listed Group A during 2019. Our overall proportions of revenue and gross profit attributable to sales to Listed Group A in 4Q2019 amounted to approximately 73.1% and 85.5% respectively. Our relatively high percentages of revenue and gross profit attributable to sales to Listed Group A in 2019 (amounting to approximately 38.3% of our total sales, and 55.4% a of our gross profit, for the respective year) was caused by several market factors and commercial reasons and our Directors are of the view that such concentration of sales to Listed Group A in 2019 was coincidental and temporary in nature. Please refer to the paragraphs headed "Our Business Relationship and Dealings with Listed Group A — Our Concentration of Sales to Listed Group A in 2019 and 10M2020 Which Was Both Coincidental and Temporary in Nature" below in this section for further details. Notwithstanding the continued decrease in our average selling price and gross profit margin in respect of sales of compatible toner cartridge chips, the overall average selling price of our chips increased from approximately RMB7.7 in 10M2019 to RMB8.8 in 2019, with our overall gross profit margin in respect of sales of chips improving from 44.6% to 57.9%.

Stepping into 10M2020, the rebound in our financial performance continued. From 10M2019 to 10M2020, despite the decrease in the overall average selling price of our chips from approximately RMB7.7 to RMB7.2, our total revenue from sales of chips increased from RMB81.4 million to RMB122.8 million, with our overall gross profit margin in respect of sales of chips further improving from 44.6% to 58.9% (which was in line with the overall upward trend in our gross profit margin and the overall decrease in our raw material purchase price and hence cost of sales throughout the Track Record Period). Please refer to the sub-paragraphs headed "Our Turnaround in 10M2020 and Business Outlook" below for further details of our business performance in 10M2020.

Product Life Cycle and the Industry Landscape and Trend in Relation to New Product Development

According to the CIC Report, the product life cycle of a compatible cartridge chip model in the PRC normally spans over eight years starting from the launch of the corresponding original-brand printer model in the market. The price and profit margin of a new model of compatible cartridge chips are typically at the highest points in the introduction stage (i.e. the first three years after launch of the corresponding original-brand printer model) when there are few market players offering compatible cartridge chips designed for the relevant printer model, and likely to decline when more and more market player have launched products with similar features and competition in the market intensifies in the growth stage (i.e. three to five years after launch of the corresponding original-brand printer model) and the maturity stage (i.e. over five years after launch of the corresponding original-brand printer model). The chip model will gradually fade out in the market as the production and sales of the corresponding original-brand printer model will normally cease within eight years after its launch. In order to remain competitive, compatible cartridge chip providers tend to launch new products proactively.

It should, however, be noted that the exact extent and pattern of the price reduction over the product life cycle may vary from one chip model to another due to the different market dynamics and competitive landscape in respect of each chip model. In addition to the length of time since the launch of the corresponding original-brand printer model, the price trend of a compatible cartridge chip model may also depend, on a case-by-case basis, on various market factors, including but not limited to the level of technical requirements or barrier involved, the number of competing products in the market, the compatible cartridge chip provider(s) that have successfully launched such competing products, and the pricing strategies adopted by the major market players. For example, while the compatible cartridge chip providers normally take six to 18 months to introduce a new compatible cartridge chip model to the market after the launch of the corresponding original-brand printer model, for those chip models with higher technical requirements or barrier involved, more time (i.e. over 18 months) may be required for compatible cartridge chip providers to successfully develop and launch such chip models, and hence an increase in market competitions and a resultant drop in unit price may only be observed after a longer period of time.

We fully appreciate that in the compatible cartridge chip industry, so long as a market player can develop and launch products with advanced quality and functionality in a timely manner ahead of its competitors, it will be able to enjoy the first-mover advantages with the liberty to set the selling prices at a high level so as to achieve optimal gross profit margins.

Therefore, in line with the industry landscape and trend, we have been dedicated to strengthening our research and development capabilities and rolling out new chip models from time to time, and shall continue to be steadfast in this regard as presented in "Our Constant Rollout of New Chip Models" and "Our Existing Internal Product Development Plans" in the sub-paragraphs headed "Our Turnaround in 10M2020 and Business Outlook" above.

Our Exposure to Risks Relating to Infringements of Third-Party Intellectual Property Rights

In our new product development process, after completing a comprehensive analysis of a new original-brand printer and its accompanying cartridges, we would, through our own endeavours, draw up the specifications of a new model of compatible cartridge chip and simultaneously design and develop the software component, i.e. the firmware, based on our understanding of the product functions and conceptualisation of the principles and logics of operation. The hardware components, i.e. the PCBAs, are principally assembled by our subcontractors based on our specified configurations, and the source codes of our firmware are designed and created independently by us. For further details of our product development process, please refer to the paragraph headed "Research and Development" in this section.

To the best of the knowledge of our Directors and as confirmed by the intellectual property legal team of our PRC Legal Advisers, as at the Latest Practicable Date, cases in the PRC relating to claims of infringements of IC designs, patents or copyrights in the field of cartridge chips were either non-existent or minimal. In addition, according to the CIC Report, while the US authorities have conducted certain compatible-cartridge-related patent infringement investigations targeting Chinese companies, such investigations pertain to the cartridges' external physical structure only and do not involve compatible cartridge chips or their providers. As more particularly set forth in the section headed "Business — Intellectual Property Rights" in this prospectus, based on, among other things, the in-depth review and analysis of the patents underlying the communication protocol associated with our products, the intellectual property legal team of our PRC Legal Advisers concluded that the risk of patent infringement is minimal, and are of the view that our self-designed compatible cartridge chips present a relatively low risk of infringements of third-party intellectual property rights in the PRC. During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any legal proceedings in relation to any alleged infringement of third-party intellectual property rights by us.

According to the CIC Report, there have been compatible-cartridge-related legal proceedings and regulatory investigations initiated by original-brand printer companies against compatible cartridge manufacturers from time to time, where compatible cartridge manufacturers are alleged to have infringed relevant patents registered by the original-brand printer companies with their designs of the external physical structure of compatible cartridges. To the best of the knowledge of our Directors and as confirmed by CIC, while some of the top five customers of our Group during the Track Record Period (including Listed Group A) (the "**Major Customers**") had been subject to the legal proceedings and/or regulatory investigations as described above, such proceedings and investigations had been dismissed or settled out of court, and for cases where the infringements were established, no material penalties, financial damages or criminal penalties had been imposed, and the outcome was, at the most, prohibitions on the importation or sale of the compatible cartridges in question into or in the specified territory, such as the United States. Nevertheless, if any of the compatible cartridges offered by our customers in which our chips are used is adjudged to be an infringing product and our customers need to cease their production of the same, they may cease to procure the corresponding models of compatible cartridge chips from us and the demand for our products may be adversely affected.

In addition, we intend to conduct forward vertical expansion, where we may acquire equity interests in certain downstream compatible cartridge manufacturers in the PRC and commence design, production and/or sale of compatible cartridges through the target companies afterwards. In view of the proceedings and investigations against compatible cartridge manufacturers as described above, we will exercise extreme caution when selecting the acquisition targets. We will thoroughly review their product portfolios, design, development and production process, and legal compliance records in all areas, including without limitation intellectual property rights. After completion of the acquisitions, we shall also procure our compatible cartridge manufacturing arm to put in place stringent measures to prevent infringements of third-party intellectual property rights in their daily operation. There also exist co-existence dynamics between original-brand printer companies and compatible cartridge providers in the industry. After completion of the acquisitions of compatible cartridge manufacturers, we may expose to certain risks of third-party intellectual property right infringements. Further details of our intended forward vertical expansion and assessment of our exposure to third-party intellectual property right infringement risks as a result of the expansion are set forth in the sub-paragraphs headed "Our Intended Expansion into the Compatible Cartridge Industry" below. For further details of the risks that compatible cartridge manufacturers (including both our customers and us) may be subject to, please refer to the section headed "Risk Factors — Risks Relating to Our Business and the Industry — Our business operation is subject to the risk of infringements of third-party intellectual property rights by our customers and, following completion of our vertical expansion, members of our Group, as compatible cartridge manufacturers" in this prospectus.

As regards third-party intellectual property right infringement risks associated with our purchases and use of raw materials, as at the Latest Practicable Date, our Directors were not aware of any of our major suppliers being involved in any legal proceedings concerning infringements of third-party intellectual property rights that related to our raw materials procured from them and would have a material impact on our business operations or financial performance during the Track Record Period. Before admitting a particular potential supplier to our list of approved suppliers, we would conduct a comprehensive initial qualification assessment, during which we would, among other things, conduct on-site investigation and gather information of their history of operation, size, production process, quality control and legal compliance records in relation to intellectual property rights. In addition, we would watch out for the legal proceedings and regulatory investigations involving the compatible cartridge industry that may be initiated from time to time, and avoid using any item of raw materials that are the products in question in any such proceeding or investigation. We would also seek confirmations from our suppliers from time to time to the effect that they have not been subject to claims of infringement of third-party intellectual property rights in respect of their products. Hence, in our Directors' view, we are not subject to material third-party intellectual property right infringement risks in connection with our raw materials. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any legal proceedings, regulatory investigation or complaint as a result of our purchases and uses of PCBAs or ICs from our external suppliers.

Significant Revenue Contribution of Our Chip Models for Older Printer Models during the Track Record Period, Which Is Expected to Cease in the Near Future as Our Product Development Plans Are Implemented

While our chip models at the introduction stage (i.e. the first three years after launch of the corresponding original-brand printer model) were our largest revenue source in the earlier phase of the Track Record Period, the revenue contribution of our chip models at the growth stage (i.e. three to five years after launch of the corresponding original-brand printer model) and the maturity stage (i.e. over five years after launch of the corresponding original-brand printer model) had become more significant during the later part of the Track Record Period. Our chip models at the introduction stage accounted for approximately 63.2% of our revenue from sales of chips in 2017, and the proportion dropped to 21.0% in 10M2020. In comparison, approximately 20.3% of our chip sales revenue in 2017 was derived from sales of our chip models at the growth stage, which increased to 49.5% and 42.6% of our total chip sales in 2019 and 10M2020 respectively; likewise, our percentage of chip sales attributable to our chip models at the maturity stage grew from 16.5% in 2017 to 36.4% in 10M2020.

The above was caused by the limited number of new printer models launched by the original-brand printer companies in 2018 and 2019, restricting the launch of chip models for new printer models by the compatible cartridge chip providers, including our Group, alike and causing them to focus on offering chip models designed for older printer models. We have sought to maintain our profitability and business sustainability by, among other things, reducing our costs of sales by progressively increasing the use of PCBAs assembled by our subcontractors based on our specified configurations in our production.

As mentioned in the sub-paragraphs headed "Product Life Cycle and the Industry Landscape and Trend in Relation to New Product Development" above, a chip model will gradually fade out in the market within eight years after the launch of the corresponding original-brand printer model according to the CIC Report. Implicitly, those products which generated the majority of our revenue from sales of chips in 2019 and 10M2020, being chip models which had reached the growth stage or the maturity stage, may cease to be revenue-generating within a relatively short period of time. To this end, the new chip models we plan to launch in 2021 will be mostly chip models in the introduction stage. According to CIC, with consumers' increasing demand for printer with higher printing volume, environment-friendly printing solution, cloud printing etc, the new models of original-brand printers to be launched will be on the rise from 2020 onwards. We plan to take advantage of the above increasing trend to achieve growth in revenue and profit through rolling out new chip models and expanding our product portfolio. We therefore expect that the revenue contribution of our chip models for new printer models will recover gradually.

Our Turnaround in 10M2020 and Business Outlook

10M2020 saw a marked recovery in our results of operations, whereby our profit increased by approximately 265.1% from approximately RMB7.0 million for 10M2019 to RMB25.6 million for 10M2020. Such a turnaround was attributable to the increase in our revenue from the sales of compatible cartridge chips by approximately 50.9% from RMB81.4 million for 10M2019 to RMB122.8 million for 10M2020. The rebound, which was set in motion in 4Q2019, was primarily driven by the sales of the Ink Cartridge Chip Models launched by us mostly in the second or third quarter of 2019, when there were only a few market players having launched similar products. The Ink Cartridge Chip Models gained our customers' instant recognition for their advanced quality, functionality and upward compatibility and had contributed a significant amount of sales since 4Q2019. Following the launch of the Ink Cartridge Chip Models, there was a surge in our sales to Listed Group A with significant gross profit margin recorded — for details, please refer to the paragraphs headed "Our Business Relationship and Dealings with Listed Group A" in this section.

As a matter of fact, as explained in the paragraphs headed "Overview — Our Business Development" above in this section, the development of the Ink Cartridge Chip Models was a strategy formulated by our Directors in 2018 in anticipation of the extreme adverse market development in 2019 as set forth in the sub-paragraphs headed "Fluctuations in Our Financial Performance during the Track Record Period" above, including, among other things, the limited number of new printer models launched by the original-brand printer companies. The successful implementation of the product development strategy provided an answer to the significant decline in the average market selling price of our existing compatible toner cartridge chip models in 2019 as intended.

Our Constant Rollout of New Chip Models

The launch of new products is vital in that it has the effect of revitalising the business. During the Track Record Period, we had introduced over 620 new models of compatible cartridge chips. For the years ended 31 December 2017, 2018 and 2019 and 10M2020, we have introduced 109, 122, 224 and 172 new models of compatible cartridge chips, which contributed approximately 3.7%, 18.7%, 41.1% and 16.2% of our total revenue in the year or period of launch respectively. As presented in the sales breakdown of new products launched during the Track Record Period in the section headed "Business — Research and Development — Chip Models Launched During the Track Record Period" in this prospectus, significant revenue and gross profit have traditionally been recorded by our Group from the sales of our newly launched products.

The 109 models of new chip models launched by us in 2017 (among which those chip models with high market demand were launched towards the end of the year (i.e. in November 2017)) and the 111 models of new chip models for desktop laser printers launched in 2018 were well received by the market, and the sales generated in 2018 by these chip models launched within a period of around one year (i.e. from late 2017 to 2018) altogether represented approximately 35.5% of our total sales of chips in 2018. During 2019, our 169 models of new chip models for desktop inkjet printers (being primarily the Ink Cartridge Chip Models) generated approximately 41.0% of our total revenue from sales of chips for 2019, and had been instrumental in bringing about the turnaround in our business since 4Q2019 as described above in these sub-paragraphs headed "Our Turnaround in 10M2020 and Business Outlook". During 10M2020, approximately 17.6% of our total revenue from sales of chips were mainly attributable to the 115 models of new compatible toner cartridge chips mainly launched in the six months ended 30 June 2020, and further sales of these chip models had been made at an approximate rate in the fourth quarter of 2020.

As long as we are able to carry on launching new products that can gain sufficient market recognition, our profitability can be maintained and our business will be sustainable.

Our Existing Internal Product Development Plans

Recognising the central significance of new products as our revenue and profit driver, we shall remain resolute in constantly rolling our new chip models going forward. We will apply approximately 51.4% of our net proceeds from the Global Offering for implementing our existing internal product development plans for the three years ending 31 December 2023, including not less than 600 new chip models.

For the year ending 31 December 2021, we intend to launch 198 new chip models, including 86 new models of chips for desktop laser printers to be launched in July 2021, and 40 and 72 new models of chips for desktop inkjet printers to be launched in March 2021 and October 2021 respectively. In respect of the new ink cartridge chip models, we intend to be one of the first market players to offer compatible cartridge chips for the corresponding original-brand printer models generally — as at the Latest Practicable Date, to the best of the knowledge of our Directors and as confirmed by CIC based on their market research including discussion with the major market players and our major customers, for 72 ink cartridge chip models to be launched in October 2021, there was no compatible cartridge for the corresponding printer models available in the market, and accordingly there was no market player offering compatible cartridge chips for the corresponding printer models; as regards the 40 ink cartridge chip models to be launched in March 2021, compatible cartridge chips were only available from a limited number of market players. Accordingly, it is envisaged that we will be able to enjoy first-mover advantages with the potential to record a high gross profit margin in respect of sales of these new products.

For the years ending 31 December 2022 and 2023, our plan is to launch a total of 107 and 303 new chip models respectively. Please refer to the section headed " Business — Research and Development — Our Internal Product Development Plans for the Three Years Ending 31 December 2023" in this prospectus for further details of our plans.

Latest Development Status

Among the chip models expected to be launched in 2021, as at the Latest Practicable Date, we were (i) conducting comprehensive analyses of the corresponding original-brand models and their accompanying cartridges in respect of 72 chip models; (ii) carrying out the design and development work in respect of 86 chip models (after conclusion of the requisite comprehensive analyses); and (iii) performing final testing in respect of 40 chip models (after completion of the design and development stage). We have also received indicated orders up to August 2021 from our customers for the chip models expected to be launched in 2021. We anticipate that the product development process could be completed and these chip models will be launched by the expected dates stated above.

In respect of the chip models expected to be launched in 2022 and 2023, we had yet to kick off the product development process as at the Latest Practicable Date. Based on our research and development capabilities (including, among other things, our estimation of the then available research and development resources; and our continuous effort and investment in our research and development capability with our research and development expenses amounted to approximately RMB7.2 million, RMB7.5 million, RMB9.3 million and RMB11.0 million respectively for each of the three years ended 31 December 2019 and 10M2020 and the increase in the number of members of our research and development department to 44 members as at 31 October 2020), our Directors were not aware of any impediment to our launch of the new chip models in accordance with our internal product development plans for 2022 and 2023 as at the Latest Practicable Date.

Accordingly, in our Directors' view, existing internal product development plans for the three years ending 31 December 2023 can be duly implemented and our new chip models will be successfully launched according to the intended timeline.

Our Business Prospects with the Implementation of the Product Development Plans

The new chip models to be launched by us for the three years ending 31 December 2023 are mostly designed for the printer models of the major original-brand printer companies, with larger market shares and more robust consumer demand in general.

In addition, a series of positive signs have been shown in the recent developments of our business and in the market: (1) our revenue had started to pick up since January 2021 and the actual amount recorded for January 2021 had reached a level comparable to that in the corresponding month in previous year; and (2) based on the indicated orders obtained from our major customers up to August 2021, we also expect to be able to record revenue in a total amount comparable to that of the corresponding period in 2020 from March to August 2021.

Given our chip model selection, we have successfully launched new products in 2019 that are sought-after by compatible cartridge manufacturers which may be one-off in nature and the signs of recovery in the compatible cartridge chip market, our Directors are positive that there will be adequate demand for the new chip models to be launched by us in 2021 and the rest of the three years ending 31 December 2023, as was the case during the Track Record Period. The constant rollout of new products will help ensure the sustainability of our income stream as our older chip models fade out.

It is currently expected that these new chip models will primarily be sold to some of our existing major customers, but as a general rule, we are prepared to supply these new chip models to any customer which indicates an interest in our offerings when they are actually launched.

Our Intended Expansion into the Compatible Cartridge Industry

We have throughout our history of operation remained focused on the provision of compatible cartridge chips and have not been engaged in the design, production or sale of compatible cartridges. According to the CIC Report, the total demand for compatible toner cartridges and compatible ink cartridges in the PRC in terms of sales volume is projected to grow at a CAGR of 5.1% and 1.4% respectively from 2019 to 2024. Besides, according to the CIC Report, the major players in the compatible cartridge industry in the PRC have been aggressive in pursuing vertical integration and consolidated a large number of players from different parts of the value chain in the compatible cartridge industry into their group, with a view to achieving economies of scale, strengthening customer base, and increasing bargaining powers and market share, among others.

As a means to further enhance our business sustainability, capitalising on the growth momentum of the industry and our knowledge of and extensive network in the same, and in the light of the competitive landscape and the integration strategy adopted by our major competitors in the industry, we intend to increase our presence in the compatible cartridge industry through forward vertical expansion. To this end, we may acquire equity interests in certain downstream compatible cartridge manufacturers in the PRC in the year ending 31 December 2022 and embark upon the design, production and/or sale of compatible cartridges through the target companies. While we will continue to supply our chips primarily to our customers, we will provide part of our chips to our own manufacturing companies for production of compatible cartridges.

Our Directors believe that the contemplated vertical expansion will present us with a host of benefits: in addition to diversification of our income streams through introduction of new products (i.e. compatible cartridges), the vertical expansion will also facilitate the growth of our chip business, as we could firstly broaden our customer base and maximise the utilisation of our production capacity with the additional internal demand for our chips, and secondly be better placed to gain up-to-date information regarding the current dynamics and consumer preference in the laser and inkjet printer markets.

After such acquisitions, we expect that our cost structure may change, which will include costs of (i) acquisitions of additional machineries and equipment for production of compatible cartridges; (ii) procurement of extra raw materials for production of compatible cartridges; and (iii) recruitment of more talents on research and development of compatible cartridges and sales of compatible cartridge. Such changes in cost structure will lead to increases in our depreciation of machineries and equipment, raw material costs and staff costs. We expect that our Group's overall profit margin may decrease after the acquisitions as the gross profit margin of sales of compatible cartridges is generally lower than that of compatible cartridge chips, as reported by CIC. Considering that the principal business of our Company will remain the production of compatible cartridge chips and we expect that the size of acquisition targets will not be significant as compared to the current size of our Group, we estimate that the overall impact on our cost structure and gross profit margin as a result of the acquisitions will be limited, and we will closely assess the possible impact once a definite acquisition targets has been identified. We shall work closely with the existing management of the target companies after acquisitions and take advantage of their market insights and expertise in the development of our business in the downstream industry.

Further, according to the CIC Report, there have been cases of patent infringement investigations in relation to external physical structure of cartridges, and compatible cartridge manufacturers which sell such products directly to the consumers may be exposed to a higher level of patent infringement risks. Hence, following the acquisitions, we may be subject to increased risks of infringement of third-party intellectual property rights. In the meantime, there is no guarantee that our expectations as to revenue growth and creation of synergy will materialise, and we may also possibly encounter difficulties in integrating the acquired targets into our Group after acquisitions. Please refer to the paragraphs headed "Our business operation is subject to the risk of infringements of third-party intellectual property rights by our customers and, following completion of our vertical expansion, members of our Group, as compatible cartridge manufacturers." and "Our proposed acquisition may not bring the benefit to the business operation and financial performance as expected." in the section headed "Risk Factors — Risks Relating to Our Business and the Industry" in this prospectus for further details.

In view of the foregoing, we will be particularly concerned to ascertain the extent of the acquisition targets' exposure to the risks of infringements of patents owned by original-brand cartridge manufacturers or other third-party compatible cartridge manufacturers in their operations. As part of our due diligence, we will review the product portfolios of the acquisition targets and the processes in which they design, develop and produce compatible cartridges, and critically assess whether they are able to achieve compatibility through the use of original designs and production methods. We will also engage legal advisers with relevant expertise to perform legal due diligence to make sure that the acquisition targets have no previous involvement in any actual or alleged infringement of third-party intellectual property rights, and demonstrated good legal compliance records in all areas of operations. After completion of the acquisitions, to the extent within our control, we shall procure our compatible cartridge manufacturing arm to put in place stringent measures to prevent infringements of third-party intellectual property rights. As a matter of routine, our manufacturing arm is expected to conduct a thorough patent search at the start of the development process of each new product to find out whether any patents registered by third parties may possibly be involved in the new product development process, and carefully formulate the designs of new compatible cartridges with a view to creating the required critical functionalities while avoiding infringement of any third-party patented design or technology. As stated in the section headed "Industry Overview — Overview of the Cartridge Industry — Lawsuit and related risk" in this prospectus, there exist co-existence dynamics between original-brand printer companies and compatible cartridge providers; in addition, some leading compatible cartridge manufacturers have received non-infringement determinations from authority in the U.S. and won patent infringement lawsuits against original-brand printer companies in the past. Taking into account these factors and with the adoption of the measures detailed above, our Directors believe that the acquisitions of compatible cartridge manufacturers will not materially increase our risks of infringements of third-party intellectual property rights.

As at the Latest Practicable Date, we had not entered into any letter of intent or agreement for such acquisitions nor identified any definite acquisition target.

Our Directors' Views on Our Business Sustainability

Despite, among other things, (i) the deterioration in our financial performance with fluctuations in our sales and profits during the Track Record Period (as explained in the sub-paragraphs headed "Fluctuations in Our Financial Performance during the Track Record Period" above); (ii) the surge in our sales to Listed Group A since 2019 which gave rise to concentration of sales (as detailed in the paragraphs headed "Our Business Relationship and Dealings with Listed Group A" below in this section); and (iii) the patent infringement risks in the compatible cartridge and compatible cartridge chip industries (as described in the sub-paragraphs headed "Our Exposure to Risks Relating to Infringements of Third-Party Intellectual Property Rights" above), our Directors are of the view that our business as a whole remain sustainable for the following reasons:

- we have successfully launched certain new products with exceptionally high demand which may be one-off in nature during the Track Record Period (as explained in the sub-paragraphs headed "Our Turnaround in 10M2020 and Business Outlook" above);

- we have proven our resilience amid extreme adverse market conditions, as demonstrated by, among other things, (1) the expansion of our compatible ink cartridge chip business and the development and launch of the Ink Cartridge Chip Models when an adverse impact on the compatible cartridge chips industry as a whole resulting from the lack of new original-brand printer models in 2019 was anticipated, which in the end did enable us to cope with the significant decrease in the overall selling prices of compatible cartridge chips caused by a series of exceptional market developments (further details of which are set forth in the paragraphs headed "Overview — Our Business Development" above in this section); and (2) the satisfactory results achieved by our Group during 10M2020 notwithstanding the material disruption to the global economy caused by the COVID-19 pandemic through, among other things, continuous rollout of new products;

- 2019 was an exceptional year with unusual market developments that might have distorted the picture in respect of our overall financial performance, and the concentration of sales to Listed Group A in the same year was coincidental and temporary in nature (as more particularly explained in the paragraphs headed "Our Business Relationship and Dealings with Listed Group A — Our Concentration of Sales to Listed Group A in 2019 and 10M2020 Which Was Both Coincidental and Temporary in Nature" below in this section);

- we have been dedicated to strengthening our research and development capabilities and rolling out new chip models from time to time, and shall remain resolute in pursing this strategy going forward (as set forth in the sub-paragraphs headed "Our Turnaround in 10M2020 and Business Outlook — Our Existing Internal Product Development Plans" above in this section);

- our self-designed compatible cartridge chips present a relatively low risk of infringements of third-party intellectual property rights in the PRC, as confirmed by the intellectual property legal team of our PRC Legal Advisers, because, among other things, we conduct research and development activities independently with no direct reproduction of IC layout designs or source code of the original-brand printers or original-brand cartridges. Based on, among other things, the in-depth review and analysis of the patents underlying the communication protocol associated with our products, the intellectual property legal team of our PRC Legal Advisers concluded that the risk of patent infringement is minimal;

- we have been able to maintain a continuing business relationship with Listed Group A, our major customers at present, with no vicious competition between us in the compatible ink cartridge chip market, and our Directors believe that Listed Group A is unlikely to largely reduce or cease to make purchases of the Ink Cartridge Chip Models from us in a way that will threaten our business sustainability in the foreseeable future; meanwhile, thanks to our effort in continuously rolling out new chip models which has stimulated our sales to other customers, our reliance on Listed Group A as our customer has been on the wane, with our percentage of revenue attributable to Listed Group A decreasing from approximately 73.1% in 4Q2019 to 34.1% for 10M2020;

- favourable market developments are within sight, as according to the CIC Report, the market size of the compatible cartridge chip market is expected to grow steadily from 2021 to 2024, with the number of new original-brand printers to be launched regaining growth, the trade tension between US and China easing, and the market players having adjusted to the market condition after industry consolidation; accordingly, the vicious price competition in 2019 which led to the overall drop in the average price of compatible cartridge chips is unlikely to repeat itself in the near future, and the average price of compatible cartridge chips is expected to grow in the foreseeable future with the increasing demand for compatible cartridges; and

- we will adopt the following business strategies (in addition to constant development and introduction of new chip models) with a view to increasing our market share and maintaining our high gross profit margin, which will also serve to ensure our business sustainability: (1) lowering our costs of sales by further increasing the use of PCBAs assembled by our subcontractors based on our specified configurations and developing our own ICs; (2) improving our research and development capabilities and efficiency through acquisition of additional equipment, use rights of software tools and licences for patents and expanding our teams of talents, in order to maintain the advanced quality, upward compatibility and functionality of our products; (3) acquiring an IC design company based in the PRC or Taiwan to further enhance our capabilities in development of PCBAs and, in particular, ICs; and (4) increasing our presence in the compatible cartridge industry through forward vertical expansion, by way of acquisition of equity interests in certain downstream compatible cartridge manufacturers in the PRC and commencement of design, production and/or sale of compatible cartridges through the target companies (further details of which are set forth in the sub-paragraphs headed "Our Intended Expansion into the Compatible Cartridge Industry" above).

On account of the above, our Directors are confident that our Directors are of the view that our business as a whole will be sustainable in the long-run. For further elaboration, please refer to the section headed "Business — Business Sustainability" in this prospectus.

OUR BUSINESS RELATIONSHIP AND DEALINGS WITH LISTED GROUP A

Our sales to members of Listed Group A represented approximately 38.3% and 34.1% of our total sales for the year ended 31 December 2019 and 10M2020, respectively. The major products provided by us to Listed Group A were the Ink Cartridge Chip Models, i.e. a number of models of compatible ink cartridge chips launched by us mostly in the second or third quarter of 2019.

Background of and Our Business Relationship with Listed Group A

As at the Latest Practicable Date, Listed Group A comprised Customer H and its subsidiaries, including Customer I, Customer J and Supplier A, among others; Customer H, the holding company in Listed Group A, was a joint stock limited liability company established in the PRC in November 1991 whose shares were listed on the Shenzhen Stock Exchange principally engaged in the research, development, production and sale of printer SoCs, compatible cartridge chips, compatible cartridges and other printing consumables, and IoT chips. Listed Group A was the largest compatible cartridge manufacturer and the largest compatible cartridge chip provider in China, with a market share of more than 40.0% and approximately 41.5% respectively in terms of external sales in 2019.

While our Group first transacted with Customer H in 2017, the business relationship between Megain PTE and the existing members of Listed Group A dated back to 2012, when Megain PTE, a company incorporated in Hong Kong solely controlled by Mr. Cheng and principally engaged in the sale of compatible cartridge chips, commenced its business dealings with an existing member of Listed Group A, which was principally engaged in sales of cartridges. It started to purchase chips from Megain PTE after we had introduced to it at an industry exhibition in Zhuhai in 2012 a newly developed model of compatible cartridge chips designed for certain printer models which were then available exclusively from us. The operations and business functions of Megain PTE were taken up by our Group following completion of the formalisation of the structure of our Group in September 2016.

Customer I and Customer J commenced business dealings with Zhuhai Megain in 2014 and 2016 respectively (i.e. before they respectively became a subsidiary of Customer H) subsequent to our sales visit to Customer I, given its demand for chips, and our edge in the development of the relevant chip models and the recognition of the advanced quality, functionality and upward compatibility of our products by our customers which matched the demand of Customer I and Customer J. According to Customer H's public disclosure, Customer I and Customer J became a direct non-wholly-owned subsidiary and an indirect non-wholly owned subsidiary of Customer H respectively in June 2017, when Customer H completed the acquisition of 51% of the equity interests in Customer I and in the holding company of Customer J.

Building on our established business relationships with various subsidiaries of Customer H (such as Customer I and Customer J), its controlling shareholder and Listed Group A as a whole, we entered into business relationship with Customer H in 2017.

Relationship between Our Pre-IPO Investor and Listed Group A

As at the Latest Practicable Date, to the best of the knowledge of our Directors and Mr. Yu (being the sole ultimate beneficial owner of GLC, one of our pre-IPO investors), and based on the public information available, neither Mr. Yu nor any of his associates had any direct equity interest in Customer H. As at the Latest Practicable Date, Mr. Yu held a minority and non-controlling interest in the controlling shareholder of Customer H through three of its minority shareholders.

To the best of the knowledge and information of our Directors and Mr. Yu, and based on the public information available, as a passive investor, Mr. Yu held a minority and non-controlling interest of approximately 2.04% and 3.06% in two limited liability companies incorporated in the PRC and controlled by the ultimate controlling shareholders of Customer H (being three individuals) and/or the directors of the controlling shareholder of Customer H, as at the Latest Practicable Date, due to his historical business relationship with the ultimate controlling shareholders of Customer H.

In addition, Mr. Yu was appointed a director of Supplier A during the period between 6 December 2012 and 28 January 2014 solely for the purpose of facilitating his handling of certain intellectual property disputes of Supplier A. During his tenure of service with Supplier A, he held no management role in Supplier A. Mr. Yu resigned as, and ceased to be, a director of Supplier A in January 2014 and has retired since then.

To the best of the knowledge and information of our Directors and Mr. Yu, and based on the public information available, save as disclosed above, neither Mr. Yu nor any of his close associates had any relationship with the shareholders of the controlling shareholder of Customer H, Customer H or any member of Listed Group A as at the Latest Practicable Date, or held any executive or management position in any of Customer H, the Controlling Shareholder of Customer H or any of their respective subsidiaries up to the Latest Practicable Date. For further details, please refer to the section headed "History, Development and Corporate Structure — Pre-IPO Investments — Information about our Pre-IPO Investors — Information about GLC" in this prospectus.

Our Concentration of Sales to Listed Group A in 2019 and 10M2020 Which Was Both Coincidental and Temporary in Nature

Our relatively high percentages of revenue and gross profit attributable to sales to Listed Group A in 2019 and 10M2020 (amounting to approximately 38.3% and 34.1% of our total sales, and 55.4% and 40.0% of our gross profit, for the respective year or period) was caused by several market factors and commercial reasons, including (i) the industry landscape and the reciprocal relationship between market players due to the industry dynamics; (ii) the leading role of Listed Group A in the industry and its considerable demand for chips; (iii) the timing of our launch of the Ink Cartridge Chip Models in 2019 (mostly in the second or third quarter), with a surge in sales to Listed Group A shortly afterwards due to the high degree of recognition from customers; (iv) the competitive selling prices offered for and the advanced quality, functionality and upward compatibility of the Ink Cartridge Chip Models; and (v) the strategy we have adopted in respect of the development of our compatible ink cartridge chip business.

Despite our relatively high percentage of revenue attributable to Listed Group A in 2019 and 10M2020, our Directors are of the view that our apparent customer concentration in 2019 and 10M2020 was transitional in nature and not indicative of any serious reliance issue. Our Directors believe that our revenue percentage attributable to Listed Group A will further reduce going forward and our future business development will not be materially constrained in any case given (i) the actual decrease in our proportions of revenue (from approximately 73.1% in 4Q2019 to 34.1% for 10M2020) and gross profit (from 85.5% in 4Q2019 to 40.0% in 10M2020) attributable to sales to Listed Group A during the relevant times; (ii) the gradual expansion in the customer base of our relevant chip models; (iii) our commitment to developing and offering chips with reliable and advanced quality and functionality; (iv) our continued effort in proactively developing and introducing new chip models; and (v) the proposed widening of our customer base as a result of our proposed acquisitions of downstream compatible cartridge manufacturers in the PRC. In any event, any change in our business relationship with Listed Group A is unlikely to have a material adverse impact on our business, financial position and results of operations.

In comparison, the proportion of sales in terms of sales volume might provide more meaningful insights into the scale of our transactions with Listed Group A with the pricing effects eliminated. While Listed Group A accounted for approximately 38.3% and 34.1% of our total sales in terms of revenue in 2019 and 10M2020, in terms of sales volume, it only accounted for 25.2% and 29.2% of our total sales in 2019 and 10M2020.

In any case it may not be appropriate to attach much weight to our proportion of sales attributable to Listed Group A as a whole in assessing our business performance, because each member of Listed Group A is managed by distinct teams, has their own production facilities and in effect operates independently of each other and could properly be classified as a different customer. It follows that there is no undue reliance of our Group on Listed Group A arising from our apparently high revenue and gross profit percentages attributable to it in 2019 and 10M2020 or substantive customer concentration risks in our business operations.

For further details, please refer to the section headed "Business — Customers — Concentration of Customers" in this prospectus.

Our Sales and Purchase Transactions with Listed Group A

During the Track Record Period, we had certain major customers whose fellow group companies were also our suppliers, and certain major suppliers which themselves or whose fellow group companies were also our customers, including members of Listed Group A, among others. While we had sold to Listed Group A products mainly including compatible cartridge chips, ICs and other cartridge components, we had also primarily purchased PCBAs, ICs and other cartridge components from Listed Group A during the Track Record Period.

Our sales to and purchases from Listed Group A were neither inter-connected nor inter-conditional, and the negotiations of the terms of such sales and purchases had been conducted on an individual basis. Our Directors confirm that the terms of the sales and purchase transactions between Listed Group A and our Group (including the credit periods granted, unit selling prices and gross profit margins for sales transactions, and the credit periods allowed and unit purchase prices for purchase transactions) had been agreed purely based on commercial considerations and reflected the prominent corporate profile of Listed Group A and our well-maintained mutual beneficial business relationship with Listed Group A, and that the transactions between Listed Group A and our Group had been carried out on normal commercial terms. For further details, please refer to the section headed "Business — Overlapping Customers and Suppliers, Industry Landscape and Transactions with Listed Group A and Listed Group B" in this prospectus.

Our Significant Gross Profit Margin Recorded from Sales to Listed Group A in 2019

We recorded a gross profit margin in relation to sales to Listed Group A that was significantly or noticeably higher than our average gross profit margin of sales to other independent customers in 2019 and 10M2020. It was primarily attributable to the sales of the Ink Cartridge Chip Models that we successfully developed in 2019 to Customer H, Customer I and Customer J. We had in general sold such chip models at a relatively high gross profit margin in that year/period, which we were able to achieve due to the recognition of the good quality, functionality and upward compatibility of such products by our customers and the facts that market demand was substantial and only a very limited number of competitors had successfully launched comparable chip models. Following the launch of the Ink Cartridge Chip Models in the second or third quarter of 2019, the commencement of our sales of the Ink Cartridge Chip Models to Listed Group A since September 2019 and the significant increase in the same in 4Q2019, our gross profit margin in respect of sales of the Ink Cartridge Chip Models to Listed Group A was approximately 82% in 4Q2019 and 72% in 10M2020, which was comparable to the gross profit margin in respect of sales of the Ink Cartridge Chip Models to other independent customers of approximately 81% in 4Q2019 and 80% in 10M2020.

Trend in Our Purchases of Major Products from Listed Group A

During the Track Record Period, our purchases from Listed Group A mainly comprised PCBAs and ICs. During the Track Record Period, our purchases of PCBAs from Listed Group A accounted for approximately RMB46.2 million, RMB54.1 million, RMB14.7 million and RMB6.2 million respectively; while our purchases of ICs from Listed Group A accounted for nil, RMB3.4 million, RMB7.1 million and RMB1.0 million respectively. On the other hand, our purchases of the other cartridge components from Listed Group A only accounted for an insignificant amount of approximately RMB2.2 million, RMB0.5 million, RMB0.4 million and RMB0.8 million respectively during the Track Record Period. The following table sets out the average unit purchase price of PCBAs and ICs from Listed Group A, each of the other major suppliers, and other suppliers of our Group during the Track Record Period:

	Year ended 31 December			Ten months ended 31 October
	2017	**2018**	**2019**	**2020**
	RMB	*RMB*	*RMB*	*RMB*
(1) Average unit purchase price of PCBAs *(Note 1)*				
Listed Group A				
– Supplier A *(Note 2)*	6.6	7.8	3.2	2.2
– Other members	6.1	3.4	N/A	N/A
Supplier B	23.9	13.4	0.9	1.7
Supplier C	4.9	4.8	N/A	N/A
Supplier D	18.2	10.1	4.2	2.1
Other suppliers	2.0	2.0	2.4 *(Note 3)*	4.4
(2) Average unit purchase price of ICs *(Note 1)*				
Listed Group A				
– Supplier A	N/A	3.3	2.4	1.0
– Other members	N/A	6.3	N/A	N/A
Supplier B	0.5	5.6	2.3	N/A
Supplier C	4.3	3.7	2.8	2.0
Other suppliers	1.0	2.5	0.3	2.0

Notes:

1. The difference in average unit purchase price of PCBAs and ICs purchased from different suppliers was mainly due to the difference in models of PCBAs and/or ICs purchased from the relevant suppliers. The unit price of PCBAs and ICs may vary from model to model due to various factors including the differences in technical specifications of such PCBAs and ICs, the differences in models of chips such PCBAs and ICs are applicable to and the quantity of PCBAs and ICs purchased, which resulted in price fluctuation to different extents and a wide range of average purchase price.

2. The average unit purchase price of PCBAs we purchased from Supplier A decreased significantly in 2019 as compared with that in 2018 due to (i) the strengthening of our research and development capacity in relation to PCBAs, which had permitted us to predominantly use PCBAs assembled by our subcontractors based on our specified configurations using ICs and other parts sourced from external suppliers starting from 2019, as a result of which we have reduced the proportion of purchase of PCBAs for newer models of chips which are of higher price from Supplier A and the reliance in procurement on Supplier A (which primarily served as our PCBA supplier throughout the Track Record Period); and (ii) our active negotiations with Supplier A in order to lower our costs by agreeing on a lower purchase price of PCBAs in view of the fierce market competition and the significant decrease in selling price of compatible cartridge chips according to the CIC Report and considering our long-term business relationship with Supplier A and the availability of alternative suppliers. The average unit purchase price of PCBAs we purchased from Supplier A further decreased in 10M2020 mainly due to the further decrease in the proportion of purchase of PCBAs for newer models of chips which are of higher price from Supplier A as a result of the strengthening of our research and development capacity in relation to PCBAs, which had permitted us to predominantly use PCBAs assembled by our subcontractors based on our specified configurations in production.

3. The increase in average unit purchase price of PCBAs from the other suppliers of our Group in 2019 was mainly due to the purchase of certain PCBAs of higher unit price due to the higher technical specifications of such PCBAs in 2019.

As illustrated above, there was a decrease in average unit purchase price of PCBAs and ICs in 2019 not only from the purchases from Listed Group A, but also from other suppliers of PCBAs and/or ICs (such as Supplier B, Supplier C and Supplier D). The decrease in average unit purchase price of PCBAs from the suppliers in 2019 was mainly due to (i) the strengthening of our research and development capacity in relation to PCBAs, which had permitted us to predominantly use PCBAs assembled by our subcontractors based on our specified configurations using ICs and other parts sourced from external suppliers starting from 2019, as a result of which we have reduced the proportion of purchase of PCBAs for newer models of chips from suppliers which are of higher price; and (ii) our active negotiations with the suppliers in order to lower our costs by agreeing on a lower purchase price of PCBAs in view of the fierce market competition and the significant decrease in selling price of compatible cartridge chips in 2019 and considering our long-term business relationship with the suppliers and the availability of alternative suppliers in the market. The decrease in average unit purchase price of ICs from suppliers in 2019 was mainly due to our active negotiations with the suppliers in order to lower our costs by agreeing on a lower purchase price of ICs in view of the fierce market competition and the significant decrease in selling price of compatible cartridge chips in 2019 and considering our long-term business relationship with the suppliers and the availability of alternative suppliers in the market.In addition, in 2019, the selling price of PCBAs offered by members of Listed Group A had been comparable to the selling price of similar products offered by other independent suppliers at or around the relevant points of time.

Intellectual Property Rights Infringement Litigations and Investigations Involving Listed Group A and Our Other Major Customers

To the best of the knowledge of our Directors and as confirmed by CIC, while some of the Major Customers had been subject to legal proceedings and/or regulatory investigations against them involving claims of infringements of third-party intellectual property rights, such proceedings and investigations had been dismissed or settled out of court, and for cases where the infringements were established, no material penalties, financial damages or criminal penalties had been imposed, and the outcome was, at the most, prohibitions on the importation or sale of the compatible cartridges in question into or in the specified territory, such as the United States. Our Directors are not aware of any compatible cartridges in which our chips have been installed being involved in such proceedings and investigations. Accordingly, there has come to our Directors' attention no reduction in the orders for our chips from the Major Customers as a result of any such prohibition on the importation or sale of their cartridges into or in any territory. In any case, even if such prohibitions have been imposed on a cartridge model in, for example, the United States with a market share of approximately 21.6% in the compatible cartridge market, the Major Customer concerned would not be restricted from selling the cartridge model in other territories with substantial market demand. Hence, to the best of the knowledge of our Directors, such proceedings and investigations have not had a material adverse impact on the business and financial conditions of the Major Customers. There was no reduction in orders from our Group's customers during the Track Record Period, which was in line with the increasing trend in our Group's overall sales volume of chips throughout the Track Record Period, nor are our Directors aware of any significant order cancellation or reduction plan of the Major Customers in the near future as per communications with them. Given that (i) the size of the global compatible cartridge industry had exhibited steady growth from 2015 to 2019, and the growth trend is expected to continue at least until 2024; and (ii) the Group has a comprehensive product portfolio and a highly diversified customer base with limited exposure to the fluctuations in demand for any particular chip model from any particular customer, our Directors are of the view that the legal proceedings and regulatory investigations against the Major Customers involving claims of infringements of third-party intellectual property rights would not have a material adverse impact on the business, financial condition or results of operations of our Group. For further details of our risks in connection with such proceedings and investigations that the Major Customers may be subject to, please refer to the section headed "Risk Factors — Risks Relating to Our Business and Industry — Our business operation is subject to the risk of infringements of third-party intellectual property rights by our customers and, following completion of our vertical expansion, members of our Group, as compatible cartridge manufacturers." in this prospectus.

As explained in the paragraphs headed "Our Business Sustainability — Our Exposure to Risks Relating to Infringements of Third-Party Intellectual Property Rights" above, according to the CIC Report, while the US authorities have conducted certain compatible-cartridge-related patent infringement investigations targeting Chinese companies, such investigations pertain to the cartridges' external physical structure only and do not involve compatible cartridge chips or their providers. As advised by the intellectual property legal team of our PRC Legal Advisers, our self-designed compatible cartridge chips present a relatively low risk of infringements of third-party intellectual property rights in the PRC, based on the various factors including but not limited to: (i) up to the Latest Practicable Date, lawsuits in the PRC relating to claims of infringement of IC layout designs, patents, copyrights as well as trade secret misappropriations in the field of cartridge chips were either non-existent or minimal; (ii) to the best of the knowledge of our Directors and as confirmed by CIC, while some of the Major Customers had been subject to legal proceedings and/or regulatory investigations against them involving claims of infringements of third-party intellectual property rights, such proceedings and investigations had been dismissed or settled out of court, and for cases where the infringements were established, no material penalties, financial damages or criminal penalties had been imposed, and the outcome was, at the most, prohibitions on the importation or sale of the compatible cartridges in question into or in the specified territory, such as the United States; (iii) we conduct research and development activities independently with no direct reproduction of IC layout designs or source code of the original-brand printers or original-brand cartridges; and (iv) we routinely conduct prior art patent searches and assess patent infringement risks during the project initiation, examination and selection stage. Please refer to the section headed "Business — Intellectual Property Rights" in this prospectus for further details.

Our Adjusted Financial Results after Excluding Our Sale Transactions with Listed Group A

The following table sets forth our adjusted revenue, cost of sales and net profit in each respective year/period during the Track Record Period after excluding the sales transactions with Listed Group A:

	For the year ended 31 December												Ten months ended 31 October			
	2017				2018				2019				2020			
	Overall	Sales transactions with Listed Group A *(Note 1)*	Excluding sales transactions with Listed Group A *(Note 1)*	Decrease in percentage after excluding sales transactions with Listed Group A	Overall	Sales transactions with Listed Group A *(Note 1)*	Excluding sales transactions with Listed Group A *(Note 1)*	Decrease in percentage after excluding sales transactions with Listed Group A	Overall	Sales transactions with Listed Group A *(Note 1)*	Excluding sales transactions with Listed Group A *(Note 1)*	Decrease in percentage after excluding sales transactions with Listed Group A	Overall	Sales transactions with Listed Group A *(Note 1)*	Excluding sales transactions with Listed Group A *(Note 1)*	Decrease in percentage after excluding sales transactions with Listed Group A
	RMB'000	*RMB'000*	*RMB'000*	*%*	*RMB'000*	*RMB'000*	*RMB'000*	*%*	*RMB'000*	*RMB'000*	*RMB'000*	*%*	*RMB'000*	*RMB'000*	*RMB'000*	*%*
Revenue	212,775	5,128	207,647	(2.4)	246,083	17,503	228,580	(7.1)	157,625	60,377	97,248	(38.3)	133,570	45,735	87,835	(34.2)
Cost of sales	118,432	3,113	115,319	(2.6)	130,080	11,359	118,721	(8.7)	69,515	11,592	57,923	(16.7)	60,524	16,510	44,014	(27.3)
Gross profit	94,343	2,015	92,328	(2.1)	116,003	6,144	109,859	(5.3)	88,110	48,785	39,325	(55.4)	73,046	29,225	43,821	(40.0)
Net profit *(Note 2)*	63,135	1,620	61,515	(2.6)	62,620	4,921	57,699	(7.9)	41,313	37,857	3,456	(91.6)	25,636	23,818	1,818	(92.9)

Notes:

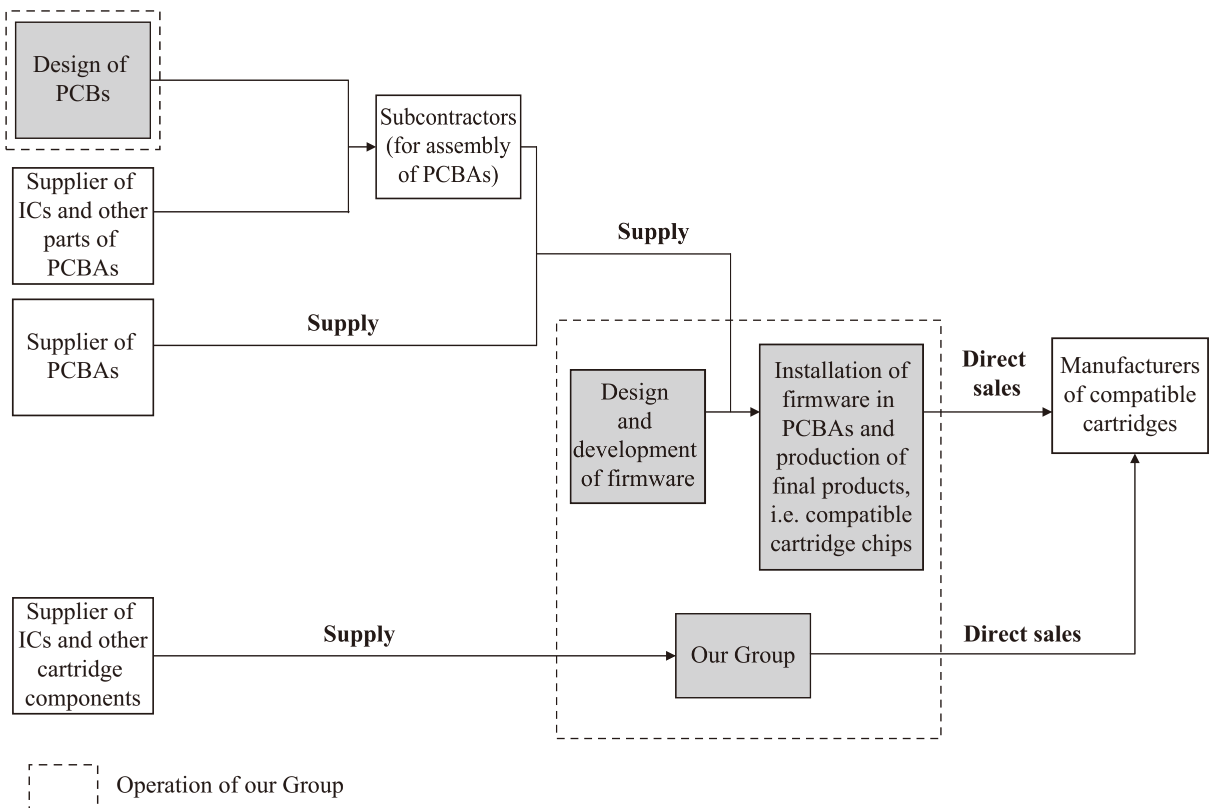
1. These are calculated based on non-HKFRS measures and are for reference purpose only.

2. The calculation of net profit has taken into account the tax effect based on our effective tax rate for the Track Record Period but has not adjusted for the other expenses attributable to sales transactions with Listed Group A (including but not limited to selling and distribution expenses and administrative expenses).

Our Directors confirm that the terms of the transactions between Listed Group A and our Group had been agreed purely based on commercial considerations and reflected the prominent corporate profile of Listed Group A and our well-maintained mutual beneficial business relationship with Listed Group A and that the transactions between Listed Group A and our Group (including the purchases from Listed Group A) had been carried out on normal commercial basis.

OUR BUSINESS MODEL

The following diagram illustrates our business model:



Our Products

We are a provider of compatible cartridge chips, which are one of the core components in both compatible toner cartridges and ink cartridges. Please refer to the section headed "Business — Our Products" in this prospectus for further details.

Our Revenue by Product Categories-application

	Year ended 31 December												10M2020			
	2017				2018				2019							
	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price
	RMB'000	*%*	*'000 pieces of chips*	*RMB*	*RMB'000*	*%*	*'000 pieces of chips*	*RMB*	*RMB'000*	*%*	*'000 pieces of chips*	*RMB*	*RMB'000*	*%*	*'000 pieces of chips*	*RMB*
Sales of chips																
Product category-application																
– Desktop laser printers	169,094	79.5	8,542	19.8	192,115	78.1	10,097	19.0	66,944	42.5	10,363	6.5	54,723	41.0	9,773	5.6
– Desktop inkjet printers	21,975	10.3	2,533	8.7	21,766	8.9	2,625	8.3	77,037	48.9	6,293	12.2	62,283	46.6	7,137	8.7
– Commercial printers[1]	3,106	1.5	263	11.9	6,740	2.7	444	15.2	6,629	4.2	407	16.3	5,798	4.3	254	22.8
Subtotal	194,175	91.3	11,338	17.1	220,621	89.7	13,166	16.8	150,610	95.6	17,063	8.8	122,804	91.9	17,165	7.2
Trading of ICs and other cartridge components[2]	18,600	8.7	N/A	N/A	25,462	10.3	N/A	N/A	7,015	4.4	N/A	N/A	10,766	8.1	N/A	N/A
Total	212,775	100			246,083	100			157,625	100			133,570	100		

Notes:

1. Includes mainly commercial laser printers.

2. In addition to provision of chips, we also engaged in trading of ICs and other cartridge components, including plastic parts and toner, as ancillary services to our customers during the Track Record Period.

Our overall revenue increased from approximately RMB212.8 million for the year ended 31 December 2017 to approximately RMB246.1 million for the year ended 31 December 2018, which was mainly due to the increase in demand for a few models of our newly launched chips for desktop laser printers in 2017. Despite the increase in sale volume of our chips, our overall revenue decreased from approximately RMB246.1 million for the year ended 31 December 2018 to approximately RMB157.6 million for the year ended 31 December 2019, which was mainly due to the decrease in revenue from the sales of our chips for desktop laser printers by approximately RMB125.2 million for the year ended 31 December 2019 attributed to (i) industry-wide pricing pressure on compatible cartridge chips as a result from the US-China trade war, limited number of newly launched models of printers in 2018 and 2019 and industry consolidation; and (ii) significant drop of the average selling price of our products due to the intensified market competition with more competitors having successfully launched products with features and functionality similar to our products and as a result of the price-cutting strategy adopted by the leading market players. The decrease in revenue was partly offset by the increase of revenue from the sales of our chips for desktop inkjet printers by approximately RMB55.3 million for the year ended 31 December 2019 mainly due to our successful development and sales of certain models of chips for desktop inkjet printers which were recognised by our customers in terms of good quality, functionality and upward compatibility in 2019 with only a few competitors having successfully launched products with similar features and functionality. Please refer to the section headed "Financial Information — Period to period comparison of results of operations" in this prospectus for further details.

The significant decrease of approximately 47.6% in the average selling price of our chips for the year ended 31 December 2019 as compared with that in 2018 was mainly attributable to the decrease in average selling price of our chips for desktop laser printers, which dropped by approximately 65.8% from approximately RMB19.0 in 2018 to approximately RMB6.5 in 2019. Such significant decrease was mainly due to various factors, including but not limited to (i) the industry-wide pricing pressure on compatible cartridge chips (in particular, with more impact on those chips which were relatively new and with higher price originally) as a result of (a) the tariff imposed to cartridges exported to US market as a result of the US-China trade war resulting in the decrease of selling price of compatible cartridges; (b) the limited number of new models of printers launched by original-brand printer companies resulting in the limited number of new models of compatible cartridge chips for new printers in 2018 and 2019, which are by nature with higher selling price during the introduction stage and therefore the focus on limited products by many competitors together; (c) the fierce market competition as a result of industry consolidation initiated by major market players, details of which can be referred to in the section headed "Business — Pricing" in this prospectus; (ii) the intensified market competition with more competitors having successfully launched products with features and functionality similar to our products and offered significantly lower price to capture market shares leading to the significant decline in the average selling price and as a result of the price-cutting strategy adopted by the leading market players; and (iii) the decline in selling price of our products along their product life cycle. Our overall revenue increased from approximately RMB86.3 million for 10M2019 to approximately RMB133.6 million for 10M2020, which was mainly due to the increase in revenue from the sales of our chips for desktop inkjet printers attributable to the sales of certain models of chips mainly designated for certain desktop inkjet printer models we successfully developed in 2019. Please refer to the section headed "Financial Information — Period to Period Comparison Results of Operations" in this prospectus for more details. Despite the fluctuation in our revenue and net profit during the Track Record Period, our Directors are of the view that the business of our Company is sustainable due to various factors, including but not limited to, (i) our successful launches of certain new products with exceptionally high demand which may be one-off in nature during the Track Record Period; (ii) the proven resilience of our Group amid extreme adverse market conditions; (iii) the fact that 2019 as an exceptional year with unusual market developments that may have distorted the picture, and the coincidental and temporary nature of the concentration of sales to Listed Group A in 2019; and (iv) our commitment to research and development and introduction of new products. Please refer to the section headed "Business — Business Sustainability" in this prospectus for further details of business sustainability of our Company.

Our Revenue by Geographical Location

	Year ended 31 December							
	2017		2018		2019		10M2020	
By customers' location	Revenue	% of the total revenue	Revenue	% of the total revenue	Revenue	% of the total revenue	Revenue	% of the total revenue
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
PRC	180,446	84.8	209,396	85.1	132,854	84.3	109,533	82.0
Overseas	32,329	15.2	36,687	14.9	24,771	15.7	24,037	18.0
	212,775	100.0	246,083	100.0	157,625	100.0	133,570	100.0

Our Gross Profit and Gross Profit Margin by Product Categories — application

	Year ended 31 December						Ten months ended 31 October			
	2017		2018		2019		2019 (unaudited)		2020	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Sales of chips										
Product category — application										
– Desktop laser printers	84,194	49.8	100,842	52.5	28,062	41.9	24,525	42.4	32,978	60.3
– Desktop inkjet printers	6,879	31.3	6,660	30.6	55,003	71.4	8,546	46.5	35,999	57.8
– Commercial printers[1]	1,013	32.6	3,223	47.8	4,170	62.9	3,246	62.1	3,403	58.7
Subtotal	92,086	47.4	110,725	50.2	87,235	57.9	36,317	44.6	72,380	58.9
Trading of ICs and other cartridge components[2]	2,257	12.1	5,278	20.7	875	12.5	839	17.2	666	6.2
Total	94,343	44.3	116,003	47.1	88,110	55.9	37,156	43.1	73,046	54.7

Notes:

1. Includes mainly commercial laser printers.

2. In addition to provision of chips, we also engaged in trading of ICs and other cartridge components, including plastic parts and toner, as ancillary services to our customers during the Track Record Period.

The increase of our overall gross profit margin from approximately 47.1% for the year ended 31 December 2018 to approximately 55.9% for the year ended 31 December 2019 was mainly due to the increase in gross profit margin of our chips for inkjet printers due to the higher profit margin of certain models of chips for desktop inkjet printers we successfully developed in 2019 with good quality, functionally and upward compatibility and with only a few competitors having successfully launched products with similar features as mentioned in the paragraphs headed "Our Business Model — Our Revenue by Product Categories-application" above in this section. Our overall gross profit margin increased from approximately 43.1% for 10M2019 to approximately 54.7% for 10M2020, mainly due to (i) the increase in gross profit margin of our chips for desktop inkjet printers with high profit margin as mentioned above; partially offset by the decrease in gross profit margin of certain other models of chips for desktop inkjet printers produced with relatively long-aged hardware components with higher historical purchase cost as part of our inventory management to utilize those long-aged raw materials; and (ii) the higher profit margin of certain models of chips for desktop laser printers launched in 2020. Please refer to the section headed "Financial information — Period to Period Comparison of Results of Operations" in this prospectus for further details.

Our Customers

During the Track Record Period, our customers mainly comprised manufacturers of compatible cartridges based in the PRC. To best of the knowledge of our Directors, the manufacturers would generally sell compatible cartridges with our compatible cartridge chips installed to local distributors or consumers, and/or export such products to foreign countries (such as the United States and Europe). On a group basis, where sales to customers which were under common control or otherwise associated with each other at the relevant times are aggregated, for the years ended 31 December 2017, 2018 and 2019 and 10M2020, our five largest customers accounted for approximately 41.0%, 42.7%, 59.4% and 54.5% of our total revenue, and our largest customer accounted for approximately 14.5%, 13.6%, 38.3% and 34.1% of our total revenue, respectively.

Risks that Our Competitive Advantage in Terms of Upward Compatibility of Our Chip Models May Be Lost

Other compatible cartridge chip providers may possibly improve the upward compatibility and other features of their chips through their own research and development endeavours and, in the event that our competitors successfully develop comparable products with functionality, quality and upward compatibility similar to or even better than those of our products, these chip models may lose their competitive advantage in the market and may face fierce competition, resulting in pricing pressure which may in turn affect the profitability of these chip models. Please refer to the section headed "Risk Factors — We face significant competition in our business and our profitability and prospects for future growth depend on our ability to compete effectively with the other competitors" in this prospectus for further details of the potential impact of market competition with our competitors.

Our Suppliers

Our suppliers comprise of (i) suppliers of ICs and other parts of the hardware component of our chips; and (ii) suppliers of PCBAs. During the Track Record Period, we had directly procured PCBAs from external suppliers for production use. Alternatively, we had (i) carried out the design work of PCBs, being a major part of PCBAs, ourselves; and (ii) source ICs and other parts of PCBAs from external suppliers. In the latter case, subcontractors had been engaged to assemble PCBAs based on our specified configurations. For the years ended 31 December 2017, 2018 and 2019 and 10M2020, our five largest suppliers accounted for approximately 90.0%, 89.1%, 89.6% and 84.8% of our total purchases, and our largest supplier accounted for approximately 40.1%, 46.3%, 46.0% and 49.3% of our total purchases, respectively. We had opted to procure the raw materials (being primarily PCBAs in 2017 and 2018, and ICs in 2019 and 10M2020) required primarily from a limited group of suppliers during the Track Record Period given their stable supply of products that met our quality requirements and the savings on procurement costs and administrative costs that could be made through bulk purchases.

Overlapping Customers and Suppliers, Industry Landscape and Transactions with Listed Group A and Listed Group B

According to the CIC Report, notwithstanding the fierce market competition among compatible cartridge chip providers, they maintain a reciprocal relationship with each other out of commercial consideration, and it is an industry norm that independent compatible cartridge chip providers and integrated compatible cartridges providers enter into various sales and purchases transactions from time to time among themselves. Please refer to the section headed "Industry Overview — Overview of the Cartridge Industry — Relationship between China's independent compatible cartridge chip providers and integrated compatible cartridge providers" in this prospectus for further analysis. During the Track Record Period, we had certain major customers which were, or whose fellow group companies were, also our suppliers, and certain major suppliers which themselves or whose fellow group companies were also our customers. Listed Group A (further details of which in this regard are set forth in the paragraphs headed "Our Business Relationship and Dealings with Listed Group A — Our Sales and Purchase Transactions with Listed Group A" above in this section) and Listed Group B, both the major competitors of our Group, were engaged in production and sale of PCBAs, compatible cartridge chips and compatible cartridges in the PRC. In line with the industry norm, while we had purchased PCBAs from them during the Track Record Period principally for cost-effectiveness, they also purchased compatible cartridge chips from us as it is not practicable and cost effective for them to cover all types of printers and also due to their recognition of the quality, functionality and upward compatibility of our chips.

Our Cost Structure

During the Track Record Period, our principal cost of sales primarily comprised of our direct material costs, which accounted for over 89.5% of our total cost of sales during the Track Record Period, as well as subcontracting charges and staff costs. PCBAs, ICs and other parts of PCBAs were the principal direct material used in our products. Please refer to the section headed "Financial information — Selected line items in the consolidated statements of profit or loss and other comprehensive income — Cost of sales" in this prospectus for detailed analysis of our cost of sales.

Our Pricing

One of the key factors in relation to the determination of the price of our new products is whether we are the first-to-market player to introduce such type of products. In the event that we are the first compatible cartridge chip provider to launch a product for a new model of printer, we would be able to set a higher price so as to achieve our desired profit margin, taking into account primarily our costs in developing and producing the product and the market's acceptability. When we are not ahead of our competitors in launching the product, we will also take into account the price set by other market players in order to keep our products competitive. Our pricing strategy is closely associated with the life cycle of products in the compatible cartridge chip market. According to the CIC Report, a compatible cartridge chip model normally goes through three stages in the whole life cycle, namely (i) introduction stage (within three years after launch of a new original-brand printer model); (ii) growth stage (three to five years after launch of the new original-brand printer model), and (iii) maturity stage (over five years after launch of the new original-brand printer model).

Product Returns, Exchanges and Warranty

During the Track Record Period, in line with the industry practice, we may, at the request of our customers, accept product return or exchange due to (i) upgrades of printers made by original-brand printer companies which results in our chips sold becoming no longer compatible with the printers (i.e. unable to communicate with the printers); and (ii) quality issues and defects of our products.

1. Product return or exchange due to upgrades

From time to time, the original-brand printer companies may conduct system upgrades to their printers. Sometimes, such system upgrades may make our compatible cartridge chips no longer compatible with the printers. In such circumstances, the firmware in our chips and, occasionally, the hardware components need to be modified to be compatible with the upgraded models of the printers. Customers may request for returns or exchanges of compatible cartridge chips if the chips need to be modified in light of upgrades issues after the chips have been sold. According to the CIC Report, the industry norm is to allow product returns and exchanges within one year of the sales, depending on, among others, the sales volume and the business relationships with customers.

With respect to the sales of compatible cartridge chips during the years ended 31 December 2017, 2018 and 2019, we recorded actual return of products of approximately RMB0.3 million, RMB3.7 million and RMB0.4 million in their respective succeeding year, representing an actual rate of return of approximately 0.2%, 1.7% and 0.3%, respectively. After the Track Record Period and up to the Latest Practicable Date, we had not recorded material product return for compatible cartridge chips sold in 2019.

During the Track Record Period, we received total actual returns of our compatible chips (including returns arising from sales of compatible cartridge chips in both the current year and the preceding year) with sales value amounting to RMB1.4 million (including return of products of approximately RMB0.4 million and RMB1.0 million with respect to the sales of compatible cartridge chips during the years ended 31 December 2016 and 2017 respectively), RMB1.6

million (including return of products of approximately RMB0.3 million and RMB1.3 million with respect to the sales of compatible cartridge chips during the years ended 31 December 2017 and 2018 respectively), RMB4.0 million (including return of products of approximately RMB3.7 million and RMB0.3 million with respect to the sales of compatible cartridge chips during the years ended 31 December 2018 and 2019 respectively) and RMB0.6 million (including return of products of approximately RMB0.4 million and RMB0.2 million with respect to the sales of compatible cartridge chips during the year ended 31 December 2019 and 10M2020 respectively) in 2017, 2018, 2019 and 10M2020, respectively. The reason for the relatively large amount of product returns in 2019 was primarily because there had been more product upgrade by the original-brand printer companies during 2018 which had affected certain models of our chips for desktop laser printers. The Directors considered that we have recorded sufficient refunded liabilities to cover product return historically, and do not expect any large scale product return in the foreseeable future.

As regards product exchanges for compatible cartridge chips, we utilized the provision for exchange of products of approximately RMB0.6 million and RMB2.6 million as at 31 December 2017 and 2018 in their respective succeeding year, representing an actual rate of exchange of approximately 0.5% and 2.3% arising from the sales of chips in 2017 and 2018, respectively. After the Track Record Period and up to the Latest Practicable Date, we had not recorded material product exchange for compatible cartridge chips sold in 2019.

2. Product returns and/or product exchanges due to quality issues and defects

We would normally accept product returns and/or exchanges from our customers in case quality issues are identified. During the Track Record Period, only an insignificant amount of product exchanges of approximately RMB800 and RMB39,000 for the years ended 31 December 2017 and 2018 respectively was attributable to quality issues or product defects.

Please refer to the section headed "Business — Quality Control — Product Returns, Exchanges and Warranty" in this prospectus for further details on our product return and exchange policy and accounting treatment. For details of the risks we may be exposed to in connection with product returns and exchanges, please refer to the section headed "Risk Factors — Risks Relating to Our Business and Industry — There may be product returns and exchange due to incompatibility with printer or product quality issue, which may affect our profitability and results of operations" in this prospectus.

COMPETITIVE STRENGTHS

We attribute our success to several principal competitive strengths which will enable us to maintain our position in the market and bolster our future prospects: we have (i) advanced capabilities in research and development with a dedicated focus on the compatible cartridge chip industry; (ii) strong business relationships with customers in the compatible cartridge chip industry; (iii) satisfactory revenue and gross profit margin due to high barrier of entry in the market of compatible cartridge chips; (iv) experienced and highly motivated management team and seasoned shareholders with expertise in sales and marketing, industry knowledge and corporate governance; and (v) a wide range of products of reliable quality.

BUSINESS STRATEGIES

Our principal goal is to maintain and strengthen our position as a leading compatible cartridge chips providers in the PRC. To meet our goal, we intend to implement the following key business strategies: (i) to strengthen our product development capacity and diversify our product portfolio; (ii) to accelerate the development of our hardware design capabilities through acquisition of IC design company; (iii) to increase our presence in the compatible cartridge industry through forward vertical expansion; (iv) to step up our sales and marketing efforts to cater for the expansion of our product offerings; and (v) to improve the functionality of our back office to support our business growth.

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Capitalisation Issue and Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares which may be issued upon exercise of any options granted or may be granted under the Share Option Scheme, GMTL (which is wholly owned by Mr. Cheng) and AGL (which is wholly owned by Mr. Lee) will be interested in approximately 19.99% and 18.26% of the issued share capital of our Company, respectively. By virtue of the Concert Parties Confirmatory Deed, GMTL, Mr. Cheng, AGL and Mr. Lee, being a group of shareholders acting in concert, will together be deemed to be interested in approximately 38.25% of the issued share capital of our Company and will be regarded as our Controlling Shareholders. Please refer to the section headed "Relationship with Controlling Shareholders — Overview" in this prospectus for further details.

OUR PRE-IPO INVESTORS

As at the Latest Practicable Date, we had two pre-IPO investors, namely Mr. Lam and GLC. Mr. Lam and GLC completed their pre-IPO investments by the acquisition of the existing Shares in our Company in October 2016 and December 2017, respectively. As at the Latest Practicable Date, Mr. Lam and GLC were directly interested in 23.00% and 26.00% of the issued share capital of our Company, respectively. Immediately following the completion of the Capitalisation Issue and Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares which may be issued upon exercise of any options granted or may be granted under the Share Option Scheme), Mr. Lam and GLC will be interested in approximately 17.25% and 19.50% of the issued share capital of our Company, respectively. Please refer to the section headed "History, Development and Corporate Structure — Pre-IPO Investments" in this prospectus for further details.

KEY FINANCIAL INFORMATION

Our key financial data set forth below has been derived from the Accountants' Report set out in Appendix I and should be read in conjunction with our financial information included in the Accountants' Report set out in Appendix I of this prospectus including the accompanying notes and the information set forth in the section headed ''Financial Information'' in this prospectus.

Key Information from Consolidated Statements of Profit or Loss

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Revenue	212,775	246,083	157,625	86,290	133,570
Gross profit	94,343	116,003	88,110	37,156	73,046
Profit before income tax expense	78,545	78,138	53,229	8,324	31,466
Profit for the year/period	63,135	62,620	41,313	7,022	25,636
Profit for the year attributable to:					
Owners of the Company	63,448	62,681	41,313	7,022	25,636
Non-controlling interests	(313)	(61)	–	–	–
	63,135	62,620	41,313	7,022	25,636

Non-HKFRS Measures

In order to supplement our consolidated statements of profit or loss and other comprehensive income, which are presented in accordance with HKFRS, we also use adjusted net profit as an additional financial measure, which is not required by, or presented in accordance with HKFRS. We believe that these non-HKFRS measures help identify underlying trends in our business that could otherwise be distorted by the effect of the expenses that we include in income from operations and net profit, and therefore provide useful information to investors and others in understanding and evaluating our results of operation by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance, which is in the same manner as the action of our management when comparing financial results across accounting periods. We also believe that these non-HKFRS measures provide useful information about our operating results, enhance the overall understanding of our past performance and future prospects and allow for greater visibility with respect to key metrics used by our management in its financial and operational decision-making. Please refer to the paragraph headed "Non-HKFRS measures" under the section headed "Financial information" in this prospectus for further details.

The following table sets forth our adjusted net profit in each respective year/period during the Track Record Period:

	Year ended 31 December			Ten months ended 31 October	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit for the year/period	63,135	62,620	41,313	7,022	25,636
Add:					
Listing expenses *(Note 1)*	–	7,261	2,636	2,508	14,519
Adjusted net profit *(Note 2)*	63,135	69,881	43,949	9,530	40,155

Notes:

1. Our expenses incurred for Listing is non-recurring as it is derived from a one-off event.

2. These are calculated based on non-HKFRS measures. We define adjusted net profit as profit for the year/period adjusted by listing expenses.

Key Information from Consolidated Statement of Financial Position

	As at 31 December			As at 31 October
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	6,478	10,575	12,597	12,441
Current assets	161,167	200,866	205,348	184,457
Current liabilities	39,937	51,526	36,450	25,634
Net current assets	121,230	149,340	168,898	158,823
Total assets less current liabilities	127,708	159,915	181,495	171,264
Net assets	122,108	154,817	176,148	170,919
Non-controlling interests	(402)	(463)	–	–

Our net assets decreased from approximately RMB176.1 million as at 31 December 2019 to approximately RMB170.9 million as at 31 October 2020, mainly due to the declaration of final dividend in respect of the year ended 31 December 2019 of RMB29,677,000 during 10M2020.

Key Information from Consolidated Statement of Cash Flow

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Operating profit before working capital changes	77,581	81,027	57,477	11,752	35,048
Net amount of changes in working capital	(12,001)	13,483	(19,074)	4,278	40,916
Income tax paid	(16,055)	(11,857)	(7,587)	(7,180)	(10,644)
Withholding tax paid	(3,319)	(3,621)	(2,591)	(2,581)	(4,038)
Net cash generated from operating activities	46,206	79,032	28,225	6,269	61,282
Net cash used in investing activities	(2,253)	(3,807)	(5,171)	(4,734)	(473)
Net cash used in financing activities	(46,826)	(33,228)	(22,255)	(22,039)	(30,971)
Net (decrease)/increase in cash and cash equivalents	(2,873)	41,997	799	(20,504)	29,838
Cash and cash equivalents at the beginning of the year/period	43,613	38,832	82,800	82,800	84,088
Effect of foreign exchange rate changes	(1,908)	1,971	489	1,107	(1,131)
Cash and cash equivalents at the end of the year/period	38,832	82,800	84,088	63,403	112,795

Key Financial Ratios

	Year ended/As at 31 December			Ten months ended/As at 31 October
	2017	2018	2019	2020
Current ratio	4.0	3.9	5.6	7.2
Quick ratio	3.5	3.4	4.9	6.7
Return on equity	51.7%	40.4%	23.5%	N/A*(Note)*
Return on total assets	37.7%	29.6%	19.0%	N/A*(Note)*
Gross margin	44.3%	47.1%	55.9%	54.7%
Net profit margin	29.7%	25.4%	26.2%	19.2%

Note: The figure for 10M2020 is not meaningful as it is not comparable to the annual figures.

INDUSTRY OUTLOOK

According to the CIC Report, the market size of compatible cartridge chip market is expected to grow steadily in the future from 2021 to 2024. As a result of the mergers and acquisitions activities in the printer industry during 2018 to 2019 and COVID-19 in 2020, the launch of new products is expected to be postponed in 2021. It is expected that the number of new original brand printer and the corresponding compatible cartridge will increase in 2021. According to the CIC Report, the product life cycle of a compatible cartridge chip model in the PRC normally spans over 8 years starting from the launch of a new printer model in the market and the relevant chips will gradually fade out in the market as the production and sales of relevant original brand printers will normally cease within 8 years after its launch. In order for the compatible cartridge providers to remain competitive, market players tend to launch new products proactively. Further, the vicious price competition in 2019 which led to the overall drop in the average price of compatible cartridge chips was mainly due to the limited number of new original brand printer models, the US-China trade war and industry consolidation. As the number of new original brand printer is expected to regain its growth, the trade tension between US and China is expected to ease and the impact of industry consolidation has been accepted by market players, it is expected that such vicious price competition in the compatible cartridge chip market is unlikely occur in the near future.

RECENT DEVELOPMENT AND MATERIAL ADVERSE CHANGE

Updates on Financial Information

The unaudited preliminary financial information as of and for the year ended 31 December 2020 have been agreed with the Reporting Accountants following their review under Practice Note 730 (Revised) "Guidance for Auditors Regarding Preliminary Announcements of Annual Results" issued by the Hong Kong Institute of Certified Public Accountants. Our unaudited preliminary financial information for the year ended 31 December 2020 is set out in Appendix III to this prospectus. Our unaudited net profit for the year ended 31 December 2020 amounted to approximately RMB28.8 million.

Our unaudited net profit for the year ended 31 December 2020 decreased by approximately 30.4% to approximately RMB28.8 million for the year ended 31 December 2020, as compared to our profit for the year ended 31 December 2019 of approximately RMB41.3 million, mainly due to the increase in listing expenses. Our unaudited net profit without taking into account our listing expenses for the two months ended 31 December 2020 decreased to approximately RMB3.2 million, mainly due to (1) the decrease in revenue attributable to (i) the temporary disruption to global transportation, in particular sea freight logistics, as a result of the new wave of COVID-19 outbreak in Europe and the United States during October to December 2020, as a result of which some of our customers were unable to deliver or had to delay the delivery of their products to the overseas end customers, which resulted in the decrease the demand for our chips; and (ii) the decrease in the sales of our chips for desktop inkjet printers to our customers mainly since Listed Group A had significantly reduced its purchases of certain of the Ink Cartridge Chip Models given that the relevant original-brand printer company had initiated certain substantial upgrades of its corresponding printer models which were expected to affect the compatibility of all existing relevant chip models in the market; and (2) the increase in our research and development expenses mainly due to the increase in our staff cost and the increase in administrative expenses mainly due to (i) the increase in our staff cost attributable to the increase of headcount and provision of bonus in December 2020, (ii) the increase in impairment loss on receivables as at 31 December 2020; (iii) the increase in taxation of other surcharge due to VAT adjustment made in December 2020 and (iv) the overall increase in other expenses, such as exchange loss, for the two months ended 31 December 2020.

Impact of the COVID-19 Outbreak on Our Business Operations

An outbreak of the COVID-19 coronavirus has been spreading globally. The outbreak was declared a Global Pandemic by the World Health Organisation on 11 March 2020.

According to the CIC Report, due to the various policies implemented globally to tackle COVID-19, such as closure of school, temporary suspension of business and remote work from home policy, the demand for cartridge has been adversely affected. In the event that the COVID-19 outbreak shall not come to an end in the near future, since our chip is one of the major components of a cartridge, our business operations and results of operations including revenue and profitability may be adversely affected. For further details of the potential impact of the COVID-19 outbreak on our Group, please see the section headed "Risk factors — The outbreak of any severe communicable disease, in particular COVID-19, if uncontrolled, could adversely affect our Group's results of operations." in this prospectus.

Based on the information currently available to us, our Directors are of the view that, our business operation and financial performance were not materially affected by COVID-19. As of the Latest Practicable Date, we understood from our customers that due to the temporary disruption in logistics which has caused delay in delivery, there was a temporary delay in overseas orders for compatible cartridge. Our Directors are of the view that such delay is temporary and the demand for compatible cartridges and chips, as a daily necessity, is sustainable, as the COVID-19 vaccine has been released and the number of order will gradually recover when the pandemic is gradually controlled.

After the Track Record Period and up to the Latest Practicable Date, there was no cancellation of orders from end-customers of compatible cartridge as a result of COVID-19 outbreak. However, due to the disruption in global transportation, the delivery of our products to overseas customers has been delayed by approximately one to two weeks. Other than that, our business relationship with customers and suppliers were not materially affected by the outbreak of COVID-19. Our Directors believe we have not encountered any significant supply chain disruption caused by the outbreaks of COVID-19.

We have implemented prevention and control measures at our offices, industrial workshops and warehouses in the PRC and Taiwan, including, among others, daily disinfection of the common areas, requiring our staff to report their travel history, providing face masks, disinfectant and other sanitising equipment to our staff and temperature scanning of our staff on a daily basis. As at the Latest Practicable Date, there is no confirmed case of COVID-19 among the staff of our Company. Please refer to the section headed "Business — Health, Work Safety, Social and Environmental Matters" in this prospectus for details of prevention and control measures adopted by us.

With the information currently available to our Directors, our Directors believe that the outbreak of COVID-19 shall not have a permanent impact on our Group. Our unaudited net profit for the year ended 31 December 2020 amounted to approximately RMB28.8 million. In addition, our gross profit margin remained relatively stable for the year ended 31 December 2020, as compared with that for the year ended 31 December 2019. Hypothetically and in the worst scenario, should our operation and sale be fully suspended due to unexpected situation arising from or in connection with the prolonged outbreak of COVID-19, and assuming that (i) no revenue is generated from sales of our products; (ii) the historical settlement pattern of payment for trade and bill receivables; and (iii) payments for accounts and other payables, administrative and other operating expenses and taxation remain the same, in view of the cash and cash equivalents of RMB120.5 million as of 31 January 2021, and based on the estimated average monthly expenses of no more than approximately RMB4.5 million per month which is estimated with reference to the historical operating expenses of our Group, including staff costs, administrative and other operating expenses, and the expected level of increment during the period of prolonged suspension, our Directors are of the view that the Company can remain financial viable for at least two years after the Listing taking into account 10% of the net proceeds from the Global Offering (approximately HK$9.5 million) which will be used for general working capital (assuming the Offer Price is set at the low-end of the Offer Price range). Our analysis above regarding the impacts of COVID-19 on our Group's operations as discussed above is based on the latest information currently available to our Directors as at the Latest Practicable Date, subject to the development of the outbreak of COVID-19 globally. Our Directors will continue to assess the impact of the COVID-19 on our Group's Operation and financial performance and closely monitor our Group's exposure to the risks and uncertainties in connection with the epidemic. We will take appropriate measures as necessary and inform our Shareholders and potential investors as and when necessary. Please refer to the section headed "Financial Information — Recent Development and No Material Adverse Change" in this prospectus for further details of the impact of COVID-19 on the business operation and financial performance of our Group and our contingency plan.

DIVIDENDS AND DIVIDEND POLICY

On 1 June 2017, 27 April 2018, 12 April 2019 and 6 April 2020, our Company paid a final dividend of RMB29,237,000, RMB31,762,000, RMB20,907,000 and RMB29,677,000 in aggregate to its then Shareholders in respect of the years ended 31 December 2016, 2017, 2018 and 2019 respectively. Following completion of the Global Offering, we may distribute dividends by way of cash or by other means that our Directors consider appropriate. We currently target to distribute to our Shareholders dividends not less than 40% of our Group's net profit for the year attributable to equity shareholders of our Company in each financial year, commencing from the financial year ending 31 December 2021. A decision to distribute any interim dividend or recommend any final dividend would require the approval of our Board and will be at its discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. Our Board will review our Company's dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid, namely (i) our financial results; (ii) our Shareholders' interest; (iii) general business conditions, strategies and future expansion needs, (iv) our Group's capital requirements, (v) the payment by its subsidiaries of cash dividends to our Company, (vi) possible effects on liquidity and financial position of our Group and (vii) other factors our Board may deem relevant. Our historical declarations of dividends may not reflect our future declarations of dividends.

GLOBAL OFFERING STATISTICS

	Based on the minimum Offer Price of HK$1.04 per Offer Share, after Downward Offer Price Adjustment of up to 10%	Based on an Offer Price of HK$1.15 per Offer Share	Based on an Offer Price of HK$1.35 per Offer Share
Market capitalisation (Note 1) (HK$)	520 million	575 million	675 million
Unaudited pro forma adjusted net tangible assets per Share (Note 2) (HK$)	0.62	0.65	0.70

Notes:

(1) The calculation of market capitalisation is based on 500,000,000 Shares expected to be in issue immediately upon completion of the Global Offering and the Capitalisation Issue (without taking into account any Share which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme).

(2) The unaudited pro forma adjusted net tangible assets per Share are calculated after making the adjustments referred to in "Unaudited Pro Forma Financial Information" in Appendix II of this prospectus and on the basis of 500,000,000 Shares expected to be in issue immediately upon completion of the Global Offering and the Capitalisation Issue (without taking into account any Share which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme).

LISTING EXPENSES

Assuming the Over-allotment Option is not exercised, the listing expenses in connection with the Listing, which include professional fees, underwriting commission and fees, assuming an Offer Price of HK$1.25 per Offer Share, being the mid-point of the proposed Offer Price range, are estimated to be RMB40.7 million, which are estimated to be approximately 31.3% of the gross proceeds from the Global Offering. During the Track Record Period, we incurred listing expenses of approximately RMB31.8 million, of which approximately RMB7.3 million, RMB2.6 million and RMB14.5 million was recognised in the consolidated statements of profit and loss and other comprehensive income for the years ended 31 December 2018 and 2019 and 10M2020, respectively, and approximately RMB7.4 million was recognised as prepayments in the consolidated statement of financial position as at 31 October 2020, which will be accounted for as a deduction from equity upon Listing. Subsequent to the Track Record Period, we expect to further incur listing expenses of RMB8.9 million prior to and upon completion of the Listing, of which (i) RMB0.7 million is expected to be recognised as expenses in our consolidated statement of profit and loss and other comprehensive income for the year ended 31 December 2020 and for the year ending 31 December 2021; and (ii) RMB8.2 million is expected to be accounted for as a deduction from equity upon Listing under the relevant accounting standard.

Our Directors would like to emphasise that the listing expenses stated above are the current estimation for reference purpose and the actual amount to be recognised is subject to adjustments based on audit and the then changes in variables and assumptions. Prospective investors should note that the financial performance of our Group for the year ended 31 December 2020 would be materially and adversely affected by the listing expenses mentioned above.

USE OF PROCEEDS

Assuming an Offer Price of HK$1.25 per Offer Share, being the mid-point of the Offer Price range between HK$1.15 and HK$1.35 and assuming the Over-allotment Option is not exercised, we estimate to receive net proceeds from the Global Offering of approximately HK$107.4 million, after deducting the underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering. We intend to use the net proceeds from the Global Offering as follows:

Use of proceeds	% of net proceeds (approximately)	HKD million (approximately)
Strengthen our product development capacity and diversify our product portfolio	**51.4%**	**55.3**
• Development of the software component	7.6%	8.2
• Development of the hardware component	41.3%	44.4
• Acquisition from the market of new models of original-brand printers	2.5%	2.7
Accelerating the development of our hardware design capabilities through acquisition of IC design company	**16.8%**	**18.0**
Increase our presence in the compatible cartridge industry through forward vertical expansion	**16.8%**	**18.0**
Step up our sales and marketing efforts to cater for the expansion of our product offerings	**2.5%**	**2.7**
• Increasing budget of marketing activities, in particular participating in industry fairs and exhibitions in the PRC and at international level	1.7%	1.8
• Employing additional members of sales and marketing staff	0.8%	0.9
Improve the functionality of our back office to support our business growth	**2.5%**	**2.7**
• Employing additional members of legal and compliance staff	1.3%	1.4
• Upgrading and maintaining our enterprise resource planning (ERP) system to facilitate the implementation of our expansion strategy and to optimise our operational efficiency	1.3%	1.3
General working capital	**10.0%**	**10.7**

Please refer to the section headed "Future plans and use of proceeds — Use of proceeds" in this prospectus for further details.

RISK FACTORS

There are certain risks involved in our operations which may be beyond our control. These risks are further described in the section headed ''Risk Factors''. You should read the entire section carefully before deciding whether to invest in the Offer Shares. Major risks we face include (i) our business, results of operations, financial conditions and business sustainability could be affected if we fail to develop new products or enhance our products; (ii) we face significant competition in our business and our profitability and prospects for future growth depend on our ability to compete effectively with the other competitors; (iii) our business could be materially and adversely affected if we are unable to maintain our business relationship with our largest customer for the year ended 31 December 2019 and 10M2020, which is our competitor and whose demand may decline with the improvement of its research and development capabilities; (iv) our performance can be significantly affected by the popularity and sales of a limited number of models of chips; (v) the prospect of our business may be undermined in the long run by the digitalisation of documentation and information and the advent of paperless workplace due to technological advancement and environmental protection; (vi) selling price of our products may fluctuate as our pricing strategy is closely associated with the life cycle of products and market competition in the compatible cartridge chip market; and (vii) our business, result of operations and financial conditions may be affected by the market competition in the compatible cartridge chip market.

Unless the context otherwise requires, the following expressions have the following meanings in this prospectus:

"AGL"	ARISTA GLOBAL LTD., an international business company incorporated in Belize on 19 December 2014 and wholly owned by Mr. Lee, and one of our Controlling Shareholders
"Application Form(s)"	**WHITE** Application Form(s), **YELLOW** Application Form(s) and **GREEN** Application Form(s) or where the context so requires, any of them, relating to the Hong Kong Public Offering
"Articles" or "Articles of Association"	the articles of association of our Company conditionally adopted on 26 February 2021 and effective on the Listing Date, a summary of which is set out in Appendix IV in this prospectus, as amended from time to time
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Audit Committee"	the audit committee of our Board
"Banking Ordinance"	the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Board"	the board of Directors
"business day(s)"	a day on which banks in Hong Kong are generally open for normal banking business and which is not a Saturday, Sunday or public holiday in Hong Kong
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"Capitalisation Issue"	the allotment and issue of 374,990,000 new Shares to be made upon the capitalisation of a certain amount standing to the credit of the share premium account of our Company referred to in the section headed "Appendix V — Statutory and General Information — Further Information about Our Group — 3. Written Resolutions of our Shareholders Passed on 26 February 2021" in this prospectus
"Cayman Islands Companies Act" or "Companies Act"	the Companies Act Cap. 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant

"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person or persons admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"China" or "PRC"	the People's Republic of China and, for the sole purpose of this prospectus, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"CIC"	China Insights Industry Consultancy Limited, an independent industry consultant commissioned by us to prepare the CIC Report
"CIC Report"	the independent market research report prepared by CIC for the purpose of the Listing
"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Companies (WUMP) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company" or "our Company"	MEGAIN Holding (Cayman) Co., Ltd. (美佳音控股有限公司*), an exempted company incorporated in the Cayman Islands with limited liability on 22 June 2016, which is the holding company of our Group and the listing vehicle for the Listing, and the Shares of which are to be listed on the Main Board
"Concert Parties Confirmatory Deed"	the confirmatory deed dated 4 January 2019 and entered into by Mr. Cheng and Mr. Lee, our Controlling Shareholders, to acknowledge and confirm, among other things, that they are parties acting in concert in relation to our Group, the details of which are set out in the section headed "History, Development and Corporate Structure — Parties Acting in Concert" in this prospectus
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and, in the context of our Company, means Mr. Cheng, Mr. Lee, GMTL and AGL

"core connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Corporate Governance Code"	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
"COVID-19"	the Coronavirus Disease 2019
"Deed of Indemnity"	the deed of indemnity dated 26 February 2021 executed by our Controlling Shareholders in favour of our Company, the details of which are set forth in the section headed "Appendix V — Statutory and General Information — Other Information — 15. Tax, Estate Duty and Other Indemnity" in this prospectus
"Deed of Non-competition"	the deed of non-competition undertakings dated 26 February 2021 executed by our Controlling Shareholders in favour of our Company, the particulars of which are set out in the section headed "Relationship with Controlling Shareholders — Deed of Non-competition" in this prospectus
"Director(s)"	the director(s) of our Company
"Downward Offer Price Adjustment"	an adjustment that has the effect of setting the final Offer Price up to 10% below HK$1.15 (the bottom end of the indicative Offer Price range)
"ECLs"	expected credit loss
"EIT Law"	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) which took effect on 1 January 2008, as amended and supplemented from time to time
"Executive Director(s)"	the executive director(s) of our Company
"Extreme Conditions"	extreme conditions caused by a super typhoon as announced by the Government of Hong Kong
"GLC"	GOOD LOYAL CORPORATION (忠好有限公司), a company incorporated in the BVI with limited liability on 7 July 2017 and wholly owned by Mr. Yu, and a substantial shareholder of our Company
"Global Offering"	the Hong Kong Public Offering and the International Offering
"GMTL"	GLOBAL MEGAIN TECHNOLOGY PTE. LTD., an international business company incorporated in Belize on 23 December 2014 and wholly owned by Mr. Cheng, and one of our Controlling Shareholders
"**GREEN** Application Form(s)"	the application form(s) to be completed by the **HK eIPO White Form** Service Provider

"Group", "our Group", "we" or "us"	our Company and its subsidiaries, or where the context so requires, "we" or "our" or "us" in respect of the period before our Company became the holding company of its present subsidiaries, the present subsidiaries of our Company or the businesses operated by its present subsidiaries or (as the case may be) their predecessors
"HK$", "HKD" or "Hong Kong Dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"HKSCC Nominees"	HKSCC Nominees Limited
"Hong Kong" or "HKSAR"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Branch Share Registrar"	Tricor Investor Services Limited
"Hong Kong Offer Shares"	the 12,500,000 new Shares initially being offered by our Company for subscription under the Hong Kong Public Offering, representing 10% of the initial number of the Offer Shares, subject to any adjustment or re-allocation as described in the section headed "Structure of the Global Offering" in this prospectus
"Hong Kong Public Offering"	the offer by our Company of the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) and subject to the terms and conditions described in this prospectus and the Application Forms
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering listed in the section headed "Underwriting — Hong Kong Underwriters" in this prospectus
"IPO App"	the mobile application for **HK eIPO White Form** service which can be downloaded by searching "**IPO App**" in App Store or Google Play or downloaded at **www.hkeipo.hk/IPOApp** or **www.tricorglobal.com/IPOApp**
"Hong Kong Underwriting Agreement"	the underwriting agreement dated 17 March 2021 relating to the Hong Kong Public Offering entered into between, amongst others, our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters, the particulars of which are set forth in the section headed "Underwriting" in this prospectus

"Independent Non-executive Director(s)"	independent non-executive director(s) of our Company
"Independent Third Party(ies)"	person(s) or company(ies) which is(are) not connected person(s) of our Company
"Ink Cartridge Chip Models"	a number of models of compatible ink cartridge chips launched by us in 2019, mostly in the second or third quarter, which possess advanced quality, functionality and upward compatibility and are designed for compatible ink cartridge models having high popularity and demand in the market, with very limited number of competitors having then launched comparable chip models
"International Offer Shares"	the 112,500,000 new Shares initially being offered by our Company for subscription under the International Offering, representing 90% of the initial number of the Offer Shares, subject to any adjustment or re-allocation, and together, where relevant, with any additional Shares that may be issued pursuant to the exercise of the Over-allotment Option as further described in the section headed "Structure of the Global Offering" in this prospectus
"International Offering"	the conditional placing of the International Offer Shares by the International Underwriters for and on behalf of our Company to professional, institutional and other investors at the Offer Price outside of the United State in offshore transactions in reliance on Regulation S, as further described in the section headed "Structure of the Global Offering" in this prospectus
"International Underwriters"	the underwriters of the International Offering who are expected to enter into the International Underwriting Agreement to underwrite the International Offering
"International Underwriting Agreement"	the underwriting agreement relating to the International Offering, which is expected to be entered into on or before the Price Determination Date by, among others, our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Sole Global Coordinator and the International Underwriters
"Issuing Mandate"	the general unconditional mandate given to our Directors by our Shareholders relating to the issue of Shares, as further described in the section headed "Appendix V — Statutory and General Information — Further Information about Our Group — 3. Written Resolutions of our Shareholders Passed on 26 February 2021" in this prospectus

"Latest Practicable Date"	9 March 2021, being the latest practicable date for ascertaining certain information referred to in this prospectus prior to its publication
"Listed Group A"	collectively, Customer H, a company established under the laws of the PRC which is an Independent Third Party and whose shares are listed on the Shenzhen Stock Exchange, and its subsidiaries (including Customer I, Customer J and Supplier A)
"Listed Group B"	collectively, the holding company of Supplier B, a company established under the laws of the PRC which is an Independent Third Party and whose shares are listed on the Shenzhen Stock Exchange, and its subsidiaries
"Listing"	the listing of the Shares on the Main Board
"Listing Date"	the date, expected to be on or around 31 March 2021, on which our Shares are listed and dealings in the Shares first commence on the Main Board
"Listing Division"	the Listing Division of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, modified or supplemented from time to time
"Main Board"	the Main Board of the Stock Exchange
"Megain Group (HK)"	MEGAIN GROUP (HK) LIMITED (香港美佳印科技股份有限公司), a company incorporated in Hong Kong with limited liability on 22 July 2015 and a direct wholly-owned subsidiary of our Company
"Megain Holding (BVI)"	MEGAIN HOLDING (BVI) PTE, LTD., a company incorporated in the BVI with limited liability on 30 July 2015 and an indirect wholly-owned subsidiary of our Company
"Megain International"	MEGAIN INTERNATIONAL (HK) Limited (香港美佳印國際有限公司), a company incorporated in Hong Kong with limited liability on 14 July 2016 and an indirect wholly-owned subsidiary of our Company
"Memorandum" or "Memorandum of Association"	the memorandum of association of our Company adopted on 26 February 2021, as supplemented, amended or otherwise modified from time to time
"Mr. Cheng"	Mr. Cheng Hsien-Wei (鄭憲徽), an Executive Director, the chairman of our Board and one of our Controlling Shareholders

"Mr. Lam"	Mr. Lam Tsz Leung (林子良), a Non-executive Director and a substantial shareholder of our Company
"Mr. Lee"	Mr. Lee Kuo-Chang (李國彰), an Executive Director and one of our Controlling Shareholders
"Mr. Yu"	Mr. Yu Yiding (余一丁), a substantial shareholder of our Company
"Non-executive Director(s)"	non-executive director(s) of our Company
"Nomination Committee"	the nomination committee of our Board
"Offer Price"	the final offer price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK$1.35 per Offer Share and is expected to be not less than HK$1.15 per Offer Share (subject to any Downward Offer Price adjustment), to be agreed by us and the Sole Global Coordinator (acting for itself and on behalf of the Underwriters) on or before the Price Determination Date
"Offer Share(s)"	the Hong Kong Offer Shares and the International Offer Shares together, where relevant, with any additional Shares to be issued pursuant to the exercise of the Over-allotment Option
"Over-allotment Option"	the option expected to be granted by our Company to the International Underwriters, exercisable by the Sole Global Coordinator on behalf of the International Underwriters pursuant to the International Underwriting Agreement at any time within the period commencing on the Listing Date and ending on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 18,750,000 additional new Shares (representing 15% of the initial number of the Offer Shares) to cover over-allocations in the International Offering, if any, as further described in the section headed "Structure of the Global Offering" in this prospectus
"PRC Legal Advisers"	King & Wood Mallesons, our legal advisers as to PRC law
"Price Determination Agreement"	the agreement to be entered into between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or about the Price Determination Date to record and fix the Offer Price

"Price Determination Date"	the date, expected to be on or about Tuesday, 23 March 2021, on which the Offer Price will be determined and, in any event, no later than Wednesday, 24 March 2021
"Regulation S"	Regulation S under the U.S. Securities Act
"Remuneration Committee"	the remuneration committee of our Board
"Repurchase Mandate"	the general unconditional mandate given to our Directors by our Shareholders relating to the repurchase of Shares, as further described in the section headed "Appendix V — Statutory and General Information — Further Information about Our Group — 3. Written Resolutions of our Shareholders Passed on 26 February 2021" in this prospectus
"RMB"	Renminbi, the lawful currency of the PRC
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局) or its counterpart
"Securities and Futures (Price Stabilizing) Rules"	the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) with a par value of HK$0.01 each in the share capital of our Company
"Share Option Scheme"	the share option scheme conditionally adopted by our Company on 26 February 2021, the principal terms of which are summarised in the section headed "Appendix V — Statutory and General Information — Other Information — 14. Share Option Scheme" in this prospectus
"Shareholder(s)"	holder(s) of the Share(s)
"Sole Global Coordinator"	CMBC Securities Company Limited, a corporation licenced to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO
"Sole Sponsor"	CMBC International Capital Limited, a corporation licenced to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

"Stabilising Manager"	CMBC Securities Company Limited
"Stock Borrowing Agreement"	the stock borrowing agreement expected to be entered into between GMTL and the Stabilising Manager on or about the Price Determination Date
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules, unless the context otherwise requires
"substantial shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Taiwan Legal Advisers"	Formosa Transnational Attorneys at Law, our legal advisers as to Taiwan law
"Takeovers Code"	The Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
"Track Record Period"	the period comprising the three years ended 31 December 2019 and 10M2020
"U.S. Securities Act"	the United States Securities Act of 1933 (as amended from time to time)
"Underwriters"	the International Underwriters and the Hong Kong Underwriters
"Underwriting Agreements"	the International Underwriting Agreement and the Hong Kong Underwriting Agreement
"United States", "U.S." or "US"	the United States of America
"US$", "USD" or "US dollar(s)"	United States dollars, the lawful currency of the United States
"**WHITE** Application Form(s)"	the application form(s) for use by the public who require the Hong Kong Offer Shares to be issued in the applicant's or applicants' own name(s)
"Withdrawal Mechanism"	a mechanism which requires our Company, among other things, to (i) issue a supplemental prospectus as a result of material changes in the information (such as the Offer Price) in this prospectus; and (ii) extend the offer period and to allow potential investors, if they so desire, to confirm their applications using an opt-in approach (i.e. requiring investors to positively confirm their applications for Shares despite the changes)

"**HK eIPO White Form**"	the application for the Hong Kong Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of the **HK eIPO White Form** Service Provider, at **www.hkeipo.hk** or IPO App
"**HK eIPO White Form** Service Provider"	the **HK eIPO White Form** Service provider as designated by our Company as specified in the designated website at **www.hkeipo.hk** or the IPO App
"**YELLOW** Application Form(s)"	the application form(s) for use by the public who require the Hong Kong Offer Shares to be deposited directly into CCASS
"Zhuhai Megain"	Zhuhai Megain Technology Co., Ltd.* (珠海美佳音科技有限公司), a company incorporated in the PRC with limited liability on 13 September 2010 and an indirect wholly-owned subsidiary of our Company
"4Q2019"	the three months ended 31 December 2019
"10M2019"	the ten months ended 31 October 2019
"10M2020"	the ten months ended 31 October 2020
"%"	per cent

Unless expressly stated or otherwise required by the context, all data are as at the Latest Practicable Date.

The English names of the Chinese nationals, companies, entities, departments, facilities, certificates, titles and the like are translation of their Chinese names and are included in this prospectus for identification purpose only and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.

* *for identification purpose only*

This glossary contains explanations of certain terms, definitions and abbreviations used in this prospectus in connection with our Group and our business. The terms and their meanings may not correspond to standard industry meaning or usage of those terms.

"ASIC"	application-specific integrated circuit, a programmable IC customised for a particular application rather than standardised IC for general-purpose use
"BOM"	bill of materials
"cartridges"	printer cartridges, including ink cartridges and toner cartridges
"cartridge chips"	PCBA with firmware installed, the principal functions of which include facilitating communication between a cartridge and the printer in which it is installed and monitoring cartridge usage
"communication protocols"	a system of rules including data formats, necessary information contained in a single message, connection methods, transmission timing and reception timing rules, etc., which will be observed by both sides of communication, to ensure that the data is transmitted accurately to the designated place
"compatible cartridges"	cartridges designed and manufactured by third-party cartridge manufacturers, instead of the printer companies, which are compatible for a single or multiple original-brand printer models
"compatible cartridge chips"	cartridge chips designed and manufactured by third-party cartridge chip design companies and manufacturers, instead of the printer companies, which are a core component of compatible cartridges compatible for a single or multiple original-brand printer models
"external electronic circuit"	external circuit connected to a PCBA through the input and output ports of such PCBA
"firmware"	a specific software that perform as the operating system of compatible cartridge chips and controls, monitors and stores the data and functions of the compatible cartridge chips
"HTS code"	HTS code stands for Harmonized Tariff Schedule code, the code is used to classify and define internationally traded goods

"IC"	integrated circuit, a set of electronic circuits where all the elements of the circuit are integrated together on a single semiconductor chipset
"independent compatible cartridge chip providers"	compatible cartridge providers which only engage in production of compatible cartridge chips
"ink cartridges"	consumables for use in inkjet printers, which are composed of chips, ink and printheads
"integrated compatible cartridge providers"	compatible cartridge providers which engage in production of PCBAs, compatible cartridge chips and compatible cartridges
"IoT"	Internet of Things being a system of interrelated computing devices, mechanical and digital machines, objects and people with the ability to transfer data over a network; the system includes physical devices, vehicles, home appliances and other items embedded with electronics, software, sensors and actuators, which enable these objects to connect, collect and exchange data through various communication protocols
"ISO"	an acronym for a series of quality management and quality assurance standards published by International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
"ISO 9001"	ISO 9001 is an internationally recognised standard for a quality management system. It aims at the effectiveness of the quality management system in meeting customer requirements. It prescribes requirements for ongoing improvement of quality assurance in design, development, production, installation and servicing
"IT"	information technology
"Latent Procedures"	the latent checking and verification procedures embedded (i.e. built in but not yet in use) in the firmware of an original-brand printer model
"MCU"	micro controller unit, a small computer on a single IC containing a processor core, memory and programmable input and output peripherals, which is designated for embedded applications and is frequently used in automatically controlled devices

"PCB"	printed circuit board, a supporting board for electronic components, on which metal conductors connect the electronic components to form an electrical circuit
"PCBA"	printed circuit board assembly, a chip set with IC, PCB and other components assembled with no firmware installed
"programming language"	standardised communication rules that are used to give instructions to computers and can be used by programmers to define accurately the data required by computers, and to direct accurately the behaviour of computers under different circumstances
"SoC"	system on chip, a programmable IC that encompasses a processor core(s) such as MCU, random-access memory (RAM) and read-only memory (ROM), which is widely used across different industries and for various applications
"time to market"	the lapse of time between the launch of a new printer model and the cartridges that go with it by a printer company and the introduction of a compatible cartridge chip designed for compatible cartridges for use in that particular printer model, typically being the amount of time it takes for a compatible cartridge chip provider to design and manufacture a new compatible cartridge chip product before it is available in the market
"toner cartridges"	consumables for use in laser printers, which are composed of chips, toner and rollers and drums
"upward compatibility"	the feature of a compatible cartridge chip or its component or part that allows it to remain compatible with the corresponding original-brand printer model(s) subsequently upgraded or modified or with the printers under such model(s) produced in the future
"USITC"	United States International Trade Commission, it is an U.S. federal agency responsible for: (i) investigate and make determinations in proceeding involving imports claimed to injure a U.S. domestic industry or violate U.S. intellectual property rights; (ii) provide independent analysis and information on tariffs, trade and competitiveness; and (iii) maintain the U.S. tariff schedule

This prospectus contains, and the documents incorporated by reference herein may contain, forward-looking statements representing our goals, belief, expectations or intentions for the future, and actual results or outcomes may differ materially from those expressed or implied. Such forward-looking statements are subject to certain risks, uncertainties and assumptions. Forward-looking statements typically can be identified by the use of words such as “aim”, “anticipate”, “believe”, “continue”, “could”, “estimate”, “expect”, “forecast”, “intend”, “may”, “ought to”, “plan”, “potential”, “project”, “seek”, “should”, “will”, “would” and other similar terms. Even though these statements have been made by our Directors after due and careful consideration and on bases and assumptions fair and reasonable at the time, they nevertheless involve known and unknown risks, uncertainties and other factors which may cause our Company’s actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

These forward-looking statements include, but not limited to, statements relating to:

- our business and operating strategies and the various measures we use to implement such strategies;
- our dividend distribution plans;
- our planned use of proceeds;
- our operations, business and financial prospects, including development plans for our business and future cashflows;
- our capital commitment plans;
- our future debt levels and capital needs;
- the future developments and competitive environment of the industry and markets in which we operate;
- the regulatory environment as well as the general industry outlook for the industry which we operate in;
- relationships with parties we contract and collaborate with to conduct our business;
- risks identified under the section headed “Risk factors” in this prospectus;
- general economic trends; and
- other statements in this prospectus that are not historical facts.

The words "aim", "anticipate", "believe", "continue", "could", "estimate", "expect", "forecast", "intend", "may", "ought to", "plan", "potential", "project", "seek", "should", "will", "would" and other similar expressions, as they relate to us (other than in relation to our profits, results of operations and earnings), are intended to identify a number of these forward-looking statements. Such statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Please refer to the sections headed "Risk Factors", "Business" and "Financial Information" in this prospectus for more details.

Should one or more of these risks or uncertainties materialise, or should the underlying assumptions prove to be incorrect, our financial condition may be adversely affected and may vary materially from the goals we have expressed or implied in these forward-looking statements. Since we operate in an evolving environment where new risks and uncertainties may emerge from time to time, you should not rely upon forward-looking statements as predictions of future events.

Except as required by applicable laws and regulations, including the Listing Rules, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should not place undue reliance on any forward-looking information.

In this prospectus, statements of or references to our intentions or those of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

Potential investors should carefully consider all the information set out in this prospectus and, in particular, should consider the following risks and special considerations in connection with an investment in our Company before making any investment decision in relation to our Company. The occurrence of any of the following events may have a material adverse effect on our business, results of operations, financial conditions and prospects. The trading price of the Shares could decline due to any of these risks.

We believe that there are certain risks and uncertainties involved in our business operations, some of which are beyond our control, that may materially and adversely affect our Group's business, financial conditions and results of operations. We have categorised these risks into: (i) risks relating to our business and the industry, (ii) risk relating to conducting business in the PRC, (iii) risk relating to the Global Offering and our Shares, and (iv) risk relating to the statements made in this prospectus. These risks are summarised as follows:

RISKS RELATING TO OUR BUSINESS AND THE INDUSTRY

Our business, results of operations, financial conditions and business sustainability could be affected if we fail to develop new products or enhance our products.

The market for our products is characterised by continuous technological developments and innovation to provide better product performance and to address the increasingly diverse market needs. As a result, our future growth and prospects are dependent on our ability to introduce new products or to enhance our existing products to meet the requirements of our existing or potential customers. We conduct research and development activities through our research and development department. However, new product development or enhancement is a complex, uncertain and time-consuming process which requires considerable human resources and capital investments. It may not necessarily result in the successful development of any new products or enhancement of our existing products either. We may not be able to develop not less than 1,800 models of chips (including not less than 1,100 models of toner cartridge chips and not less than 700 models of ink cartridge chips, including the development of not less than 600 new models (of which approximately 80% are ink cartridge chip models and the remaining are toner cartridge chip models) and the upgrade of over 1,200 existing models using ICs to be designed and developed by us (of which approximately 80% are toner cartridge chip models and the remaining are ink cartridge chip models)) for the three years ending 31 December 2023 as planned. Please refer to the section headed "Business — Business Strategies — Strengthen Our Product Development Capacity and Diversify Our Product Portfolio" for further details. In particular, our sales of the Ink Cartridge Chip Models which were launched in 2019 contributed significantly to our total revenue. Such chip models accounted for approximately 39.2% of our total revenue for the year ended 31 December 2019 and approximately 33.4% of our total revenue for 10M2020. If we fail to develop new cartridge chip models that are sought-after in the market in the future, our revenue may drop significantly, thus adversely affecting our results of operations, financial conditions and business sustainability. Further, we may not be able to recover the related costs of such research and development activities, consequently materially and adversely affecting our conditions and results of operations.

Even if we successfully develop and launch a new product or enhance an existing product, we cannot assure you that such new product or enhancement will be well received by our existing customers or by the market. Factors such as the product's advantages and disadvantages as compared to competitors' products, the product's cost-effectiveness, the compatibility of the new product with existing technology and the prevailing economic conditions may affect the commercial viability of such new product. The level of economic benefit that can be derived from the introduction of a new product or the enhancement of an existing product is also uncertain as it may be affected by the ability and promptness of our competitors to replicate such technologies. Any inability to meet requirements of our existing or potential customers or to anticipate technological or product development trends may adversely affect our business, results of operations and financial conditions.

Our design and development for a new product normally took six to 18 months. We cannot assure you that the research and development process will not be prolonged for various reasons including unexpected technological developments and shortage of manpower. Delays in any part of the research and development process may adversely affect our business, results of operations and financial conditions, which, as a result, may have a negative impact on our current market share and position.

Furthermore, over the past few years, compatible cartridge chip providers have been upgrading their design and manufacturing technologies of the compatible cartridge chips in order to outperform the other market players. If our research and development staff fail to keep abreast of the design and manufacturing technologies required for IC products, our business, results of operations and financial conditions may be affected.

We face significant competition in our business and our profitability and prospects for future growth depend on our ability to compete effectively with the other competitors.

According to CIC Report, we were ranked second with a market share of approximately 11.1% in terms of external sales in the PRC compatible cartridge chip market in 2019. However, there are a number of well-established competitors with substantial financial, technical, manufacturing and other resources in the markets in which we operate. Additional competitors may enter the industry of compatible cartridge chips in the future and less competitive companies in the market are likely to be gradually eliminated.

In the segment of compatible cartridge chips, it is critical to launch our products sooner than our competitors, in order to enjoy the first-to-market advantage. According to the CIC Report, the selling price of a new model of compatible cartridge chip depends largely on how quickly the product is introduced to the market after the launch of the corresponding printer model. Those who succeeded in being the first to launch a new product in the market can enjoy a higher selling price with desired profit margin and larger market share. With the fiercer competition along the product life cycle, the average price of compatible cartridge chips will be driven down, leading to a lower profit margin. If we fail to outspeed other market players in terms of introducing new products to the market, our financial and business performance may be adversely affected.

Our major competitors are listed companies on the stock exchanges in the PRC. They may have a competitive edge with respect to, among others, manufacturing costs due to their economies of scale, brand recognition, relationships with our potential business partners, and knowledge of our target markets. Such companies may be able to adapt more quickly to market changes, technological development or customer demand or respond better to market opportunities. Our failure to compete effectively by adapting to the changing market conditions may have an adverse impact on our business and financial position, and we cannot assure you that we will be able to maintain our current market position in the market of compatible cartridge chips in the PRC.

Furthermore, we compete by enhancing our portfolio of advanced, differentiated process technologies with consistent effort and developing new derivative technologies for compatible cartridge chips. In particular, the advanced functionality, quality and upward compatibility of our products, which is recognised by our customers, is one of the contributing factors to the sales of our products. We cannot assure you that we will continue to be a technology leader in the applications of compatible printer consumables in the future. If and when our competitors develop comparable products with functionality, quality and upward compatibility similar to or even better than that of our products, such models of our products may lose their competitive advantage in the market, resulting in fierce competition, pressure on unit selling prices and/or drop in sales volume, and our sales attributable to such models of products may decrease. As a result, our business, results of operations and financial conditions may be adversely affected. Additionally, the compatible cartridge chips industry and its technologies are constantly changing as the original-brand printer companies are coming up with more complex designs in order to increase the technical barrier. If we do not anticipate these changes in a timely manner and rapidly develop enhanced, new and innovative technologies, or obtain access to advanced technologies or processes that meet the demands of our customers, or if our competitors gain sudden access to additional technologies, we may not be able to provide foundry services on competitive terms.

Our business could be materially and adversely affected if we are unable to maintain our business relationship with our largest customer for the year ended 31 December 2019 and 10M2020, which is our competitor and whose demand may decline with the improvement of its research and development capabilities.

For the year ended 31 December 2018, Listed Group A was the fourth largest customer of our group, accounting for approximately 7.1% of our total revenue. Our sales to Listed Group A had drastically increase afterwards, for the year ended 31 December 2019 and 10M2020, sales to Listed Group A, which had then became our largest customer, accounted for approximately 38.3% and 34.1% of our total revenue respectively. Customer H, being the holding company of the Listed Group A, is an A-share listed company and the largest compatible cartridge manufacturer and the largest compatible cartridge chip provider in China with a market share of more than 40% for compatible cartridges and 41.5% for compatible cartridge chips in terms of external sales in 2019. Listed Group A contributes substantially to the total revenue of our Group. However, since it is also a competitor of our Group which produces similar products of different qualities, the demand for our products from Listed Group A is subject to its research and development capabilities. We cannot guarantee that the stable demand from Listed Group A for our products can be maintained. If we are unable to maintain or improve the quality of our products or Listed Group A is able to develop products which are comparable to our products in terms of cost and quality, the demand from Listed Group A for our products may decline, which could adversely affect our business and results of operations. In addition, the high degree of customer concentration may result in volatile profitability of our Group if we are unable to maintain our business relationship with Listed Group A.

Our performance can be significantly affected by the popularity and sales of a limited number of models of chips.

During each of the three years ended 31 December 2019 and 10M2020, we generated our revenue from the sales of 2,542, 3,306, 3,222 and 3,415 models of compatible cartridge chips, respectively. Unit price of our chips, and therefore the gross profit from the sales thereof, may vary significantly from model to model given the differences in the degrees of technical complexity involved for different models of chips, and the difference in the popularity of, and demand for, the corresponding printer models and cartridges. Besides, while a model of chip is first introduced to the market, the first-to-market player can generally charge a higher price and enjoy a higher profit margin for its product due to lack of substitute products in the market, but the market price can go down significantly, and competitors may launch products with similar functions and features in view of the large demand and profitability.

In particular, we have launched certain models of compatible ink cartridge chips in second or third quarter of 2019, which carried higher average selling price and higher gross profit margin. These products, comprising a total number of 96 chip models and having an average unit selling price of RMB14.4 and RMB10.8 in 2019 and 10M2020, respectively and enjoyed gross profit margin of over 80.0% and 73.3% during the corresponding year/period, were well-received by our customers and had significant contribution to our Group's revenue during the year ended 31 December 2019 and 10M2020, contributing approximately 39.2% and 33.4% of our revenue during the year/period, respectively. Among these sales, approximately 94.0% and 91.4% were attributable to sales to members of Listed Group A during the year/period. However, the positive impact of the launch of these new products and other products from time to time developed by us can be temporary. Any change in the product mix and/or preference of our customers, including Listed Group A, or the consumers' preference of the corresponding models of printers, can significantly affect the demands of, and hence our sales attributable to, these products. For example, our revenue attributable to the sales of the Ink Cartridge Chips Models launched in second or third quarter of 2019 decreased from approximately RMB58.2 million for 4Q2019 to approximately RMB44.5 million for 10M2020. There is no assurance that the revenue from our sales of popular chips models with higher prices and gross profit margins can be sustainable, and our revenue and profitability may be materially affected as a result. Besides, the launch of substitute products by our competitors in the market may result in price competition, which may in turn adversely affect the sales and profit margins of these products. In the event that we are unable to keep up our research and development and launch new competitive products, our financial and business performance may be adversely affected.

The prospect of our business may be undermined in the long run by the digitalisation of documentation and information and the advent of paperless workplace due to technological advancement and environmental protection.

Specialising in the provision of compatible cartridge chips, our success depends on the demand for our products which is directly proportional to the end users' need for printing.

According to the CIC Report, with the advancement of technology and the public's increasing attention to environment protection, end-customers may be less reliant on paper documents and thus decrease the demand for printer and printer cartridges. Given that our products, i.e. compatible cartridge chips, are a core component of compatible toner cartridges and ink cartridges, the decrease in demand for printer and printer cartridges may also lead to the decrease in demand for our products. In the long run, the market size of both compatible cartridge market and compatible cartridge chip market may decrease. The prospect of our business may be undermined if we are unable to cope with the changes in demand brought by digitalization of documents. Products diversification or change of principal business may be required in the worst situation. However, as we have been engaging in the production of compatible cartridge chip for years, it may be difficult for us to diversify our products in a short period of time or to change our principal business to mitigate the risk, and there is also no assurance that we can succeed in such product diversification or business change. Our business, results of operations and financial conditions may be materially affected.

Selling price of our products may fluctuate as our pricing strategy is closely associated with the life cycle of products and market competition in the compatible cartridge chip market.

According to the CIC Report, the selling price of a new model of compatible cartridge chip depends largely on how quickly the product is introduced to the market after the launch of the corresponding printer model; a first-to-market player can charge a higher price and enjoy a higher profit margin for its product given that it introduces the product earlier than the others. The selling price of our products gradually decreases along the life cycle of products (i.e. introduction stage, growth stage and maturity stage) in the compatible cartridge chip market. Please refer to the section headed "Business — Our Products — Pricing — Our pricing strategy" for details of our pricing strategy. We rely on our research and development capabilities to introduce new models of chip ahead of our competitors from time to time so that we may charge a higher price and enjoy a higher profit margin. We cannot assure you that we are able to launch our products sooner than our competitors so as to enjoy the first-mover advantage. In addition, the launch of alternative models of compatible cartridge chips in the market, whether by us or by our competitors, may force us to reduce the selling price of our products as a result from the intensified market competition. The fluctuation in the selling price of our products may adversely affect our business and financial conditions.

Our business, result of operations and financial conditions may be affected by the market competition in the compatible cartridge chip market.

According to the CIC report, the major players in the compatible cartridge industry in the PRC has been aggressive in pursuing vertical and horizontal integration and consolidated a large number of players from different parts of the value chain in the compatible cartridge industry into their group. As a result, there was fierce market competition among independent compatible cartridge chip providers and integrated compatible cartridge providers and the average price of compatible cartridge chips in the PRC has been driven down in 2019, and our Group needed to reduce the selling price of our chip products in order to gain its market share. Together with the effects of the US-China trade war and limited number of newly launched models of printers, the average selling price of chips product of our Group has decreased from RMB16.8 for the year ended 31 December 2018 to RMB8.8 for the year ended 31 December 2019. Our business and financial performance are subject to market volatility. The market competition in the compatible cartridge chip market may intensify. We may need to further reduce the price of our products and adjust our sales plan from time to time to maintain our market share. We cannot guarantee that we will be able to maintain our market share with the fierce market competition and our business will remain sustainable in case of extreme market volatility. Our business, result of operation and financial conditions may be adversely affected if we are unable to maintain our market share.

Our business could be materially and adversely affected if we are unable to maintain our leading position in compatible cartridge chip market.

The compatible toner cartridge chip business has always been at the heart of our Group's operations. Since our establishment, our Group have been committed to the research and development, production and sales of compatible toner cartridge chips. In 2012, we became the first market player to offer compatible toner cartridge chips designed for several specific laser printer models, and had remained the exclusive supplier of such compatible cartridge chips in the global market until one year after they were launched by our Group. We have firmly established our position as one of the leading market player, being the second largest compatible toner cartridge chip provider in the PRC with a market share of 8.4% in terms of external sales in 2019.

However, the research and development of new compatible toner cartridge chip models is a complex, uncertain and time-consuming process. We may not be able to launch not less than 1,100 models of toner cartridge chips or upgrade around 1,000 existing compatible toner cartridge chip models using ICs to be designed and developed by us for the three years ending 31 December 2023 as planned. We may also not be able to launch new compatible toner cartridge chips ahead of our well-established competitors with substantial financial, technical, manufacturing and other resources in the compatible toner cartridge chip market. We cannot guarantee that our leading market position as the second largest compatible toner cartridge chip provider in the PRC can be maintained. If we are unable to maintain or improve our market position in the compatible toner cartridge chip market by proactively launching new compatible toner cartridge chips of advanced quality and functionality, there may be a drop of demand from our customers for our compatible toner cartridge chips, and thereby leading to a decrease in our sales revenue.

In addition, in 2019 (mostly in the second or third quarter), we successfully launched the Ink Cartridge Chip Models, being several new models of compatible ink cartridge chips with advanced quality, functionality and upward compatibility for compatible ink cartridge models having high popularity and demand in the market. While the launch such chip models which carried higher average selling price and high gross profit margin helped our Group cope with the significant decline in the average market selling price of compatible toner cartridge chips in 2019, the positive impact of the launch of these Ink Cartridge Chip Models may be temporary. We may not be able to maintain the revenue generated by the Ink Cartridge Chip Models, and we may also not be able to proactively launch new compatible ink cartridge chips with good quality and favorable market responses. In such cases, our customers demand for and revenue generated by the Ink Cartridge Chips Models or other newly launched ink cartridge chips models may not be maintained, our business and results of operations could be materially and adversely affected.

Our business, results of operations and financial conditions could be affected if we fail to attract and retain our key personnel, management team and our employees, especially our technical professionals for research and development process and sales and marketing staff.

Our operations and future success heavily depend on our ability to attract and retain our key personnel, management team and our employees. In particular, we rely on the continuing services and the expertise, technological know-how and relationships of our technical professionals for research and development process, as well as the sales network built by our sales and marketing staff. As such, it is important for us to continue to attract and motivate a sufficient number of key personnel and technical and sales professionals to maintain our results of operations and financial conditions.

Since the industry in which we operate is characterised by high demand and competition for talent, our employee compensation package and benefits package must remain competitive in order to retain key personnel and technical and sales professionals. We cannot assure you that there will be no departures of our key personnel and technical and sales professionals. If one or more of our key personnel or technical and sales professionals are unwilling to continue in their present positions in our Group, we may not be able to replace them instantly or at all. We may also need to offer higher compensation and other benefits in order to attract and recruit new personnel and may also incur additional expenses in the training of new personnel.

If any of our key personnel or technical and sales professionals joins our competitor or forms a competing business, we may, as a result, lose business secrets, technological know-how and built business relationships with major customers. This would subsequently disrupt our business and would have a material adverse impact on our results of operations and financial conditions.

Our major customers, who are mostly compatible cartridge manufacturers, face higher risk of infringing the patents relating to the original-brand cartridges, which may adversely affect the demand for our products and our sales revenue.

During the Track Record Period, the vast majority of our major customers are compatible cartridge manufacturers based in the PRC. According to the CIC Report, compatible cartridge manufacturers are exposed to considerably higher level of patent infringement risks and there have been several instances of them being successfully sued by the original-brand printer companies. Depending on the jurisdiction in which the claims are brought, should the original-brand printer companies succeed in the claims against the compatible cartridge manufacturers, the latter may be ordered by the court to pay damages to compensate for the former's loss resulting from the infringement or even to cease the manufacturing and selling of compatible cartridges that are held to be an infringement of the former's patent, which may in turn affect the demand for our chips to which the infringing compatible cartridge relates. To the best of the knowledge of our Directors and as confirmed by CIC, while some of the top five customers of our Group during the Track Record Period (including Listed Group A) had been subject to the legal proceedings and/or regulatory investigations, such proceedings and investigations had been dismissed or settled out of court, and for cases where the infringements were established, no material penalties, financial damages or criminal penalties had been imposed, and the outcome was, at the most, prohibitions on the importation or sale of the compatible cartridges in question into or in the specified territory, such as the United States.

The prospect of the compatible cartridge industry is crucial to our business. During the Track Record Period, our sale of compatible cartridge chips accounted for 91.3%, 89.7%, 95.6% and 91.9% of our revenue for the years ended 31 December 2017, 2018 and 2019 and 10M2020, respectively. As at the Latest Practicable Date, our Directors are not aware that any of our customers has been or is currently subject to legal proceedings in relation to infringements of third-party rights that would have a material impact on our business operations and financial performance. We cannot prevent our customers from infringing patents in their cartridge production process, nor can we prevent them from being sued for patent infringement relating to any parts or components of the cartridges not provided by us. If the original-brand printer companies decide to take legal actions against our customers, and if our customers fail to defend the claims, the business, results of operations and financial conditions of our customers may be adversely and materially affected, which in turn may affect the demand for our products and the sale revenue of our Group.

Any infringement or inappropriate use of our intellectual property rights or technological know-how may be detrimental to our profitability.

Our success depends, in part, on our ability to protect our intellectual property rights and technological know-how. We rely on obtaining patents and other intellectual property rights for our proprietary techniques and entering into confidentiality agreements with our senior management, research and development personnel and other key personnel in the sales and finance functions in order to protect our technological data base, knowledge in research and development and trade secrets.

Despite our efforts, such measures may not be adequate to protect our intellectual property rights and technological know-how in relation to our existing products and those products which are still under development.

Our registered patents or other intellectual property rights may not adequately describe or provide an adequate coverage of our proprietary techniques and products, which would subsequently result in our inability to exclude third parties from developing, copying or distributing similar techniques or products. We may not be able to identify all unauthorised use of our patents or other intellectual property rights and take appropriate actions to enforce our rights on a timely basis either. Besides, particularly in the PRC where we mainly conduct our business and where infringement of intellectual property rights is not uncommon, existing intellectual property laws may not protect intellectual property rights to the same extent or level as in other developed countries. As such, we cannot assure you that we will be able to prevent or deter infringement or other misappropriation of our intellectual property rights in the future. In the event that any misappropriation or infringement of our intellectual property occurs in the future, we may need to resort to litigation in order to protect our intellectual property or other ownership rights. This may result in significant legal costs and impair our business, financial conditions and results of operations.

As our technologies and production methods sometimes involve unpatented proprietary know-how, we rely on trade secrets protection and contractual restrictions to safeguard our intellectual property interests. While we have entered into confidentiality agreements with our senior management, research and development personnel and other key personnel in the sales and finance functions, we cannot guarantee that such parties would strictly comply with such confidentiality agreements or be deterred from misappropriating our technologies and know-how. Our trade secrets and other sensitive information may still be disclosed to our competitors. In the event of a breach of the confidentiality agreements, we may incur substantial expenses, time and resources in the proving or enforcement of a claim of unauthorised use or disclosure of trade secrets. In addition, we are not in the position to prevent our competitors from independently developing technologies that are similar or equivalent to our proprietary know-how and concepts, in which case we would not be entitled to enforce any trade secrets or claims at all. Any infringement or misappropriation of our trade secrets or technological know-how may impair the pricing of our products, adversely affect our reputation and consequently have a negative impact on our business, financial conditions and results of operations.

Our business operation is subject to the risk of infringements of third-party intellectual property rights by our customers and, following completion of our vertical expansion, members of our Group, as compatible cartridge manufacturers.

According to the CIC Report, there have been compatible-cartridge-related investigations and legal proceedings by original-brand printer companies against compatible cartridge manufacturers from time to time regarding alleged patent infringement of the external physical structure of these compatible cartridge manufacturers' compatible cartridges. To the best of the knowledge of our Directors and as confirmed by CIC, while some of the top five customers of our Group during the Track Record Period (including Listed Group A) had been subject to the legal proceedings and/or regulatory investigations, such proceedings and investigations had been dismissed or settled out of court, and for cases where the infringements were established, no material penalties, financial damages or criminal penalties had been imposed, and the outcome was, at the most, prohibitions on the importation or sale of the compatible cartridges in question into or in the specified territory, such as the United States. If any of their compatible cartridges in which our chips are used is adjudged to be an infringing product and these manufacturers need to cease their production of such infringing compatible cartridge, they may cease to procure the corresponding model of compatible cartridge chips from us. Besides, regardless of the end results of these investigations and/or legal proceedings, a manufacturer will need to divert its focus and/or resources on defending against such investigation and/or legal proceedings, which would have adverse effects on the operations and/or financial position of the manufacturer, and may in turn adversely affect the demand for our products.

As it is one of our business strategies to increase our presence in the compatible cartridge industry through forward vertical expansion and we may acquire equity interests in certain downstream compatible cartridge manufacturers in the PRC (further details of which are set out in the section headed "Business — Business Strategies — Increase Our Presence in the Compatible Cartridge Industry through Forward Vertical Expansion"), our invested manufacturer may also potentially be subject to such risk of patent infringement if any preventive measures undertaken by such manufacturer in mitigating the risk of patent infringement turn out to be inadequate. Any involvement by us or our invested manufacturer in investigations and/or legal proceedings may adversely affect the business operation, financial position and prospects of our Group.

Research and development plays an important role in our business operation and this process consists of independently designing and developing the hardware and software components of compatible cartridge chips by reference to the functions and features of the original-brand printer model. For further details of our research and development, please refer to the section headed "Business — Research and Development" in this prospectus. Our research and development and production work may give rise to a number of risks of infringement of third party's intellectual property rights, for instance risk of infringement of IC layout plan design, patent, copyright, trade secrets and risk of unfair competition. There is a possibility that the original-brand printer companies may file proceedings against our Company, as suppliers of the compatible cartridge manufacturers. Since the establishment of our Group, we have placed great importance on respecting intellectual property rights. Our success partially depends on our ability to use and develop our technological know-how without infringing the intellectual property rights of third parties. We cannot guarantee you that we would not face claims of infringement of third parties' proprietary rights or claims for indemnification resulting from infringement in the future. Further, patent applications in many jurisdictions are kept confidential for an extended period before they are published. As such, we may be unaware of pending patent applications that relate to our products and technologies. In the event that we are under any infringement claims, irrespective of the validity or the successful assertion of such claims, we would incur substantial costs, time and resources in defending against them. Further, should there be a successful infringement claim against us, we may be required to pay substantial damages, to develop non-infringing technology, to pay ongoing royalties, to be subject to injunctions prohibiting the use of our technologies, or our products to be subject to trade restrictions. Compatible cartridge manufacturers or distributors may request indemnification from or impose other obligations on us as a result of the infringement claims. Any intellectual property claim or litigation, regardless of whether we ultimately win or lose, would have material adverse effects on our business, financial positions and results of operations.

There may be product returns and exchange due to incompatibility with printer or product quality issue, which may affect our profitability and results of operations.

During the Track Record Period, in line with the industry practice, we may, at the request of our customers, accept product return or exchange due to (i) upgrades of printers made by original-brand printer companies which results in our chips sold becoming no longer compatible with the printers (i.e. unable to communicate with the printers); and (ii) quality issues and defects of our products.

From time to time, the original-brand printer companies may conduct system upgrades to their printers. Sometimes, such system upgrades may make our compatible cartridge chips no longer compatible with the printers. In such circumstances, the firmware in our chips and, occasionally, the hardware components need to be modified to be compatible with the upgraded models of the printers. Customers may request for returns or exchanges of compatible cartridge chips if the chips need to be modified in light of upgrades issues after the chips have been sold. If we accept customers' requests for product returns, we will negotiate and mutually agree with our customers on the return value of the returned products with reference to our latest unit selling price of such products (which are generally lower than the original unit selling price as the price of chips, along its product life cycle, generally declines over time), and the credit of which will be applied towards settlement of the amounts payable by the customers for other purchases. With respect to the sales of compatible cartridge chips during the years ended 31 December 2017, 2018 and 2019, we recorded actual return of products of approximately RMB0.3 million, RMB3.7 million and RMB0.4 million in their respective succeeding year, representing an actual rate of return of approximately 0.2%, 1.7% and 0.3%, respectively. After the Track Record Period and up to the Latest Practicable Date, we had not recorded material product return for compatible cartridge chips sold in 2019.

During the Track Record Period, we received total actual returns of our compatible chips with sales value amounting to RMB1.4 million, RMB1.6 million, RMB4.0 million and RMB0.6 million in 2017, 2018, 2019 and 10M2020, respectively. The reason for the relatively large amount of product returns in 2019 was primarily because there had been more product upgrade by the original-brand printer companies during 2018 which had affected certain models of our chips for desktop laser printers.

As regards product exchanges for compatible cartridge chips, if we accept our customers' requests for product exchanges, the customers will return the unutilised, old-versions chips of the chips to us in exchange for the upgraded versions of the chips. We utilized the provision for exchange of products of approximately RMB0.6 million and RMB2.6 million as at 31 December 2017 and 2018 in their respective succeeding year, representing an actual rate of exchange of approximately 0.5% and 2.3% arising from the sales of chips in 2017 and 2018, respectively. After the Track Record Period and up to the Latest Practicable Date, we had not recorded material product exchange for compatible cartridge chips sold in 2019.

Cartridge chips upgrade by the printer companies, in terms of frequency and complexity, is beyond our control. Increasing frequency and complexity of upgrades may lead to more frequent product return or exchange. As these products are generally returned or exchange at a discount to their original unit selling price, and there is no assurance that the products returned can be further modified and upgraded by us so that they would not become obsolete and wasted, frequent product return or exchange as a result of cartridge chips update by printer companies may adversely affect our profitability and results of operations.

In addition, our quality control system may not be as effective as we expect, which may lead to product defects. We would normally accept product returns and/or exchanges from our customers in case quality issues are identified and if the complaints of customers are justified after investigations. During the Track Record Period, only an insignificant amount of product exchanges of approximately RMB800 and RMB39,000 for the years ended 31 December 2017 and 2018 respectively was attributable to quality issues or product defects. The quality of our products depends significantly on the a number of factors, including the design of our quality control systems, the quality control management, and our employees' awareness in adhering to our quality control policies and guidelines from time to time. Any significant failure or deterioration of our Group's quality control systems could result in the production of defective or substandard products, product returns and damage to our reputation. Product failure or defects, and any complaints or negative publicity resulting therefrom, could result in decreased sales of our products, or claims or litigation against us regarding the quality of our products. As a result, it may adversely affect our business, reputation, financial conditions and results of operations.

Our customers' products exported to the US may be subject to high tariff rates under the trade war between the US and the PRC, which could in turn adversely affect our Group's sales volumes, profitability and results of operations.

According to the CIC report, different level of tariff was imposed on compatible cartridges by the U.S. government based on the HTS code of compatible cartridges. The applicable tariff imposed on compatible cartridges exported from the PRC to the U.S. with certain HTS code was 25% since 6 July 2018. The applicable tariff imposed on compatible cartridges with other HTS code was 15% from 1 September 2019 to 13 February 2020 and 7.5% since 14 February 2020. Most compatible cartridges exported from the PRC to the U.S. are subject to tariff of 7.5% as at the Latest Practicable Date.

According to the CIC Report, the market size of compatible toner cartridge market in the US in terms of total retail value accounted for 21.3% of the global market size in 2019, while that for compatible ink cartridge market in the US in terms of total retail value accounted for 21.7% of the global market size in 2019. On the other hand, most of the compatible cartridges and compatible cartridge chips in the world come from the PRC, with approximately 79.3% of compatible cartridges and approximately 90.5% of compatible cartridge chips in terms of production volume in the world in 2019 were made in the PRC.

Through communications with our customers, our Directors are aware that some of our customers' products of which our cartridge chips were installed may be ultimately sold to the US market. The sales of our customers, being compatible cartridge manufacturers, may be affected by the trade war. Their products exported to the US may be subject to high tariff rates under the trade war, reducing the price advantage of their products in the US market and the demand for their products. As a result, the demand and selling price for our products may be reduced correspondingly, which may in turn affect the business operations and financial performance of our Group. Please refer to the section headed "Business — Impact of US-China Trade War on Our Group" for further details. Currently there is no concrete expected time as to when, if at all, a complete trade deal could be reached between the U.S. and the PRC. Our pricing strategy and sales volume may be affected by the trade restrictions that may be imposed by the US government from time to time. Our Group cannot accurately predict whether any anti-dumping duties, tariffs or quota fees will be further imposed on cartridges and cartridge parts exported to the U.S. in the future. In such cases, our Group's sales volumes, profitability and results of operations could in turn be adversely affected.

Our business could be materially and adversely affected if we are unable to maintain our business relationships with major suppliers due to the fact that our suppliers are highly concentrated.

Our suppliers consist of (i) suppliers of raw materials, including ICs and other parts of the hardware component of our chips and (ii) suppliers of PCBAs. For the years ended 31 December, 2017, 2018 and 2019 and 10M2020, purchase from our top five suppliers accounted for 90.0%, 89.1%, 89.6% and 84.8% of our total purchase from suppliers, respectively, and purchases from our top supplier amounted to approximately 40.1%, 46.3%, 46.0% and 49.3% of our total purchases for the years ended 31 December 2017, 2018 and 2019 and 10M2020 respectively. If we are unable to maintain our business relationships with any of our major suppliers or if any of them otherwise ceases to supply raw materials or provide services to us on the same or similar terms, or at all, such changes may result in delays to our production, sales and service supports, which could negatively affect our reputation and results of operations. In addition, replacing a supplier may require us to spend considerable amount of time and resources. If we are unable to identify suitable replacement suppliers in a timely manner, or at all, our business and results of operations could be materially and adversely affected.

Two of our top five suppliers during the Track Record Period are engaged in provision of compatible cartridge chips and therefore are our major competitors.

According to the CIC Report, our two major competitors, Supplier A and the holding company of Supplier B were the first and third largest compatible cartridge chip providers in the PRC in terms of external sales in 2019. Notwithstanding, we have sourced a significant portion of PCBAs from Supplier A and Supplier B. During the Track Record Period, Supplier A and Supplier B were our top five suppliers, and our purchase from them amounted to approximately 36.9%, 45.3%, 33.9% and 17.5%, and 26.4%, 11.7%, 0.2% and 0.02% of our total purchase amount for the years ended 31 December 2017, 2018 and 2019 and 10M2020 respectively.

Due to the intense competition of our rapidly-changing industry, we cannot guarantee that the two competitors will remain collaborative and continue to supply PCBAs to us in the future. Should there be any other commercial reasons and considerations that may arise in the future because of our competition, our supply of PCBAs from Supplier A and Supplier B may cease. This may in turn increase our procurement costs as we may need to engage another supplier in short notice that may incur additional charges and the new suppliers may offer us with less favourable quotation. As a result, our business, results of operations and financial conditions may be adversely affected.

Compatible cartridge chips account for a majority of our revenue, and any decrease in such sales or any increase in the costs associated with such sales may materially and adversely affect our business.

A majority of our revenue over the Track Record Period was derived from the provision of compatible cartridge chips. For the years ended 31 December 2017, 2018 and 2019 and 10M2020, our sale of compatible cartridge chips contributed 91.3%, 89.7%, 95.6% and 91.9% of our total revenues, respectively. It is likely that we will continue to heavily rely on providing compatible cartridge chips for a significant portion of our revenues. A decrease in the revenue of our sale of compatible cartridge chips or their prices or material quality issues concerning our compatible cartridge chips may materially and adversely affect our business and operating results.

Furthermore, we are exposed to increases in the prices of the components involved in PCBA and subcontracting costs for assembling raw materials in constituting the requisite PCBA. While we may seek to reflect such increases in the price of our products and services, we may not be able to do so completely or in a timely fashion. Our future growth and financial performance may depend on our ability to control or divert the cost of our compatible cartridge chips. If we fail in our cost management relating to our products in the segment of compatible cartridge chips, our business and results of operations would be harmed.

The outbreak of any severe communicable disease, in particular COVID-19, if uncontrolled, could adversely affect our Group's results of operations.

The outbreak of any severe communicable disease, such as the recent outbreak of COVID-19 in the PRC or other parts of the world, if uncontrolled, could have an adverse effect on our Group's operations and the overall business sentiments and environment in the PRC. The spread of any severe communicable disease in the PRC or other parts of the world may also affect normal operation of business of our Group's customers and suppliers. Supply of raw materials may become unstable. Customer's demand for our products may decline. According to the CIC Report, due to the various policies implemented globally to tackle COVID-19, such as closure of school, temporary suspension of business and remote work from home policy, the demand for cartridge has been adversely affected. In addition, the breakdown of transport network may affect delivery of our products and lead to temporary closure of our production facilities as our employees may be unable to report duty. After the Track Record Period and up to the Latest Practicable Date, due to the disruption in global transportation, the delivery of our products to overseas customers has been delayed by approximately one to two weeks. Further, as of the Latest Practicable Date, we understood from our customers due to the temporary disruption in logistics in Europe and the United States which has caused delay in delivery, there was a temporary delay in overseas orders for compatible cartridge. Please refer to the section headed "Summary — Recent Development and Material Adverse Change — Impact of the COVID-19 Outbreak on Our Business Operations" for further details on the impact of COVID-19 on our business operation. There is no assurance that the outbreak of COVID-19 will come to an end in the near future, or there will be no recurrence of outbreak of contagious diseases or epidemic in major cities or provinces in the PRC or other parts of the world. Under such circumstances, we may not be able to sustain our historical growth in revenue and profit in the future.

Our proposed acquisition may not bring the benefit to the business operation and financial performance as expected.

We intend to accelerate the development of our hardware design capabilities through acquisition of an IC design company based in the PRC or Taiwan. We estimate that, by designing and developing ICs on our own after such acquisition instead of purchasing ICs externally, we will be able to save more than 20% of our IC procurement cost. We also intend to increase our presence in the compatible cartridge industry through acquisition of equity interest of certain downstream compatible cartridge manufacturers in the PRC, through which we can diversify our income stream by introduction of new products (i.e. compatible cartridges) after such acquisition. Please refer to the section headed "Future Plans and Use of Proceeds — Use of Proceeds" for further details.

However, the success of any future acquisition will depend upon our ability to identify suitable acquisition targets, conduct appropriate due diligence, negotiate transactions on fair and favorable terms, obtain required authorisations and ultimately complete such acquisitions and successfully integrate them into our Group. Our assessments of acquisition targets may prove to be incorrect and in particular our expectations with respect to growth, profit margins, cash flows and cost and revenue synergies. In addition, we may incur or assume unknown or unanticipated liabilities or contingencies with respect to customers, employees, suppliers, government authorities or other parties. Any due diligence with respect to identifying targets may require more investment than we expected, including management time.

Furthermore, we may face difficulties in the integration of an acquired company into our Group or fail to acquire the acquisition target. The process of integrating acquisitions may be disruptive to our operations, as a result of, among other things, unforeseen legal, regulatory, contractual and other issues, difficulties in realizing operating synergies, difficulties in integrating diverse business cultures which may be incompatible, problems in integrating information technology or other systems between the businesses, or a failure to maintain the quality of products that we have historically provided. Any of the above mentioned problems could lead to a diversion of management focus and resources from other strategic opportunities or material operational matters, or lead to difficulties in managing a larger company. If we fail to acquire the acquisition target, we may not be able to implement our future plans as set out in the section headed "Business — Business Strategies" to accelerate the development of our hardware design capabilities and increase our presence in the compatible cartridge industry. For example, we may not be able to further enhance our capabilities in development of PCBAs and, in particular, to spur the development of those models of ICs, to achieve economies of scale in production, to strengthen customer base, and to increase bargaining powers and market share, etc. Our business development, business operation and financial performance may be hindered as a result.

In addition, in the event that we successfully acquire equity interest of certain downstream compatible cartridge manufacturers, our relationship with our existing customers may be adversely affected as there will be competition, following completion of our vertical expansion, between members of our Group and our existing customers. Our sales revenue derived from the sale compatible cartridge chips may decrease and our profitability may be affected. Also, following completion of our vertical expansion, we may be subject to the risk of infringements of third-party intellectual property rights by members of our Group, as compatible cartridge manufacturers, as there have been compatible-cartridge-related investigations and legal proceedings by original-brand printer companies against compatible cartridge manufacturers from time to time regarding alleged patent infringement of the external physical structure of these compatible cartridge manufacturers' compatible cartridges according to the CIC Report. Please refer to the paragraph headed "Our business operation is subject to the risk of infringements of third-party intellectual property rights by our customers and, following completion of our vertical expansion, members of our Group, as compatible cartridge manufacturers." in this section for further details.

Should any of the above concerns arise in connection with any future acquisition, our business, financial condition and results of operations may be adversely affected.

Fluctuations in the prices of our direct materials and staff costs could materially and adversely affect our business, financial conditions and results of operations.

Our profitability depends to a large extent on our ability to anticipate and react to changes in the purchase costs of our direct materials as well as our staff costs. For the years ended 31 December 2017, 2018 and 2019 and 10M2020, our direct material costs accounted for approximately 94.5%, 94.1%, 90.1% and 89.5% of our total costs of sales respectively and the staff costs accounted for approximately 54.3%, 50.0%, 44.2% and 35.0% of our administrative expenses respectively.

During the Track Record Period, we purchased the majority of our raw materials from third-party suppliers and we did not enter into any long term supply agreements with our suppliers. There is no assurance that such suppliers will continue to supply materials of the required quantities and/or quality to us in the future or to continue to supply materials to us on the current terms and conditions. Our direct materials used in our products mainly include PCBAs and their parts (such as ICs) for the production of our products. According to the CIC Report, between 2015 and 2019, the average price of ICs has decreased, representing a CAGR of -3.3% mainly due to the declining prices of raw materials and the intensified competition among IC manufacturers. The average price of PCBs has increased at a CAGR of 6.8% between 2015 and 2019 attributable to the rising cost of copper foils, one of the most important raw materials of PCBs. The average price of PCBs remained stable for 10M2020. During the Track Record Period, our average direct material cost per unit of compatible cartridge chips sold were RMB9.9, RMB9.3, RMB3.7 and RMB3.2 per unit. As such, the availability and costs of our principal raw materials can fluctuate and are subject to a variety of factors beyond our control. We cannot assure you that we will be able to pass on any increase in direct material costs and staff costs to our customers. Significant increases in raw material prices and wages to our employees would have a direct and negative impact on our profit margin, and we may ultimately need to raise our product prices in order to maintain our profit margins in order to offset the increased direct materials cost and staff costs. This may consequently result in lower customer demand for our products, adversely affecting our business, results of operations and financial conditions.

We may not be able to sustain the high profit margins we achieved during the Track Record Period.

We achieved high profit margins during the Track Record Period. For the years ended 31 December 2017, 2018 and 2019 and 10M2020, our gross profit margins are 44.3%, 47.1%, 55.9% and 54.7%, respectively. For the same period, our net profit margins are 29.7%, 25.4%, 26.2% and 19.2%, respectively. The major factors affecting our financial conditions and results of operations include, among other things, industry competition, our ability to remain competitive in technologies and product capability and raw materials. For details of our profit margins and factors affecting our financial conditions and results of operations, please refer to the sections headed "Financial Information — Major Factors Affecting Our Financial Conditions and Results of Operations" and "Financial Information — Selected Line Items in the Consolidated Statements of Profit or Loss and Other Comprehensive Income — Gross profit"" in this prospectus. We cannot guarantee that we will be able to maintain the profit margins of our products in the future. Should we fail to maintain our profit margins, our results of operations and financial conditions may be adversely affected.

Inventory obsolescence may affect our results of operations and financial condition.

We maintain a certain level of inventory of finished goods and raw materials to meet our customers' demand and our production needs. We depend on our demand forecasts for various kinds of products to manage our inventory. Demand for our products may be affected by seasonality, market competition, the number of new printer models launched, changes in the product life cycle, product defects, changes in consumer consumption patterns and other factors, and our customers may not order products in the quantities that we expect. Further, any unforeseen change in the demand of our products may also result in the relevant inventories becoming excessive or even obsolete.

Our inventories amounted to approximately RMB22.4 million, RMB25.2 million, RMB26.6 million and RMB12.0 million as at 31 December 2017, 2018 and 2019 and 31 October 2020 respectively. If we fail to manage our inventory effectively, we may be subject to a risk of inventory obsolescence, a decline in inventory values, and inventory write-downs or write-offs. In addition, we may be required to lower the selling prices of our products in order to reduce inventory level, which may lead to lower gross margins. It may materially and adversely affect our results of operations and financial condition. During the Track Record Period, a provision of RMB421,000 and a reversal of provision of RMB37,000 were made for the year ended 31 December 2019 and 10M2020, respectively, against the carrying value of inventories. There is also no assurance that our provision for slow-moving and/or obsolete inventories to be sufficient to cover the loss or impairment in value of our inventories arising from the changes in customers' demand and our production needs as mentioned above, and any such under-provision may further adversely affect our profitability.

We recorded other net income of non-recurring nature during the Track Record Period, which may not recur in the future.

We recorded other net income of approximately RMB8.3 million, RMB3.9 million, RMB3.8 million and RMB3.6 million for each of the years ended 31 December 2017, 2018 and 2019 and 10M2020, respectively, which mainly consisted of (i) net exchange gain or loss; (ii) government grants which mainly comprised of one-off and discretionary subsidies related to our innovation projects and refunds of value-added tax; and (iii) service income, representing one-off service income as other income for providing technical services to third-party companies. These incomes are of non-recurring nature. We may not record such incomes in the future, at the same level or at all, which in turn may affect our profitability.

We may suffer from impairment losses for our intangible assets.

During the Track Record Period, our intangible assets consisted mainly of software and patent. As of 31 December 2017, 2018 and 2019 and 31 October 2020, the net book value of our intangible assets were approximately RMB0.6 million, RMB1.4 million, RMB4.5 million and RMB5.6 million, respectively. We are required to review periodically whether our intangible assets have become impaired, that is, when the carrying amount of such intangible assets exceeds its recoverable amount. The recoverable amount of our intangible assets is subject to various factors, such as technological obsolescence on the compatibility of our software, the changes in economics benefits of our products due to market competition. If the value of such intangible assets at the end of each accounting period is determined to fall below their carrying amount, we would be required to recognise an impairment loss, which will charge against our consolidated statement of profit and loss and other comprehensive income and may adversely affect our results of operations and financial condition.

We may not have adequate insurance coverage to cover our potential losses and claims in connection with our business.

To the best of our knowledge, certain risks associated with the operation of our business could not be fully covered by insurance. We have been maintaining mainly property general insurance and group accident insurance for our operations in the PRC, which we believe is in line with the industry practice in the PRC. As such, we cannot assure you that our insurance coverage is sufficient to cover all our potential losses and we may be exposed to liability in excess of our insurance coverage. For example, the occurrence of certain incidents such as business interruption, labour disputes and acts of God and the consequences resulting from them may not be adequately covered by our insurance policies, if at all. We also cannot guarantee that we will be able to maintain or renew our existing insurance coverage on commercially reasonable terms. In the event that we were subject to substantial claims, losses or liabilities that were not covered by our insurance, we may incur payment and expenses that could materially and adversely affect our results of operations and financial position.

We may fail to collect our trade receivables in time and in full, which may affect our business, results of operations and financial conditions.

Subject to the assessment of the operational ability and credit worthiness of our customers, we generally granted them credit period ranging from 30 to 120 days. As of 31 December 2017, 2018 and 2019 and 31 October 2020, our trade and bills receivables amounted to approximately RMB78.4 million, RMB87.4 million, RMB86.1 million and RMB48.5 million, representing approximately 48.6%, 43.5%, 42.0% and 26.3% of our total current assets as of the respectively date. For the years ended 31 December 2017, 2018 and 2019 and 10M2020, our trade and bills receivables turnover days were 123 days, 123 days, 201 days and 154 days, respectively. For more information on our trade and bills receivables, please refer to the section headed "Financial Information — Description on Major Components of Statements of Financial Position — Trade and Bills Receivables" in this prospectus. We cannot assure you that we will be able to recover our trade and bills receivable in time and in full in the future. Should our customers fail to settle the invoice in full and in time, our business, results of operations and financial conditions may be adversely affected.

If we are unable to manage our capacity and optimise our production facilities effectively, our competitiveness may be weakened.

We perform regular long-term market demand forecasts to estimate market and general economic conditions for our services, and work with our customers on future demand scenarios. Based upon these inputs we allocate our overall capacity among different customers for designing cartridge chips for a wide variety of printer brands and models. Because the functionality of printers and their firmware may change from time to time and customer demand may vary significantly and unexpectedly, we may not be able to adjust our allocation quickly enough to address unexpected changes in customer demand and thereby avoid a negative business impact. Based on current forecasts and business strategies, we have expanded our production lines from two to five in October 2018 to cater for the needs of our customers. Expansion and modification of our production facilities will, among other factors, increase our costs. For example, we will need to purchase additional equipment, and hire and train additional personnel. If we do not increase our sales accordingly, in order to offset these higher costs, our financial performance may be adversely affected.

Seasonality in our business may affect our Company's business and operating results.

Our revenue is subject to seasonal fluctuations. During the Track Record Period, we recorded higher sales revenue in the last quarter of each financial year. For details of the seasonality of our products, please refer to the sections headed "Business — Our Products —

Seasonality" and "Financial Information — Major Factors Affecting Our Financial Conditions and Results of Operations — Seasonality" of the prospectus. We may not be able to satisfy the high amount of orders received from our customers during the peak seasons and this may result in loss of business opportunities or delays in delivery of our orders. In the event that our production schedule fails to handle the high volatility of purchase orders during certain periods, our business and results of operations may be adversely affected.

RISK RELATING TO CONDUCTING BUSINESS IN THE PRC

We may not be entitled to the preferential tax treatments we enjoyed during the Track Record Period, which may adversely affect our results of operations and financial condition.

According to the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) and its implementation rules, foreign-invested enterprises and domestic enterprises are subject to a unified enterprise income tax rate of 25% and a high and new technology enterprise is entitled to a reduced enterprise income tax rate of 15%.

Zhuhai Megain was recognised as a high and new technology enterprise in 2016 and 2019, respectively, and has been entitled to the reduced enterprise income tax rate of 15% since 2016. The current high and new technology certificate of Zhuhai Megain will expire in December 2022 and, prior to its expiration, Zhuhai Megain will submit an application for the renewal of the high and new technology enterprise certificate. To renew the high and new technology enterprise certificate, Zhuhai Megain is required to remain or meet various criteria, including among others, a certain level of research and development spending and a certain number of the R&D employees, which are subject to the review and approval of the relevant authorities.

There can be no assurance that we can successfully renew the high and new technology enterprise certificate or continue to enjoy the preferential tax treatment for high and new technology enterprises in the future. If we fail to renew the high and new technology certificate or if the PRC government changes its tax policy of supporting high and new technology enterprises, we may be subject to a higher enterprise income tax rate and our results of operations and financial condition may be adversely affected.

Adverse changes in economic and political policies of the PRC government could affect our business operation.

During the Track Record Period, most of our operations were conducted in the PRC and most of our revenues were derived from the PRC. Accordingly, our business, financial condition, results of operations and prospects are heavily dependent on the economic and political developments of the PRC.

The economy of the PRC experienced rapid growth in the past 30 years. There has however been a slowdown in the growth of the PRC's GDP in the past few years. The future performance of China's economy is not only affected by the economic and monetary policies of the PRC government, but it is also exposed to material changes in global economic and political environments as well as the performance of certain major developed economies in the world, such as the United States and the European Union. There is substantial uncertainty relating to China's ongoing trade dispute with the United States and the impact of Brexit. Therefore, there exists continued uncertainty for the overall prospects for the global and the PRC economies this year and beyond.

In addition, the economy of the PRC differs from the economies of most developed countries in many respects, including with respect to government involvement, level of development, economic growth rate, control of foreign exchange and allocation of resources. The economy of the PRC has been transitioning from a planned economy to a more market-oriented economy. In recent years, the PRC government has implemented a series of measures emphasising market forces for economic reform, the reduction of state ownership of productive assets, deleveraging the economy by reducing borrowing levels and the establishment of sound corporate governance in business enterprises. However, a large portion of productive assets in the PRC remain owned by the PRC government. The PRC government continues to play a significant role in national economy by, among others, regulating industrial development, allocation of resources, setting monetary policies and the foreign exchange policies and providing preferential treatment to some particular industries or enterprises, and there can be no assurance that the PRC government will continue to pursue the economic reforms or that any such reforms will not have an adverse effect on our business. Any adverse changes in economic conditions of the PRC or in the policies of the PRC government may adversely affect the overall economic growth of the PRC, which may lead to reduction in demand for our products or adversely affect our business environment in the PRC and, thus, our business, results of operations and prospects may be materially and adversely affected.

Interpretation of PRC laws and regulations involve uncertainty and the current legal system in the PRC could limit the legal protections available to us and our Shareholders.

Most of our business operations are located in the PRC and are subject to PRC laws and regulations. The PRC legal system is a civil law system based on written statutes and prior court decisions have limited precedential value. Additionally, PRC statutes are often principle-oriented and require detailed interpretations by the enforcement bodies to apply and enforce such laws. Since 1979, the PRC legislature has promulgated laws and regulations in relation to general economic and business matters. However, these laws and regulations are constantly changing and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to us and our Shareholders. We cannot predict the effect of future developments in the PRC legal system and promulgation of new laws, amendments to existing laws or the interpretations by the enforcement bodies. As such, these uncertainties may limit the legal protections available to us and our Shareholders.

Our Company may be identified as a PRC tax resident enterprise which could result in unfavorable tax consequences to us and our shareholders.

Under the PRC Enterprise Income Tax and its implementation rules, an enterprise established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose "de facto management body" is located within the PRC shall be a PRC tax resident enterprise and shall pay the enterprise income tax in the PRC at the rate of 25% on its global income. Under the implementation rules of the EIT Law, "de facto management body" is defined as the organisation body that effectively exercises management and control over such aspects as the business operations, personnel, accounting and properties of the enterprise.

Although our Company is incorporated in the Cayman Islands, most of our operations are conducted in the PRC and some of our Directors and members of senior management reside in the PRC.

If our Company is identified as a PRC tax resident enterprise, our global income will be subject to the enterprise income tax at the rate of 25% in the PRC, which may adversely affect our results of operations.

In addition, on the basis that our Company is identified as a PRC tax resident enterprise, dividends we pay with respect to our Shares or the gains realised from the transfer of our Shares would be treated as income derived from sources within the PRC and our shareholders who are non-resident enterprises or individuals will be subject to the PRC income tax. Pursuant to the EIT Law, the PRC Individual Income Tax Law and their respective implementation rules, any non-resident enterprise without an establishment within the PRC, or where its income have no actual connection to its establishment in the PRC shall pay the enterprise income tax at the rate of 10% and any non-resident individual shall pay the individual income tax at the rate of 20% in the PRC for their income (including dividends and gains from transfer of shares) sourced from the PRC, unless there is an applicable tax treaty or arrangement that reduces or exempts such PRC income tax.

Therefore, if the PRC income tax mentioned above will be imposed on the dividends we pay to our non-resident shareholders with respect to our Shares or on the gains realised from the transfer of our Shares by our non-resident shareholder, the value of the investment in our Shares may be materially and adversely affected.

As at the Latest Practicable Date, our Company had not been noticed or informed by any PRC tax authorities that it is identified as a PRC tax resident enterprise, but there is no assurance that our Company will not be treated as a PRC tax resident enterprise in the future.

Restrictions on the remittance of RMB into and out of the PRC and the governmental control of currency conversion may limit our ability to pay dividends and other obligations and affect the value of the investment of our shareholders.

The PRC government imposes controls on the convertibility of RMB into foreign currencies and the remittance of currency out of the PRC. We receive a considerable portion of our revenue in RMB. Under our current corporate structure, our income is primarily derived from dividends payments from our PRC subsidiary. We may convert a portion of our revenue into other currencies to meet our foreign currency obligations, such as payments of dividends declared in respect of our Shares. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiary to remit sufficient foreign currency to pay dividends or other payments to us.

Under the current PRC foreign exchange regulations, international payments of current account items, such as profit distribution, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from or registration with SAFE or its designated banks is required where RMB is to be converted into foreign currency and remitted out of the PRC under capital account items such as repayment of offshore loans or outbound investment. The PRC government may at its discretion restrict access to foreign currencies for current account items or capital account items in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders or to support the overseas business development. Further, there is no assurance that new regulations or policies in relation to control of foreign exchange will not be promulgated in the future that would have the effect of further restricting the remittance of the foreign currencies or RMB into or out of the PRC.

RISK RELATING TO THE GLOBAL OFFERING AND OUR SHARES

Possible setting of the Offer Price after making a Downward Offer Price Adjustment.

We have the flexibility to make a Downward Offer Price Adjustment to set the Offer Price at up to 10% below the bottom end of the indicative Offer Price range per Offer Share. It is therefore possible that the Offer Price will be set at HK$1.04 per Offer Share upon the making of a Downward Offer Price Adjustment. In such a situation, the Global Offering will proceed and the Withdrawal Mechanism will not apply. If the Offer Price is set at HK$1.04, the estimated net proceeds we will receive from the Global Offering will be reduced to approximately HK$82.1 million, assuming the Over-allotment Option is not exercised at all, and such reduced proceeds will be used as described in "Future Plans and Use of Proceeds — Use of Proceeds" in this prospectus.

There has been no prior public market for our Shares and it is uncertain about the market price and the liquidity of our Shares.

Prior to the Listing of our Shares on the Stock Exchange, there were no public market for our Shares. The Offer Price was determined on the Price Determination Date and the price at which our Shares are traded after the Listing may decline below the Offer Price, which means it may experience a decrease in the value of our Shares regardless of the operating performance or prospects of our Group. In addition, there is no assurance that the listing of our Shares on the Stock Exchange will result in the development of an active and liquid public trading market for our Shares. If an active market for our Shares does not develop after the Global Offering, the market price and the liquidity of our Shares may be adversely affected.

The liquidity and market price of our Shares following the Global Offering may be volatile.

The liquidity and market price of our Shares may be affected by various factors such as

– variations of our results of operations;

– investors' perceptions of us and the general investment environment;

– changes in policies and developments relating to the industry in which we operate;

– changes in pricing policies adopted by us or our competitors;

– announcements of significant acquisitions, strategic alliances or joint ventures;

– fluctuations in stock market and trading volume;

– our involvements in litigation;

– recruitments or departures of our key personnel;

– changes in government policies and regulations; and

– general market and economic conditions.

We cannot assure that these factors will not occur in the future. As illustrated, it is possible that our Shares may be subject to changes in price not directly related to our performance.

Our Controlling Shareholders have substantial influence over us and their interests may conflict with the interests of our Company and other Shareholders.

Upon completion of the Global Offering, our Controlling Shareholders will continue to have the ability to exercise a controlling influence on our management, policies and business including matters relating to our management and policies and certain matters requiring the approval of our Shareholders, including election of Directors, approval of significant corporate transactions and the timing and distribution of dividends. The Controlling Shareholders may take actions that you may not agree with or that are not in our public Shareholders' best interests and there is no assurance that our Controlling Shareholders will always take actions that will benefit our other Shareholders.

Except as otherwise described in the section headed "Underwriting" in this prospectus, there are no restrictions imposed on our Controlling Shareholders which will prevent them from disposal of their Shares. If our Controlling Shareholders decide to dispose the Shares after the lock-up period that restrict any disposal of Shares by our Controlling Shareholders, the market price of our Shares may fall. In addition, any disposal of Shares by our Controlling Shareholders may make it more difficult for us to issue new Shares in the future at a time and price we deem appropriate, thereby limiting our ability to raise capital.

We may require additional funding for future growth and our Shareholders' interest may be diluted as a result of additional equity fund-raising.

We may be presented with opportunities to expand our business through acquisitions in the future. Under such circumstances, secondary issue(s) of securities after the Listing may be necessary to raise the required capital to capture these growth opportunities. If additional funds are raised by means of issuing new equity securities in the future to new and/or existing Shareholders after the Listing, such new Shares may be priced at a discount to the then prevailing market price. Inevitably, existing Shareholders if not being offered with an opportunity to participate, their shareholding interest in our Company will be diluted. Also, if we fail to utilise the additional funds to generate the expected earnings, this could adversely affect our financial results and in turn exerts pressure to the market price of the Shares. Even if additional funds are raised by means of debt financing, any additional debt financing may, apart from increasing interest expense and gearing, contain restrictive covenants with respect to dividends, future fund raising exercises and other financial and operational matters.

We cannot guarantee that we will declare or distribute any dividend in the future.

Any decision to declare any dividend would require the recommendation of our Board and approval of our Shareholders. Any decision to pay any dividend will be made having regard to factors such as our operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions, capital expenditure and future development requirements, Shareholders' interests and other factors which may deem relevant at such time. As a result, we cannot guarantee whether, when and in what form we will pay dividends in the future.

RISK RELATING TO THE STATEMENTS MADE IN THIS PROSPECTUS

We have not independently verified statistics and facts in this prospectus.

This prospectus includes certain statistics and facts that have been extracted from government official sources and publications or other sources. We can guarantee neither the quality nor the reliability of such source materials. We, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or any other parties involved in the Global Offering have not independently verified these statistics and facts from these sources. Therefore, we make no representation as to the accuracy or completeness of these statistics and facts, which may not be consistent with other information compiled within or outside Hong Kong. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies, and you should not rely upon them. Furthermore, there is no assurance that they are stated or compiled on the same basis, or with the same degree of accuracy, as similar statistics presented elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such statistics or facts.

Forward-looking statements contained in this prospectus may prove inaccurate and therefore investors should not place undue reliance on such information.

This prospectus contains certain forward-looking statements relating to the plans, objectives, expectations and intentions of the Directors and our Group. Such forward-looking statements are based on numerous assumptions as to the present and future business strategies of our Group and the development of the environment in which our Group operates. These statements involve known and unknown risks, uncertainties and other factors which may cause the actual financial results, performance or achievements of our Group to be materially different from the anticipated financial results, performance or achievements of our Group expressed or implied by these statements. The actual financial results, performance or achievements of our Group may differ materially from those discussed in this prospectus.

In preparation for the Listing, our Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules and the Companies (WUMP) Ordinance:

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong, which will normally mean that at least two of our Executive Directors must be ordinarily resident in Hong Kong.

Since (i) our headquarters are based in and most of our business operations are conducted in the PRC and Taiwan; and (ii) Mr. Cheng and Mr. Lee, our Executive Directors, are ordinarily based in Taiwan, we do not and, in the foreseeable future, will not have sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with Rule 8.12 of the Listing Rules, subject to the following conditions to ensure that effective and regular communication will be maintained between the Stock Exchange and our Company:

(a) we have appointed and will continue to maintain two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal communication channel with the Stock Exchange. Our authorised representatives are Mr. Cheng, our Executive Director, and Mr. Wong Cheuk Lam (黃焯琳), our company secretary and who is ordinarily resident in Hong Kong. Each of our authorised representatives will be available to meet with the relevant members of the Stock Exchange in Hong Kong on reasonable notice and will be readily contactable by telephone, facsimile and/or e-mail;

(b) both of our authorised representatives have means to contact all Directors promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matter. Our Company has implemented a policy whereby each Director is required to provide (i) his/her correspondence address, mobile phone number, office phone number, e-mail address and facsimile number (if available) to our authorised representatives; and (ii) valid means of communication to our authorised representatives when he/she expects to travel or otherwise be out of office. In addition, all our Directors and authorised representatives will provide their respective mobile phone numbers, office phone numbers, email addresses and facsimile numbers (if available) to the Stock Exchange;

(c) each of our Directors who is not ordinarily resident in Hong Kong possesses or can apply for and/or renew valid travel documents to visit Hong Kong and will be able to meet with the relevant members of the Stock Exchange in Hong Kong on reasonable notice;

(d) Mr. Wong Cheuk Lam (黃焯琳), our company secretary and who is ordinarily resident in Hong Kong, will serve as an additional channel of communication between our Company and the Stock Exchange and will maintain constant contact with our Directors and members of our senior management through various means, such as meetings and telephone discussions, whenever necessary;

(e) CMBC International Capital Limited has been appointed as our Company's compliance adviser pursuant to Rule 3A.19 of the Listing Rules, which will act as an alternative channel of communication between our Company and the Stock Exchange for a term commencing on the Listing Date and ending on the date on which our Company shall comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year after the Listing Date. CMBC International Capital Limited shall at all times have access to our authorised representatives, our Directors and the members of our senior management through various means, such as meetings and telephone discussions, whenever necessary, to ensure that they are in a position to provide prompt responses to any queries or requests from the Stock Exchange in respect of our Company;

(f) our Company will appoint other professional advisers (including Hong Kong legal advisers) after the Listing to advise on the on-going compliance requirements and other issues arising under the Listing Rules and to ensure that there will be prompt and effective communication between our Company and the Stock Exchange; and

(g) we shall, in accordance with the requirements under the Listing Rules, promptly inform the Stock Exchange if there is any change of the authorised representatives and/or compliance adviser of our Company.

WAIVER FROM STRICT COMPLIANCE WITH RULE 4.04(1) OF THE LISTING RULES AND EXEMPTION FROM STRICT COMPLIANCE WITH SECTION 342(1)(B) IN RELATION TO PARAGRAPH 27 OF PART I AND PARAGRAPH 31 OF PART II OF THE THIRD SCHEDULE TO THE COMPANIES (WUMP) ORDINANCE

Rule 4.04(1) of the Listing Rules requires a listing applicant to include in the prospectus the consolidated results of the listing group in respect of each of the three financial years immediately preceding the issue of the prospectus or such shorter period as may be acceptable to the Stock Exchange.

Section 342(1)(b) of the Companies (WUMP) Ordinance provides that, subject to section 342A of the Companies (WUMP) Ordinance, it shall not be lawful for any person to issue, circulate or distribute in Hong Kong any prospectus offering for subscription or purchase shares in a company incorporated outside Hong Kong unless, among other things, the prospectus states the matters specified in Part I of the Third Schedule to the Companies (WUMP) Ordinance and sets out the reports specified in Part II of the Third Schedule to the Companies (WUMP) Ordinance.

Paragraph 27 of Part I of the Third Schedule to the Companies (WUMP) Ordinance ("**Paragraph 27**") requires the listing applicant to include in the prospectus a statement as to, among others, the gross trading income or sales turnover (as may be appropriate) of the listing applicant during each of the three financial years immediately preceding the issue of the prospectus, including an explanation of the method used for the computation of such income or turnover, and a reasonable break-down between the more important trading activities.

Paragraph 31 of Part II of the Third Schedule to the Companies (WUMP) Ordinance ("**Paragraph 31**") requires the listing applicant to include in the prospectus a report by its auditors with respect to, among others, the profits and losses and assets and liabilities of the listing applicant and its subsidiaries in respect of each of the three financial years immediately preceding the issue of the prospectus.

Pursuant to section 342A(1) of the Companies (WUMP) Ordinance, the SFC may issue, subject to such conditions (if any) as the SFC thinks fit, a certificate of exemption from strict compliance with the relevant requirements under the Companies (WUMP) Ordinance if, having regard to the circumstances, the SFC considers that the exemption will not prejudice the interests of the investing public and compliance with any or all of such requirements would be irrelevant or unduly burdensome, or is otherwise unnecessary or inappropriate.

We have adopted 31 December as our financial year end date and the accountants' report of our Company in Appendix I to this prospectus contains the audited financial results of our Group for the three years ended 31 December 2017, 2018 and 2019 and the ten months ended 31 October 2020, but does not include the financial results of our Company in respect of the full year immediately preceding the proposed date of issue of this prospectus, being the full year ended 31 December 2020, as required under Rule 4.04(1) of the Listing Rules, Paragraph 27 and Paragraph 31. In light of this, we have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rule 4.04(1) of the Listing Rules, by permitting the non-inclusion of the financial results of our Company for the full year ended 31 December 2020, subject to the following conditions:

(a) the Shares must be listed on the Stock Exchange on or before 31 March 2021 (i.e. within three months after the end of our Company's latest financial year immediately preceding the issue of this prospectus);

(b) our Company has obtained a certificate of exemption from the SFC from strict compliance with the requirements under section 342(1)(b) of the Companies (WUMP) Ordinance in relation to Paragraph 27 and Paragraph 31;

(c) this prospectus must include the financial information for the financial year ended 31 December 2020 (being the reporting period to which its first annual result and first annual report relate) and a commentary on the results for the year. Such financial information to be included must (i) be prepared in compliance with the content requirements applicable to a preliminary results announcement under Rule 13.49 of the Listing Rules; and (ii) be agreed with our reporting accountants following their review under Practice Note 730 "Guidance for Auditors Regarding Preliminary Announcements of Annual Results" issued by the Hong Kong Institute of Certified Public Accountants;

(d) our Company will not be in breach of our constitutional documents or laws and regulations of the Cayman Islands or other regulatory requirements relating to our obligation to publish preliminary results announcements;

(e) a Directors' statement is included in this prospectus that up to the Latest Practicable Date, save and except for the disclosure set out in "Financial Information — Recent

Development and No Material Adverse Change" and "Financial Information — Listing Expenses" in this prospectus, there is no material adverse change to our Company's financial or trading positions or prospect with specific reference to the trading results from 1 November 2020 and up to the date of this prospectus; and

(f) our Company shall publish our annual report for the financial year ended 31 December 2020 no later than 30 April 2021 in strict compliance with Rule 13.46(2) of the Listing Rules.

We have also applied for, and the SFC has granted us, a certificate of exemption under section 342A(1) of the Companies (WUMP) Ordinance from strict compliance with Paragraph 27 and Paragraph 31 on the conditions that:

(a) the particulars of the exemption are set out in this prospectus; and

(b) this prospectus will be issued on or before 18 March 2021 and the Shares will be listed on the Stock Exchange on or before 31 March 2021 (i.e. three months after the latest financial year-end).

The applications to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules and to the SFC for a certificate of exemption from strict compliance with the requirement under section 342(1)(b) in respect of Paragraph 27 and Paragraph 31 were made on grounds that the strict compliance with the requirements thereunder would be unduly burdensome and the waiver and exemption thereof would not prejudice the interest of the investing public for the following reasons:

(a) there would not be sufficient time for us to prepare the full year financial information for the year ended 31 December 2020 and for our reporting accountants to complete and finalise the audit work on the financial information for the full year ended 31 December 2020 for inclusion in this prospectus, which shall be issued on or before 18 March 2021. If the financial information is required to be audited up to 31 December 2020, we and our reporting accountants would have to undertake a considerable amount of work, costs and expenses to prepare, update and finalise the accountants' report and the relevant sections of this prospectus will also need to be updated to cover such additional period. This would involve additional time and costs since substantial work is required to be carried out for audit purposes and therefore it is unduly burdensome for the audited results for the year ended 31 December 2020 to be finalised in a short period of time;

(b) our Directors are of the view that the benefits of such additional work to be done by our reporting accountants to the potential investors would not justify the additional amount of work, costs and expenses and the delay in the listing timetable as (i) the accountants' report covering the three years ended 31 December 2017, 2018 and 2019 and the ten months ended 31 October 2021; (ii) unaudited financial information and a commentary on the results of our Group for the year ended 31 December 2020 as set out in Appendix III to this prospectus (which complies with Rule 13.49 of the Listing Rules; and (iii) all information that is reasonably necessary for the potential investors to make an informed assessment of the activities, assets and liabilities, financial position, management and prospect of our Group has been included in this prospectus, as such, the waiver granted by the Stock Exchange and the certificate of exemption granted by the SFC from strict compliance with Rule 4.04(1) of the Listing Rules and the requirements under section 342(1)(b) of the Companies (WUMP) Ordinance in respect of Paragraph 27 and Paragraph 31, respectively, will not prejudice the interests of the investing public;

(c) our Directors confirmed that up to the Latest Practicable Date, save and except for the disclosure set out in "Financial Information — Recent Development and No Material Adverse Change" and "Financial Information — Listing Expenses"in this prospectus, there has been no material adverse change to the financial or trading positions or prospects of our Group since 1 November 2020 (immediately following the date of the latest audited statement of financial position in the accountants' report set out in Appendix I to this prospectus) up to the date of this prospectus and there has been no event which would materially affect the information shown in the accountants' report as set out in Appendix I to this prospectus since 1 November 2020 and the unaudited financial information of our Group for the year ended 31 December 2020. In the course of the due diligence performed by the Sole Sponsor, nothing has come to the attention of the Sole Sponsor that may cast doubt on the views of our Directors as expressed above;

(d) in respect of the expected impact of the recent development and the expenses incurred in connection with the Listing on our Group's performance since 1 November 2020 up to the date of this prospectus, a detailed analysis in respect of and the reasons for such impact have been included in "Financial Information — Recent Development and No Material Adverse Change" and "Financial Information — Listing Expenses" in this prospectus;

(e) in accordance with Guidance Letter HKEx-GL-25-11 issued by the Stock Exchange, our Company has included in Appendix III to this prospectus the unaudited preliminary financial information and a commentary on the results of operations of our Group for the year ended 31 December 2020, which (i) follow the same content requirements applicable to a preliminary results announcement under Rule 13.49 of the Listing Rules; and (ii) have been agreed with our reporting accountants following their review under Practice Note 730 "Guidance for Auditors Regarding Preliminary Announcements of Annual Results" issued by the Hong Kong Institute of Certified Public Accountants; and

(f) our Company will comply with the requirements under Rule 13.46(2) of the Listing Rules in respect of the publication of its annual report after the Listing. Our Company currently expects to issue its annual report for the financial year ended 31 December 2020 on or before 30 April 2021. In this regard, our Directors consider that our Shareholders, the investing public as well as potential investors of our Company will be kept informed of the financial results of our Group for the financial year ended 31 December 2020.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and is not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the related Applicant Forms contain the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set forth herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus and the relevant Application Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of our or their respective directors, officers, agents, employees or advisors or any other party involved in the Global Offering.

We have reserved the right to make a Downward Offer Price Adjustment to provide flexibility in pricing the Offer Shares. The ability to make a Downward Offer Price Adjustment does not affect our obligation to issue a supplemental prospectus and to offer investors a right to withdraw their applications if there is a material change in circumstances not disclosed in the prospectus. If it is intended to set the Offer Price at more than 10% below the bottom end of the indicative Offer Price range, the Withdrawal Mechanism will be applied if the Global Offering is to proceed.

Neither the delivery of this prospectus nor any subscription or purchase made under it shall, under any circumstances, constitute a representation that there has been no change or development in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus, and the procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and in the relevant Application Forms.

UNDERWRITING

The Listing, and permission to deal in, the Shares on the Stock Exchange is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong

Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) agreeing on the Offer Price. The International Underwriting Agreement relating to the International Offering is expected to be entered into on or around the Price Determination Date, subject to determination of the final Offer Price of the Offer Shares. Further information regarding the Underwriters and the underwriting arrangements are set out in the section headed "Underwriting" in this prospectus.

If, for any reason, the Offer Price is not agreed among our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before the Price Determination Date, the Global Offering will not proceed and will lapse. For further information about the Underwriters and the underwriting arrangements, please see the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON OFFER OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and the relevant Applicant Forms and that he is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

No action has been taken to permit an offering of the Offer Shares or the distribution of this prospectus and/or the Application Forms in any jurisdiction other than in Hong Kong. Accordingly, this prospectus and the relevant Application Forms may not be used for the purpose of, and does not constitute, an offer or invitation, nor is it calculated to invite or solicit offers in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the relevant Application Forms and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption from applicable securities law. In particular, the Offer Shares have not been offered and sold, and will not be offered or sold, directly or indirectly in the PRC, the United States of America or the Cayman Islands. Persons who possess this prospectus are deemed to have confirmed with our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Lead Managers and the Joint Bookrunners and the Underwriters that such restrictions have been observed.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the Offer Shares, any Shares to be issued (a) under the Capitalisation Issue, (b) the exercise of the Over-allotment Option, and (c) upon the exercise of any options which may be granted under the Share Option Scheme).

No part of our share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, if the permission for the Shares offered under the Prospectus to be listed on the Main

Board has been refused before the expiration of three weeks from the date of the closing of the Global Offering or such longer period not exceeding six weeks as may, within the said three weeks, be notified to our Company for permission by or on behalf of the Listing Committee, then any allotment made on an application in pursuance to this prospectus shall, whenever made, be void.

Pursuant to Rule 8.08 of the Listing Rules, at all times after the Listing, our Company must maintain the "minimum prescribed percentage" of 25% or such applicable percentage of the issued share capital of our Company in the hands of the public (as defined in the Listing Rules).

COMMENCEMENT OF DEALINGS IN THE SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, 31 March 2021, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, 31 March 2021. The Shares will be traded in board lots of 2,000 Shares each.

The stock code of the Shares will be 6939.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, the Offer Shares or exercising any rights attaching to the Offer Shares. We emphasise that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers, employees, advisers, agents or representatives or any other person involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchasing, holding or disposing of, or dealing in, the Offer Shares or exercising of any rights attaching to the Offer Shares.

REGISTER OF MEMBERS AND HONG KONG STAMP DUTY

Our principal register of members will be maintained by our Cayman Islands share registrar, Conyers Trust Company (Cayman) Limited, in the Cayman Islands and our Hong Kong register of members will be maintained by our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, in Hong Kong. All Offer Shares will be registered on the Company's Hong Kong register of members in Hong Kong. Dealings in the Shares registered on our Hong Kong register of members will be subject to Hong Kong stamp duty.

OUR SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisors for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

STABILISATION AND OVER-ALLOTMENT OPTION

Details of the arrangement relating to the stabilisation and Over-allotment Option are set out under the section headed "Structure of the Global Offering" in this prospectus.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedures for applying for Hong Kong Offer Shares is set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

CONVERSION AND EXCHANGE RATE

For the purpose of illustration only, this prospectus contains translations among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars. Unless otherwise specified, (i) the conversions between Renminbi and HK dollars were made at the rate of RMB0.83318 to HK$1.00, (ii) the conversions between Renminbi and U.S. dollars were made at the rate of RMB6.4625 to US$1.00 and (iii) the conversions between U.S. dollars and Hong Kong dollars were made at the rate of HK$7.7865 to US$1.00.

No representation is made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments, or have been rounded to one or two decimal places. Any discrepancies in any table, chart or elsewhere between totals and sums of amounts listed therein are due to rounding.

LANGUAGE

The Chinese language version of this prospectus is translated from the English version. In the event of any discrepancies or conflicts between the contents of the Chinese version and the English version of this prospectus, the English version shall prevail. The translated English names of the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations and the like are translations of their Chinese names and are included for identification purposes only. If there is any inconsistency, the Chinese name prevails.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Cheng Hsien-Wei (鄭憲徽)	13/F, No. 6 Gangqian Road Neihu District, Taipei City Taiwan	Taiwanese
Mr. Lee Kuo-Chang (李國彰)	6/F, No. 53 Lane 443, Section 2, Zhongshan Road Banqiao District, New Taipei City Taiwan	Taiwanese
Non-executive Directors		
Mr. Lam Tsz Leung (林子良)	Flat H, 12th Floor, Block 3 Sceneway Garden Lam Tin, Kowloon Hong Kong	Chinese (Hong Kong)
Ms. Yu Erhao (余尔好)	Flat C, 11/F Tower 1, Phase 1, Ocean Shores 88 O King Road Tseung Kwan O, New Territories Hong Kong	Chinese (Hong Kong)
Independent Non-executive Directors		
Mr. Chen Mark Da-jiang	Unit 919, 500 East 77th Street New York, NY 10162 United States	American
Mr. Kao Yi-Ping (高亦平)	12/F, No. 83 Section 4, Chengde Road Shilin District, Taipei City Taiwan	Taiwanese
Mr. Li Huaxiong (李華雄)	Unit 26B, Block 2, Holiday Bay No. 6 Chaozhou West Street Overseas Chinese City Nanshan District, Shenzhen China	Chinese

Please refer to the section headed ”Directors and Senior Management” in this prospectus for further details of our Directors.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor	**CMBC International Capital Limited** 45/F, One Exchange Square 8 Connaught Place Central Hong Kong
Sole Global Coordinator	**CMBC Securities Company Limited** 45/F, One Exchange Square 8 Connaught Place Central Hong Kong
Joint Bookrunners	**CMBC Securities Company Limited** 45/F, One Exchange Square 8 Connaught Place Central Hong Kong
	Yuan Tong Global Securities Limited Unit 901, 9/F No.118, Connaught Road West Hong Kong
	CCB International Capital Limited 12/F., CCB Tower 3 Connaught Road Central Central, Hong Kong
	Haitong International Securities Company Limited 22/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
	BOCOM International Securities Limited 9th Floor, Man Yee Building 68 Des Voeux Road Central Hong Kong
	Dongxing Securities (Hong Kong) Company Limited 6805-6806A, 68/F, ICC 1 Austin Road West Kowloon Hong Kong
	Vision Finance International Company Limited Unit 1001, 10/F Central Tower 28 Queen’s Road Central Hong Kong

Joint Lead Managers	**CMBC Securities Company Limited** 45/F, One Exchange Square 8 Connaught Place Central Hong Kong
	Yuan Tong Global Securities Limited Unit 901, 9/F No.118, Connaught Road West Hong Kong
	CCB International Capital Limited 12/F., CCB Tower 3 Connaught Road Central Central, Hong Kong
	Haitong International Securities Company Limited 22/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
	BOCOM International Securities Limited 9th Floor, Man Yee Building 68 Des Voeux Road Central Hong Kong
	Dongxing Securities (Hong Kong) Company Limited 6805-6806A, 68/F, ICC 1 Austin Road West Kowloon Hong Kong
	Vision Finance International Company Limited Unit 1001, 10/F Central Tower 28 Queen's Road Central Hong Kong
	Glory Sun Securities Limited 18/F., Wing On Centre 111 Connaught Road Central Sheung Wan Hong Kong
	China Sky Securities Limited Room 1803-4, West Tower Shun Tak Centre 200 Connaught Road Hong Kong

Fulbright Securities Limited
Room 2608-11, 26/F
Wing On Centre
No. 111 Connaught Road
Central
Hong Kong

Grand View Securities Limited
Suite 3303
33/F, The Center
99 Queen's Road Central
Hong Kong

Ever-Long Securities Company Limited
Room 1101-1102 & 1111-1112
11/Floor, Wing On Centre
111 Connaught Road Central
Sheung Wan
Hong Kong

Venture Smart Asia Limited
23/F Lee Garden Five
18 Hysan Avenue
Causeway Bay
Hong Kong

Lego Securities Limited
Room 301
3/F, China Building
29 Queen's Road Central
Hong Kong

Livermore Holdings Limited
Unit 1214A
12/F, Tower II Cheung Sha Wan Plaza
833 Cheung Sha Wan Road
Kowloon
Hong Kong

Legal advisers to our Company

as to Hong Kong law:
King & Wood Mallesons
13/F, Gloucester Tower, The Landmark
15 Queen's Road Central
Hong Kong

as to PRC law:
King & Wood Mallesons
28/F, China Resources Tower
2666 Keyuan South Road
Nanshan District, Shenzhen
Guangdong Province
China

	as to Taiwan law: **Formosa Transnational Attorneys at Law** 13/F, No.136, Section 3, Jen Ai Road Taipei City Taiwan
	as to Cayman Islands law: **Conyers Dill & Pearman** Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Legal adviser to the Sole Sponsor and the Underwriters	*as to Hong Kong law:* **Chiu & Partners** 40/F, Jardine House 1 Connaught Place Hong Kong
	as to PRC law: **Dentons** 7/F, Building D, Parkview Green FangCaiDi 9 Dongdaqiao Road Chaoyang District, Beijing China
Auditors and reporting accountants	**BDO Limited** *Certified Public Accountants* 25/F, Wing On Centre 111 Connaught Road Central, Hong Kong
Internal control consultant	**RSM Consulting (Hong Kong) Limited** 29/F, Lee Garden Two, 28 Yun Ping Road Causeway Bay, Hong Kong
Industry consultant	**China Insights Industry Consultancy Limited** 10F, Block B, Jing'an International Center 88 Puji Road Jing'an District, Shanghai China
Receiving bank	**DBS Bank (HongKong) Limited** 11/F The Center 99 Queen's Road Central Hong Kong

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office and principal place of business in the PRC	Block A, Floor 3 No. 115 Huawei Road Zhuhai City, Guangdong Province China
Head office and principal place of business in Taiwan	Room 7, 19/F No. 75, Section 1, Xintai 5th Road Xizhi District New Taipei City Taiwan
Principal place of business in Hong Kong	Room 09, 11/F Wayson Commercial Building 28 Connaught Road West Sheung Wan Hong Kong
Compliance adviser	CMBC International Capital Limited
Company secretary	Mr. Wong Cheuk Lam (黃焯琳), *HKICPA, CPAA*
Authorised representatives	Mr. Cheng Hsien-Wei (鄭憲徽) 13/F, No. 6 Gangqian Road Neihu District, Taipei City Taiwan Mr. Wong Cheuk Lam (黃焯琳) Flat B, 3/F, Block 2A The Wings IIIA 19 Tong Yin Street Tseung Kwan O New Territories Hong Kong
Audit Committee	Mr. Li Huaxiong (李華雄) *(Chairperson)* Mr. Chen Mark Da-jiang Mr. Kao Yi-Ping (高亦平)

Remuneration Committee	Mr. Chen Mark Da-jiang *(Chairperson)* Mr. Li Huaxiong (李華雄) Ms. Yu Erhao (余尓好)
Nomination Committee	Mr. Cheng Hsien-Wei (鄭憲徽) *(Chairperson)* Mr. Chen Mark Da-jiang Mr. Li Huaxiong (李華雄)
Hong Kong branch share registrar and transfer office	**Tricor Investor Services Limited** Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Cayman Islands share registrar and transfer office	**Conyers Trust Company (Cayman) Limited** Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal bank	**China Resources Bank of Zhuhai Co., Ltd. (Yinhua Branch)** Shop 46, 1/F Block 1, 2 & 3, Yinhua New Village Xingye Road, Xiangzhou District Zhuhai City, Guangdong Province China
Company website address	**http://www.megaincayman.com** *(Note: Contents in this website do not form part of this prospectus)*

The information presented in this section is, including certain facts, statistics and data, derived from the CIC Report, which was commissioned by us and from various official government publications and other publicly available publications, unless otherwise indicated. We believe that these sources are appropriate for such information and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved, excluding CIC, in the Global Offering and no representation is given as to its accuracy, completeness or fairness. The information and statistics may not be consistent with other information and statistics compiled within or outside of the PRC. As a result, excessive reliance on the information contained in this section shall be avoided.

SOURCE OF INFORMATION

We commissioned CIC, a market research and consulting company and an Independent Third Party, to conduct an analysis of, and to report on China's compatible cartridge chip industry for the period from 2015 to 2024. The CIC Report has been prepared by CIC independent of our influence. The fee payable to CIC for preparing the CIC Report is RMB780,000, which we believe reflects the market rate for similar services. CIC is a consulting firm founded in Hong Kong. It provides professional industry consulting services across multiple industries. CIC's services include industry consulting services, commercial due diligence and strategic consulting.

Our Directors are of the view that the information set forth in this section is reliable and not misleading as the information was extracted from the CIC Report and CIC is an independent market research company with extensive experience in their profession. CIC obtained information and industry data through primary research and secondary research. Primary research was conducted via in-depths interviews with experts from Zhuhai Cartridge Industry Association* ("珠海耗材行業協會"), which is the major cartridge industry association in the PRC with major industry leaders as its member companies. The interviewees include management level personnel in leading industry participants, key stakeholders and experts in overseas market, etc. Secondary research involved analysis of market data obtained from publicly available data sources such as General Administration of Customs of China, United Nations Comtrade Database, United States Customs Service, etc. The methodology used by CIC is based on information gathered from multiple levels and allows such information to be cross-referenced for accuracy. All statistics are based on information available as at the date of the CIC Report. On the basis of the aforementioned, we consider the data and statistics to be reliable.

ASSUMPTIONS

The CIC Report contains a variety of market projections which were produced with the following key assumptions: (i) the overall social, economic, and political environment in the research scope regions are expected to remain stable during the forecast period; (ii) related key industry drivers are likely to propel continued growth in compatible cartridge chip industry throughout the forecast period, including increasing industry maturity and increasing research and development investments within the industry, formation of an industry cluster in Zhuhai, and favourable government policy support; (iii) the impact of US-China trade war has been taken into account in estimating industry growth and (iv) there is no extreme force majeure or unforeseen industry regulations in which the market may be affected in either a dramatic or fundamental way.

The CIC Report mainly focuses on the compatible cartridge chip industry in the PRC. Our Directors confirm that after taking reasonable care, there is no material adverse change in the market information since the date of the relevant data contained in the CIC Report which may qualify, contradict or have an impact on the information in this section.

Except as otherwise noted, all of the data and forecasts contained in this section are derived from the CIC Report. Parameters used in the CIC Report include: (i) total installed base of printers; (ii) total revenue of compatible ink cartridge market; (iii) total revenue of compatible toner cartridge market; (iv) total production volume of compatible cartridge chips; and (v) total revenue of compatible cartridge chips.

OVERVIEW OF THE CARTRIDGE INDUSTRY

Definition of the cartridges

Cartridges mainly refer to toner cartridges for laser printers and ink cartridges for inkjet printers. Toner cartridges are composed of cartridge chips, toner and rollers/drums, while ink cartridges are composed of chips, ink and printheads. The quality of cartridges directly determines the printing efficiency and imaging quality, and relates to the energy consumption and emission of printing equipment. Cartridges can be categorized into either compatible cartridge or original-brand cartridge based on the designer and manufacturer of the cartridge, the price of compatible cartridge is usually 10% to 40% of original-brand cartridge.

Definition of the cartridge chip

The cartridge chip is one of the core components in toner or ink cartridges, and is composed of CPU, memory unit, analog circuit, data and software. The main functions are printer identification, communication between printer and cartridge, information storage, print volume display, measurement of remaining toner/ink. Based on the designer and manufacturer of the cartridge chip, it can be further categorized into either a compatible cartridge chip or an original-brand cartridge chip. With the maturity of the compatible cartridge chip market, compatible cartridge chips is gradually taking larger market shares.

	Compatible cartridge chips	Original-brand cartridge chips
Description	Compatible cartridge chips are designed and manufactured by third-party compatible cartridge chip providers and manufacturers. Compatible cartridge chips are compatible for a particular printer model series.	Original-brand cartridge chips are designed and produced by the original-brand printer companies. Original-brand chip is usually designed for a specific model of printer.
Accessibility	The research and development process of new cartridge chips which respond to a particular printer model series takes some time, so chips for new printer models may not be available. Except for the latest models, a compatible cartridge chip for most printing devices can be easily purchased online.	Original-brand cartridge chips are embedded in the original-brand toner or ink cartridges. Such chips are not available for sale.
Technology	The technology of compatible cartridge chip provider is advancing as the earlier the compatible chip is launched in the market, the fewer competitors it will face, and the higher the price the company is able to charge. In addition, technical improvement of original-brand cartridge chips drives the technological advancement of compatible cartridge chip providers.	Original-brand cartridge chips' designs come with increasing complexity. In addition, the chips look very different from one printer model to another even under the same brand name. Original-brand printer companies continue to upgrade their chip designs and production technologies in order to increase the technical barrier.

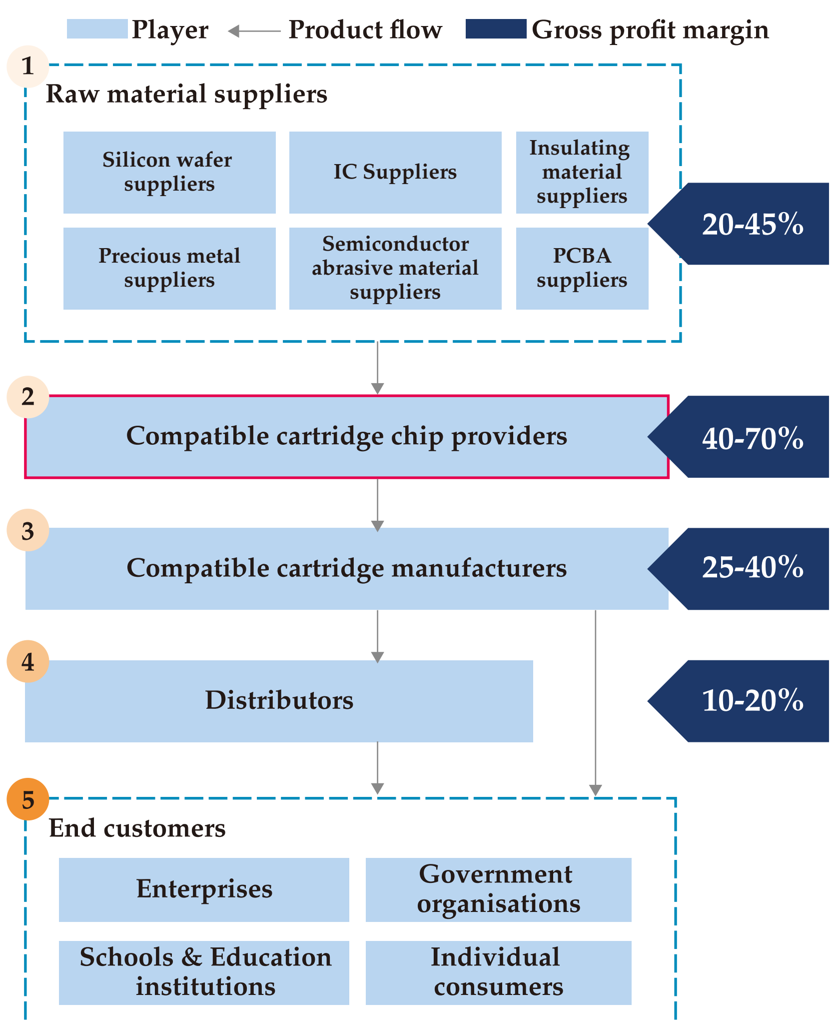
Source: CIC

The market of cartridges comprises of original-brand cartridge and compatible cartridge. Compatible cartridges are generally considered as a cost-effective alternative to the original-brand cartridges. The relatively low cost of compatible cartridge drives down the cost of using printer. As cartridges and printers are in complementary demand, the introduction of compatible cartridge can therefore boost the demand for the corresponding original-brand printer. However, if compatible cartridge takes up a large market share of the cartridge market, the sales revenue derived from the sale of cartridges of the original-brand printer companies will be adversely affected.

With the development of the printing industry, compatible cartridge has experienced an increasing popularity. Notwithstanding their lower costs, the functions of compatible cartridges comparable to the functions of original-brand cartridge in general with the continuous evolvement of technology. In addition, the Chinese government has officially incorporated domestically produced compatible cartridge into the government procurement list. Thus, the market share of compatible cartridge is expected to grow steadily. In 2019, compatible cartridges accounted for 21.1% of the global cartridge demand by sales volume and 7.7% by sales revenue, and it is expected that compatible cartridges will account for 22.8% of global cartridge demand by sales volume and 8.7% by sales revenue by 2024.

Industry value chain

Industry value chain of the compatible cartridge chip market



Source: CIC

Raw material suppliers: *The upstream of the compatible cartridge chip market comprises raw material suppliers who provide basic raw materials for further manufacturing and assembly. Major raw material suppliers include silicon wafer suppliers, IC suppliers, insulating material suppliers, precious metal suppliers, semiconductor abrasive material suppliers and PCBA suppliers.*

Compatible cartridge chip providers: *A compatible cartridge chip provider is responsible for the design, development and production of software and/or hardware components of compatible cartridge chips. Compatible cartridge chip providers are characterized as talent intensive and technology intensive. Compatible cartridge chip design encompasses the particular logic and circuit design techniques. Typical chip designs involve system specification, system level design, circuit design, physical design and physical verification. Due to the high entry barriers of compatible cartridge chips market, including but not limited to technology, professional talents and sales channels, this market is dominated by a limited number of major compatible cartridge chip providers, which, in turn, would usually enjoy a higher gross profit margin as compared to other players in the industry chain.*

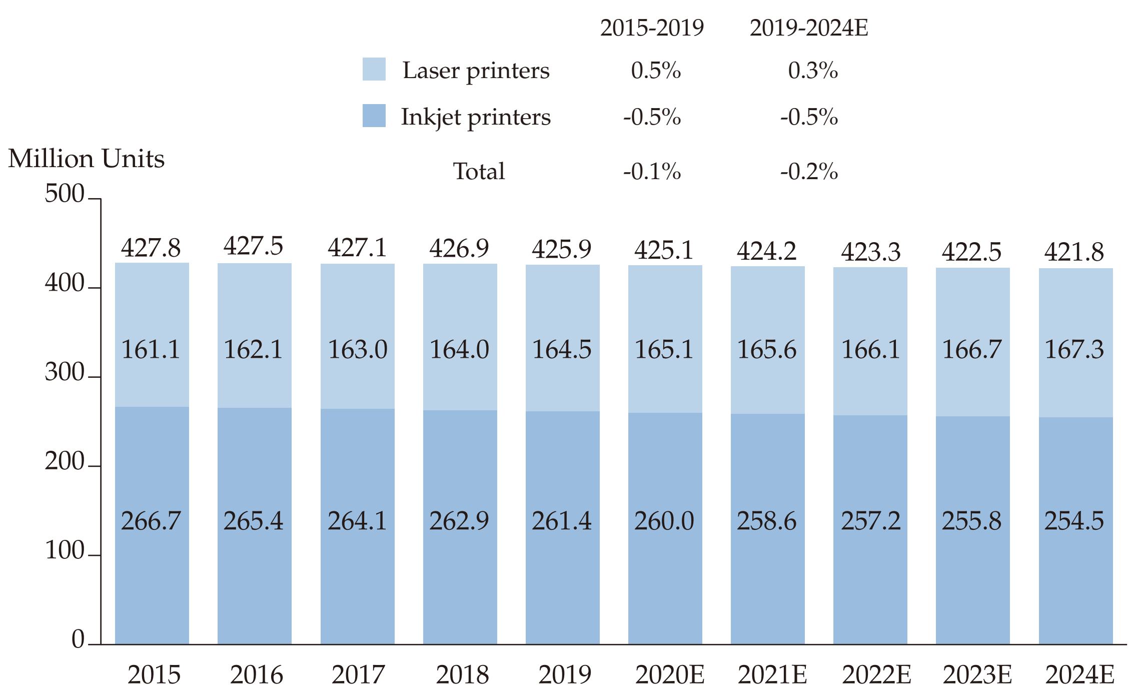
Compatible cartridge manufacturers: *Compatible cartridge manufacturers purchase compatible cartridge chips from compatible cartridge chip providers and install them on ink cartridges and toner cartridges. Compatible cartridge manufacturers can sell compatible cartridge to professional distributors, or directly to end customers through their in-house sales teams or online shopping platforms.*

Distributors: *Compatible cartridge distributors purchase compatible cartridges from the manufactures in bulk and are responsible for the product marketing and after-sales customer services. The distributors typically carry various compatible cartridges from different manufacturers.*

End consumers: *The downstream of the compatible cartridges market comprises end customers who have the needs to replace their used cartridges. These customers include enterprises, government organisations, schools and education institutions and individual consumers.*

The volume of global installed printers

Total installed base of printers, Global, 2015-2024E



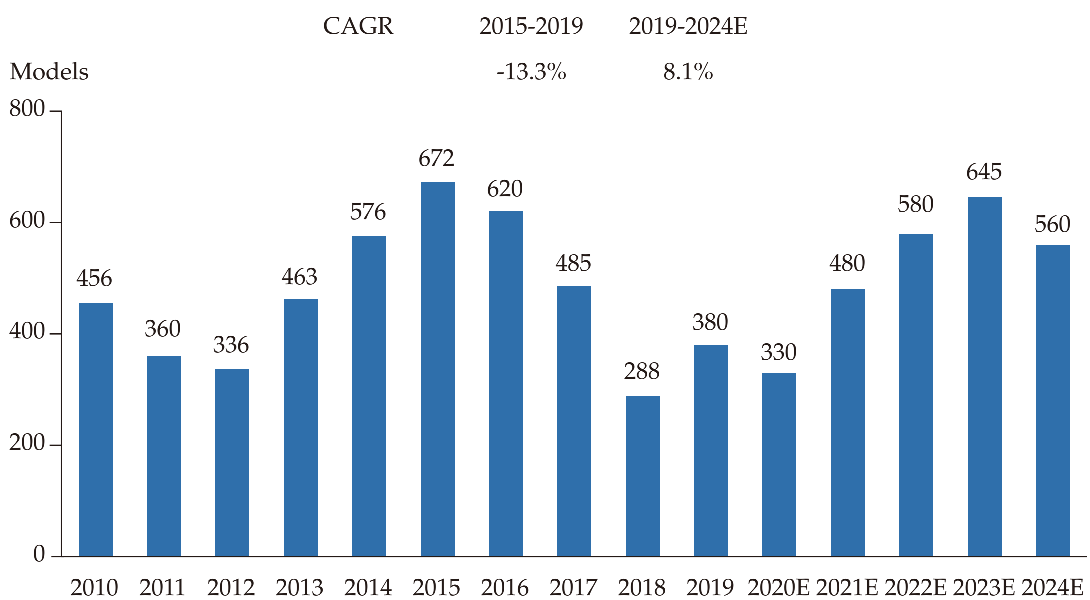
Source: CIC expert interviews, World Print and Communication Forum

The total installed base of printers around the world remained relatively stable in the past few years, reaching 425.9 million units in 2019. With the development of the electronic office in certain industries, the demand for printers could see a slight negative effect. The total installed base of printers is expected to decrease slightly in coming years, falling to 421.8 million units in 2024, with a negative CAGR of 0.2% between 2019 and 2024.

Laser printers have certain advantages compared with inkjet printers, such as faster printing speed. Therefore, laser printers are becoming increasingly popular nowadays. The total installed base of laser printers increased from 161.1 million units in 2015 to 164.5 million units in 2019 with a CAGR of 0.5%, and is expected to continue to grow and reach 167.3 million units in 2024, representing a CAGR of 0.3% from 2019 to 2024.

New product launch of original-brand printers

Total number of new original-brand printer model launched, global, 2010-2024E



Source: CIC expert interviews, Original-brand printer company websites

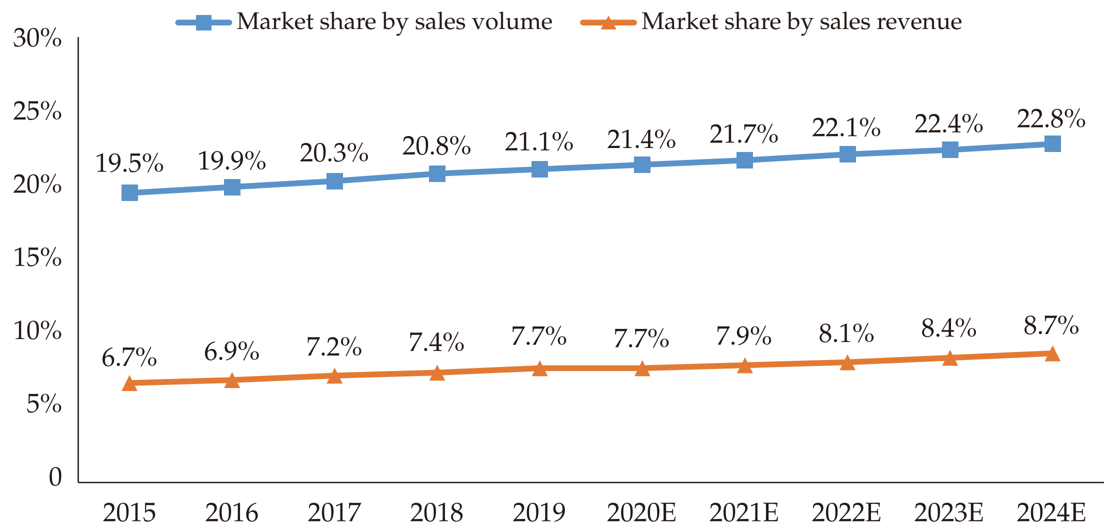
Original-brand printers are categorised by the technology applied into each series and there are usually a few models in each series launched and models of various language configuration in different regions. Moreover, the cartridges designed for a particular printer model may come in different colours (each colour of cartridges represents a distinctive cartridge model) to enable monochrome printing and colour printing and hence, a model of original-brand printer usually comes along with a few number of corresponding models of cartridges. The number of new printer launched is highly correlated with the technology development cycle. Consumers are constantly seeking for faster and higher printing quality printers. Printer companies would invest heavily in research and development to develop such printer products. As it takes years for original-brand printer companies to develop new technology, the number of new printer launched appears to be cyclical in historical record period. In addition, the mergers and acquisitions activities in the printer industry also caused the postpone of new product launch during 2018-2019. In the future, with consumers' increasing demand on printers with higher printing volume, environment-friendly printing solution, cloud printing feature and etc, printer companies are expected to launch new products and the number of new printer models launched is expected to increase.

In recent years, due to the completion of certain mergers and acquisitions among the major printer companies, the launch of new printers in the recent years have been postponed as a whole. For example, a leading U.S. based printer company acquired the printer business of a Korea based printer company in late 2017, and the subsequent adjustments to operation of such printer companies with a view to optimise their overall management system delayed the launch of new printers. As a result, the number of newly launched printer models decreased since 2017 and almost reached the lowest level in 2018. While a recovery in the number of newly launched printer models was recorded in 2019, as a result of COVID-19, such number is expected to decrease in 2020 and the launch of new products is expected to be further postponed to 2021. Despite the abovementioned disruptions to the printer industry, the printer companies are expected to launch more models of printers in the near future, considering the number of printers yet to be launched previously and the new models to be launched in light of technological advancement.

The number of newly launched printer models usually has significant impacts on the compatible cartridge industry, particularly in the following year as it usually takes six to 18 months to launch the corresponding compatible cartridge chips for a new printer model. As detailed in the paragraphs "Product life cycle and pricing" in this section, the price and profit margin of compatible cartridge chips are usually set at a higher level, when it is firstly introduced after the launch of a new printer model. When the number of newly launched printer models is limited, notwithstanding more compatible cartridge chip providers will compete to launch the compatible cartridge chips for such new printer models, it also allows time for compatible cartridge chip providers with limited research and development capacity to catch up for the previously launched printer models, which will lead to more fierce competition in compatible cartridge chip industry and in turn, result in a sharper decreasing trend of price and profit margin along the life cycle of compatible cartridge chips. On the other hand, newly launched printers usually come with upgraded and advanced technologies, which would usually require more advanced technology embedded in the corresponding compatible cartridge chips. Compatible cartridge chip providers with limited research and development capacity may not be able to capture the opportunities from such launch and survive in the compatible cartridge chip industry.

The market share of global compatible cartridge industry

Market share of compatible cartridge by sales revenue and sales volume, Global, 2015-2024E

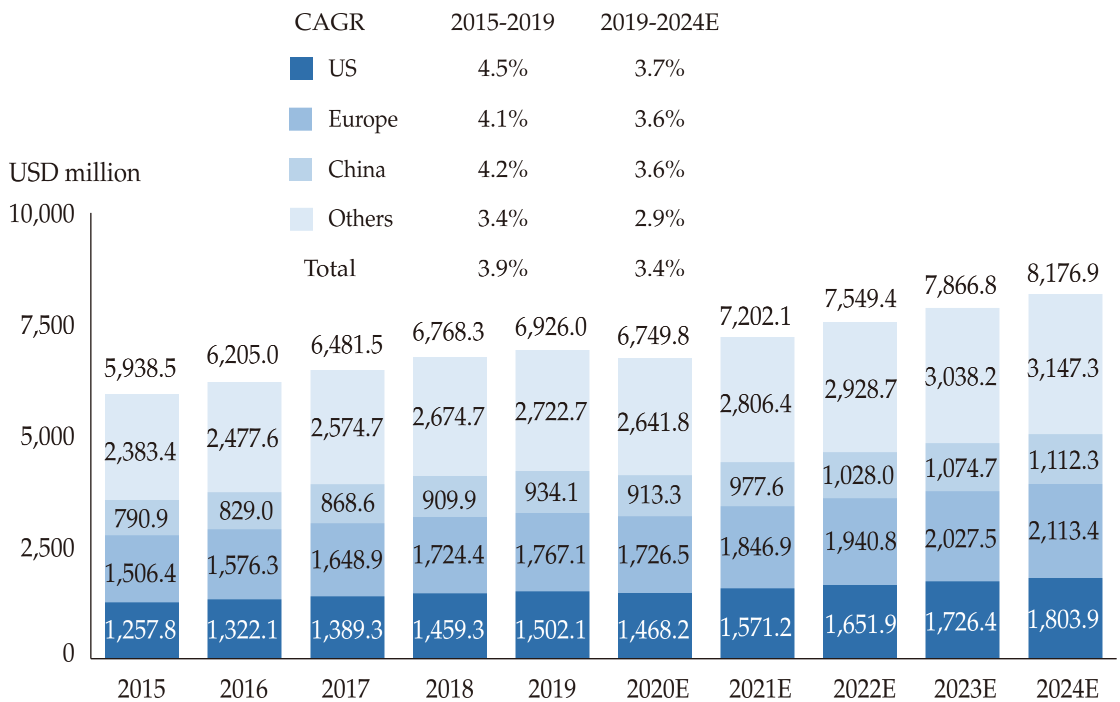


Source: CIC expert interviews, Zhuhai Printer Cartridge Industry Association, General Administration of Customs of China, United Nations Comtrade Database, United States Customs Service

The market share of compatible cartridge by sales volume increased from 19.5% in 2015 to 21.1% in 2019 and such number is expected to reach 22.8% in 2024. Because the price of compatible cartridge is typically 10%-40% of the original-brand cartridge, the market share of compatible cartridge by sales revenue increased from 6.7% in 2015 to 7.7% in 2019 and it is expected to reach 8.7% in 2024. In addition, the compatible cartridge chips market accounted for approximately 24.3% of the cartridge chips market by volume in the PRC in 2019.

The market size of global compatible ink cartridge industry

The market size of compatible ink cartridge market in terms of total retail value, Global, 2015-2024E

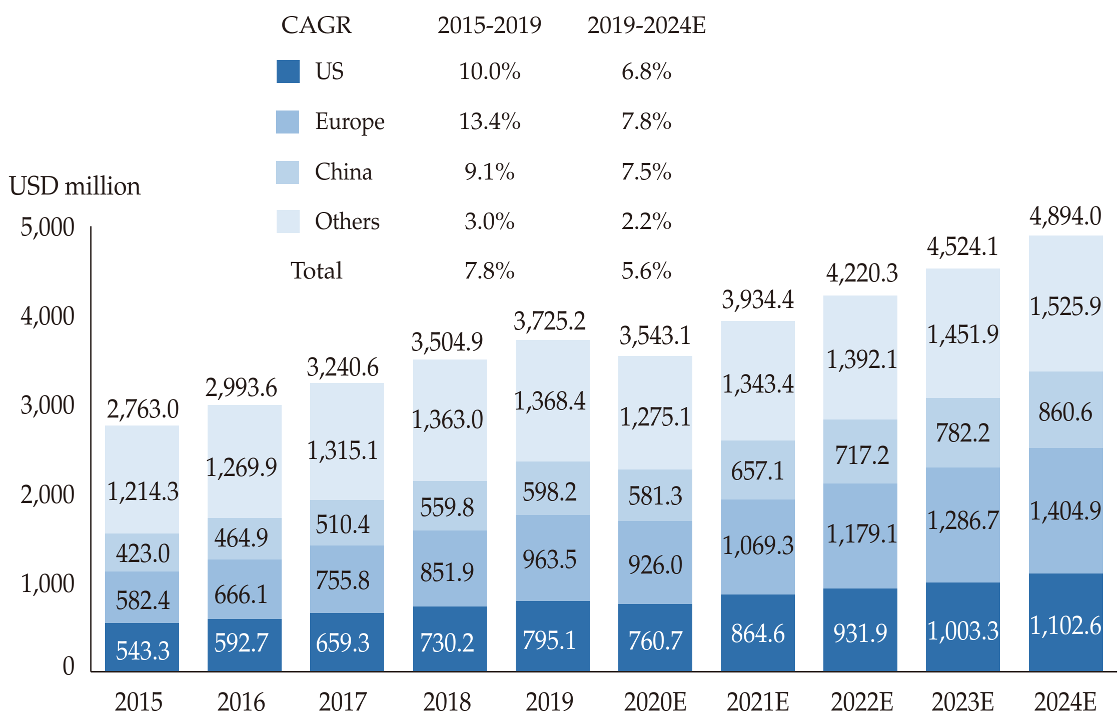


Source: CIC expert interviews, Zhuhai Printer Cartridge Industry Association, General Administration of Customs of China, United Nations Comtrade Database, United States Customs Service

The compatible ink cartridge market experienced steady growth in the past few years, the global compatible ink cartridge market in terms of total retail value increased from USD5,938.5 million in 2015 to USD6,926.0 million in 2019, representing a CAGR of 3.9%. With the increasing penetration rate of compatible ink cartridge, the market is expected to continue its growth and reach USD8,176.9 million in 2024, representing a CAGR of 3.4% between 2019 and 2024.

The market size of global compatible toner cartridge industry

The market size of compatible toner cartridge market in terms of total retail value, Global, 2015-2024E



Source: CIC expert interviews, Zhuhai Printer Cartridge Industry Association, General Administration of Customs of China, United Nations Comtrade Database, United States Customs Service

The compatible toner cartridge market experienced steady growth in the past few years, the global compatible toner cartridge market in terms of total retail value increased from USD2,763.0 million in 2015 to USD3,725.2 million in 2019, representing a CAGR of 7.8%. With the increasing penetration rate of compatible toner cartridge, the market is expected to continue its growth and reach USD4,894.0 million in 2024, representing a CAGR of 5.6% between 2019 and 2024.

For both compatible ink cartridge and compatible toner cartridge, the market demand is negatively impacted by COVID-19 in 2020 and is expected to experience a decrease of 3.4% comparing with 2019 in total retail value. As the impact of COVID-19 is expected to gradually fade away and compatible cartridges are expected to have a relatively higher demand in the potential economic recession, the market is expected to resume its growth from 2021.

Compatible cartridges can be used in either desktop printers or commercial printers, and the market can be further divided into desktop and commercial compatible cartridge segments. In 2019, the desktop compatible cartridge segments accounted for approximately 90% and 60% of inkjet and toner compatible cartridge market in terms of sales volume, respectively, and accounted for approximately 80% and 30% of the inkjet and toner compatible cartridge market in terms of sales revenue, respectively. The remaining market shares were taken up by compatible cartridges for commercial printers.

Europe and United States remain the two most important markets for compatible cartridge as people in these two regions are more used to printing and the retail price of compatible cartridge are higher in these developed regions. As most compatible cartridges are produced in China, these two regions are the two most important export destination for Chinese cartridge manufacturers.

While Europe and United States remain the two most important markets for their higher retail price in recent years, China, with its cost advantage in manufacturing, becomes the largest production base for compatible cartridges and compatible cartridge chips. Recently, about 79.3% of compatible cartridges and 90.5% of compatible cartridge chips in terms of production volume in the world are made in China. As most of compatible cartridges chips produced in China are mainly sold to Chinese compatible cartridge manufacturers. With the strong research and development barrier of compatible cartridge industry, leading competitors with such capability have taken substantial market shares in the market. As a result, the top two compatible cartridge manufacturers together captured more than 60% of the compatible cartridge market in terms of external sales volume in 2019. At the same time, the top three compatible cartridge chip providers together captured more than 50% of the compatible cartridge chip market in terms of external sales volume in 2019.

Digitalisation of documentation and information and the potential transition to the paperless workplace

With the advancement of technology and the increasing public concern over the environment, end-customers may be less reliant on paper documents and thus decrease the demand for printers and printer cartridges. However, such trend would have limited impact on the printing industry at present due to the following reasons: (i) the digitalisation of documentation highly depends on the development of technology and may also give rise to cyber security problem, and printing would still play an important role in business; and (ii) it takes time to change end-customers' printing habit to go paperless and the costs of going paperless, such as the costs of acquiring digital devices, are high. Compared to the initial cost required for the adoption of the paperless operation, the costs of traditional printing are much lower and offer a more cost-effective solution in the workplace.

Impact of COVID-19 in 2020

To address the impact of COVID-19 in market forecast in 2020, the following assumptions are applied: (i) there will be no long-term restrictions in international trade due to the outbreak; and (ii) the COVID-19 vaccine has been released in the fourth quarter of 2020, however, it remains uncertain that when the COVID-19 pandemic will be fully controlled.

The impact of COVID-19 on the compatible cartridge industry changes along with the development of the spread and control of the disease, which could be categorised into two stages: (i) the early stage where the outbreak of COVID-19 occurred and restriction policies being implemented from February 2020 to June 2020 depends on the re-opening schedule of each country; and (ii) the recovery stage when restrictions being gradually uplifted and business activities slowly resume starting from late April 2020. As of the Latest Practicable Date, the second wave of COVID-19 outbreak hit Europe and the United States in the forth quarter of 2020. Most of these regions have announced new round of restriction measures in response. For example, London entered Tier 4 lockdown in 20 December 2020, which means people must stay at home and cannot stay overnight away from home. As a result, the second wave of COVID-19 outbreak increased uncertainty of global economy outlook. Due to the fact that people are used to the new normal under COVID-19 and are accustomed to working from home, so that the demand for compatible printer cartridge is not expected to further decline under the second wave of COVID-19 outbreak. However, the second wave of COVID-19 outbreak severely impact the logistic, major ports in the U.S. and Europe are not operating at full capacity and it has caused temporary time delay for unloading containers. Such delay further caused container shortage in major Chinese ports, which also affected compatible cartridge export from China.

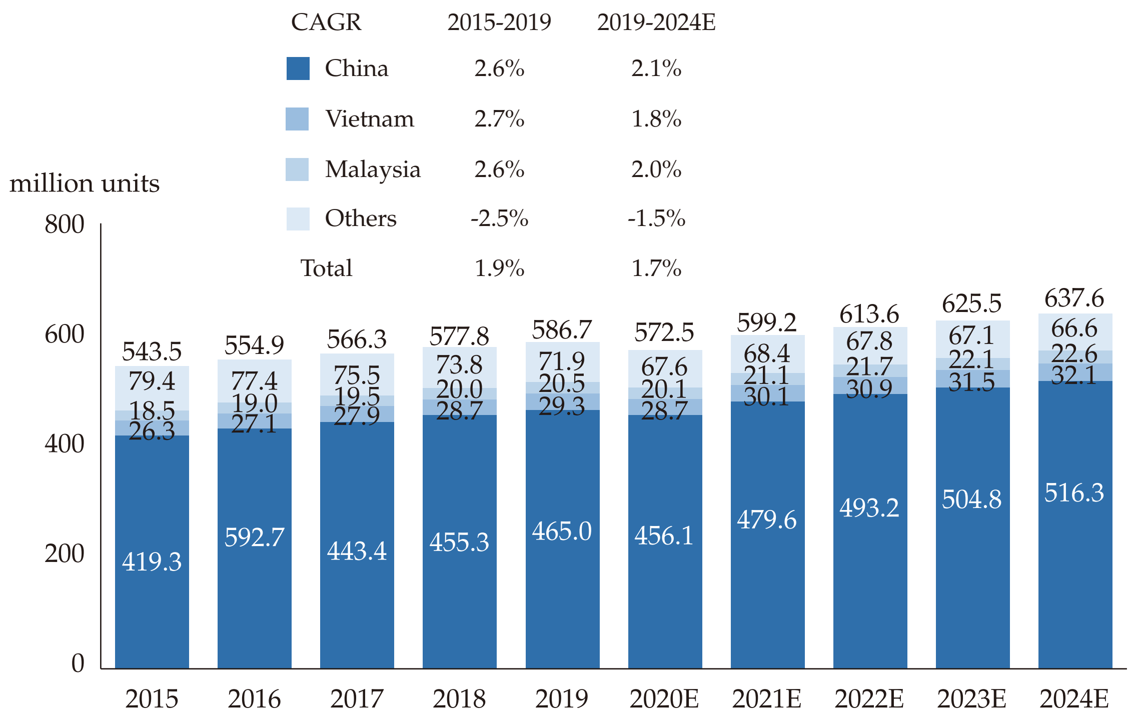
In the early stage when the outbreak occurred, certain countries and regions chose to lockdown certain cities, close schools, require people to stay at home and more companies adopted remote work from home policy. The decline in business activities caused the decreasing demand for office supplies including compatible cartridges. In this stage, as people were required to stay at home, consumers shifted their corporate printing demand to home-based printing, the demand for desktop home printers and cartridges increased significantly according to the public disclosure of several compatible cartridge manufacturers with listing status. In overseas markets, one of the leading original-brand printer companies announced that they observed an increase in demand for printers in those areas where people started to work from home, and in addition, one of the leading hypermarket retailers in the U.S. also reported that the sales of printing products experienced an increase recently.

In the recovery stage, as more countries and cities will begin to uplift the restriction and business activities slowly resume, the need for corporate printing will gradually increase and the demand for cartridge will increase as a result. In this stage, as most companies are still concerned about the economy outlook, they tend to seek for budget saving products. Compatible cartridges, as the cost-effective alternative for original-brand cartridges, may experience higher demand in such period.

As a result of the combining effects, the demand for original-brand cartridge and compatible cartridge in volume is expected to decrease by 4.0% and 2.4%, respectively for the year ending 31 December 2020 as compared to the year ended 31 December 2019. Compatible cartridges accounted for 21.1% of global cartridge demand by volume and 7.7% by retail value in 2019. With the expectation that compatible cartridge continuously cannibalizing original-brand cartridge's market share, the demand for compatible cartridge is expected to recover from 2021 and record a sustainable growth. It is expected that the total demand for compatible cartridges will account for 22.8% of the overall market by volume and 8.7% by retail value by 2024.

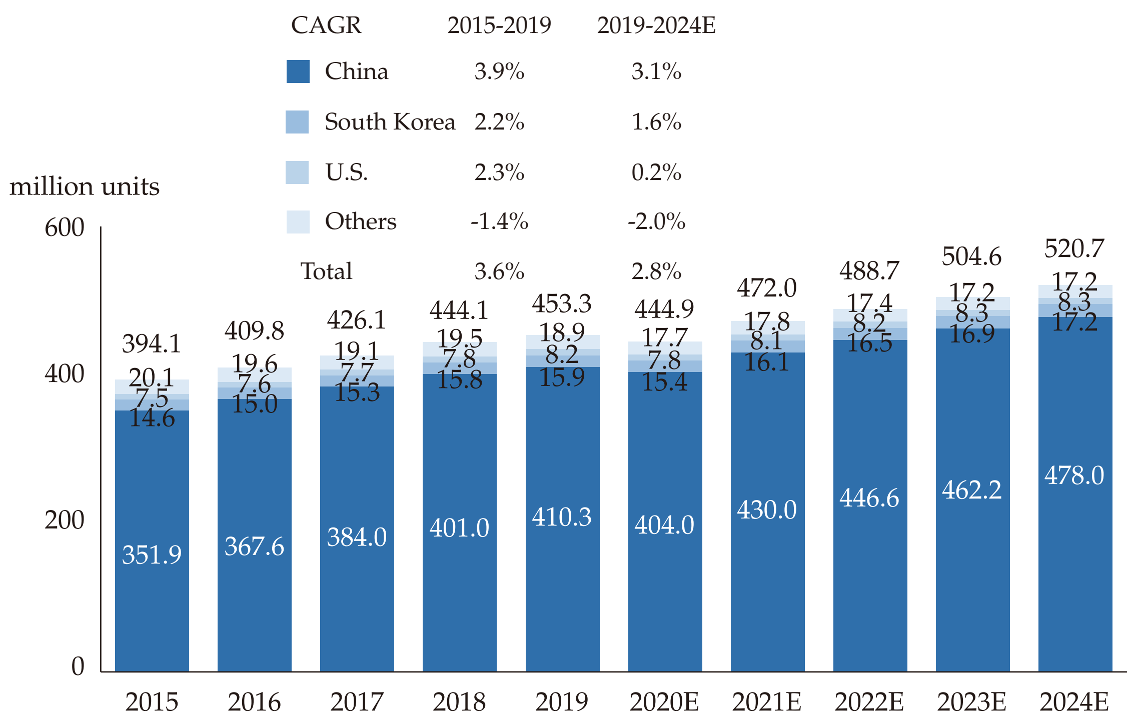
Production of compatible cartridges and compatible cartridge chips in the world

The market size of compatible cartridge market by production volume, Global, 2015-2024E



Source: CIC expert interviews, Zhuhai Printer Cartridge Industry Association, United Nations Comtrade Database

The market size of compatible cartridge chip market by production volume, Global, 2015-2024E



Source: CIC expert interviews, Zhuhai Printer Cartridge Industry Association, United Nations Comtrade Database

In 2019, China dominated the production of compatible cartridges and compatible cartridge chips, and 79.3% of global compatible cartridges and 90.5% of global compatible cartridge chips in terms of production volume were produced in China. As the industry value chain is becoming more mature in China, manufacturers could easily source major raw materials and components with local suppliers at a relatively lower cost, identify and recruit industry talents and share latest industry trend. Thus the PRC is expected to outperform other countries, and in turn, most compatible cartridge manufacturers are expected to keep their production facilities in China despite the tariff imposed by the U.S.

Average price of compatible cartridge chips

The average price of compatible cartridge chips has been increasing with the continuously increasing demand for compatible cartridges from 2015 to 2018. The average price of compatible toner cartridge chips and that of compatible ink cartridge chips increased from RMB7.0 per piece and RMB2.5 per piece to RMB7.8 per piece and RMB2.8 per piece with a CAGR of 3.8% and 3.7% from 2015 to 2018 respectively. In 2019, impacted by the US-China trade war, lack of new products and industry consolidation, the average price of compatible toner cartridge chips and that of compatible ink cartridge chips decreased 14.8% and 13.6% respectively in 2019. The average price of compatible cartridge chips are expected to grow in the foreseeable future with the increasing demand for compatible cartridges. The average price of compatible toner cartridge chips and that of compatible ink cartridges are expected to reach RMB7.4 per piece in 2024 and RMB2.7 per piece with a CAGR of 2.3% and 2.4% from 2019 to 2024 respectively.

During 2019, the following factors have had a relatively large impact on pricing industry-wide:

the US-China trade war: Different level of tariff was imposed on compatible cartridges by the U.S. government based on the HTS code of compatible cartridges. The applicable tariff imposed on compatible cartridges exported from the PRC to the U.S. with certain HTS code was 25% since 6 July 2018. The applicable tariff imposed on compatible cartridges with other HTS code was 15% from 1 September 2019 to 13 February 2020 and 7.5% since 14 February 2020. Most compatible cartridges exported from the PRC to the U.S. are subject to tariff of 7.5% as at the Latest Practicable Date. The imposed tariff will reduce the price advantage of and the demand for compatible cartridges in the US market. The price of compatible cartridge chips has experienced a major decline as a result. While the U.S. and China entered into the phase one trade deal in January 2020, due to the impact of COVID-19 and in turn the recent rapidly changing political environment, currently there is no concrete expected time when a complete trade deal could be reached between the two countries. However, since (i) the majority of compatible cartridges manufacturers are located in the PRC, it is difficult for downstream wholesalers located in the U.S. to seek alternative suppliers outside China and (ii) the gross profit margin for downstream wholesalers remains high enough for them to cover the extra tariff, it is an industry trend that imposed tariff is gradually being shared between compatible cartridge manufacturers and downstream wholesalers in the U.S. , it is expected that the impact of trade war on compatible cartridge manufacturers in China would be limited; Taken into account that the tariff rates have shown (i)a decreasing trend, (ii) the world, including the United States, has been heavily relying on the import of compatible cartridges and compatible cartridge chips from the PRC with approximately 79.3% of compatible cartridges and 90.5% of compatible cartridge chips in terms of production volume in the world in 2019 were made in the PRC, and (iii) the respective market size of compatible toner cartridge market and compatible ink cartridge in the U.S. represent approximately 21.3% and 21.6% of the global market size, the US-China trade war has limited impact on compatible cartridge chips providers. Moreover, except for the tariff generally imposed along with other Chinese merchandises, no other specific additional action and/or tariffs has been taken or imposed by the US government specifically against the compatible cartridge made in, or imported from, the PRC.

Limited number of newly launched models of printers: the research and development work of new compatible cartridges and the related compatible cartridge chips is generally initiated after the release of new original-brand printers. During each of the three years ended 31 December 2019, the original-brand printer companies have launched 485, 288, 380 new printer models respectively. In recent years, due to the completion of certain mergers and acquisitions among the major printer companies and the subsequent adjustments to operation of such printer companies with a view to optimising their overall management system, the release plans of new printers in the years ended 31 December 2018 and 2019 have been postponed as a whole. As a result of the drop in the number of new printers launched by original-brand printer companies, there were only limited new models of compatible cartridge chips for new printers introduced to the market in 2019. The price of a model of compatible cartridge chip tends to fall as it goes through the product life cycle. With the limited number of new printer models launched by original-brand printer companies, the compatible cartridge chip models offered by different market players were mostly designed for older printer models. This resulted in intensification of the market competition in respect of the relevant compatible cartridge chip models and downward pressure on the market prices. The leading market players, including

Listed Group A, had correspondingly also lowered the prices of the relevant chip models in order to maintain its business relationships with its customers and safeguard its market position. The adoption of the price-cutting strategy by the leading market players had inevitably resulted in vicious price competitions in the compatible cartridge chip market, which was part of the major causes of the overall drop in the average price of compatible cartridge chips in 2019; and

industry consolidation: the major players in the compatible cartridge industry in the PRC have been aggressive in pursuing vertical and horizontal integration and consolidated a large number of players from different parts of the value chain in the compatible cartridge industry into their group. Such corporate behaviour has affected the industry dynamics. For example, the cartridge manufacturers would naturally accord priority to companies within the same group in the selection of chip suppliers, and this favours some of the largest players in the compatible cartridge chip industry which are part of the large compatible cartridge groups and allows them to strengthen their customer base. The other players in the compatible cartridge chip industry are left with the option of cutting their prices in order to gain market share. The average price of compatible cartridge chips in the PRC has been driven down as a result. As the competition intensifies, it is expected that a number of small-scale market players will be eliminated. Upon completion of the integration and adjustment in the industry and based on the expectation that mergers and acquisitions among the major industry players would be less frequent in the future, companies with strong research and development capability including us will be able to increase market shares and obtain better control over pricing. Hence, the average price of compatible cartridge chips in the PRC is expected to gradually recover. In addition, it is expected that the number of new original-brand printer models will increase in the future since 2020, bringing in new market opportunities for compatible cartridge chip providers with strong research and development capability, which, in turn, is expected to lead to increase in the price of compatible cartridge chips in the future. Despite historical impact of the industry consolidation on the prices of our compatible cartridge chip, as one of the leading compatible cartridge chip providers with strong research and development capability, our Group is expected to continue to maintain our current market position as long as we could design and develop compatible cartridge chips of newly launched printers faster than our competitors.

Despite the fact that the average selling price of compatible cartridges decreased by approximately 14% only in 2019, the impact from the abovementioned factors on various chips varied.

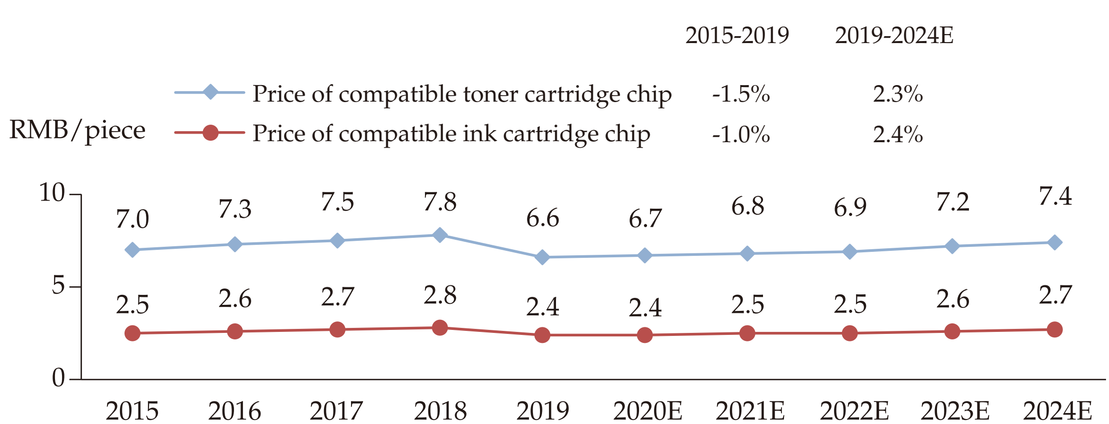
Compatible cartridge chips which are already in maturity stage (i.e. over five years after launch of the new original-brand printer model) accounted for the largest market share in the cartridge chip industry. As the price of such types of compatible cartridge chips and the margin for the respective compatible cartridge chip providers and PCBAs providers were already at a relatively low level, the price of such products was less affected by the negative factors mentioned above in 2019.

In contrast, the price of compatible cartridge chips in the introduction and growth stage is set at a higher level, and the respective compatible cartridge chip providers are able to enjoy a higher profit margin. There were rooms for compatible cartridge chip providers and PCBAs providers to adjust their price in order to maintain market share and profit. In addition, due to the lack of new printers launched by original-brand printer companies recently, more compatible cartridge chip providers focused on producing compatible cartridge chip for a limited number of printer models and successfully developed products with similar quality and functionality, and in turn, the price of such compatible cartridge chips experienced a more notable decline. The price of certain types of compatible cartridge chip could drop by over 90%. However, after the significant price decline in 2019, the price of such compatible cartridge chips currently had already decreased to a lower price range. Considering the initial investment on research and development for such chips, currently there is small room for further decrease among compatible cartridge chip providers. As a result, the price of such chips remained relatively stable during the first quarter of 2020 comparing to the fourth quarter of 2019. With the number of new original-brand printer model expected to increase since 2020, compatible cartridge chip providers are expected to launch more corresponding new compatible cartridge chips. These new chips usually have higher price than old chips and they will lead to the increase in overall average price of compatible cartridge chips in the future.

Although the average price of compatible cartridge chips experienced a decrease in 2019, compatible cartridge chip providers could lower their costs by negotiating for lower purchasing prices of PCBAs, ICs and other components with their suppliers, considering their long-term business relationship with each other and the availability of alternative suppliers in the market.

In addition, in order to produce PCBAs or ICs for newly launched compatible cartridge chips, PCBAs and ICs suppliers would need to incur considerable amount of research and development and testing cost, such as manufacturing and testing equipment and product design, etc, and would thus normally charge higher price to recover its initial investment at earlier stage. After the PCBAs and ICs suppliers have recovered its initial investment, the compatible cartridge chip providers will normally be able to negotiate for a lower purchase price with them. As such, the impact from the downward trend of product price on the profitability of the compatible cartridge chip providers was mitigated to certain extent in 2019.

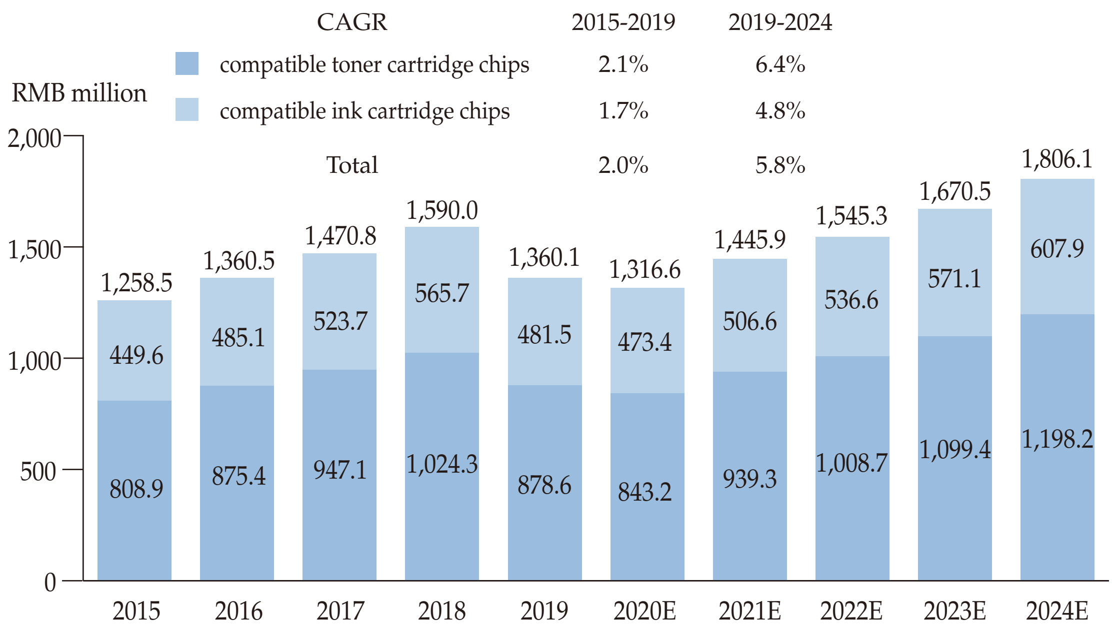
Average price of compatible cartridge chips in China, 2015-2024E



Source: CIC expert interviews, Zhuhai Printer Cartridge Industry Association, Annual Reports of companies in the compatible cartridge chip industry

The market size of compatible cartridge chips in China

The market size of compatible cartridge chips by external sales, 2015-2024E



Source: CIC expert interviews, Zhuhai Printer Cartridge Industry Association

It is an industry norm that both toner cartridges and ink cartridges are viewed as sub-segments of the printer consumables in the printing industry. Most compatible printer cartridge manufacturers produce both compatible toner cartridges and compatible ink cartridges in the same time.

The compatible toner cartridge chips market in China experienced steady growth from 2015 to 2018, with the total external sales of compatible toner cartridge chips in China increased from RMB808.9 million to RMB1,024.3 million in 2018.

In 2019, considering that (i) fewer new cartridge chip products launched and market participants lowed chip price to seize market share and (ii) top market players (i.e. Listed Group A and Listed Group B) acquired other compatible cartridge manufacturers in recent years, and the transaction between the acquired companies and their respective parent companies would be accounted for as internal sales, the market size of China's compatible toner cartridge chips in terms of external sales decreased to RMB878.6 million in 2019, representing a 14.2% decrease comparing to 2018.

In 2020, following the outbreak of COVID-19, economic activities were subject to a sharp and abrupt decline at the initial stage due to the lock down of countries and regions and the uncertainty over COVID-19. Such significant decline in economic activities in 2020 caused the expected decrease in demand for office supplies, which included compatible cartridges. Thus, the demand for compatible cartridges is expected to decrease in 2020 and the market size of compatible toner cartridge chips by external sales is expected to further decrease to RMB843.2 million. In 2021, as the impact of COVID-19 is expected to gradually fade away, economic activities are expected to resume slowly. Despite the potential economic recession in the next few years, the demand for compatible cartridge chips is expected to increase as more consumers may opt for compatible cartridge instead of original brand cartridge due to cost concern. As a result, it is expected that the demand for compatible cartridge chip will increase accordingly and the market size of compatible cartridge chips is expected to resume its growth.

The compatible ink cartridge chips market in China experienced steady growth from 2015 to 2018, with the total external sales of compatible ink cartridge chips in China increased from RMB449.6 million to RMB565.7 million in 2018.

The compatible ink cartridge chip market also experienced similar impact from fewer new product launch and industry consolidation in 2019 and the outbreak of COVID-19 in 2020, the market size of China's compatible ink cartridge chips in terms of external sales decreased to RMB481.5 million in 2019, representing a 14.9% decrease comparing to 2018 and it is expected to further decrease to RMB473.4 million in 2020, representing a decrease of 1.7% comparing with 2019. With the expectation that the impact of COVID-19 gradually fades away, the market is expected to resume its growth from 2021.

Customer H, being the holding company of Listed Group A, is an A-share listed company and the largest compatible cartridge manufacturer and the largest compatible cartridge chip provider in China with a market share of more than 40% for compatible cartridge and 41.5% for compatible cartridge chips in terms of external sales in 2019. Listed Group B, with its holding company being an A-share listed company, was the second largest compatible cartridge manufacturer and the third largest compatible cartridge chip provider with a market share of more than 10% for compatible cartridges in terms of sales volume and approximately 9.2% for compatible cartridge chips in terms of external sales in 2019. The compatible cartridge chip industry is expected to recover and continue its growth from 2020 to 2024, reaching RMB1.81 billion in 2024, representing a CAGR of 5.8% between 2019 and 2024.

Relationship between China's independent compatible cartridges chip providers and integrated compatible cartridge providers

In the industry, there are players which only engage in the production of the compatible cartridge chips and are known as independent compatible cartridge chip providers, and players which engage in production of PCBAs, compatible cartridge chips and compatible cartridges and are known as integrated compatible cartridge providers. Notwithstanding the fierce market competition among independent compatible cartridge chip providers and integrated compatible cartridge providers, they maintain a reciprocal relationship with each other with commercial consideration. It is common in the industry that players enter into various sales and purchases transactions from time to time among themselves, including but not limited to situations where (i) integrated compatible cartridge providers purchase compatible cartridge chips from other market players including independent compatible cartridge chips providers and (ii) independent compatible cartridge chip providers source key components of compatible cartridge chips, such as PCBAs and ICs, from the integrated compatible cartridge providers.

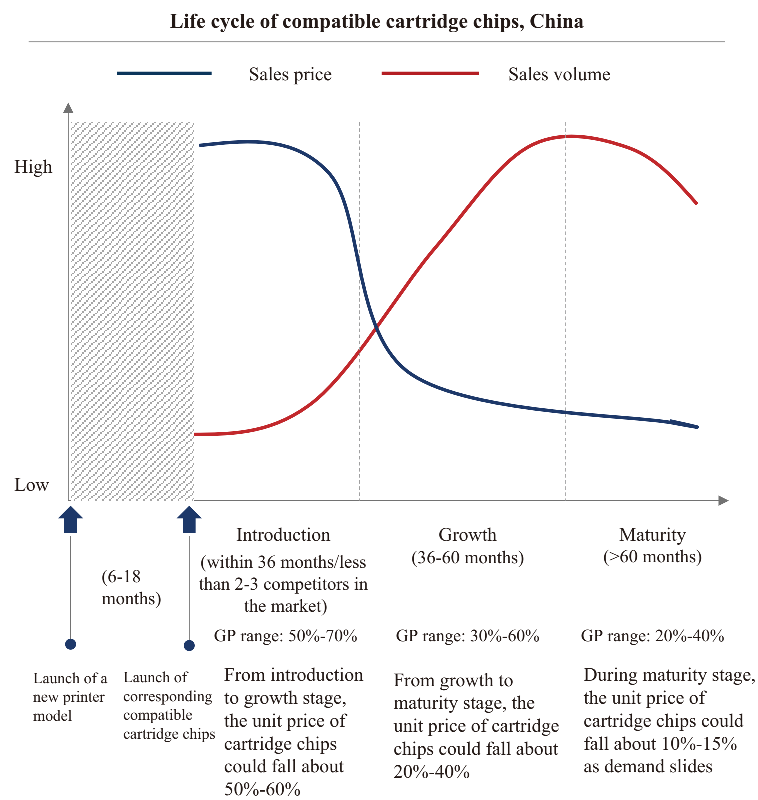
From the perspective of integrated compatible cartridge providers as buyers, due to the manifold series of printer models under various printer brands available in the market, the technological barriers, research development costs, time and resources required to successfully develop compatible cartridge chips and production capacity, it is not practical and cost effective for an integrated compatible cartridge provider to cover compatible cartridge chips for all printer brands and models. Alternatively, it would be more cost-effective for them to directly source certain compatible cartridge chips from their competitors in order to satisfy the demands from their customers. In some cases, while integrated compatible cartridge providers have the capacity to produce certain types of cartridge chips, they may also source from their competitors such types of chips of higher quality and functionality due to better designed hardware and/or software component. From the perspective of independent compatible cartridge chip providers as buyers, comparing with other PCBA suppliers not in the compatible cartridge industries, integrated compatible cartridge providers normally have advantages in providing PCBAs for cartridge chips due to their better understanding of products in the industry.

From the sellers' perspective, if integrated compatible cartridge providers have additional production capacity for compatible cartridge chips they successfully developed, they are able to foster their economies of scales and generate profits through selling PCBAs to their competitors, and they also desire to establish the mutual beneficial relationship in case that they may need to source other types of chips and/or materials from such competitors. In addition, as there are also abundant PCBA suppliers in the market, rejecting the competitors' order will not adversely affect the competitors' business and the competitors will still be able to source from other sellers of PCBAs. As such, it is common in the industry that integrated compatible cartridge providers sells PCBAs to the competitors.

Although the compatible cartridge market is dominated by the top two integrated compatible cartridge providers which together took up approximately 60% of the market share in terms of external sales in 2019, independent compatible cartridge chip providers are still able to capture certain market shares of compatible cartridge chips in terms of external sales because of the mutual beneficial relationship between independent compatible cartridge chip providers and integrated compatible cartridge providers as mentioned above. Furthermore, the rest of compatible cartridge market is shared by a number of cartridge manufacturers which have demand from independent compatible cartridge chip providers for chips, thus leaving room for independent compatible cartridge chip providers for business.

In addition, the production of cartridge chips depends heavily on the research and development capabilities of market player. Market players who possess strong research and development capabilities and are able to launch new products proactively in advance of their competitors would usually be able to capture certain market shares despite the fierce competition and domination of particular market players.

Product life cycle and pricing



Source: CIC expert interviews, Zhuhai Printer Cartridge Industry Association

Usually, compatible cartridge providers and compatible cartridge chip providers will obtain information of new models of original-brand cartridge after the launch of such products. For compatible cartridge chip providers, after a new original-brand printer model is launched, it normally takes six to 18 months for market players to introduce corresponding compatible cartridge chips to the market. For those compatible cartridge chips with higher technical requirements or barrier involved, it may take longer time (i.e. over 18 months) for compatible cartridge chip providers to successfully develop and launch relevant chips.

In the introduction stage when a compatible cartridge chip is first introduced to the market, a first-to-market player can charge a higher price and enjoy a higher profit margin for its product given that it introduces the product earlier than the others. However, the sales volume of the compatible cartridge chip grows slowly due to the relatively low penetration rate of the corresponding new printer model, which generates less demand for cartridge chip replacement. Therefore, it is crucial for the compatible cartridge chip providers to design and develop the compatible cartridge chip faster than its competitors in order to take the first mover advantage. The introduction stage usually represents within 36 months after the launch of new printer model. In addition, the time length of introduction stage can also be determined by the number of competitors in the market. When there are more than two to three competitors in the market, such cartridge chip product can be considered as entering growth stage and the unit price of the cartridge chip can fall about 50%-60%. For those compatible cartridge chips with higher technical requirements or barrier involved, as it may take longer time for more compatible cartridge chip providers to launch relevant chips, it may take longer time for intensified market competition and thus drop in unit price.

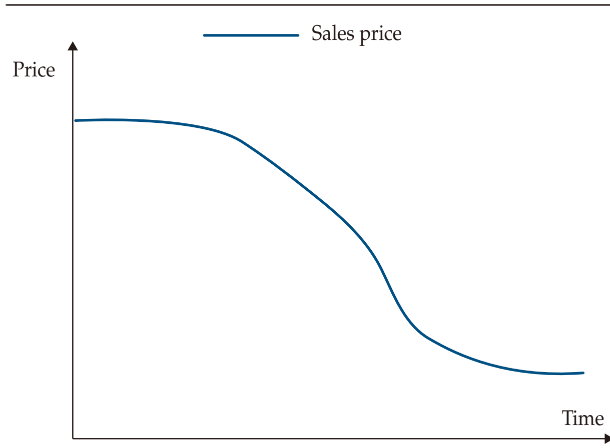
In the growth stage, which normally represents 36-60 months after the launch of new model, sales volume of the compatible cartridge chip grows rapidly as more customers become aware of the new product. Competitors are attracted to launch products with similar functions and features in view of the large demand. Due to the increasing competition, the market price goes downward. On average, the sales price could drop approximately 50%-60% from introduction stage to growth stage.

In the maturity stage, which normally represents over 60 months after the launch of new model, the market is in intensive competition as most compatible cartridge chip providers could provide such product. The unit price of cartridge chip could drop approximately 20%-40% as competition intensifies. The demand for the product decreases continuously while the competition remains consistently high at this stage. The unit price of compatible cartridge chips could fall about 10%-15% along with the declined demand. Meanwhile, the sales volume starts to decrease due to the declining demand for the corresponding old printer model.

In addition to the correlation between the length of time from the launch of a new printer model and the price of relevant chips, the price trend of chips may also varies due to various market factors on a case by case basis. Such factors include but not limited to, the level of technical requirements or barrier involved, the number of compatible cartridge chip providers that has successfully launched similar chips, the pricing strategies that the major market players adopted and the level of market competition and the competition landscape of specific chips, etc.

Major raw materials for the compatible cartridge chip market

Price life cycle of IC



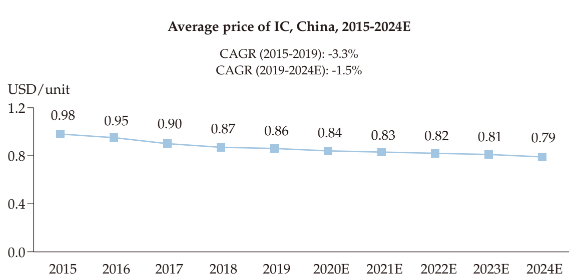
Source: CIC expert interviews, China Semiconductor Industry Association

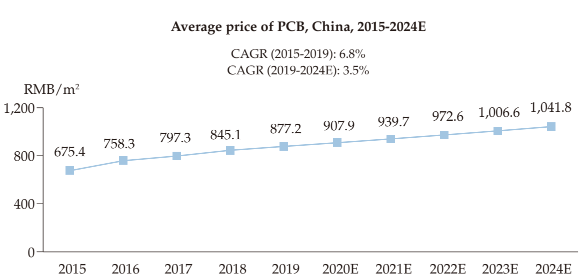
The price of PCBA is mainly impacted by the price of ICs since the cost of ICs accounts for a substantial part of the materials cost of PCBA. The price of ICs follows a downward trend along its product life cycle and is determined by various factors including technological requirement and initial research and development cost. The price of IC is at its highest when it is first introduced into the market as high technological standard is required and the initial research and development and testing cost is considerable. The launch of new ICs with higher quality and functionality will drive down the selling price of the existing ICs in market. Further, with the increase in the production volume and demand from downstream compatible cartridge chip manufacturers of such ICs, IC manufacturers can enjoy economies of scale which would lead to the decrease in the production cost and price of ICs. In turn, the price of PCBAs also decrease along with the decrease in price of ICs.

The price of ICs are significantly influenced by the design work and production techniques involved. The average price of ICs, including those applied to compatible cartridge chip and applied to other machines and equipments, has decreased from USD0.98 per unit in 2015 to reach USD0.86 per unit as of 2019, representing a CAGR of negative 3.3%. The decreasing price of ICs was mainly caused by declining prices of raw materials and the intensified competition among IC providers. Such price is expected to decrease to USD0.79 per unit in 2024, representing a CAGR of negative 1.5% from 2019 to 2024. The price of ICs follows its product life cycle, it is initially set at a higher level as suppliers incur large amount of research and development cost upfront and they wish to recover such investment fast. After ICs suppliers recover their initial investment, they are able to lower the price of ICs while remain profitable. Other than the reasons of the overall decrease in average price of IC mentioned above, downstream compatible cartridge chip providers' demand to lower purchase price on the ICs also contributes to the decrease of IC price. Particularly in 2019, as the average compatible cartridge chip price experienced a major decline, compatible cartridges chip providers negotiated for a lower purchase price with their suppliers and mitigate the impact on their profitability to certain extend.

The average price of PCBs has increased at a CAGR of 6.8% between 2015 and 2019, having increased from RMB675.4 per square meters in 2015 to reach RMB877.2 per square meters in 2019. The rising cost of copper foils, one of the most important raw materials of PCBs, contributed to the increasing price of PCBs. Such price is expected to increase to RMB1,041.8 per square meters in 2024 with 3.5% CAGR from 2019 to 2024.

However, similar to other electronic appliance industries e.g. mobile phone, computers, the determination of selling price and profit margin of compatible cartridge chips are subject to many factors and direct material cost may not be the determining factor. Other factors, including but not limited to, technological requirement, level of competition, demand from customers, product popularity and acceptance, availability of substitutes in the market, etc., usually play a more vital role in the determination of the selling price and profit margin of compatible cartridge chips. In addition, the average market price of PCBs and ICs presented reflects the price of such products as raw materials in general for production of electronic appliance. The price of ICs varies for production of different electronic products, depending on the design work and production techniques involved. The price of PCBs and ICs do not have a direct correlation with the price of PCBAs.





Source: CIC expert interviews, China Semiconductor Industry Association

Lawsuits and related risk

US Section 337 investigation is one of the major legal procedures in terms of patents infringement. It is considered as the most flexible and powerful legal weapon against importers trying to enter the US market. After the complaint is filed, United States International Trade Commission ("USITC") has 30 days to determine whether to institute an investigation. In the event that an investigation is instituted, a notice of investigation is issued setting forth the scope of the investigation and the investigation is assigned to an administrative law judge to conduct the hearing. If any infringement is concluded under 337 investigation, an import ban will be issue to prevent relevant products to enter US market.

In recent year, there are 5-6 cases about cartridges in terms of compatible cartridges' external physical structure, such as square-shaped interface patent, annually. The defendant of these lawsuits are usually compatible cartridge manufacturers and distributors, and there was no litigations against compatible cartridge chips providers before. As of the latest practicable date, there was no material litigation related to major compatible cartridge chip providers.

Although original-brand printer companies register patents for almost all of their products including both cartridge and cartridge chips in terms of exterior design and functionality, compatible cartridge manufacturers are able to provide compatible cartridges with their own unique design and patent and similar functions to that of the original-brand cartridges. For example, one compatible cartridge may have its own structural design which is totally different from the original-brand cartridge but can still fit in the printer. Leading compatible cartridge manufacturers have invested heavily in research and development and obtained an extensive patent coverage to protect themselves from infringements of third party intellectual property rights. Some leading compatible cartridge manufacturers have received non-infringement determinations from USITC in certain 337 investigations and won patent infringement lawsuits against original-brand printer companies in the past. For example, a Japanese original-brand printer company filed Section 337 investigation request to USITC in February 2018 accusing a list of compatible cartridge manufacturers and distributors in China and the U.S., including leading compatible cartridge manufacturers Listed group A and Company D, for patent infringement in toner cartridges and photosensitive drum units contained in or sold for use in such cartridges. USITC initiated 337 investigation in March 2018 and announced its non-infringement determination and terminated the investigation in May 2019. The Japanese original-brand printer company then appealed such determination to the U.S. Court of Appeals for the Federal Circuit in May 2019. The Federal Circuit announced its non-infringement determination in April 2020.

Compatible cartridge chip provider usually design their compatible cartridge chips through their own research and development works and register patents to protect their own design and avoid possible infringements. There was no litigation against compatible cartridge chips providers up to April 2020. Besides, leading original-brand printer companies also published series of technical white papers to advocate the compatible cartridge chip providers to adopt appropriate measures to avoid patent and trademark infringements. For example, in 2013, an American multinational printer company published the first edition of its technical white paper aiming to inform compatible cartridge chip providers of the brand identification features, as well as detailed solution guidance for compatible cartridge chips. Such practice clearly indicates co-existence dynamics between original-brand printer companies and compatible cartridge providers.

The introduction of compatible cartridges, being a cost-effective alternative to the original-brand cartridges, can boost the demand for the corresponding original-brand printers. Despite handful lawsuits regarding patents infringements in the industry, compatible cartridge market still experienced steady growth at a CAGR of 5.2% from 2015 to 2019 and is expected to further expand at a CAGR of 4.2% from 2019 to 2024. Thus, the patent infringement lawsuits will not materially damage the sustainability of the compatible cartridge industry.

Market drivers of compatible cartridge chip industry in China

(i) ***Steady demand for printing activities:*** Printing has become a working activity for companies in their daily operation, such ensures the long term steady demand for printing consumables, such as paper and printer cartridges. Thus, the demand for compatible cartridges are expected to be sustainable and steady in the forecasted period.

(ii) ***An increasing number of people using home-based office:*** With the development of communication technology, an increasing number of people are now using home-based office, such increase is expected to drive the demand for desktop printers, which ultimately drive the demand for compatible cartridges and compatible cartridge chips.

(iii) ***Supportive policies of Chinese government:*** Chinese market accounts for a majority of the global compatible cartridge chip market. Compatible cartridges are added into the centralised procurement project of Chinese central government. According to Notice on Matters Concerning the Fixed Procurement of Office Supplies and Printer Consumables of the Central Government in 2013《關於2013年度中央國家機關辦公用品及列印耗材定點採購有關事宜的通知》. The departments and offices of Chinese central government are required to give priority to purchase compatible cartridges and can purchase original-brand cartridges only if the compatible cartridges cannot meet the demand. Such practice has also been generally adopted by local government departments and offices across the PRC, and greatly stimulated the demand for compatible cartridges and spurred on the total demand for compatible cartridge chips.

(iv) ***Formation of an industry cluster in Zhuhai:*** Zhuhai has a leading position in China's printer consumables industry, and is aimed to further promote the industry by forming an innovative industry cluster. Production efficiency will be maximized, and the output value of printer consumables, including compatible cartridge chips, is expected to further increase.

Future trends of compatible cartridge chip industry in China

(i) ***Scalable compatible cartridge chip designs:*** In order to design and manufacture a compatible cartridge chip successfully, a chip provider needs to invest in integrated circuit technology research. Such technology can also be applied in many areas other than printing including automatically controlled products and devices, such as automobile engine control systems, implantable medical devices, remote controls, office machines, appliances, power tools, and other embedded systems. As a result, a compatible cartridge chip provider who possesses such technology can enter these relevant industry fields such as IoT, and expand its business coverage.

(ii) ***Continuous investment in research and development technical improvement and product upgrade:*** In order to counter the competition of compatible cartridge chip providers, original-brand printer companies continue to invest in research and development to upgrade their designing technologies, in order to increase the technical requirements of cartridge chips. The technical improvement of original-brand cartridge chips further drives the technological advancement of compatible cartridge chip providers, and stimulates compatible cartridge chip providers to continuously introduce innovative products in order to secure their market position.

(iii) ***Increasing market concentration level:*** Most of the market players are small-to-medium sized firms who have limited market shares. The top five market participants accounted for 69.1% of the global compatible cartridge chip market in terms of external sales in 2019. The market entry barrier increases as a result of advancing technical requirement. While few new entrants are able to enter the market, the leading market players continue to distinguish themselves from their competitors by investing heavily in research and development, and building their own brand image. As a result, compatible cartridge chip providers that only have limited product offerings or a weak research and development capacity will either be forced to exit the market or swallowed up by the leading companies. An increasing market concentration is expected in the compatible cartridge chip market in the future.

COMPETITIVE LANDSCAPE OF CHINA'S COMPATIBLE CARTRIDGE CHIP INDUSTRY

The compatible cartridge chip market in China is highly concentrated with dozens of compatible cartridge chip providers competing in the market. The top five market participants accounted for approximately 69.1% of total market share in terms of external sales in 2019. The Company was the second largest compatible cartridge chip provider in China with a market share of approximately 11.1% in terms of external sales in 2019.

For compatible toner cartridge chip market, the top five market players account for approximately 67.4% of total market share by external sales in 2019. Listed Group A, the Company and Listed Group B are the top three market players with a market share of 45.0%, 8.4% and 6.7% in terms of external sales, respectively.

For compatible ink cartridge chip market, the top five market players account for approximately 73.4% of total market share by external sales in 2019. Listed Group A, the Company and Listed Group B are the top three market players with a market share of 35.2%, 16.0% and 13.8% in terms of external sales, respectively.

A compatible cartridge provider would be able to charge a relative higher price for its compatible cartridge chips at introduction and growth stages of their product life cycle (i.e. within five years from the launch of a new printer model), and more than half of the compatible cartridge chips available in the market were at maturity stage. Besides, as Listed Group A and Listed Group B have larger production capacities and are able to cover a wider range of chips products, including high portion of compatible cartridge chips in the mature stage with lower price but higher sales volume, while our Group's strategy is to focus on relative new products with high selling price. Therefore, the average price of the Group in 2019 is higher than Listed Group A and Listed Group B. As more than 70% of our revenue was generated from sales of compatible cartridges chips at introduction and growth stages in 2019, we recorded a higher average selling price as compared to other leading market players and the industry average.

Major competitors for the compatible cartridge industry

Company name	Headquarter location	Compatible cartridge chip product coverage	Description
Listed group A	Zhuhai	Compatible ink cartridge chips, Compatible toner cartridge chips	A group of companies comprising a company listed on Shenzhen Stock Exchange and its subsidiaries, which, collectively, are providing printing supplies including printers, toner cartridge, ink cartridge, cartridge chips and raw materials such as PCBAs.
Listed group B	Wuhan	Compatible ink cartridge chips, Compatible toner cartridge chips	A group of companies comprising a company listed on Shenzhen Stock Exchange and its subsidiaries, which, collectively, are providing printing supplies including toner cartridge, ink cartridge, cartridge chips and raw materials such as toner powder, PCBAs.
Company C	Guangzhou	Compatible ink cartridge chips, Compatible toner cartridge chips	A private company mainly focus on ink cartridge, toner cartridge and cartridge chips.
Company D	Zhuhai	Compatible ink cartridge chips, Compatible toner cartridge chips	A private company mainly focus on printing supplies such as toner cartridge, ink cartridge and cartridge chips and it also produces printers.

Source: CIC

Top 5 compatible cartridge chip providers ranked by external sales and external sales volume

The following companies are ranked based on external sales and external sales volume in 2019.

Rank	Company name	Headquarter location	External sales *(RMB million)*	Market share in terms of external sales	External sales volume *(million units)*	Market share in terms of external sales volume
1	Listed Group A	Zhuhai	564.9	41.5%	120.6	36.3%
2	**Our Group**	Zhuhai	150.6	11.1%	17.1	5.1%
3	Listed Group B	Wuhan	125.1	9.2%	29.5	8.9%
4	Company C	Guangzhou	56.1	4.1%	11.0	3.3%
5	Company D	Zhuhai	43.7	3.2%	12.8	3.8%
	Top 5 total		**940.4**	**69.1%**	**191.0**	**57.4%**
	Others		**419.7**	**30.9%**	**141.1**	**42.6%**
	Total		**1,360.1**	**100.0%**	**332.1**	**100.0%**

Note: External sales refers to the sales of compatible cartridge chips to companies that are not members of the same group as the seller.

Source: CIC expert interviews, Annual Reports of companies in the compatible cartridge chip industry

Top 5 compatible toner cartridge chip providers ranked by external sales and external sales volume in 2019

The following companies are ranked based on sales revenue and sales volume generated by the sales of compatible toner cartridge chips to outside customers in 2019.

Rank	Company name	Headquarter location	Sales revenue *(RMB million)*	Market share in terms of revenue	Sales volume *(million pieces)*	Market share in terms of sales volume
1	Listed group A	Zhuhai	395.4	45.0%	57.3	43.0%
2	**Our Group**	Zhuhai	73.6	8.4%	10.8	8.1%
3	Listed group B	Wuhan	58.8	6.7%	8.7	6.5%
4	Company C	Guangzhou	33.6	3.8%	5.1	3.8%
5	Company D	Zhuhai	30.6	3.5%	6.8	5.1%
	Top 5 total		**592.0**	**67.4%**	**88.7**	**66.6%**
	Others		**286.6**	**32.6%**	**44.4**	**33.7%**
	Total		**878.6**	**100.0%**	**133.1**	**100.0%**

Note: External sales refers to the sales of compatible cartridge chips to companies that are not members of the same group as the seller

Source: CIC expert interview, Annual reports of companies in the compatible cartridge chip industry

Top 5 compatible ink cartridge chip providers ranked by external sales and external sales volume in 2019

The following companies are ranked based on sales revenue and sales volume generated by the sales of compatible ink cartridge chips to outside customers in 2019.

Rank	**Company name**	**Headquarter location**	**Sales revenue** *(RMB million)*	**Market share in terms of revenue**	**Sales volume** *(million pieces)*	**Market share in terms of sales volume**
1	Listed group A	Zhuhai	169.5	35.2%	63.3	31.8%
2	**Our Group**	Zhuhai	77.0	16.0%	6.3	3.2%
3	Listed group B	Wuhan	66.3	13.8%	20.8	10.4%
4	Company C	Guangzhou	22.4	4.7%	5.9	3.0%
5	Company D	Zhuhai	17.9	3.7%	6.0	3.0%
	Top 5 total		**353.2**	**73.4%**	**102.3**	**51.4%**
	Others		**128.3**	**26.6%**	**96.7**	**48.6%**
	TopTotal		**481.5**	**100.0%**	**199.0**	**100.0%**

Note: External sales refers to the sales of compatible cartridge chips to companies that are not members of the same group as the seller.

In 2017 and 2018, the company had a low market share of approximately 4.2% and 3.9% in the compatible ink cartridge chip market by external sales and a market share of 1.3% and 1.3% in the compatible ink cartridge chip market by external sales volume. In 2019, due to its newly launched inkjet chip with significant prevailing market demand, the company became the second largest compatible ink cartridge chip provider by external sales.

Source: CIC expert interview, Annual reports of companies in the compatible cartridge chip industry

Top 5 compatible cartridge chip providers ranked by production volume

The following companies are ranked based on production volume of compatible cartridge chip providers in 2019.

Rank	Company name	Headquarter location	Production volume *(million units)*	Market share in terms of production volume
1	Listed Group A	Zhuhai	251.8	61.4%
2	Listed Group B	Wuhan	36.0	8.8%
3	**Our Group**	Zhuhai	17.7	4.3%
4	Company D	Zhuhai	13.4	3.3%
5	Company C	Guangzhou	11.6	2.8%
	Top 5 total		**330.5**	**80.6%**
	Others		**79.8**	**19.4%**
	Total		**410.3**	**100.0%**

Note: Production volume refers to the volume of compatible cartridge chips produced by a compatible cartridge chip provider.

Source: CIC expert interviews, Annual Reports of companies in the compatible cartridge chip industry

Entry barriers of compatible cartridge chip industry in China

(i) ***Technological barriers:*** As a type of high-tech integrated product, compatible cartridge chips require a strong research and development capability. There is high uncertainty and a long research and development cycle in the process of IC designing, programme coding, validation testing and modification revising, which therefore requires a high technological level of enterprises. At the same time, the compatible cartridge chip industry is developing rapidly, with the continuous improvements to the production process and platform. It requires enterprises to have a deep understanding of the technological development of the industry.

(ii) ***Capital barriers:*** Compatible cartridge chips involves high research and development risk, long designing cycle, and high costs of labour and production equipment. It indicates that enterprises need to invest a large amount of capital in the early stage of production. Besides, the existing large compatible cartridge providers have already held a large number of technical patents relating to ink/toner cartridge chips, which makes patent licensing expensive and time-consuming for new entrants. Therefore, a high capital threshold is required for new companies intending to enter the market.

(iii) ***Sales channel barrier:*** As a component unit of the cartridge, compatible cartridge chip needs to be compatible with the corresponding printer model, hence confirmation with customers is required before designing a chip. Therefore, a solid sales channel is extremely important in the compatible cartridge chip industry. Compared to the existing enterprises with supply chain partnerships and mature marketing channels, new enterprises barely hold any market advantages and will find it difficult to enter the industry.

(iv) ***Professional talents barriers:*** Professional researchers and designers play crucial role in the designing, manufacturing and testing of compatible cartridge chips. However, in China there is a shortage of professionals who possess cartridge chip-related expertise. In addition, the time and capital costs of training experts through internal programs is simply huge for companies. Thus, new companies who do not have reserved talents, may find it struggling to attract top talents.

Key success factors of compatible cartridge chip industry in China

(i) ***Research and development capabilities:*** For compatible cartridge chip providers, a core competency lies in their research and development capabilities. The selling price of a new model of compatible cartridge chip depends largely on how quickly the product is introduced to the market after the launch of the corresponding printer model; a first-to-market player can charge a higher price and enjoy a higher profit margin for its product. A product launch time depends on the research and development capabilities within a company. A high level of research and development capabilities allow a company to launch its products quicker than its competitors, and therefore generate more profits and further secures its market position. Besides, companies with strong research and development capability have more experience in design chips and they could predict potential upgrade made by original-brand printer companies and avoid such problem in their IC design. Thus, chip products made by companies with strong research and development capability could resist upgradation made by original-brand printer companies.

(ii) ***Sales network:*** There are thousands of downstream compatible cartridge providers who purchase compatible cartridge chips from the compatible cartridge chip providers. These providers tend to only cooperate with one or two chip providers. In addition, many providers base themselves outside China to meet overseas customers' demand. Therefore, it is crucial for compatible cartridge chip providers to build good relationship with downstream cartridge providers to secure the sales channel.

(iii) ***Brand reputation:*** Due to fierce market competition, many of the products are competing on price and lose control of the quality. Downstream compatible cartridge manufacturers tend to only cooperate with the most trustworthy compatible cartridge chip providers who have long established brands for high quality products and a variety of offerings. In addition, compatible cartridge chip providers are under the dual pressure of rising raw material prices and currency depreciation, which would lead to lower profit margins. Only reputable brands can charge a premium price to cover the rising raw material costs and sustain the profit margins.

(iv) ***Supply chain integration:*** Compatible cartridge chip providers can choose to adopt vertical integration strategy to reduce raw material costs and improve efficiency by decreasing transportation expenses and reducing turnaround time. Compatible cartridge chip providers can also choose to adopt a horizontal integration strategy to increase the product and service offerings via internal expansion, external merging and acquisition. Both integration strategies allow compatible cartridge chip providers to have more bargaining powers in the market and achieve an economy of scale.

PRC REGULATIONS

Policies Relating to the Integrated Circuit Industry

In order to encourage the development of the integrated circuit industry in China, the State Council of the PRC promulgated the Several Policies for Encouraging the Development of Software and Integrated Circuit Industries (鼓勵軟件產業和集成電路產業發展若干政策) on 24 June 2000 and the Several Policies on Further Encouraging the Development of the Software and Integrated Circuit Industries (進一步鼓勵軟件產業和集成電路產業發展若干政策) on 28 January 2011, according to which the encouraging policies applicable to the integrated circuit industry include but not limited to:

- supporting the eligible IC enterprises to raise funds by means of issuance of shares and bonds;
- granting tax preference to the IC manufacturing enterprise if the relevant conditions are met;
- enhancing the protection of the software copyright and the proprietary rights in IC layout design; and
- further regulating the IC market order by improving the implementation of the anti-trust law, sanctioning the abuse of intellectual property rights and the abuse of the market dominant position for the purpose of excluding or restricting the competition.

In addition to the above, the State Council promulgated a series of policies which include the development plans or goals in relation to the integrated circuit industry, such as the Outline for Promoting the Development of National Integrated Circuit Industry (國家集成電路產業發展推進綱要), Made in China 2025 (中國製造2025) and The Thirteenth Five-Year National Informatization Plan ("十三五"國家信息化規劃).

Foreign Investment

The Foreign Investment Law of the PRC (中華人民共和國外商投資法) which was passed by the National People's Congress in China (全國人民代表大會)(the "**NPC**") on 15 March 2019 and came into force on 1 January 2020, and the Implementation Rules of the Foreign Investment Law of the PRC (中華人民共和國外商投資法實施條例), which was promulgated by the State Council on 26 December 2019 and came into force on 1 January 2020 (collectively, the "**Foreign Investment Law**"), were formulated with the purpose of furthering opening up, actively promoting foreign investment, protecting the lawful rights and interests of foreign investment, standardising the administration of foreign investment, promoting the formation of a new pattern of comprehensive opening up, and promoting the healthy development of the socialist market economy. The Foreign Investment Law stipulates investment promotion, investment protection, investment management and legal liabilities of the foreign investment in the PRC.

"Foreign investment" as mentioned in the Foreign Investment Law refers to the investment activities carried out by foreign natural persons, enterprises or other organisations (hereinafter referred to as "foreign investors") directly or indirectly within the territory of PRC, including the following situations: (i) the foreign investor establishes an enterprise with foreign investment in PRC alone or jointly with other investors; (ii) the foreign investor obtains shares, equity, property or other similar rights and interests of a domestic enterprise in PRC; (iii) the foreign investor, separately or together with other investors, invests in new projects within the territory of PRC; (iv) investment in other ways as prescribed by laws, administrative regulations or the State Council. The Foreign Investment Law implements a system of pre-entry national treatment plus a Negative List for foreign investment. The pre-entry national treatment means the treatment given to the foreign investors and their investment at the stage of investment admission shall no less favourable than that to domestic investors and their investments; the negative list means the special administration measures that are adopted for the admission of foreign investment in specific areas. At present, the negative list that regulates investments in the PRC by foreign investors and foreign-invested enterprises is the Special Administrative Measures (Negative List) for Foreign Investment Access (外商投資准入特別管理措施(負面清單)) (the "**Negative List**") which is promulgated by the National Development and Reform Commission of the PRC and the Ministry of Commerce of the PRC from time to time. According to the latest version of the Negative List (2020 version), the integrated circuit design industry does not fall into the Negative List for foreign investment. The Foreign Investment Law will also implement (i) an information reporting system, which requires the foreign investors and the foreign-invested enterprises to submit the requisite information to the competent commerce authority through the enterprise registration system and the enterprise credit information publicity system; and (ii) a security examination system for foreign investment to review the foreign investment that affects or may affect the national security.

Since Zhuhai Megain is a wholly foreign-owned enterprise in the PRC, the Foreign Investment Law shall apply to Zhuhai Megain.

Company Law

Companies with limited liability and joint stock companies with limited liability incorporated and operating in the PRC are governed by the Company Law of the PRC (中華人民共和國公司法, the "**PRC Company Law**"), which was passed by the Standing Committee of the National People's Congress (the "**SCNPC**") on 29 December 1993 and took effect on 1 July 1994, as amended and supplemented by the SCNPC from time to time.

The PRC Company Law aims to regulate the corporate governance and behaviour of companies incorporated in the PRC and to protect the legitimate rights and interests of companies, shareholders and creditors. The PRC Company Law stipulates various matters, such as nature and legal status of companies, the governing bodies of companies, the issuance and transfer of equity interest in limited liability companies or of shares of joint stock limited companies, the qualifications and duties of the directors, supervisors and managers, financial accounting of companies, merger and division of companies, bankruptcy, dissolution and liquidation and etc.. According to the PRC Company Law, a company is an enterprise legal person which owns independent legal person property and enjoys legal person property rights. The liability of a company shall be limited to its entire assets. Companies incorporated in the PRC are divided into limited liability companies and joint stock companies with limited liability. The liability of a shareholder of a limited liability company shall be limited to the amount of its subscribed registered capital and the liability of a shareholder of a joint stock company with limited liability shall be limited to its subscribed shares.

The major amendments of the PRC Company Law since 2013 include but are not limited to, cancelling the paid-up capital registration, removing the statutory minimum registered capital requirements and the statutory timeframe for the capital contribution and adding certain circumstances for a joint stock company with limited liability to repurchase its shares. A foreign invested company incorporated in the PRC shall also comply with the PRC Company Law, unless otherwise provided in the PRC foreign investment laws.

Since Zhuhai Megain is a limited liability company incorporated in the PRC, the PRC Company Law shall apply to Zhuhai Megain.

Intellectual Property

Integrated Circuit Layout Design Laws

The Regulations on Protection of Integrated Circuit Layout Design (集成電路布圖設計保護條例), which was promulgated by the State Council on 28 March 2001 and came into force from 1 October 2001, and the Implementation Rules of the Regulations on Protection of Integrated Circuit Layout Design (集成電路布圖設計保護條例實施細則), which was promulgated by National Intellectual Property Administration on 18 September 2001 and became effective on 1 October 2001 (collectively, the "**Integrated Circuit Layout Design Laws**"), stipulate, among others, the scope of proprietary rights in layout designs, the application and registration of a layout design, the legal liabilities of infringement upon the proprietary rights in layout designs. The Integrated Circuit Layout Design Laws also provide that the protection period of the proprietary rights in a layout design is 10 years, commencing from the date of the application for registration of the layout design or the date that it is put into commercial use anywhere in the world, whichever is earlier. However, regardless of whether or not a layout design is registered, or whether or not it is put into commercial use, it shall no longer be protected by the Integrated Circuit Layout Design Laws after 15 years from the time of its creation.

Patent Laws

Under the Patent Law of the PRC (中華人民共和國專利法), which was passed by the SCNPC on 12 March 1984 and amended on 4 September 1992, 25 August 2000 and 27 December 2008, and the Implementation Rules of Patent Law of the PRC (中華人民共和國專利法實施細則), which were promulgated by the State Council on 15 June 2001 and amended on 28 December 2002 and 9 January 2010 (collectively, the "**Patent Laws**"), a patent is classified into three types, i.e. the invention patent (發明專利), the utility model patent (實用新型專利) and the design patent (外觀設計專利). According to the Patent Laws, an inventor or a designer may apply to the patent regulatory authority for grant for an invention patent, a utility model patent or a design patent. The right to apply for a patent (a patent application) and the registered patent rights can be transferred and the transfer becomes effective upon completion of registration with the competent patent regulatory authority. The patent term for invention patents is 20 years and for utility model and design patents is 10 years, in each case commencing from the date of the patent application. Failure to pay the annual fees may result in the termination of the patent.

Zhuhai Megain has been granted by the PRC patent regulatory authority certain invention patents and utility model patents and these patents registered in the PRC shall be protected and regulated by the PRC Patent Laws.

Trademark Law

The Trademark Law of the PRC (中華人民共和國商標法) (the"**PRC Trademark Law**"), which was passed by the SCNPC on 23 August 1982 and last amended on 23 April 2019, stipulates that the Trademark Office of the State Administration for Industry and Commerce ("**TOSAIC**") is the regulatory authority responsible for the registration and administration of trademark in China. Upon verification and approval of the TOSAIC, trademarks that can be registered in the PRC include commodity trademarks, service marks, collective marks and certification marks. Trademark registrants are entitled to the exclusive use of their registered trademarks. The validity period of a registered trademark is 10 years commencing from the date of registration. If a registrant desires to continue to use the registered trademark after the expiration of the validity period, an application for the renewal of registration shall be made within 12 months before the expiration of such period. If the renewal application is approved, the trademark will be renewed for another 10 years. A trademark registrant may license another party to use its registered trademark by entering into a trademark licence contract. Trademark licence should be registered with TOSAIC in accordance with the PRC Trademark Law and relevant regulations.

Software Copyright Protection

Under the Copyright Law of the PRC (中華人民共和國著作權法), which was promulgated by the SCNPC on 7 September 1990, implemented on 1 June 1991 and was amended on 27 October 2001 and 26 February 2010, computer software is included in the scope of copyright protection and the particular protection measures shall be separately formulated by the State Council.

The Regulation on Computers Software Protection (計算機軟件保護條例), which was promulgated by the State Council on 20 December 2001, implemented on 1 January 2002 and amended from time to time by the State Council, and the Measures for the Registration of Computer Software Copyright (計算機軟件著作權登記辦法), which was promulgated and implemented by National Copyright Administration on 20 February 2002, stipulate, among others, the specific rights a software copyright owner is entitled to, the term of protection of a software copyright, the legal liabilities of infringement upon software copyright, the registration of software copyright, and the registration of exclusive licence contracts and transfer contracts of software copyright.

Pursuant to the Regulation on Computers Software Protection, a software copyright commences from the date when the development of the software is completed. The protection period for software copyright of a legal person or other organisation shall be 50 years, concluding on 31 December of the 50th year after the initial release of the software. However, if the software has not been released within 50 years from the date on which the software development is completed, it shall no longer be protected by the Regulation on Computers Software Protection.

Internet Domain Names

Internet domain name registration and the related matters in the PRC are primarily regulated by (i) the Administrative Measures on Internet Domain Names (互聯網域名管理辦法) which was promulgated by the Ministry of Industry and Information Technology on 24 August 2017 and took effect on 1 November 2017 and (ii) CNNIC Implementing Rules on Domain Name Registration (中國互聯網絡信息中心域名註冊實施細則), which was issued on 29 May 2012 by the China Internet Network Information Center ("**CNNIC**"), being the registrar of domain names in the PRC. According to these rules, domain name registrations are handled through domain name registration service agencies and the domain name registration follows a "first come, first register" principle. The applicants will become the domain name holders upon the completion of the registration of such domain name.

Regulations Relating to Foreign Exchange

Under the Foreign Exchange Administration Regulations of the PRC (中華人民共和國外匯管理條例), promulgated on 29 January 1996 and last amended on 5 August 2008 by the State Council, and other various rules issued by People's Bank of China and SAFE, from the perspective of administration on the foreign exchange, the international receipts and payments shall be classified into current account items and capital account items. The current account item refers to a transaction involving goods, services, gains or frequent transfers in the international receipts and payments. The capital account item refers to a transaction which causes the changes in external assets and liabilities in international receipts and payments, including capital transfers, direct investments, investments in securities, derivatives and loans, etc.. No prior approval from or registration with SAFE is required for the international receipts and payments under current account items, however, certain procedural requirements should be followed and the handling banks in the PRC should verify whether the international receipts and payments are based on true and legal transactions. Compared to the current account items, the international receipts and payments under capital account items are subject to a deeper supervision by SAFE and it is normally required to register with SAFE or its designated banks (the "**SAFE Registration**") before such international receipts and payments are made.

The investment made by Megain Group (HK) in our PRC subsidiary, Zhuhai Megain, falls into the capital account items and the relevant SAFE Registration is required and has been made in relation to the acquisition of and subsequent capital injections in Zhuhai Megain by Megain Group (HK). The payment of dividends by Zhuhai Megain to Megain Group (HK) falls into the current account items, Zhuhai Megain is not required to make the SAFE Registration, however, it shall comply with certain procedural requirements when handling such payment at banks.

Environmental Protection

The Environmental Protection Law of the PRC (中華人民共和國環境保護法, the "**Environmental Protection Law**"), which was passed and came into effect on 26 December 1989 by the SCNPC and then amended on 24 April 2014 and came into effect on 1 January 2015, provides a regulatory framework to protect and develop the environment, prevent and reduce pollution and other public hazards, and safeguard human health. The Environmental Protection Law requires enterprises that discharge pollutants in their production process to adopt environmental protection measures and establish an accountability system for environmental protection.

According to the Environmental Impact Assessment Law of the PRC (中華人民共和國環境影響評價法), which was promulgated on 28 October 2002 and amended from time to time by the SCNPC, and the Administrative Regulations on Environmental Protection for Construction Projects (建設項目環境保護管理條例), which were promulgated on 29 November 1998 and amended on 16 July 2017 by the State Council, the PRC implements an environmental impact assessment system for construction projects and the administration of construction projects shall be classified in accordance with the degree of their respective environmental impact. If the environmental impact of a construction project is material, the construction enterprise shall submit an environmental impact report containing a comprehensive assessment on its environmental impact to the competent environmental authority and obtain the approval from the same. If the environmental impact of the construction project is mild, the construction enterprise shall submit an environmental impact form containing the analysis or a specialised assessment on its environmental impact to the competent environmental authority and obtain the approval from the same. If the environmental impact of the construction project is very small, the construction enterprise shall only file an environmental impact registration form with the competent environmental authority.

Since the production process of Zhuhai Megain has a small environmental impact, Zhuhai Megain has filed with its competent environmental authority the environmental impact registration form indicating its production activities and the corresponding environmental impact in accordance with the relevant regulations.

Taxation

Enterprise Income Tax

According to the EIT Law and its Implementation Regulations (企業所得稅法實施條例), which came into effect on 1 January 2008 and amended on 23 April 2019, enterprises are classified into resident enterprises and non-resident enterprises. Enterprises, which are incorporated in the PRC or which are incorporated pursuant to the foreign laws with their "de facto" management bodies located in the PRC, are deemed as ''resident enterprise'' and subject to an enterprise income tax rate of 25% on their global income. "Non-resident enterprises" under the EIT Law means an enterprise established under the laws of a jurisdiction other than the PRC with its "de facto" management body located outside the PRC, which has established offices or premises in the PRC, or which has not established any offices or premises in the PRC but has obtained income derived from sources within the PRC. Non-resident enterprises are subject to (i) an enterprise income tax rate of 25% on their income generated by their establishments or places of business in the PRC and its income derived outside the PRC which are effectively connected with their establishments or places of business in the PRC; and/or (ii) an enterprise income tax rate of 10% on their income derived from the PRC but not connected with its establishments or places of business located in the PRC. Non-resident enterprises without an establishment or place of business in the PRC are subject to an enterprise income tax of 10% on their income derived from the PRC.

According to the EIT Law and the Administrative Measures on the Recognition of High and New Technology Enterprise (高新技術企業認定管理辦法), which was jointly promulgated on 14 April 2008 and amended from time to time by the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation, a high and new technology enterprise recognised by the relevant governmental authorities may enjoy a preferential enterprise income tax rate of 15% from the year it obtains the certificate of the high and new technology enterprise and the qualification of a high and new technology enterprise shall be valid for three years from the issue date of the certificate of a high and new technology enterprise. Our PRC subsidiary, Zhuhai Megain was recognised as a high and new technology enterprise in December 2016 and December 2019, respectively, and had been entitled to the PRC preferential enterprise income tax rate of 15% during the Track Record Period and up to the Latest Practicable Date.

Value-added Tax

The Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例), which were promulgated by the State Council on 13 December 1993, came into effect on 1 January 1994, and were amended on 10 November 2008, 6 February 2016 and 19 November 2017, and the Implementation Rules of the Interim Regulations on Value-added Tax (中華人民共和國增值稅暫行條例實施細則), which were promulgated by the PRC Ministry of Finance and became effective on 25 December 1993, and were amended on 15 December 2008 and 28 October 2011 (effective from 1 November 2011), set out that entities and individuals sell goods or labour services of processing, repair or replacement (hereinafter referred to as "labour services"), sell services, intangible assets, or immovables, or import goods within the territory of the PRC are taxpayers of value-added tax ("**VAT**"). The VAT payable is calculated as "output VAT" minus "input VAT" and the VAT rate is 17% or in certain limited circumstances 11% or 6%, depending on the products or services, except for small-scale VAT taxpayers under the Provisional Regulations on Value-added Tax of the PRC.

According to Notice of the Ministry of Finance and the State Administration of Taxation on the Adjustment to VAT Rates (財政部、國家稅務總局關於調整增值稅稅率的通知) effective from 1 May 2018, the VAT rates for the import of goods and the taxable sale will be changed from 17% and 11% to 16% and 10%, respectively. Further, the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs jointly promulgated the Circular on Policies for Deepening the VAT Reform (關於深化增值稅改革有關政策的公告) on 20 March 2019, according to which, since 1 April 2019, the VAT rates for the import of goods and taxable sale have been further reduced from 16% to 13% and from 10% to 9% respectively.

During the Track Record Period, the sale of IC products by Zhuhai Megain was subject to the VAT at the rate of 17% before 1 May 2018 and this rate had been reduced to 16% for the period from 1 May 2018 to 31 March 2019. Since 1 April 2019, the VAT rate applicable to the sale of IC products by Zhuhai Megain has been further reduced to 13%.

On 13 October 2011, the Ministry of Finance and the State Administration of Taxation promulgated the Notice of the Ministry of Finance and the State Administration of Taxation on Value-added Tax Policies for Software Products (財政部、國家稅務總局關於軟件產品增值稅政策的通知), pursuant to which, a general VAT taxpayer is entitled to a refund of certain part of VAT which it paid for selling its self-developed and produced software products.

During the Track Record Period, Zhuhai Megain enjoyed the above preferential tax policies and received the refund of VAT at RMB2.5 million in total.

Withholding Income Tax

Pursuant to the EIT Law, dividends generated after 1 January 2008 and payable by a PRC company to its foreign investors are subject to a 10% withholding income tax, unless otherwise provided in the tax treaty concluded between the PRC and such foreign investor's jurisdiction of incorporation.

Pursuant to the Treaty on the Avoidance of Double Taxation and Tax Evasion between Mainland and Hong Kong (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) concluded on 21 August 2006 (the "**Tax Arrangement**") and other applicable PRC laws, if a Hong Kong company is determined by the PRC tax authority to have satisfied the relevant conditions and requirements under the Tax Arrangement and the other applicable PRC laws (such as the conditions of being a "beneficial owner" under the Tax Arrangement), the 10% withholding income tax rate on dividends paid by a PRC company to such Hong Kong company may be reduced to 5%. Pursuant to the Circular on Issues Concerning "Beneficial Owners" in Tax Treaties (國家稅務總局關於稅收協定中"受益所有人"有關問題的公告) promulgated by the State Administration of Taxation on 3 February 2018, a company incorporated in Hong Kong which has no substantive business activities or has not been identified as a Hong Kong tax resident may not be recognised as a "beneficiary owner" under the Tax Arrangement to enjoy the reduced withholding income tax rate of 5%.

During the Track Record Period, dividends paid by our PRC subsidiary, Zhuhai Megain, to Megain Group (HK) were subject to a 10% withholding income tax, as a result of the failure of Megain Group (HK) to satisfy the conditions and requirements on application of the reduced withholding tax rate of 5%.

Production Quality

The Product Quality Law of the PRC (中華人民共和國產品質量法), which was passed by the SCNPC on 22 February 1999, amended on 8 July 2000, 27 August 2009 and 29 December 2018, applies to all production and marketing activities within the territory of the PRC. The law proposes to reinforce the supervision and regulation of product quality, improving the quality of products. Producers shall be responsible for the quality of products they produce. Producers shall be responsible for compensating for damages done to the person or property except the defective products themselves due to the defects of products. Producers shall not be held responsible if they can prove one of the following cases: (i) the products have not been put into circulation; (ii) the defects are non-existent when the products are put into circulation; or (iii) the defects cannot be found at the time of circulation due to scientific and technological reasons.

Labour Protection

As the majority of our employees are based in the PRC, the labour-related laws of the PRC are material to our business.

Labour Law

The Labour Law of the PRC (中華人民共和國勞動法), which was passed by the SCNPC on 5 July 1994, came into effect on 1 January 1995, and was subsequently amended on 27 August 2009 and 29 December 2018, provides that employees are entitled to equal opportunities in employment, selection of occupations, receiving labour remuneration, rest days and holidays, protection of occupational safety and healthcare, social insurance and welfare, etc.. Employers must establish and improve the system for occupational safety and healthcare, provide training on occupational safety and healthcare to employees, comply with national and/or local regulations on occupational safety and healthcare, and provide necessary labour protective supplies to employees.

Labour Contract Law

The Labour Contract Law of the PRC (中華人民共和國勞動合同法), the "**Labour Contract Law**", which was passed by the SCNPC on 29 June 2007, came into effect on 1 January 2008, and was amended on 28 December 2012, and effective from 1 July 2013, and the Implementation Regulations on the Labour Contract Law (勞動合同法實施條例), which were promulgated by the State Council on 18 September 2008, and came into effect on the same day, provide that the labour contracts must be executed in order to establish the labour relationship between employers and employees. The Labour Contract Law stipulates that an employer shall inform the employees truthfully the scope of work, working conditions, workplace, occupational hazards, production safety conditions, labour remuneration and other information requested by the employees. The Labour Contract Law also stipulates that employer and employee shall fully perform their respective obligations in accordance with the terms set forth in the labour contract. In addition, employer shall pay employees the labour remuneration timely and in full amount in accordance with terms in the labour contract. The Labour Contract Law also provides for the scenario of rescission and termination, except the situation explicitly stipulated in the Labour Contract Law which will not subject to economic compensation, the economic compensation shall be paid to the employee by the employer for the illegally rescission or termination of the labour contract.

Social Insurance and Housing Provident Funds

Under the Social Insurance Law of the PRC (中華人民共和國社會保險法), promulgated by the SCNPC on 28 October 2010 and amended on 29 December 2018, the Regulations on Work-Related Injury Insurance (工傷保險條例), the Regulations on Unemployment Insurance (失業保險條例), the Provisional Measures on Maternity Insurance of Employees (企業職工生育保險試行辦法) and the Interim Regulations on Collection of Social Insurance Premiums (社會保險費徵繳暫行條例), an employer is required to make contributions to social insurance schemes for its employees, including basic pension insurance, basic medical insurance, unemployment insurance, maternity insurance and work-related injury insurance. Employers are also required to withhold and remit to the social insurance schemes the social insurance premiums payable by the employees. If the employer fails to make social insurance contributions in full and on time, the social insurance authorities may demand the employer to make payments or supplementary payments for the unpaid social insurance within a specified period together with a 0.05% surcharge of the unpaid social insurance from the date on which the payment is due. If the employer fails to settle the overdue payment within a specified period, the relevant regulatory authorities may impose on such employer a fine equivalent to one to three times of the amount of the overdue payment.

According to the Plan for the Administration of National and Local Tax Collection Reform (國稅地稅徵管體制改革方案), which was jointly promulgated by General Office of Central Committee of the Communist Party of China and General Office of the State Council on 20 July 2018, the taxation authorities shall be responsible for collection of the contributions to the social insurance including the basic pension insurance, basic health insurance, unemployment insurance, work-related injury insurance and maternity insurance from 1 January 2019.

Under the Administrative Regulations on Housing Provident Funds (住房公積金管理條例), which were promulgated by the State Council on 3 April 1999 and amended on 24 March 2002 and 24 March 2019, employers are required to make contribution to housing provident funds for their employees. Employers are also required to withhold and remit the contributions payable by the employees to the housing provident funds. Where an employer fails to pay up housing provident funds due in full within the prescribed time limit, the housing fund administration centre shall order it to make payment within a specified period. If the employer still fails to do so, the housing fund administration centre may apply to the court for enforcement of the unpaid amount.

Customs

Pursuant to the Customs Law of the PRC (中華人民共和國海關法), which was adopted by the SCNPC on 22 January 1987, and amended on 8 July 2000, 29 June 2013, 28 December 2013, 7 November 2016 and 4 November 2017, all conveyance, goods and articles entering or leaving the territory shall be subject to customs control, including declaration, examination and supervision. Duties shall be levied accordingly. Unless otherwise exempted or reduced by the laws or regulations, the consignee of import goods, the consignor of export goods and the owner of inward and outward articles shall be the obligatory customs duty payer. A fine may be imposed for acts which violate the regulations on customs control prescribed in the Customs Law of the PRC, such as, the failure to make accurate declaration of the import or export goods to the PRC customs authority, the failure to accept, in accordance with relevant regulations, the checking and examination by the PRC customs authority of the conveyance, goods or articles entering or leaving the territory, and to open or break seals affixed by the PRC customs authority without authorization.

According to the Provisions of the Customs of the PRC for the Administration of Registration of Customs Declaration Entities (中華人民共和國海關報關單位註冊登記管理規定) which was promulgated by the General Administration of Customs (海關總署) on 13 March 2014 and amended on 20 December 2017, 29 May 2018, came into effect on 1 July 2018, consignors and consignees of imported and exported goods shall undergo customs declaration entity registration formalities with their respective local customs in accordance with the applicable provisions. After the registration with the customs, consignors and consignees of imported and exported goods may handle their own customs declarations at any customs port or any locality where customs supervisory affairs are concentrated within the customs territory of the PRC.

As the business activities of Zhuhai Megain include import and export of goods, Zhuhai Megain shall comply with the relevant PRC customs regulations for these activities.

M&A Rules

Under the Rules on the Merger and Acquisition of Domestic Enterprises by Foreign Investors in the PRC (關於外國投資者併購境內企業的規定) (the "**M&A Rules**"), the merger and acquisition of the domestic companies by foreign investors means that the foreign investors purchase or subscribe for the equity or shares of a non-foreign invested PRC enterprise (also known as a domestic enterprise) or that the foreign investors establish a foreign invested PRC enterprise to acquire or operate the assets of a non-foreign invested PRC enterprise by agreement.

The acquisition of a domestic enterprise by a foreign investor shall obtain the approval from (i) the Ministry of Commerce ("**MOFCOM**") itself if the industry or the type of enterprise involved falls into the scope that requires the MOFCOM's approval pursuant to other PRC regulations or (ii) the provincial counterpart of MOFCOM (as the case may be). As advised by our PRC Legal Advisers, the transfer of the entire equity interest in Zhuhai Megain from Ms. Peng to Megain Group (HK) in 2016 obtained the approval from the competent provincial counterpart of MOFCOM, being Department of Commerce of Guangdong Province.

The M&A Rules further provide that the approval from MOFCOM is required in any of the following circumstances where (i) a PRC individual or a PRC enterprise acquires its affiliated domestic enterprise through its controlled foreign company ("**Acquisition of the Affiliated PRC Company**"); (ii) a foreign investor acquires a domestic enterprise at the consideration of the equity interests in foreign companies ("**Exchange of Shares**"); and (iii) the establishment of a special purpose vehicle (the ''**SPV**''), which is directly or indirectly controlled by the PRC individuals or the PRC companies for the purpose of overseas listing. Moreover, under the M&A Rules, the overseas listing of the shares of the SPV shall obtain the approval from the China Securities Regulatory Commission.

Our PRC Legal Advisers are of the opinion that no approval from MOFCOM or China Securities Regulatory Commission under the M&A Rules is required for the Pre-IPO Investments or the Listing, for the reasons that (i) the Pre-IPO Investments only involved the transfers of shares in the offshore company and the Pre-IPO Investments didn't constitute the Acquisition of the Affiliated PRC Company or the Exchange of Shares mentioned above; and (ii) our Controlling Shareholders, Mr. Cheng and Mr. Lee, are not the PRC individuals under the M&A Rules and thus our Company is not an SPV under the M&A Rules.

SAFE Circular 37

According to the Circular of the State Administration of Foreign Exchange on Issues Concerning the Administration of Foreign Exchange in Offshore Investments and Financing and Return Investments by Domestic Residents through Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the "**SAFE Circular 37**"), prior to making investment in a special purpose vehicle with legitimate assets or equity interests inside and outside the PRC, the PRC enterprises or individual residents shall make the foreign exchange registration of its overseas investment with SAFE or its designated banks ("**SAFE 37 Registration**"). The PRC individual residents under SAFE Circular 37 include Chinese citizens holding the PRC identity cards and foreign individuals who habitually reside in the PRC due to economic interest.

Our Controlling Shareholders, Mr. Cheng and Mr. Lee, are Taiwanese who didn't habitually reside in the PRC due to economic interest and they used their offshore funds to invest in our Company. Based on the foregoing, our PRC Legal Advisers are of the view that neither Mr. Cheng nor Mr. Lee shall make the SAFE 37 Registration for their investment in our Company or the Listing.

As advised by our PRC Legal Advisers, neither Mr. Lam nor Mr. Yu shall make the SAFE 37 Registration for their Pre-IPO Investments or the Listing, for the reasons that: (i) our Company did not constitute a special purpose vehicle under SAFE Circular 37 as it was not directly set up or indirectly controlled by the PRC individual residents; (ii) the Pre-IPO Investments were not for the purpose of the return investment under SAFE Circular 37; and (iii) both of them hold Hong Kong permanent identity cards and used their offshore funds to make the Pre-IPO Investments.

TAIWAN REGULATORY OVERVIEW

Company Act (公司法)

Foreign Company

Article 4 of the Company Act stipulates: *"The term "foreign company" as used in this Act denotes a company, for the purpose of profit making, organised and incorporated in accordance with the laws of a foreign country. A foreign company, within the limits prescribed by laws and regulations, is entitled with the same legal capacity as a R.O.C. company."* Article 371 of the Company Act then provides: *"A foreign company without making branch office registration may not conduct its business operation in the name of a foreign company in the territory of the Republic of China. A person who violates the provision set out in the preceding paragraph shall be punished with imprisonment for a period of not more than one year, detention, or in lieu thereof or in addition thereto a fine of not more than NT$150,000 and shall assume on his own the civil liabilities arising therefrom, or shall be jointly and severally liable therefor, in case there are two or more violators. In addition, the company shall be enjoined by the competent authority from using its foreign corporate name."*

With the aforementioned provisions, a foreign company has the same legal capacity as a Taiwanese company. However, in terms of conducting business operations in Taiwan in its own name, the foreign company should have a branch office registered in Taiwan.

Liability of Responsible Persons

Paragraph 1 of Article 23 of the Company Act prescribes: *"If the responsible person of a company has, in the course of conducting the business operations, violated any provision of the applicable laws and/or regulations and thus caused damage to any other person, he/she shall be liable, jointly and severally, for the damage to such other person."* With regard to the definition of "responsible person", the first two paragraphs of Article 8 of the Company Act provides: *"The term "responsible persons" of a company as used in this Act denotes shareholders conducting the business or representing the company in case of an unlimited company or unlimited company with limited liability shareholders; directors of the company in case of a limited company or a company limited by shares. The managerial officer, liquidator or temporary manager of a company, the promoter, supervisor, inspector, reorganizer or reorganisation supervisor of a company limited by shares acting within the scope of their duties, are also responsible persons of a company."*

To summarise, in the case of a company limited by shares, its directors and managerial officers are included in the definition of "responsible person" and thus are liable should they, in the course of conducting business, violate any provisions that cause damage to other persons.

Single Shareholder: Government or Corporate Shareholder

Paragraph 1 of Article 128-1 of the Company Act stipulates: *"A company limited by shares which is organised by a single government shareholder or a single juristic person shareholder shall be free from restrictive requirement set out in Paragraph One of the preceding Article. The functional duties and power of the shareholders' meeting of such company shall be exercised by its board of directors, to which the provisions governing the shareholders' meeting as set out in this Act shall not apply."* Pursuant to this regulation, a company which has only one shareholder being the government or a single juristic person does not need to apply the provisions about shareholders' meeting as set forth in the Company Act. Instead, all duties and powers that are generally exercised at the shareholders' meeting are taken over by the board of directors of such company.

Employment

The Labour Standards Act (勞動基準法) is the fundamental law which establishes the minimum requirements and standards of employment terms and conditions, including working hours, overtime pay, leaves and benefits, severance pay, etc. The minimum wage, which is determined by the Ministry of Labour (勞動部), is currently NT$24,000 per month, or NT$160 per hour.

As an employer in Taiwan, it is compulsory to bear the three following expenses for their employees: (i) the labour pension borne by the employer either under the Labour Pension Act (勞工退休金條例) or under the Labour Standards Act, (ii) national health insurance under the National Health Insurance Act (全民健康保險法); and (iii) labour insurance under the Labour Insurance Act (勞工保險條例).

Patents and Trademarks

Patents

There are three types of patents that fall within the scope of the protection of the Patent Act (專利法) in Taiwan: (i) invention patent (發明專利); (ii) utility model patent (新型專利); and (iii) design patent (設計專利). A patent application is needed for acquiring patent rights regardless of the type of the aforementioned patent.

Trademarks

Any person who wants to obtain the rights of trademark in Taiwan shall apply for registration in accordance with the Trademark Act (商標法). The proprietor of a registered trademark shall have the exclusive right of the trademark for a period of ten years from the date of publication of registration. In addition, the period of the trademark right can be renewed. The duration of each renewal period of the trademark right is ten years as well.

Mortgage of personal property

Pursuant to Article 15 of the Personal Property Secured Transactions Act (動產擔保交易法), "Mortgage of personal property" is a transaction in which mortgage rights over the personal property that secures a claim, are created in favour of the mortgagee, without transfer of possession of the property by the debtor or a third party. When the debtor fails to perform the obligations in terms of the contract, the mortgagee may take possession of the mortgaged property and may sell the property. Moreover, the satisfaction of the mortgagee's claims from the proceeds of the sale shall have precedence over other claims.

For setting a mortgage over personal property, a written contract is needed. Apart from this, the written contract shall not be effected against any bona fide third party, unless registered with the Ministry of Economic Affairs, ROC (經濟部).

Investment in the People's Republic of China

The Act Governing Relations between the People of the Taiwan Area and the Mainland Area (臺灣地區與大陸地區人民關係條例) ("**Relations Act**") covers a broad spectrum of cross-Taiwan Strait matters, including the investment in the PRC made by Taiwanese individuals.

Paragraph 1 of Article 35 of the Relations Act stipulates: *"Any individual, juristic person, organisation, or other institution of the Taiwan Area permitted by the Ministry of Economic Affairs may make any investment or have any technology cooperation in the Mainland Area; the product or business item of the referred investment or technology cooperation shall be categorised into prohibited and general categories based on the consideration of national security and industry development, and the Ministry of Economic Affairs in consultation with the authorities concerned shall prescribe and publish an item list and the principles of review for individual cases thereof. The investment not more than a certain dollar amount, however, may be made through filing; the referred amount limit shall be published with an order by the Ministry of Economic Affairs."* Pursuant to the aforesaid provision, the Ministry of Economic Affairs promulgated the Regulations Governing Permission of Investment or Technical Cooperation with China (在大陸地區從事投資或技術合作許可辦法), along with the Reviewing Principles of Investment or Technical Cooperation with China (在大陸地區從事投資或技術合作審查原則) (collectively, the "**Investment Regulations**").

The Investment Regulations set forth as follows:

(1) No Taiwanese individual is allowed to invest in business which is categorised as "Prohibited Items" (禁止類), whereas Taiwanese individual is allowed to invest in business which is not categorised as "Prohibited items" ("**General Items**") (一般類) in the circumstances of obtaining prior approval from the Investment Commission of the Ministry of Economic Affairs, ROC (經濟部投資審議委員會) (the "**Investment Commission of the Ministry of Economic Affairs**").

(2) So-called "Investment in the PRC" not only includes obtaining shares in the corporate or business incorporated in the PRC, but also includes any Taiwanese individual who obtain shares in the corporate or business incorporated in the PRC via a third corporate or business, in which the Taiwanese individual is a director, supervisor, executive person, or other similar officer, or holds at least 10% of total issued shares, incorporated in any places other than the PRC and Taiwan.

Paragraph 1 of Article 86 of the Relations Act also provides: *"Any person who makes an investment or has technology cooperation in any item of the general categories in violation of the provisions of Paragraph 1 of Article 35 shall be punished with an administrative fine of not less than fifty thousand but not more than twenty-five million New Taiwan Dollars, or in addition thereto, an order that the violation shall be terminated or rectified within a specified time limit; failure for termination or rectification by the expiration of the aforementioned time limit may be punished with consecutive fines."*

Pursuant to the above-mentioned regulations, any Taiwanese individual who plans to make an investment categorised in General Items in the PRC needs to obtain prior approval by the Investment Commission of the Ministry of Economic Affairs. Those Taiwanese individual who violates this regulation will be fined. As advised by our Taiwan Legal Advisers, since our Controlling Shareholders, namely Mr. Cheng and Mr. Lee, are Taiwanese individuals, their indirect investment in our operating subsidiary in the PRC, namely Zhuhai Megain, is subject to the approval of the Investment Commission of the Ministry of Economic Affairs. As further advised by our Taiwan Legal Advisers, the above investment shall be categorised under the General Items pursuant to the Investment Regulations and since both Mr. Cheng and Mr. Lee had filed their respective indirect investment in Zhuhai Megain with, and obtained the approval thereof from the Investment Commission of the Ministry of Economic Affairs, they had fulfilled the relevant legal requirements in respect of such indirect investment as required under Taiwan laws.

OUR HISTORY AND DEVELOPMENT

Overview

Our Group was founded by Mr. Lee and Mr. Cheng who are seasoned market participants with more than 25 and 10 years of experience, respectively, in the compatible cartridge related industries. Prior to founding our Group, Mr. Lee served as an engineer in various electronics and computer software corporations and was principally engaged in the research, design and development of electronic components and computer software (including those applicable to compatible cartridge chips), while Mr. Cheng focused on the sales and marketing of printer cartridges. For further details of the background and relevant experience of Mr. Lee and Mr. Cheng, please refer to the section headed "Directors and Senior Management — Directors — Executive Directors" in this prospectus.

During the period from September 1992 to August 2001, Mr. Lee worked in a number of electronic and computer companies in Taiwan, where he was mainly responsible for engineering-related work. Prior to the establishment of our major operating subsidiary, Zhuhai Megain, in September 2010, Mr. Lee had been carrying on the businesses of research, design, development and sale of compatible cartridge chips through Echip-Tech Electronic Corporation (宏利科技有限公司) ("**Echip-Tech**"), a company incorporated in Taiwan in December 2008 and controlled by Mr. Lee. In or around mid-2009, Mr. Lee and Mr. Cheng were introduced to each other by a mutual friend who was engaged in the cartridge industry as confirmed by Mr. Lee and Mr. Cheng. Subsequently in or around late 2010, in order to pull Mr. Lee's expertise in the research, design and development of compatible cartridge chips and Mr. Cheng's experience in the sales and marketing of printer cartridges together, Mr. Lee and Mr. Cheng began to jointly engage in the business of compatible cartridge chips through Echip-Tech and Zhuhai Megain. Each of Mr. Lee and Mr. Cheng had been interested in 50% of the equity interest of Zhuhai Megain since its incorporation in September 2010 until its entire equity interest was transferred to Megain Group (HK) in 2016 in anticipation of the pre-IPO investments, the details of which are set out in the paragraph headed "Pre-IPO Investments" in this section. Since late 2010 and until September 2016, apart from Echip-Tech and Zhuhai Megain, Mr. Lee and Mr. Cheng jointly carried on the business of compatible cartridge chips through certain private enterprises which were controlled by either Mr. Lee or Mr. Cheng. These enterprises were (i) Megain Technology (HK) PTE Limited ("**Megain PTE**"), a company incorporated in Hong Kong in March 2012, solely controlled by Mr. Cheng and principally engaged in the sale of compatible cartridge chips; (ii) Zhongshan Meijiayin Printing Materials Factory* (中山市美佳音印表機耗材加工廠) ("**ZS Factory**"), an enterprise established in the PRC in March 2012, solely controlled by Mr. Cheng and principally engaged in the processing of compatible cartridge chips; and (iii) Easic International Corporation (海耀國際有限公司) ("**Easic**", together with Echip-Tech, Megain PTE and ZS Factory, the "**Private Enterprises**"), a company incorporated in Taiwan in May 2014, solely controlled by Mr. Lee and principally engaged in the sale of compatible cartridge chips.

Although the Private Enterprises were not jointly owned by Mr. Lee and Mr. Cheng, Mr. Lee and Mr. Cheng agreed to jointly share the results of operations of the Private Enterprises and Zhuhai Megain since September 2010 to reflect their collective effort and partnership in the business of compatible cartridge chips. Since mid-2015, in anticipation of the pre-IPO investments, the details of which are set out in the paragraph headed "Pre-IPO Investments" in this section, Mr. Lee and Mr. Cheng began to formalise their joint partnership in the business of compatible cartridge chips, and the subsidiaries of our Company, namely Zhuhai Megain, Megain Group (HK), Megain Holding (BVI) and its branch office in Taiwan, began to take up all operations and business of the Private Enterprises. The formalisation of the structure of our Group was substantially completed in September 2016 when the operations and business functions of the Private Enterprises were taken up by our Group, and the business operations of the Private Enterprises have ceased since then. Echip-Tech and Easic were voluntarily dissolved prior to the Track Record Period, and ZS Factory and Megain PTE were voluntarily deregistered in July 2017 and May 2018, respectively. ZS Factory was solvent at the time of deregistration. While ZS Factory and Megain PTE did not record any revenue during the Track Record Period, they recorded minimal expenses relating to corporate maintenance prior to their respective deregistration. To the best of our Directors' knowledge, information and belief after making reasonable enquiries, they are not aware of any material non-compliance matters concerning each of the Private Enterprises during its existence and as at the Latest Practicable Date. As advised by our legal advisers, each of the Private Enterprises was not subject to any material litigation or penalty during its existence and as at the Latest Practicable Date.

By virtue of the Concert Parties Confirmatory Deed, GMTL, Mr. Cheng, AGL and Mr. Lee are a group of shareholders acting in concert in respect of each of the members of our Group and will be regarded as our Controlling Shareholders. Please refer to the paragraph headed "Parties Acting in Concert" in this section for further details.

Leveraging our experience and know-how in the compatible cartridge chips industry, we have developed into one of the leading providers of compatible cartridge chips in the PRC. According to the CIC Report, we ranked second with a market share of approximately 11.1% in terms of external sales, and third with a market share of approximately 4.3% in terms of production volume in the PRC compatible cartridge chip market in 2019.

Key Milestones

The key milestones in our development are set out below:

Year	Event
2010	• Zhuhai Megain, our major operating subsidiary, was incorporated in the PRC
2015	• Megain Holding (BVI) established a branch office in Taiwan to principally engage in the research, design, development and sale of compatible cartridge chips

Year	Event
2016	• We obtained ISO 9001:2015 (the design and sale of printer cartridge chips) and ISO 14001:2015 (the design and sale of printer cartridge chips and management of related environmental aspects)
	• Zhuhai Megain was first recognised as a High and New Technology Enterprise* (高新技術企業) in the PRC for a term of three years
	• Our Company was incorporated in the Cayman Islands
2017	• Zhuhai Megain established a branch office in Shanghai, the PRC to focus on the research, design and development of compatible cartridge chips
	• We were awarded the titles of "Zhuhai Intellectual Property Protection Significant Enterprise* (珠海市知識產權保護重點企業)" and "Guangdong Integrity and Good Faith Enterprise* (廣東省守合同重信用企業)"
2018	• Zhuhai Megain was awarded the title of "The Most Beautiful Taxpayer in Zhuhai in 2018* (2018年珠海市最美納稅人)"
2019	• Zhuhai Megain established a branch office in Hangzhou, the PRC to focus on the research, design and development of compatible cartridge chips
	• Zhuhai Megain was recognised as a High and New Technology Enterprise* (高新技術企業) in the PRC for a term of three years

CORPORATE HISTORY AND SHAREHOLDING CHANGES OF OUR GROUP COMPANIES

Our Company

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 22 June 2016 with an initial authorised share capital of US$50,000 divided into 50,000 Shares of a nominal or par value of US$1.00 each. On the date of its incorporation, one Share, credited as fully paid, was allotted and issued to Portcullis TrustNet (Cayman) Ltd. as subscriber share and was transferred to AGL at a consideration of US$1.00. On the same day, 4,774 Shares and 5,225 Shares were allotted and issued to AGL and GMTL at a consideration of US$4,774 and US$5,225, respectively. Upon completion of such transfer, allotment and issue, our Company was 47.75% and 52.25% directly owned by AGL and GMTL, respectively.

On 21 October 2016, Mr. Lam, through CB Capital Limited ("**CBCL**"), which is a company incorporated in Hong Kong with limited liability on 14 June 2016, invested into our Company as a pre-IPO investor through the acquisition of 2,560 Shares from GMTL and 2,340 Shares from AGL at a consideration of RMB77,583,673 and RMB70,916,327, respectively. CBCL was then controlled and directly owned as to 75% by Mr. Lam, and as to 25% by its minority shareholders who were Independent Third Parties save and except that one of them acted as CBCL's representative on our Board during the period between 21 October 2016 and 23 September 2019. Upon completion of such transfer, our Company was 24.35%, 26.65% and 49.00% directly owned by AGL, GMTL and CBCL, respectively.

On 29 December 2017, CBCL transferred 2,600 Shares to GLC, one of our pre-IPO investors, at a consideration of RMB232,390,000. CBCL's sale of part of its equity interest in our Company to GLC, which was confident in the prospect and growth potential of our Company and was willing to invest in our Company as an equity holder, enabled CBCL to realise considerable return of its investment in our Company. As confirmed by GLC, the consideration of RMB232,390,000 was determined after arm's length negotiations between GLC and CBCL, having taken into account the then estimated and unaudited net profit of our Group for the year ended 31 December 2017, the growth of our net profit prior to GLC's purchase of the 2,600 Shares and the lowest price-earnings ratio among major PRC listed market players in the cartridge industry in 2017. Upon completion of such transfer, our Company was 24.35%, 26.65%, 26.00% and 23.00% directly owned by AGL, GMTL, GLC and CBCL, respectively.

On 23 August 2019, CBCL transferred its remaining shareholding interest in our Company, being 2,300 Shares, to Mr. Lam. Upon completion of such transfer and up to the Latest Practicable Date, our Company was 24.35%, 26.65%, 26.00% and 23.00% directly owned by AGL, GMTL, GLC and Mr. Lam, respectively. For further details, please refer to the paragraph headed "Pre-IPO Investments" in this section.

As at the Latest Practicable Date, our Company was an investment holding company.

Megain Group (HK)

Megain Group (HK) was incorporated in Hong Kong with limited liability on 22 July 2015 with an initial share capital of HK$5,000,000. On the date of its incorporation, 2,500,000 shares were allotted and issued to each of GMTL and AGL. Upon completion of such allotment and issuance, Megain Group (HK) was 50.00% and 50.00% directly owned by GMTL and AGL, respectively.

On 9 September 2016, GMTL and AGL transferred their respective entire shareholding interest in Megain Group (HK) to our Company at a consideration of HK$2,500,000 and HK$2,500,000, respectively. Upon completion of such transfers and up to the Latest Practicable Date, Megain Group (HK) was directly and wholly owned by our Company. On 12 October 2016, Megain Group (HK) allotted and issued 35,425,000 shares to our Company.

As at the Latest Practicable Date, Megain Group (HK) was principally engaged in the trading of compatible cartridge chips outside of the PRC as well as investment holding.

Megain International

Megain International was incorporated in Hong Kong with limited liability on 14 July 2016 with an initial share capital of HK$1,000,000. On the date of its incorporation, 1,000,000 shares were allotted and issued to Megain Group (HK). Since the date of its incorporation and up to the Latest Practicable Date, Megain International was directly and wholly owned by Megain Group (HK).

As at the Latest Practicable Date, Megain International was an investment holding company.

Megain Holding (BVI)

Megain Holding (BVI) was incorporated in BVI with limited liability on 30 July 2015 and is authorised to issue a maximum of 50,000 shares of US$1.00 each. On the date of its incorporation, 50,000 shares were allotted and issued to Megain Group (HK). On 15 July 2016, Megain Group (HK) transferred its entire shareholding interest in Megain Holding (BVI) to Megain International at a consideration of US$50,000. Upon completion of such transfer and up to the Latest Practicable Date, Megain Holding (BVI) was directly and wholly owned by Megain International.

On 17 November 2015, Megain Holding (BVI) established a branch office in Taiwan to principally engage in the research, design, development and sale of compatible cartridge chips.

As at the Latest Practicable Date, Megain Holding (BVI) and its branch office in Taiwan were principally engaged in the research, design and development of compatible cartridge chips.

Zhuhai Megain

Zhuhai Megain was incorporated in the PRC with limited liability on 13 September 2010 with an initial registered capital of RMB100,000. On the date of its establishment, Zhuhai Megain was 90% and 10% held by our employee, Mr. Shen Hong (沈宏) ("**Mr. Shen**"), and our former employee, Ms. Gong Wenyuan (龔文淵) ("**Ms. Gong**"), on trust and for the benefit of Mr. Cheng and Mr. Lee in equal shares, respectively.

On 26 February 2015, Mr. Shen and Ms. Gong transferred their respective entire equity interest in Zhuhai Megain to Ms. Peng Jieyu (彭潔瑜) ("**Ms. Peng**"), our employee, at a consideration of RMB90,000 and RMB10,000, respectively. Upon completion of such transfer, Zhuhai Megain was wholly owned by Ms. Peng, on trust and for the benefit of Mr. Cheng and Mr. Lee in equal shares.

On 17 April 2015, the registered capital of Zhuhai Megain was increased from RMB100,000 to RMB3,000,000. Upon completion of such capital injection, Ms. Peng continued to hold the equity interest in Zhuhai Megain on trust and for the benefit of Mr. Cheng and Mr. Lee in equal shares.

In anticipation of the Pre-IPO Investments, the details of which are set out in the paragraph headed "Pre-IPO Investments" in this section, on 30 March 2016, Ms. Peng transferred her entire equity interest in Zhuhai Megain to Megain Group (HK) at a consideration of RMB4,540,000, which was determined with reference to the net asset value of Zhuhai Megain as at 30 November 2015 and a valuation report issued by an independent valuer. Upon completion of such transfer and up to the Latest Practicable Date, Zhuhai Megain was wholly and directly owned by Megain Group (HK). As advised by our PRC Legal Advisers, the aforesaid transfers in respect of the equity interest in Zhuhai Megain had been properly and legally completed.

The aforementioned trust arrangements in respect of Mr. Cheng's and Mr. Lee's equity interest in Zhuhai Megain were intended to reduce the administrative procedures for the establishment of Zhuhai Megain and for Mr. Cheng and Mr. Lee to hold its shares, since Mr. Shen, Ms. Gong and Ms. Peng are ordinarily resident in the PRC while Mr. Cheng and Mr. Lee are not. As advised by our PRC Legal Advisers, the agreements documenting the aforesaid trust arrangements were legally effective under PRC laws. In addition, as advised by our Taiwan Legal Advisers, since Mr. Cheng and Mr. Lee had filed their respective indirect investment in Zhuhai Megain with, and obtained the approval thereof from the relevant authority in Taiwan, they had fulfilled the relevant legal requirements in respect of such investment as required under Taiwan laws.

Zhuhai Megain established a branch office in Shanghai, the PRC on 29 December 2017 to mainly focus on the research and development of compatible cartridge chips.

On 18 May 2018, the registered capital of Zhuhai Megain was further increased from RMB3,000,000 to RMB20,000,000.

On 23 May 2019, Zhuhai Megain established a branch office in Hangzhou, the PRC to principally engage in the research and development of compatible cartridge chips.

As at the Latest Practicable Date, Zhuhai Megain was principally engaged in the research, design, development and sale of compatible cartridge chips.

GROUP COMPANY DEREGISTERED DURING THE TRACK RECORD PERIOD

Shanghai Yaoxian Information Technology Company Limited* (上海曜咸信息科技術有限公司) ("Shanghai Yaoxian")

Shanghai Yaoxian was incorporated in the PRC with limited liability on 23 November 2015 with an initial registered capital of RMB1,000,000. On the date of its establishment, Shanghai Yaoxian was 70% and 30% owned by Zhuhai Megain and Mr. Feng Xiaohui (馮曉輝), who was the general manager of the Shanghai branch office of Zhuhai Megain as at the Latest Practicable Date, respectively.

As the principal business activities of Shanghai Yaoxian, being research and development of compatible cartridge chips, had been largely taken up by Zhuhai Megain since 2016, in order to streamline our Group's structure for the purpose of the Listing, Shanghai Yaoxian was voluntarily deregistered according to the applicable PRC laws and regulations on 6 March 2019 and was solvent at the time of deregistration.

PARTIES ACTING IN CONCERT

On 4 January 2019, Mr. Cheng and Mr. Lee, our Controlling Shareholders, entered into the Concert Parties Confirmatory Deed to acknowledge and confirm that they have been parties acting in concert in respect of each of the members of our Group (the "**Relevant Companies**") since the date of its incorporation or establishment, and for so long as they both remain as directors and key management members and/or remain interested (directly or indirectly) in the share capital of any of the Relevant Companies, they shall:

(a) act in concert and jointly for all material management affairs and strategic commercial decisions, including but not limited to financial management and operational matters, of the Relevant Companies;

(b) give unanimous consent, approval or rejection on other material issues and decisions in relation to the business of the Relevant Companies;

(c) jointly cast unanimous vote on all resolutions relating to matters that require shareholders' or directors' approvals or discussions of the Relevant Companies; and

(d) cooperate with each other to obtain and maintain the consolidated control and management of the Relevant Companies.

PRE-IPO INVESTMENTS

Our Pre-IPO Investments

Two pre-IPO investments (collectively, the "**Pre-IPO Investments**") had been made into our Company since its incorporation and up to the Latest Practicable Date. The first pre-IPO investment (the "**2016 Pre-IPO Investment**") was made by Mr. Lam through CBCL, a company which was then 75% owned by Mr. Lam, through the acquisition of certain Shares held by GMTL and AGL in 2016. On 29 September 2016, a sale and purchase agreement was entered into among GMTL, AGL, CBCL, Mr. Cheng and Mr. Lee, pursuant to which (a) GMTL agreed to sell 2,560 Shares to CBCL at a consideration of RMB77,583,673 (equivalent to approximately HK$84.9 million); and (b) AGL agreed to sell 2,340 Shares to CBCL at a consideration of RMB70,916,327 (equivalent to approximately HK$77.6 million). The second pre-IPO investment (the "**2017 Pre-IPO Investment**") was made by GLC through the acquisition of certain Shares held by CBCL in 2017. On 29 December 2017, a sale and purchase agreement was entered into between CBCL and GLC, pursuant to which CBCL agreed to sell 2,600 Shares to GLC at a consideration of RMB232,390,000 (equivalent to approximately HK$254.2 million). Upon completion of the 2016 Pre-IPO Investment and the 2017 Pre-IPO Investment, our Company was 24.35%, 26.65%, 26.00% and 23.00% directly owned by AGL, GMTL, GLC and CBCL, respectively.

CBCL is an investment holding company and was held as to 75% by Mr. Lam and as to 25% by its minority shareholders. On 23 August 2019, Mr. Lam took over CBCL's investment in our Company, being 2,300 Shares, in his personal capacity (the "**2019 Acquisition**") in order to facilitate the exit of the investment of CBCL's minority shareholders in our Company. Subsequent to the 2019 Acquisition, our Company was 24.35%, 26.65%, 26.00% and 23.00% directly owned by AGL, GMTL, GLC and Mr. Lam, respectively.

Details of the Pre-IPO Investments as at the Latest Practicable Date

The below table summarises the details of the Pre-IPO Investments by Mr. Lam[(1)] and GLC:

		Mr. Lam	**GLC**
Date of sale and purchase agreement	:	29 September 2016[(2)]	29 December 2017
Date of closing	:	21 October 2016[(3)]	29 December 2017
Amount of consideration	:	RMB69,700,000 (equivalent to approximately HK$76.2 million)[(4)]	RMB232,390,000 (equivalent to approximately HK$254.2 million)
Basis of consideration	:	Based on arm's length negotiation and with reference to our audited net profit for the year ended 31 December 2015, taking into account the risk assumed by Mr. Lam in investing in a private company	Based on arm's length negotiation and with reference to our then forecasted net profit for the year ended 31 December 2017, taking into account the risk assumed by GLC in investing in a private company
Settlement date(s) of consideration	:	26 August 2016, 31 August 2016 and 24 October 2016	29 December 2017
Investment cost per Share	:	Approximately HK$0.88	Approximately HK$2.61
Discount to the Offer Price	:	Approximately 29.6% (assuming an Offer Price of HK$1.25, being the mid-point of the indicative Offer Price range)	Not applicable

Notes:

(1) As continuation of the 2016 Pre-IPO Investment since Mr. Lam had been the controlling shareholder of CBCL and held 75% of its equity interest prior to the 2019 Acquisition

(2) Being the date of the agreement for the sale and purchase of 4,900 Shares under the 2016 Pre-IPO Investment

(3) Being the closing date of the 2016 Pre-IPO Investment

(4) With respect to the 2,300 Shares acquired by Mr. Lam and calculated in proportion to the consideration of RMB148,500,000 (equivalent to approximately HK$162.4 million) paid by CBCL pursuant to the 2016 Pre-IPO Investment

		Mr. Lam	GLC
Premium to the Offer Price	:	Not applicable	Approximately 108.8% (assuming an Offer Price of HK$1.25, being the mid-point of the indicative Offer Price range)
Use of proceeds from the Pre-IPO Investments	:	Not applicable	Not applicable
Strategic benefits to our Company	:	Our Directors are of the view that the Pre-IPO Investments have broadened our shareholder base prior to the Listing and have demonstrated our Company's investment value to potential investors. Both Mr. Yu, the sole shareholder of GLC, and Mr. Lam are seasoned market participants with more than 15 years of experience in the cartridge industry in the PRC. In particular, Mr. Yu was one of the founders and a senior management member of a company incorporated in the PRC in 2004 and principally engaged in the distribution of cartridges in the PRC, and Mr. Lam was a senior management member of a market player principally engaged in the manufacturing and sale of spare parts of printer consumables. Our Directors believe that the Pre-IPO Investments made by Mr. Yu and Mr. Lam which are significant in size have increased our potential investors' confidence in our Group. In addition, our Directors believe that we have benefited from the investors' relevant management experience, industry knowledge, market insights and professional advice in the cartridge industry in the PRC, in the formulation of our development strategies. For further details of the background and relevant experience of Mr. Yu, please refer to the paragraph headed "Pre-IPO Investments — Information about our Pre-IPO Investors" in this section. For further details of the background and relevant experience of Mr. Lam, please refer to the section headed "Directors and Senior Management — Directors — Non-executive Directors" in this prospectus and the paragraph headed "Pre-IPO Investments — Information about our Pre-IPO Investors" in this section.	

		Mr. Lam	**GLC**
Shareholding in our Company immediately following completion of the Pre-IPO Investments	:	23.00%	26.00%
Shareholding in our Company immediately following completion of the Capitalisation Issue (assuming the Over-allotment Option is not exercised and without taking into account the Shares which may be issued upon exercise of any options granted or to be granted under the Share Option Scheme)	:	17.25%	19.50%
Shareholding in our Company immediately following completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is fully exercised but without taking into account the Shares which may be issued upon exercise of any options granted or to be granted under the Share Option Scheme)	:	16.63%	18.80%

On 21 October 2016, our Company, GMTL, AGL, CBCL, Mr. Cheng and Mr. Lee entered into a shareholders' agreement (as superseded by the amended and restated shareholders' agreement dated 30 June 2018 with GLC joining as an additional party) (the "**Shareholders' Agreement**"). On 21 January 2020, Mr. Lam executed a deed of accession, pursuant to which Mr. Lam agreed to abide by the terms of Shareholders' Agreement. Set out below are the terms of the Shareholders' Agreement relating to the special rights of Mr. Lam[1] and GLC:

		Mr. Lam	GLC
Board representation	:	–	So long as GLC holds any Shares, it shall have the right to nominate a person as a Director and to request for the removal and substitution of such Director from time to time. GLC's right of board representation shall cease upon Listing. Pursuant to the above, Ms. Yu Erhao has been appointed as our Non-executive Director.
Veto right	:	Unanimous shareholders' consent is required for certain major corporate actions of our Group or any of its members, including change of directors, change in share capital such as capital reduction or issue of new shares, grant of share options, purchase or redemption of shares, creation of encumbrance on assets other than in the ordinary course of business, declaration of dividend, annual budget, amendments to constitutional documents and disposal of any member of our Group. The veto right shall cease upon Listing.	
Anti-dilution right	:	–	GLC shall have the right to purchase additional Shares to be issued by our Company so as to maintain its shareholding percentage in our Company. The anti-dilution right shall cease upon Listing.

Note:

(1) Other than the special rights set out herein, certain special rights initially enjoyed by, or related to, CBCL under the Shareholders' Agreement have been fulfilled or are no longer applicable due to the lapse of time.

	Mr. Lam	GLC
Information right :	Mr. Lam and GLC shall have the right to receive periodic financial information of our Group, including quarterly and annual consolidated management accounts, annual financial statements, business plans, budgets and forecast. The information right shall cease upon Listing.	
Call option :	–	In the event of the occurrence of an event of default as stipulated in the Shareholders' Agreement and if GLC is the defaulting Shareholder, GMTL and AGL shall have the right to require GLC to sell all its Shares as well as any shareholder's loan owed by our Company to it to GMTL and AGL at the price stipulated in the Shareholders' Agreement. The call option shall only be exercisable if the Listing does not take place and shall be terminated upon Listing.

Termination of the Shareholders' Agreement

The Shareholders' Agreement shall be terminated upon the occurrence of any of the following events (whichever earlier): (a) the agreement of all the parties thereto in writing; (b) the completion of the Listing, or at the request of the relevant stock exchange during the application and review procedures for the Listing; or (c) our Company has only one Shareholder.

Lock-up and Public Float

The terms of our Pre-IPO Investments and the Shareholders' Agreement did not impose any lock-up obligations over the Shares held by GLC and Mr. Lam upon Listing. Each of Mr. Yu and Mr. Lam has voluntarily undertaken to us that they will not dispose our Shares during the period of 12 months commencing from the Listing Date. Since GLC and Mr. Lam will be holding more than 10% of the total issued share capital of our Company immediately following completion of the Capitalisation Issue and the Global Offering, they will be substantial shareholders of our Company and are therefore connected persons of our Company. Hence, the Shares held by GLC and Mr. Lam will not be considered as part of the public float.

Information about our Pre-IPO Investors

Information about GLC

GLC is a limited liability company incorporated in BVI and is wholly and directly owned by Mr. Yu. As confirmed by Mr. Yu, GLC is an investment holding company solely for the purpose of holding the investment in our Company. To the best of our Directors' knowledge, information and belief after making reasonable enquiries, Mr. Yu is a private investor with experience in the Hong Kong capital markets and in direct investment in non-listed companies. In addition, Mr. Yu has more than 15 years of experience in the cartridge industry in the PRC by virtue of his equity investments and management experience in certain market players in the PRC.

Mr. Yu's Minority and Non-controlling Interest in the Controlling Shareholder of Customer H

As at the Latest Practicable Date, to the best of the knowledge of our Directors and Mr. Yu, and based on the public information available, neither Mr. Yu nor any of his associates had any direct equity interest in Customer H. As at the Latest Practicable Date, Mr. Yu held a minority and non-controlling interest in the controlling shareholder of Customer H (the **"Controlling Shareholder of Customer H"**) through three of its minority shareholders, namely (i) Zhuhai Haohao Technology Co., Ltd* (珠海好好科技有限公司) ("**Zhuhai Haohao**"), a limited liability company incorporated in the PRC; (ii) a limited liability partnership established in the PRC (the "**LLP Minority Shareholder**"); and (iii) a limited liability company incorporated in the PRC (the "**PRC Co Minority Shareholder**"). Details of Mr. Yu's equity interest in the Controlling Shareholder of Customer H as at the Latest Practicable Date are set out below:

(i) Mr. Yu's Equity Interest in Zhuhai Haohao

As at the Latest Practicable Date, as a passive investor, Mr. Yu held approximately 3.52% of the equity interest of the Controlling Shareholder of Customer H through Zhuhai Haohao, a company jointly controlled by Mr. Yu and his spouse. The said 3.52% equity interest was acquired by Zhuhai Haohao in October 2007 from a limited liability company incorporated in the BVI (the "**BVI Co**"), which was one of the substantial shareholders of the Controlling Shareholder of Customer H as at the Latest Practicable Date.

To the best of the knowledge and information of our Directors and Mr. Yu, and based on the public information available, the BVI Co was an Independent Third Party and neither our Company, our Directors, Mr. Yu nor any of their respective associates had any direct or indirect equity interest in the BVI Co as at the Latest Practicable Date.

(ii) Mr. Yu's Equity Interest in the LLP Minority Shareholder

To the best of the knowledge and information of our Directors and Mr. Yu, and based on the public information available, as at the Latest Practicable Date, as a passive investor and a limited partner, Mr. Yu held a non-controlling equity interest in the LLP Minority Shareholder. The LLP Minority Shareholder was interested in 2.5% of the equity interest of the Controlling Shareholder of Customer H as at the Latest Practicable Date.

(iii) Mr. Yu's Equity Interest in the PRC Co Minority Shareholder

To the best of the knowledge and information of our Directors and Mr. Yu, and based on the public information available, as at the Latest Practicable Date, as a passive investor, Mr. Yu held a minority and non-controlling interest in the PRC Co Minority Shareholder. The PRC Co Minority Shareholder was ultimately interested in 3.19% of the equity interest of the Controlling Shareholder of Customer H as at the Latest Practicable Date.

Save as disclosed above, to the best of the knowledge and information of our Directors and Mr. Yu, and based on the public information available, neither Mr. Yu nor any of his associates had held any equity interest in Customer H, the Controlling Shareholder of Customer H or any of their respective subsidiaries or members of Listed Group A as at the Latest Practicable Date. In addition, save as disclosed above, neither Mr. Yu nor any of his associates had held any other interest in the other shareholders of Customer H, the Controlling Shareholder of Customer H or any of their respective associates up to the Latest Practicable Date.

Mr. Yu's Other Equity Interests Related to the Ultimate Controlling Shareholders of Customer H

To the best of the knowledge and information of our Directors and Mr. Yu, and based on the public information available, as a passive investor, Mr. Yu held a minority and non-controlling interest of approximately 2.04% and 3.06% in two limited liability companies incorporated in the PRC and controlled by the Ultimate Controlling Shareholders of Customer H (as defined below) and/or the directors of the Controlling Shareholder of Customer H, as at the Latest Practicable Date, due to his historical business relationship with the Ultimate Controlling Shareholders of Customer H. Please refer to the paragraph headed "Mr. Yu's Relationship with the Ultimate Controlling Shareholders of Customer H" in this section below for further details of Mr. Yu's historical business relationship with the Ultimate Controlling Shareholders of Customer H.

Mr. Yu's Former Directorship in Supplier A

Mr. Yu was once a director of Supplier A during the period between 6 December 2012 and 28 January 2014. The appointment of Mr. Yu as a director of Supplier A was solely for the purpose of facilitating his handling of certain intellectual property disputes of Supplier A. During his tenure of service with Supplier A from 6 December 2012 to 28 January 2014, (i) Mr. Yu held no management role in Supplier A; and (ii) the directors of Supplier A were a Mr. Yan, being an Independent Third Party, and the brother of Mr. Wang (as defined below), who were responsible for the management and operations of Supplier A. Mr. Yu resigned as, and ceased to be, a director of Supplier A in January 2014 and has retired since then.

During the period between 10 March 2016 and 22 October 2018, due to an inadvertent administrative error, Mr. Yu was mistakenly registered as a director of Supplier A. As confirmed by the secretary to the board of directors and the deputy general manager of Customer H, being the sole shareholder of Supplier A, and by Mr. Yu, the registration of Mr. Yu as a director of Supplier A in March 2016 was made without any knowledge or approval of or consent from Mr. Yu, and Mr. Yu was not involved in any business operations or activities of Supplier A since his retirement in 2014. As further confirmed by Mr. Yu, he had not held any executive or management position in, and had not been employed by, any corporate entity, including any member of Listed Group A, since his retirement in 2014 and up to the Latest Practicable Date.

Save as disclosed above, to the best of the knowledge and information of our Directors and Mr. Yu, and based on the public information available, neither Mr. Yu nor any of his associates had held any executive or management position in any of Customer H, the Controlling Shareholder of Customer H or any of their respective subsidiaries up to the Latest Practicable Date.

Mr. Yu's Relationship with the Ultimate Controlling Shareholders of Customer H

Based on the public information available as at the Latest Practicable Date, Customer H was ultimately controlled by a Mr. Li ("**Mr. Li**"), a Mr. Wang ("**Mr. Wang**") and a Mr. Zeng ("**Mr. Zeng**", together with Mr. Li and Mr. Wang, the "**Ultimate Controlling Shareholders of Customer H**") who were parties acting in concert in relation to the exercise of voting rights in the Controlling Shareholder of Customer H.

As confirmed by Mr. Yu, he first became acquainted with Mr. Wang when they attended the same secondary school and were classmates in the 1980s. Mr. Yu rarely contacted Mr. Wang after graduating from secondary school. In the 1990s, Mr. Yu and Mr. Wang started to have business dealings since Mr. Yu was then engaged in the trading of soft magnetic boards and cartridges whilst Mr. Wang was a general manager of a PRC state-owned enterprise (the "**SOE**") which was one of the suppliers of Mr. Yu's trading business. Both Mr. Li and Mr. Zeng were deputy general managers of the SOE and were colleagues of Mr. Wang.

To the best knowledge of the Directors, in the early 2000s, the Ultimate Controlling Shareholders of Customer H left the SOE and joined the business of sale and trading of cartridges in the PRC which was a relatively small-scale business operated under a Hong Kong company incorporated by Mr. Yu and other Independent Third Parties in 2001, and in which Mr. Yu was a director and a minority shareholder. The said business was gradually controlled by the Ultimate Controlling Shareholders of Customer H, who had established connections and accumulated resources when they were senior management members of the SOE. Since the said business had been gradually controlled by the Ultimate Controlling Shareholders of Customer H and that Mr. Yu wanted to focus on his industrial property development business, Mr. Yu resigned from his directorship, disposed of his interest in the Hong Kong company and began to fade out from the operations of the said business in 2005. In 2006, the Ultimate Controlling Shareholders of Customer H established the Controlling Shareholder of Customer H to expand their cartridge businesses.

Due to the historical business relationship with the Ultimate Controlling Shareholders of Customer H, Mr. Yu had, as a passive investor, maintained a minority and non-controlling interest in the Controlling Shareholder of Customer H up to the Latest Practicable Date. Nevertheless, to the best of the knowledge and information of our Directors and Mr. Yu, and based on the public information available, save as disclosed in the paragraph headed "Pre-IPO Investments — Information about our Pre-IPO Investors — Information about GLC" in this section above, neither Mr. Yu nor any of his close associates had any relationship with the shareholders of the Controlling Shareholder of Customer H, Customer H or any member of Listed Group A as at the Latest Practicable Date.

Information about Mr. Lam

CBCL is an investment holding company and, prior to its divestment in our Company, CBCL was held as to 75% by Mr. Lam and as to 12.50% each by two individuals who were Independent Third Parties save and except that one of them acted as CBCL's representative on our Board during the period between 21 October 2016 and 23 September 2019. As confirmed by Mr. Lam, immediately prior to CBCL's transfer of its remaining 23.00% share interest in our Company to Mr. Lam in August 2019, in addition to its investment in our Company, it held certain investments which were not related to the cartridge industry. To the best of our Directors' knowledge, information and belief after making reasonable enquiries, Mr. Lam is a private investor with experience in the Hong Kong capital markets and in direct investment in non-listed companies which, as confirmed by Mr. Lam, include companies engaging in the research and development of cartridges and other printer spare parts. In addition, Mr. Lam has over 15 years of experience in the cartridge industry in the PRC by virtue of his management position in a market player principally engaged in the manufacturing and sale of spare parts of printing consumables, where he accumulated substantial experience particularly in the manufacturing and development of such products. For further details of the background and relevant experience of Mr. Lam, please refer to the section headed "Directors and Senior Management — Directors — Non-executive Directors" in this prospectus.

To the best of our Directors' knowledge, information and belief after making reasonable enquiries, CBCL became acquainted with our Company through the introduction of an acquaintance of CBCL's shareholder in 2016, who was a supplier of electronic parts to certain major brands in Asia. GLC became acquainted with our Company through the introduction of Mr. Lam in 2017, who was a university classmate of Mr. Yu, the sole shareholder of GLC. As confirmed by Mr. Lam, the source of funds for his Pre-IPO Investment was accumulated from his mining businesses in the PRC and, as confirmed by Mr. Yu, the source of funds for his Pre-IPO Investment came from his own businesses and private investments.

To the best of our Directors' knowledge, information and belief after making reasonable enquiries and as confirmed by Mr. Yu and Mr. Lam, save for the fact that (i) Mr. Yu and Mr. Lam are our pre-IPO investors; (ii) Mr. Yu and Mr. Lam were university classmates; (iii) Mr. Yu is the father of Ms. Yu Erhao, our Non-executive Director; and (iv) Mr. Lam is our Non-executive Director, there were no past or present relationships (business, employment, family, financing or otherwise) between each of our pre-IPO investors and our Company, its subsidiaries, their respective shareholders, directors, senior management or any of their respective associates.

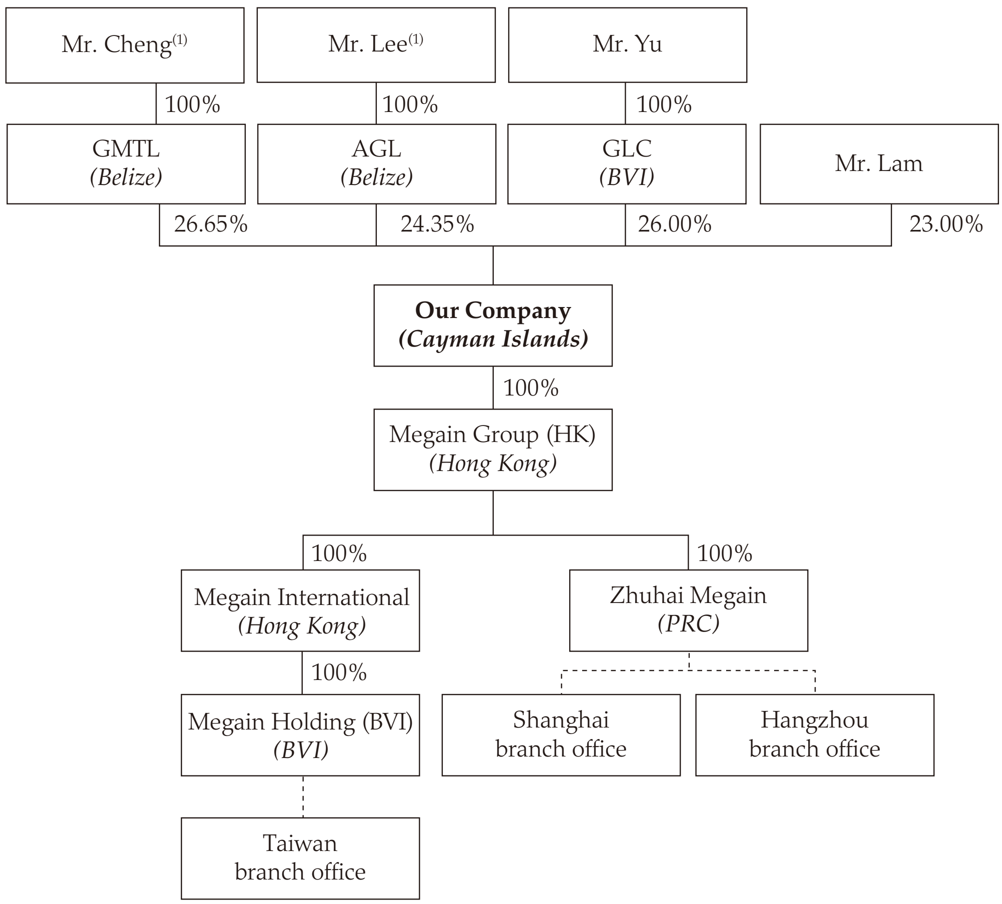
Confirmation from the Sole Sponsor

The Sole Sponsor has confirmed that the investments by GLC and Mr. Lam are in compliance with (i) the "Interim Guidance on Pre-IPO Investments" issued by the Stock Exchange on 13 October 2010 (updated in March 2017) as the consideration for the Pre-IPO Investments was settled more than 28 clear days before the date of our first submission of the application for the Listing to the Stock Exchange; (ii) the Guidance Letter HKEx-GL43-12 issued by the Stock Exchange in October 2012 (updated in July 2013 and March 2017); and (iii) the Guidance Letter HKEx-GL44-12 issued by the Stock Exchange in October 2012 (updated in March 2017) as no special rights have been granted to GLC or Mr. Lam.

CORPORATE STRUCTURE AND CAPITALISATION ISSUE

Corporate Structure as at the Latest Practicable Date

The following chart illustrates the shareholding and corporate structure of our Group as at the Latest Practicable Date:



Note:

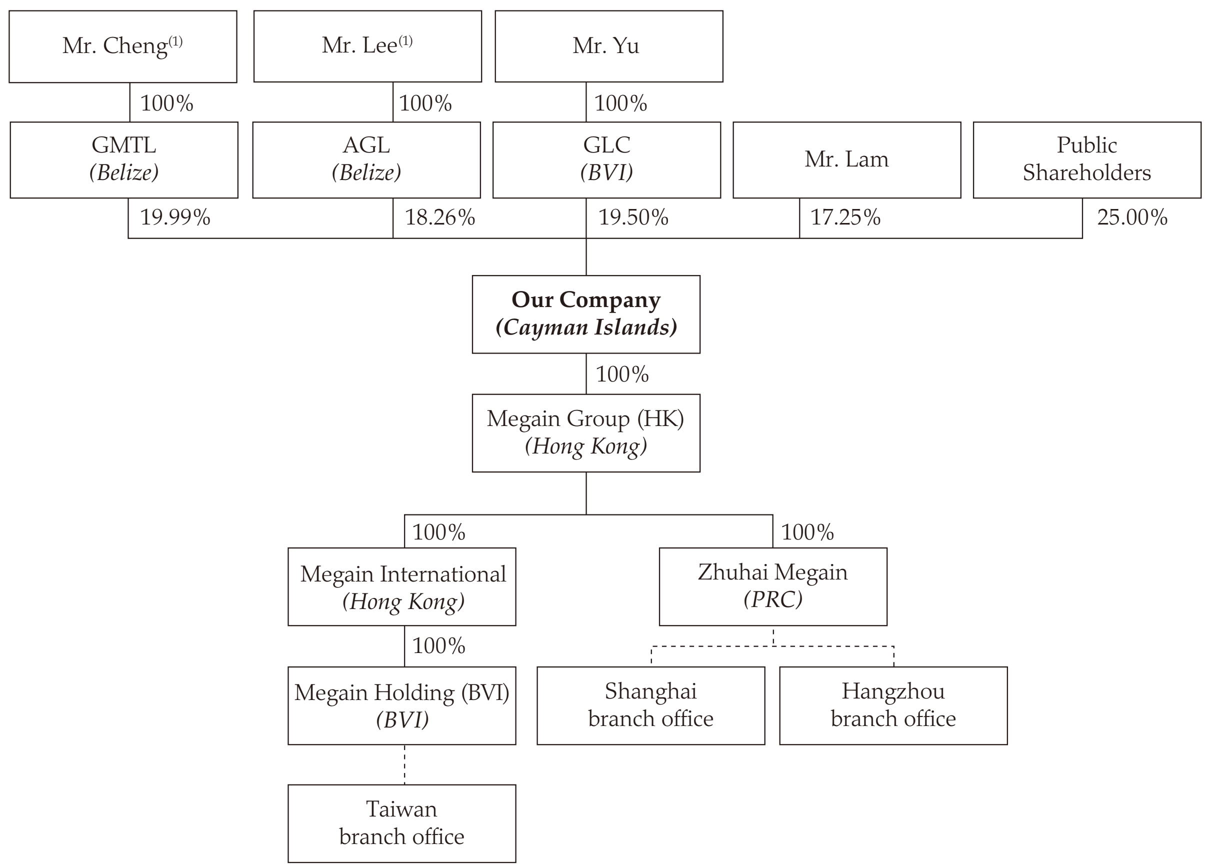
(1) Mr. Cheng and Mr. Lee are parties acting in concert pursuant to the Concert Parties Confirmatory Deed. Please refer to the paragraph headed "Parties Acting in Concert" in this section for further details.

Capitalisation Issue

Pursuant to the resolutions of our Shareholders passed on 26 February 2021, conditional upon the share premium account of our Company being credited as a result of the issue of the Offer Shares, our Directors were authorised to issue a total of 374,990,000 Shares, credited as fully paid, at par to the Shareholders whose names appear on our share register at close of business on 30 March 2021 in proportion to their then respective shareholding by way of capitalisation of the sum of HK$3,749,900 standing to the credit of the share premium account of our Company, and the Shares to be issued pursuant to the Capitalisation Issue shall carry the same rights in all respects as the existing Shares.

Corporate Structure upon Completion of the Global Offering and the Capitalisation Issue

The following chart sets out the shareholding and corporate structure of our Group upon completion of the Global Offering and the Capitalisation Issue (assuming the Over-allotment Option is not exercised):



Note:

(1) Mr. Cheng and Mr. Lee are parties acting in concert pursuant to the Concert Parties Confirmatory Deed. Please refer to the paragraph headed "Parties Acting in Concert" in this section for further details.

OVERVIEW

We are one of the leading providers of compatible cartridge chips based in the PRC. According to the CIC Report, we ranked second with a market share of approximately 11.1% in terms of external sales, and third with a market share of approximately 4.3% in terms of production volume in the PRC compatible cartridge chip market in 2019. Our products are one of the core components of compatible cartridges, which are printer consumables designed and manufactured by third-party cartridge manufacturers and include ink cartridges for use in inkjet printers and toner cartridges for use in laser printers. The principal functions of a compatible cartridge chip include facilitating communication between a compatible cartridge and the original-brand printer in which such a cartridge is installed, and monitoring cartridge usage. We take pride in our ability to introduce new models of compatible cartridge chips to the market in a timely manner, as a result of which we were able to record higher levels of profit margins throughout the Track Record Period. We have been devoted to design and development of the software component of our products, i.e. the firmware; as for the hardware component, i.e. the PCBAs, we may either directly source them from external suppliers, or engage subcontractors to produce them based on our own designs.

The compatible toner cartridge chip business has always been at the heart of our Group's operations. Since our establishment, we have been committed to the research and development, production and sales of compatible toner cartridge chips. In 2012, we became the first market player to offer compatible cartridge chips designed for several specific laser printer models, and had remained the exclusive supplier of such compatible cartridge chips in the global market until one year after they were launched by our Group. This paved the way for the initial expansion of our compatible toner cartridge chip business. Building on the success, we have been actively developing other models of compatible toner cartridge chips over the years so as to enrich our product portfolio and increase our competitive strength, thereby firmly establishing our position as one of the leading market players, being the second largest compatible toner cartridge chip provider in the PRC by external sales in 2019. Given the limited research and development resources of our Group and the fact that our compatible toner cartridge chip business had been performing well, we had not devoted substantial effort to the development of compatible ink cartridge chips prior to the Track Record Period. Before 2019, we had only been offering a narrow range of compatible ink cartridge chip models, which were proactively designed by us for recycled compatible ink cartridges and launched in 2015. The relatively small amount of sales of compatible ink cartridge chips recorded in 2017 and 2018 was wholly attributable to such older chip models. Other than these chip models, our Group had not launched any other compatible ink cartridge chip models before 2019. As it was foreseeable that the number of new printer models to be launched by the original-brand printer companies in 2019 would remain limited, our Directors resolved in 2018 that our Group should actively explore other opportunities in the market by diverting more of our product development resources into compatible ink cartridge chips. In 2019 (mostly in the second or third quarter), we successfully launched the Ink Cartridge Chip Models, being several new models of compatible ink cartridge chips with advanced quality, functionality and upward compatibility for compatible ink cartridge models having high popularity and demand in the market. The majority of the sales of such chip models were made to Listed Group A during the Track Record Period, as we have not focused our sales and marketing efforts on promotion of the Ink Cartridge Chip Models to other independent customers given that it would be advisable to minimise direct competitions with Listed Group A (being the dominant market player) when we have yet to gain a significant position as a market player with highly established operations or a comprehensive product portfolio in the compatible ink cartridge chip market. The launch of such chip models helped our Group cope with the significant decline in the average market selling price of compatible toner cartridge chips in 2019 as expected. While our market share in the compatible ink cartridge chip market was small in 2017 and 2018 amounting to approximately 4.2% and 3.9% by external sales and 1.3% and 1.3% by external sales volume respectively, due to the launch of such chip models with significant prevailing market demand, we became the second largest compatible ink cartridge chip provider in the PRC by external sales in 2019. That being the case, our operations in the compatible ink cartridge chip market remain relatively limited – in terms of external sales volume, in 2019, our market share as a provider of compatible ink cartridge chips in the PRC was approximately 3.2% only, whereas we had a market share of 8.1% in the compatible toner cartridge chip market in the PRC. Please refer to the paragraphs headed "Our Products — Compatible Toner Cartridge Chips as Our Major Business Focus since Establishment" in this section for further details of our historical business developments.

Compatible cartridges are generally considered a cost-effective alternative to the cartridges offered by the original-brand printer companies, with its major market being in the United States, Europe and the PRC. According to the CIC Report, in 2019, compatible cartridges accounted for approximately 21.1% of the global demand for cartridges in terms of sales volume, and the proportion is projected to grow to 22.8% in 2024. Compatible cartridges have gained increasing popularity over the years in the PRC and overseas for the reasons that (1) it can effectively lower the printing costs as compatible cartridges typically sell at lower prices than the original-brand cartridges; (2) as the technical capability of the design companies and manufacturers continues to evolve, the functionality of compatible cartridges can match up to that of the original-brand cartridges in general and the use of compatible cartridges may not result in any material difference in printing quality; and (3) the Chinese government has officially incorporated domestically produced compatible cartridges into the government procurement list. The demand for compatible cartridges may be less affected during the times of economic downturn, when the consumers may become particularly concerned to reduce printing costs. With the growing popularity of compatible cartridges, the global sales volume of compatible cartridge chips, as a core component of compatible cartridges, is expected to exhibit comparable steady growth during the period from 2019 to 2024.

Our expertise lies in the research, design and development of compatible cartridge chips, and we have made significant investments in this regard. Keeping a close watch on the developments in the printer market, we would proactively take advantage of new market opportunities and undertake research and development work on our own initiative. Our product development process starts with a comprehensive analysis of a new original-brand printer and its accompanying cartridges. Leveraging our know-how, after gaining an understanding of the functions of the original-brand printer and cartridges, we develop our chips based on our conceptualisation of the principles and logics of operation, with a view to achieve compatibility in terms of functionality and performance. Specifically, we would draw up the specifications of the hardware component of our chips, and simultaneously design and develop the software component through our own endeavours. The hardware component, i.e. PCBAs, are principally assembled by our subcontractors based on our specified configurations and we would also procure PCBAs directly from external suppliers. While our chips generally have different structural features as compared with the original-brand cartridge chips and the source codes of the software component are designed and created independently by us, we would seek to ensure that our products would fit in well with the compatible cartridges designed for the relevant printer model and enable them to function with efficacy when installed in the printers. During the Track Record Period, we had introduced over 620 new models of compatible cartridge chips. As at the Latest Practicable Date, we had in total 20 registered patents which were material to our business and our applications for the registration of 31 material patents were pending. Our patents mainly involve the designs and technologies relating to cartridge chips, including circuit designs, algorithm and firmware installation. Our expenses incurred for research and development work amounted to approximately RMB7.2 million, RMB7.5 million, RMB9.3 million and RMB11.0 million for the years ended 31 December 2017, 2018 and 2019 and 10M2020 respectively.

According to the CIC Report, while the US authorities have conducted certain compatible-cartridge-related patent infringement investigations targeting Chinese companies, such investigations pertain to the cartridges' external physical structure only and do not involve compatible cartridge chips or their providers. During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any legal proceedings in relation to any alleged infringement of third-party intellectual property rights by us.

Strategically headquartered in Zhuhai which has a dominating position in China's cartridge industry, we have established branch offices which focus on research and development work in Taiwan, Shanghai and Hangzhou to take advantage of the talent supply in different regions and reinforce our technical ability in the design and development of compatible cartridge chips. We believe our well established talent pool underlies our ability to swiftly introduce products that answer the fast-changing demands of our customers amid constant technological advancement.

In addition to strong product design capabilities, a skilful and experienced workforce and know-how in the development of various compatible cartridge chips gained through our operations, we have also developed good relationships with a wide network of suppliers and subcontractors for different procurement and subcontracting arrangements in the production process. We are therefore well positioned to provide compatible cartridge chips to the needs of our customers in a cost-effective manner with a shorter time to market ahead of our competitors. It dovetails with our strategy to maintain our profitability through proactively introducing new products from time to time so as to enjoy the first-mover advantage, given that the price and profit margin of a new model of compatible cartridge chips are usually at the highest points in the introduction stage when there are few companies offering compatible cartridge chips designed for the relevant printer model, and tend to decline later on when more companies have launched products with similar features and competition in the market intensifies. For the years ended 31 December 2017, 2018 and 2019 and 10M2020, we recorded a gross profit margin of approximately 44.3%, 47.1%, 55.9% and 54.7% and a net profit margin of 29.7%, 25.4%, 26.2% and 19.2% respectively.

To reach our potential customers which are mainly manufacturers of compatible cartridges, we actively participate in industry fairs and exhibitions relating to their businesses. For example, we have been a participating merchant in the RemaxWorld Expo, one of the largest trade shows for the cartridge industry in China, and expanded our reach by taking part in international trade fairs and exhibitions in America, Europe and other parts of Asia. Our Directors believe that our regular participation in domestic and international trade fairs and exhibitions allows us to connect with new customers in both the Chinese and the global market to achieve our objective of expanding our presence in the compatible cartridge chip industry.

The majority of our revenue generated during the Track Record Period was derived from the sale of compatible cartridge chips. For the years ended 31 December 2017, 2018 and 2019 and 10M2020, our revenue derived from sales of compatible cartridge chips was approximately RMB194.2 million, RMB220.6 million, RMB150.6 million and RMB122.8 million, representing 91.3%, 89.7%, 95.6% and 91.9% of our total revenue, and we sold approximately 11.3 million, 13.2 million, 17.1 million and 17.2 million pieces of compatible cartridge chips, respectively. The decrease in our revenue from sales of compatible cartridge chips in 2019 was associated with the overall low levels of market prices in the compatible cartridge chip industry in 2019, which was principally attributable to the US-China trade war, limited number of newly launched models of printers, industry consolidation, and intensified market competition as the root causes. The adoption of the price-cutting strategy by the major market players in response also further contributed to the intensification of the market competition and consequently the fall in the average market prices in 2019. In addition to provision of compatible cartridge chips, we were also engaged in trading of ICs and other cartridge components, including plastic parts and toner among others, as ancillary services to our customers. For the years ended 31 December 2017, 2018 and 2019 and 10M2020, the revenue derived from trading of such products accounted for approximately 8.7%, 10.3%, 4.4% and 8.1% of our total revenue, respectively. Our profit for the years ended 31 December 2017, 2018 and 2019 and 10M2020 was approximately RMB63.1 million, RMB62.6 million, RMB41.3 million and RMB25.6 million respectively.

Due to the recent outbreak of COVID-19, the business operation and financial performance of our Group have been adversely affected. Please refer to the section headed "Summary — Recent Development and Material Adverse Change" for further details of the impact of COVID-19 on the business operation and financial performance of our Group and our contingency plan.

COMPETITIVE STRENGTHS

We have achieved substantial growth in terms of size, market share and financial performance since our establishment and we believe the following competitive strengths contribute to our success:

Advanced Capabilities in Research and Development with a Dedicated Focus on the Compatible Cartridge Chip Industry

Established in 2010, we have been focusing on research and development of compatible cartridge chips since we commenced our business operation in provision of such products. We have established branch offices in Taiwan, Shanghai and Hangzhou, which have been working hand in hand with the research and development staff based at our Zhuhai headquarters.

All of our operations are overseen by key management members who possess ample qualifications and experiences in the compatible cartridge chip and IC industries. Our Taiwan branch office is led by Mr. Lee, who has over 25 years of experience in research and development of IC solutions. Mr. Hung Chien-Yuan and Mr. Hung Wen-Lung, who are responsible for hardware and software development in our Taiwan branch office respectively, both possess over 20 years of experience in industries relating to computer equipment and imaging solutions. Our technical engineering department in Zhuhai headquarters is led by Mr. Xiang Yao, who obtained a bachelor's degree in engineering in 2010 and has over nine years of experience in research and development of IC solutions. Our Shanghai branch office is led by Mr. Feng Xiaohui, who has over 20 years of experience in managerial positions in listed and non-listed companies principally engaged in the provision of IC solutions in the PRC, whereas our Hangzhou branch office is led by Mr. Yuan Sheng, who obtained a master degree in power electronics and electric power transmission in 2000 and has over eight years of experience working at companies principally engaged in the provision of IC solutions in the PRC.

We have also been able to attract software engineers and technical professionals with solid knowledge and experience in design and development of compatible cartridge chips to join our team. As at 31 October 2020, our research and development department consisted of 44 technical professionals under the lead of Mr. Lee, representing approximately 31.2% of our total workforce. The members of our research and development department on average possess over four years of experience in the cartridge chip industry.

We have been recognised as a High and New Technology Enterprise in China (高新技術企業) by the regulatory authorities in Guangdong province since 2016. In addition, we have gradually developed a strong patent portfolio due to our continuous effort and investment in our research and development capability. As at the Latest Practicable Date, we had in total 20 registered patents which are material to our business and our applications for the registration of 31 material patents were pending.

With our well established research and development capabilities in the area of compatible cartridge chips, we have been able to launch new products proactively with reliable quality. According to the CIC Report, the selling price of a new model of compatible cartridge chip depends largely on how quickly the product is introduced to the market after the launch of the corresponding printer model; a first-to-market player can charge a higher price and enjoy a higher profit margin for its product given that it introduces the product earlier than the others. According to the CIC Report, after a new original-brand printer model is launched, it normally takes six to 18 months for the market players to introduce corresponding compatible cartridge chips to the market. Capitalising on our research and development capabilities, during the Track Record Period, we were the first player in the market to offer 107 new models of compatible cartridge chips, and we had been able to introduce 247 new models of compatible cartridge chips within 12 months after the launch of the relevant original-brand printer models. Our Directors believe that our Group has been able to reap the benefits of being a first mover and penetrate the market with higher marked prices before the entrance of other market participants and secure a larger market share.

Strong Business Relationship with Customers in the Compatible Cartridge Chip Industry

We have developed and maintained stable business relationships with a large number of compatible cartridge manufactures across different regions in the PRC. We distinguish ourselves with our (i) research and development capabilities; (ii) stability in quality of our compatible cartridge chips; and (iii) reliable after-sale services provided to our customers. During the Track Record Period, we had over 900 customers in total. Although we do not generally enter into long term agreements with our customers, we were able to secure repeat orders from over 450 customers during the Track Record Period.

We consider that our comprehensive service package under the dedicated effort by our sales and marketing staff, which is characterised by our responsiveness to the needs and problems of our customers, engenders trust and is one of the key reasons for our ability to attain our wide clientele base. The development of business relationships with our clients is monitored by our chairman of the Board and executive Director, Mr. Cheng, who has over 11 years of experience in the compatible cartridge related industries. Members of our sales and marketing department regularly visit and communicate with the clients in order to follow up on issues regarding the products provided by us as well as their future demands for chips in terms of type and amount. We may also upgrade the hardware and/or software components of the chips supplied to our customers upon request where such upgrades are necessary to enable their cartridges to fit in well with the relevant model of printers and function with efficacy when installed. We believe our after sale services help maintain the loyalty of our customers.

Satisfactory Revenue and Gross Profit Margin due to High Barrier of Entry in the Market of Compatible Cartridge Chips

According to the CIC Report, there is a high threshold for entering the market of compatible cartridge chips. Such entry barrier is led by strict requirements on technology, professional talents and sales channels. Firstly, strong research and development capability is needed to design compatible cartridge chips according to the changing needs of the customers. Secondly, new entrants to the market may find it difficult to attract top talented professionals in the designing, manufacturing and testing of compatible cartridge chips due to the shortage of the related professionals in China. Thirdly, a solid sales channel is vitally important, as the market players need to proactively communicate with the customers in order to confirm the compatibility of the chips with the customers' products. As a result, the compatible cartridge chip market in the PRC is highly concentrated, with the top five market participants accounting for approximately 69.1% of total market share in terms of external sales in 2019.

We ranked second with a market share of approximately 11.1% in terms of external sales, and third with a market share of approximately 4.3% in terms of production volume in the PRC compatible cartridge chip market in 2019. We are of the view that we are well-positioned to enjoy substantial operational advantages from our established operations in the compatible cartridge chip market given the high threshold for entry. As one of the leaders in the industry, we have been achieving satisfactory revenue and profit margin during the Track Record Period. For the years ended 31 December 2017, 2018 and 2019 and 10M2020, our revenue derived from sales of chips was approximately RMB194.2 million, RMB220.6 million, RMB150.6 million and RMB122.8 million, respectively. Moreover, our gross profit margin had generally been growing steadily and amounted to approximately 44.3%, 47.1%, 55.9% and 54.7% for the years ended 31 December 2017, 2018 and 2019 and 10M2020 respectively, falling well within the industry range as set out in the CIC Report.

Experienced and Highly Motivated Management Team and Seasoned Shareholders with Expertise in Sales and Marketing, Industry Knowledge and Corporate Governance

Our professional and experienced management team has been one of the key factors contributing to our prominent success in our business performance within a decade since our establishment. Both Mr. Cheng and Mr. Lee, each being our founder, Controlling Shareholder and executive Director, possess extensive understanding of our business operation and comprehensive knowledge of compatible cartridge chips. Mr. Cheng and Mr. Lee have been working closely with other members of our senior management team, who on average possess more than 18 years of experience in the compatible-cartridge-related industry. In addition to the technology experts, our senior management also consists of members with strong experience in sales and marketing across various industries in the PRC. Since our establishment in 2010, we have had a proven track record of success indicated by the substantial and continuous growth of our revenue and profits. We have also risen to be the second largest supplier of compatible cartridge chips in the PRC in terms of external sales in 2019 according to the CIC Report. We believe that we will be able to strive for continued growth under the leadership of our all-rounded management team.

For further information on our Directors and senior management team, please refer to the section headed "Directors and Senior Management" in this prospectus.

A Wide Range of Products of Reliable Quality

Due to the fast-changing nature of the compatible cartridge chip industry, it is essential for us to develop new products continuously to satisfy our customers' requirements. We offer a comprehensive range of products which can be applied to compatible cartridges to be used in a wide array of printers available in the market. During the Track Record Period, we had sold over 6,000 models of compatible cartridge chips, including over 620 new models introduced by us during the Track Record Period. We have considered research and development our core competency and have therefore been dedicated to strengthening our research and development capabilities. We consider that due to our extensive product category, we have maintained abundant technical know-how and knowledge in research and development and production from our previous experience in development of a wide variety of chips for application in compatible cartridges. Thus, we have been capable of finding ways to conduct research and development in a quick and cost-effective manner and achieving economies of scales in production.

We have been adopting a series of quality standards to ensure the performance and quality of all of our products as we recognise that reliable product quality is central to the success of our business. All products are required to go through stringent quality checks performed by our quality control staff before we deliver the finished products to our customers.

BUSINESS STRATEGIES

Strengthen Our Product Development Capacity and Diversify Our Product Portfolio

According to the CIC Report, the total revenue of the industry of compatible cartridge chips is growing steadily along with the continuously rising demands for compatible cartridges. The total revenue of the industry of compatible cartridge chips in the PRC is projected to grow from approximately RMB1,360.1 million in 2019 to RMB1,806.1 million in 2024, representing a CAGR of 5.8%. Our Directors are of the view that there is substantial room for us to expand our market share.

We aim at strengthening our position in the market of compatible cartridge chips by introducing a wider variety of quality products ahead of our competitors. In view of the increasingly complex technologies used in compatible cartridge chips, we will need to strengthen our research and development capabilities so as to maintain our competitiveness in the market. Our ultimate goal is to enhance our product development capacity, such that we could continue to diversify our product portfolio. In particular, while reinforcing our offerings of compatible toner cartridge chips, we shall take initiatives to seize a larger share in the ink cartridge chip market by introducing more models of compatible ink cartridge chips. This is because according to the CIC Report, while the total external sales volume of compatible toner cartridge chips in the PRC was approximately 133.1 million units, the total external sales volume of compatible ink cartridge chips in the PRC amounted to 199.0 million units in 2019, indicating that the market of compatible ink cartridge chips might be more sizeable than that of compatible toner cartridge chips.

We intend to strengthen our research and development capabilities in relation to both the software component, i.e. the firmware, and the hardware component, i.e. PCBAs, of our chips as follows:

- ***Development of the Software Component***

  During the Track Record Period, we had remained devoted to research and development work in respect of firmware, and the source codes of the firmware installed in all of our products were designed and created independently by us. To sustain our competitive edge in firmware design, we will seek to further enhance our research and development efficiency through acquisition of additional equipment and use rights of software tools. We will also expand our team of talents in the field through external recruitment, which will increase our research and development capacity and in turn enable us to respond to the market developments more promptly.

- ***Development of the Hardware Component***

  With our research and development resources devoted primarily to the design and development of the firmware, we had been less involved in the design of PCBAs and their parts. During the early phase of the Track Record Period, we often chose to purchase PCBAs directly from external suppliers, instead of designing and developing PCBAs from scratch.

To put us in a better position to secure the supply of PCBAs and to acquire complete product design and development capabilities, we aim to step up our independent research and development work in relation to PCBAs. To this end, we have started to conduct substantive design work in respect of PCBs (being a major part of PCBAs) and engage subcontractors to assemble PCBAs based on our specified configurations, using ICs and other parts sourced from external suppliers. For the year ended 31 December 2017, approximately 23.4% of our products sold were produced using PCBAs assembled by our subcontractors, and the proportion increased to 79.6% for 10M2020. The benefits of using PCBAs assembled by our subcontractors are manifold: (1) by reducing our purchases from our PCBA suppliers, we will be better able to ensure that we will not be reliant on any of our PCBA suppliers, which include some of the major market players in the industry, and not be susceptible to any adverse change in their state of operation or our business relationships with them; (2) we will enjoy a higher degree of flexibility in selection of ICs and stand to make cost savings by using ICs of our choice with a set of features and applications that are more precisely suited to our needs; and (3) since the design and development costs of a model of chips are relatively fixed, when economies of scale are created, the PCBAs assembled by our subcontractors will become available at lower costs than those purchased from external suppliers, and we will thus be able to achieve further cost savings. During the Track Record Period, the unit cost savings achieved by us through engaging subcontractors to assemble PCBAs, as compared with purchasing the same from external suppliers, varied from time to time and differed for different models of our chips mainly because the unit purchase price of the PCBAs purchased by us from external suppliers from time to time had been affected by various factors including the procurement volume and the then prevailing market prices of compatible cartridge chips. As a result, during the Track Record Period, among the 21 chip series using PCBAs assembled by our subcontractors, the unit cost savings achieved by us through engaging subcontractors to assemble PCBAs, as compared with purchasing the same from external suppliers, varied with three chip series achieving unit cost savings of less than 10%, nine chip series achieving unit cost savings ranging from 10% to 50% and nine chip series achieving unit cost savings of more than 50% respectively. We shall seek to continue to popularise the use of PCBAs assembled by our subcontractors in our production process.

In the meantime, we have also been exploring the possibility of developing our own ICs since 2019 and successfully developed two models of ICs during the Track Record Period and up to the Latest Practicable Date. We have engaged subcontractors to produce such models of ICs according to our own designs after completion of necessary testing and modifications. While we need to incur relatively fixed design and development costs for developing our own ICs, we expect that developing our own ICs will enable us to enjoy a higher degree of flexibility in securing the supply of ICs and achieve further cost savings when economies of scale are created, and ensure that we will not be reliant on any of our IC suppliers and not be susceptible to any adverse change in their state of operation or our business relationships with them. Specifically, in respect of the two IC models which we have successfully developed and engaged subcontractors to produce during the Track Record Period, the unit production costs of ICs were at most approximately 23.0% and 33.8% lower than the respective average unit purchase price at which we had previously sourced comparable IC models from our suppliers. Based on our experience in IC design and development work and the estimated production costs of our future self-designed IC models, we estimate that savings of 20% or above could be achieved in terms of costs of ICs by using self-designed ICs produced by subcontractors in general as compared with ICs sourced from external suppliers, depending on the prevailing market price of the relevant IC model and the degree of technical complexity and length of research and development time involved, assuming economies of scale could be gained and without taking into account any unforeseeable factors (such as fluctuations in costs of production materials, subcontracting fees and other production costs); it is therefore advantageous for us in the long run from a cost perspective to develop IC design capabilities.

To support the intended expansion of the research and development work we shall undertake in respect of PCBAs, we plan to increase the headcount of our research and development department, and purchase additional equipment, software tool and materials that we will need to use during our new product development process. We will also acquire licences for patents in relation to certain developed IC structure(s) that are of general applicability in electronics, as we consider it an effective way to speed up our design process and promote our success rate in IC development.

For the purpose of building our team for both software and hardware development, in January 2019, we entered into a framework cooperation agreement with a university in Shanghai for a term of five years. Pursuant to the agreement, we shall provide internship opportunities for engineering students, while the university should design and offer courses for their engineering students according to our specific knowledge and technical skill requirements and furnish us will all necessary assistance for carrying out campus recruitment. Through the above forms of cooperation, we will be able to secure a stable supply of talents and promote the competence of the members of our research and development department. We intend to enlarge the size of our research and development department by recruiting not less than 20 additional members during the three years ending 31 December 2023 through campus recruitment or other external recruitment channels. Such new research and development staff will include primarily embedded software engineers and IC analysis or design engineers, and are each expected to hold a bachelor's degree or above in microelectronics, computing, IC design, electronic engineering or any other related discipline. We intend to recruit at least 13, six and one new member(s) of research and development staff in the year ending 31 December 2021, 2022 and 2023 respectively. Among them, not less than 10 members will be stationed at our Zhuhai headquarters and not less than 10 members will be stationed at our Shanghai office.

With an expanded team of research and development staff and enhanced product development capabilities, we will be well-positioned to diversify our product portfolio by introducing new models of chips. We will apply approximately 51.4% of our net proceeds from the Global Offering for implementing our existing internal product development plans for the three years ending 31 December 2023, which covers not less than 1,800 models of chips (including not less than 1,100 models of toner cartridge chips and not less than 700 models of ink cartridge chips). Among such chip models, not less than 600 are new models (of which approximately 80% are ink cartridge chip models and the remaining are toner cartridge chip models) in respect of which we shall develop both the software and the hardware components. In relation to the remaining over 1,200 models (of which approximately 80% are toner cartridge chip models and the remaining are ink cartridge chip models), we have already completed our research and development work in respect of the software component, and such chips models are currently produced by installing the firmware designed and developed by us primarily in the PCBAs assembled by our subcontractors using ICs and other parts sourced from external suppliers; under our existing internal product development plans, we shall design and develop our own models of ICs to replace the ICs sourced from external suppliers which are used in our existing chip models. We will appoint subcontractors to manufacture ICs to be developed according to our own designs. The underlying assumptions of the above internal product development plans include the following: (1) we will enjoy improved research and development efficiency with an increased headcount; and (2) we will reach a higher degree of maturity in IC design and development and be capable of completing the research and development work of the hardware components of all relevant chip models independently. The internal product development plans are also set on the bases that (a) the chip models to be developed by us will be mostly designed for printer models already launched by the original-brand printer companies, and the research and development process of chips for such printer models which have been available in the market for a certain period of time will involve a lower degree of technical complexity and a shorter cycle; (b) in relation to over 1,200 chip models, the work to be undertaken by us will be confined to design and development of our own IC models only as described above, and our experience in development of the corresponding software component will facilitate our development of the hardware component; and (c) each IC model developed by us can be broadly applied to various different chip models with similar technical requirement and hence the development processes of the hardware components of all such relevant chip models can be completed in parallel. Out of the above amount of net proceeds, approximately 7.6% in total will be used to support development of the software component, 41.3% in total will be used to support development of the hardware component and 2.5% in total will be used for acquisition of original-brand printers during the three years ending 31 December 2023. We shall meet any additional expenses to be incurred in the development of such new products with our internal resources.

Accelerate the Development of Our Hardware Design Capabilities through Acquisition of IC Design Company

As a means to further enhance our capabilities in development of PCBAs and, in particular, to spur the development of those models of ICs (being a major part of PCBAs which are not covered under existing internal product development plans for the three years ending 31 December 2023), we intend to acquire an IC design company based in the PRC or Taiwan in the year ending 31 December 2022. According to CIC, there are over 2,000 and 400 IC design companies in the PRC and Taiwan respectively. The acquisition is seen as an efficient way to build up our expertise in the development of ICs and IC technologies on top of all the endeavours we have been internally making to advance our capabilities in this regard, leveraging the experience and expertise of the existing management and technical staff of the target company. When evaluating the acquisition target, we will consider a variety of factors, such as the synergies expected to be created between the target company and our Group, its track records in the development of various types of ICs and IC technologies, and its compatibility with our own operation and future development plans, with a view to avoiding any overlap between its product portfolio and the IC models which we have been developing or in respect of which we have formulated concrete future development plans so as to minimise the possibility of duplication of effort and resources. In addition, we expect that the acquisition target shall have (1) a team of technical staff of eight members or above (including research and development engineers for both hardware and software) with professional qualifications and experience in respect of development of ICs and chips; (2) an asset value of RMB8 million or above, with comprehensive and well-maintained machineries and equipment for research and development uses; (3) a turnover of RMB20 million or above for the most recent financial year; (4) positive net profits for the most recent financial year; (5) an estimated payback period of five to seven years, taking into account the estimated cost savings and synergy; (6) no previous involvement in any actual or alleged infringement of third-party intellectual property rights; and (7) demonstrated good legal compliance records in all areas of operations. We will identify acquisition target by (i) reviewing our supplier list and selecting IC design companies with good business relationship with our Group and strong business growth; (ii) obtaining market information through the personal network of our Directors in the PRC and Taiwan; and (iii) actively looking for IC design companies with growth potential. We target to acquire the acquisition target at the target price to earnings ratio of not more than 20 times, noting that the target IC design companies in acquisitions conducted and announced by Listed Group A and Listed Group B during the period from 2014 to 2019 carried a price to earnings ratio within the range of approximately 10.5 time to 22.9 times with an average of 15.8 times. After such acquisition, we expect that our cost structure will not materially change as we have been developing our own ICs since 2019 and successfully developed two models of ICs during the Track Record Period and up to the Latest Practicable Date. However, as research and development capability should be further enhanced for IC development, the acquisition may lead to an increase in cost of raw materials and staff cost on research and development of ICs. We also estimate that, by designing and developing ICs on our own after such acquisition instead of purchasing ICs externally, we will be able to save more than 20% of our IC procurement cost and our Group's overall profit margin will be improved. Further, we may be subject to risks such as difficulties in integration of acquired target after acquisition. Please refer to the section headed "Risk Factors — Risks Relating to Our Business and the Industry — Our proposed acquisition may not bring the benefit to the business operation and financial performance as expected" for further details. Considering that the principal business of our Company will remain the production of compatible cartridge chips and we expect that the size of acquisition target will be limited as compared to our Group, we estimate that the overall impact on the cost structure and profit margin of our Group as a result of the acquisition will be limited and we will closely assess the possible impact once a definite acquisition target is identified. As at the Latest Practicable Date, we had not entered into any letter of intent or agreement for such acquisition nor identified any definite acquisition target.

Our Directors estimate that the total investment cost for the acquisition would represent the value of the equity interests in the target company that would give us majority control over its decision making, the amount of which depends on, among others, the scale of operations of the target company, its business prospects and the outcome of commercial negotiations between the vendor and us. We intend to put approximately 16.8% of the net proceeds from the Global Offering towards the above potential acquisition, and the additional investment cost, if any, will be met with our internal resources.

Through the contemplated acquisition of an IC design company, we hope to further improve our design and development capabilities in respect of the hardware component and increase the proportion of our products sold that are produced using PCBAs designed by us. Going forward, we plan to continue our current practice of satisfying our demand for PCBAs principally through designing the PCBs (being a major part of PCBAs) and engaging subcontractors to assemble PCBAs based on our specified configurations using ICs and other parts sourced from external suppliers or (in respect of ICs, after we have reached a higher degree of maturity in IC design and development in general) produced by our subcontractors, or through procurement of PCBAs from external suppliers. It is not within our plan to manufacture PCBAs ourselves in the foreseeable future. As our future goal, we hope to use primarily PCBAs entirely of our own designs (comprising self-designed ICs) produced and assembled by our subcontractors in our products, such that our costs of sales can be reduced through economies of scale. Moreover, the increase in use of self-designed ICs and PCBAs can help build up our independent capacity in securing the components we need for production purpose and reduce our reliance on third-party suppliers.

Increase Our Presence in the Compatible Cartridge Industry through Forward Vertical Expansion

We have throughout our history of operation remained focused on the provision of compatible cartridge chips and have not been engaged in the design, production or sale of compatible cartridges. According to the CIC Report, the total demand for compatible toner cartridges and compatible ink cartridges in the PRC in terms of sales volume was approximately 48.6 million units and 102.3 million units in 2019, and is projected to grow to 62.5 million units and 109.8 million units in 2024 at a CAGR of 5.1% and 1.4% respectively. Besides, according to the CIC Report, the major players in the compatible cartridge industry in the PRC have been aggressive in pursuing vertical integration and consolidated a large number of players from different parts of the value chain in the compatible cartridge industry into their group, with a view to achieving economies of scale, strengthening customer base, and increasing bargaining powers and market share, among others.

Capitalising on the growth momentum of the industry and our knowledge of and extensive network in the same, and in the light of the competitive landscape and the integration strategy adopted by our major competitors in the industry, we intend to increase our presence in the compatible cartridge industry through forward vertical expansion, whereby we may acquire equity interests in certain downstream compatible cartridge manufacturers in the PRC in the year ending 31 December 2022 and embark upon the design, production and/or sale of compatible cartridges through the target companies. According to CIC, there are over 1,000 compatible cartridge manufacturers in the PRC. While we will continue to supply our chips primarily to our customers, we will provide part of our chips to our own manufacturing companies for production of compatible cartridges. Our Directors believe that the contemplated vertical expansion will present us with a host of benefits: in addition to diversification of our income streams through introduction of new products (i.e. compatible cartridges), the vertical expansion will also facilitate the growth of our chip business, as we could firstly broaden our customer base and maximise the utilisation of our production capacity with the additional internal demand for our chips, and secondly be better placed to gain up-to-date information regarding the current dynamics and consumer preference in the laser and inkjet printer markets.

We target to acquire the acquisition targets at the target price to earnings ratio of not more than 15 times, noting that the target compatible cartridge manufacturers in acquisitions conducted and announced by Listed Group A and Listed Group B during the period from 2014 to 2017 carried a price to earnings ratio within the range of approximately 6.1 time to 15.9 times with an average of 11.3 times. Our Directors estimate that the total investment costs for such acquisitions would represent the value of the equity interests in the target companies that would give us majority control over their decision making, the amounts of which depend on, among others, the scale of operations of the target companies, their business prospects and the outcome of commercial negotiations between the vendors and us.

After such acquisitions, we expect that our cost structure may change, which include (i) acquiring more machineries and equipment for production of compatible cartridges; (ii) procuring more raw materials for production of compatible cartridges; and (iii) recruiting more talents on research and development of compatible cartridges and sales of compatible cartridge. The change in cost structure will lead to an increase in depreciation of machineries and equipment, procurement cost of raw materials and staff cost for production of compatible cartridges. We expect that our Group's overall profit margin may decrease after the acquisitions as the gross profit margin of the sales of compatible cartridges is generally lower than that of compatible cartridge chips. Further, we may be subject to risks such as infringement of third-party intellectual property rights and difficulties in integration of acquired target after acquisitions. Please refer to the sections headed "Risk Factors —Risks Relating to Our Business and the Industry — Our major customers, who are mostly compatible cartridge manufacturers, face higher risk of infringing the patents relating to the original-brand cartridges, which may adversely affect the demand for our products and our sales revenue." and "Risk Factors — Risks Relating to Our Business and the Industry — Our proposed acquisition may not bring the benefit to the business operation and financial performance as expected" for further details. Considering that the principal business of our Company will remain the production of compatible cartridge chips and we expect that the size of acquisition targets will be limited as compared to our Group, we estimate that the overall impact on the cost structure and gross profit margin of our Group as a result of the acquisitions will be limited and we will closely assess the possible impact once a definite acquisition target is identified. We shall work closely with the existing management of the target companies after acquisitions and take advantage of their market insights and expertise in the development of our business in the downstream industry.

When evaluating the acquisition targets, we will primarily take into account their capabilities and track records in production and sale of compatible cartridges (including cartridges for both monochrome printing and colour printing). We expect that the acquisition targets shall each have an established presence and market position with the capacity to produce at least 200,000 toner cartridges and/or 1.5 million ink cartridges per month. In addition, each of the acquisition targets shall have (1) an asset value of RMB8 million or above; (2) a turnover of RMB70 million or above for the most recent financial year; (3) net profits of RMB5 million or above for the most recent financial year; and (4) an estimated payback period of five to seven years. We will identify acquisition targets by (i) reviewing our customer list and selecting compatible cartridge manufacturers with good business relationship with our Group and strong business growth; (ii) obtaining market information through participation in industry fairs and exhibitions; and (iii) actively looking for compatible cartridge manufacturers with growth potential.

According to the CIC Report, there have been cases of patent infringement investigations in relation to external physical structure of cartridges, and compatible cartridge manufacturers which sell such products directly to the consumers may be exposed to a higher level of patent infringement risks. In view of the foregoing, we will be particularly concerned to ascertain the extent of the acquisition targets' exposure to the risks of infringements of patents owned by original-brand cartridge manufacturers or other third-party compatible cartridge manufacturers in their operations. As part of our due diligence, we will review the product portfolios of the acquisition targets and the processes in which they design, develop and produce compatible cartridges, and critically assess whether they are able to achieve compatibility through the use of original designs and production methods. We will also engage legal advisers with relevant expertise to perform legal due diligence to make sure that the acquisition targets have no previous involvement in any actual or alleged infringement of third-party intellectual property rights, and demonstrated good legal compliance records in all areas of operations. After completion of the acquisitions, to the extent within our control, we shall procure our compatible cartridge manufacturing arm to put in place stringent measures to prevent infringements of third-party intellectual property rights. As a matter of routine, our manufacturing arm is expected to conduct a thorough patent search at the start of the development process of each new product to find out whether any patents registered by third parties may possibly be involved in the new product development process, and carefully formulate the designs of new compatible cartridges with a view to creating the required critical functionalities while avoiding infringement of any third-party patented design or technology. As stated in the section headed "Industry Overview — Overview of the Cartridge Industry — Lawsuit and related risk" in this prospectus, there exist co-existence dynamics between original-brand printer companies and compatible cartridge providers, and leading original-brand printer companies are disposed to assist compatible cartridge chip providers in adopting appropriate measures to avoid patent and trademark infringements and have published technical white papers containing brand identification features and detailed solution guidance for compatible cartridge chips; in addition, some leading compatible cartridge manufacturers have received non-infringement determinations from authority in the U. S. and won patent infringement lawsuits against original-brand printer companies in the past. Taking into account these factors and with the adoption of the measures detailed above, our Directors believe that the acquisitions of compatible cartridge manufacturers will not materially increase our risks of infringements of third-party intellectual property rights.

As at the Latest Practicable Date, we had not entered into any letter of intent or agreement for such acquisitions nor identified any definite acquisition target.

We estimate that approximately 16.8% of the net proceeds from the Global Offering will be applied to the above potential acquisitions, and the additional investment costs, if any, will be met with our internal resources.

Step Up Our Sales and Marketing Efforts to Cater for the Expansion of Our Product Offerings

Due to the nature of the compatible cartridge chip industry, we often initiate the research and development process of a new product shortly after the launch of a new model of original-brand printer. We normally rely on our sales and marketing department to introduce our new products to our customers after the whole product development process has been completed. With our plan to develop a wider variety of compatible cartridge chips, it is crucial for us to expand our sales and marketing department such that we can effectively reach our customers with our new product offerings and better reap the benefits of the diversification of our product portfolio.

We intend to recruit not less than two additional members of sales and marketing staff who will be stationed at our Zhuhai headquarters during the three years ending 31 December 2023. As our Directors see potential for further growth of our business in the markets of both compatible toner cartridge chips and compatible ink cartridge chips, we will proactively introduce new models of both types of chips from time to time based on the new original-brand printer models launched in the market. Such new members of our sales and marketing department are expected to have experience in and familiarity with both the toner cartridge chip market and the ink cartridge chip market, and shall assist us in consolidating our position in the former market and further expanding our business in the latter market.

In addition, during the Track Record Period, the majority of our revenue was derived from our customers based in the PRC. We intend to introduce our products to a wider group of potential customers within and outside the PRC so that our clientele base can become more diversified. We shall maintain close communications with the key industry participants and understand the needs of our customers through, among others, more active and extensive participation in industry fairs and exhibitions in the PRC and at international level. With an increased budget for such marketing activities, we can occupy booths in more prominent positions at such fairs and exhibitions and stand to reach a larger group of potential customers.

We will allocate in total approximately 2.5% of the net proceeds from the Global Offering to employment of additional sales and marketing staff and participation in industry fairs and exhibitions during the three years ending 31 December 2023.

Improve the Functionality of Our Back Office to Support Our Business Growth

As we continue to diversify our product portfolio through developing and introducing new products, we envisage that there will be a corresponding increase in the amount of administrative work that we will need to undertake. For example, we may need to attend to new patent applications as we successfully develop new production methods and/or technologies in the product development process. With increased sales, there may also be an increased volume of documents that we will need to deal with, such as sales contracts. We will recruit additional members of legal and compliance staff who will mainly be responsible for handling such works.

In addition, to cope with the increase in our headcount and business scale, we plan to invest in upgrades of our enterprise resources planning (ERP) system, which is a suite of software that may be used to manage our day-to-day business activities, such as accounting, procurement, project management, risk management and compliance, and also to plan, budget, predict, and report on our financial results. By tying together different business processes, an ERP system enables the flow of data between them and ensures the integrity of transactional data collected from multiple sources. We believe an upgraded ERP system that can accommodate a larger group of users will facilitate the implementation of our expansion strategy and help optimise our operational efficiency.

We will set aside in total approximately 2.5% of the net proceeds from the Global Offering for employment of additional legal and compliance staff and upgrade and maintenance of our ERP system during the three years ending 31 December 2023.

The implementation of our business strategies above may be postponed due to the prolonged outbreak of COVID-19. Please refer to the section headed "Summary — Recent Development and Material Adverse Change — Impact of the COVID-19 Outbreak on Our Business Operations — (i) Our business operation and financial performance" for further details.

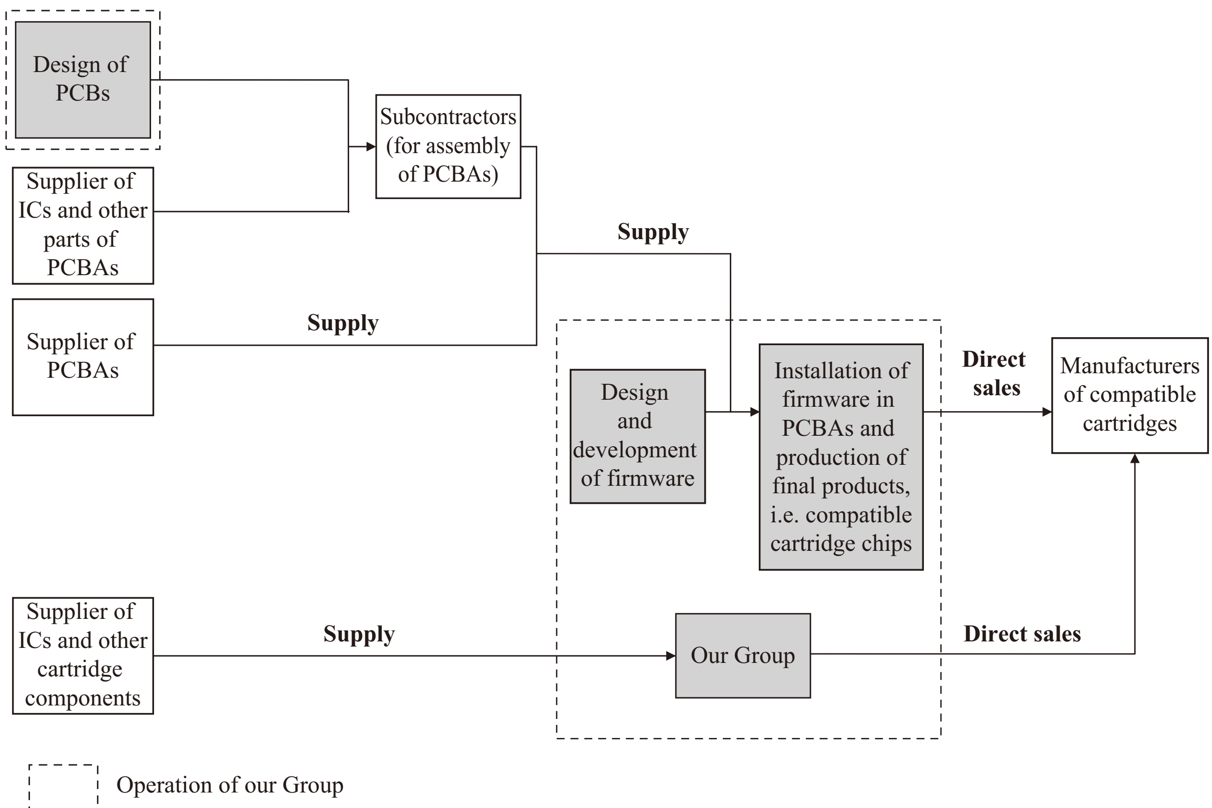
OUR BUSINESS MODEL

We are one of the leading providers of compatible cartridge chips based in the PRC. Keeping a close watch on the developments in the printer market, we would proactively take advantage of new market opportunities and conduct research and development work on our own initiative with a view to developing and introducing new models of compatible cartridge chips for the newly-launched original-brand printer models. With strong product design capabilities, a skilful and experienced workforce, know-how in the development of various compatible cartridge chips gained through our operations and good business relationships with a wide network of suppliers and subcontractors for different procurement and subcontracting arrangements in the production process, we are well positioned to provide compatible cartridge chips to the needs of our customers in a cost-effective manner with a shorter time to market ahead of our competitors.

For the hardware component of our chips, i.e. PCBAs, we may (i) carry out the design work of PCBs, being a major part of PCBAs, ourselves; and (ii) source ICs and other parts from external suppliers, in which case subcontractors will be engaged to assemble PCBAs based on our specified configurations. Alternatively, we may directly procure PCBAs from external suppliers for our use in the production of a limited number of chips. According to the specific structural designs and features of the PCBAs used, we will simultaneously design the software component of our chips, i.e. the firmware, and create the source codes independently. Our final products, i.e. compatible cartridge chips, are produced by installing the firmware developed by us in the PCBAs. During the entire design, development and production process, we seek to ensure that our products would fit in well with the compatible cartridges designed for the relevant printer model and enable them to function with efficacy when installed in the printers.

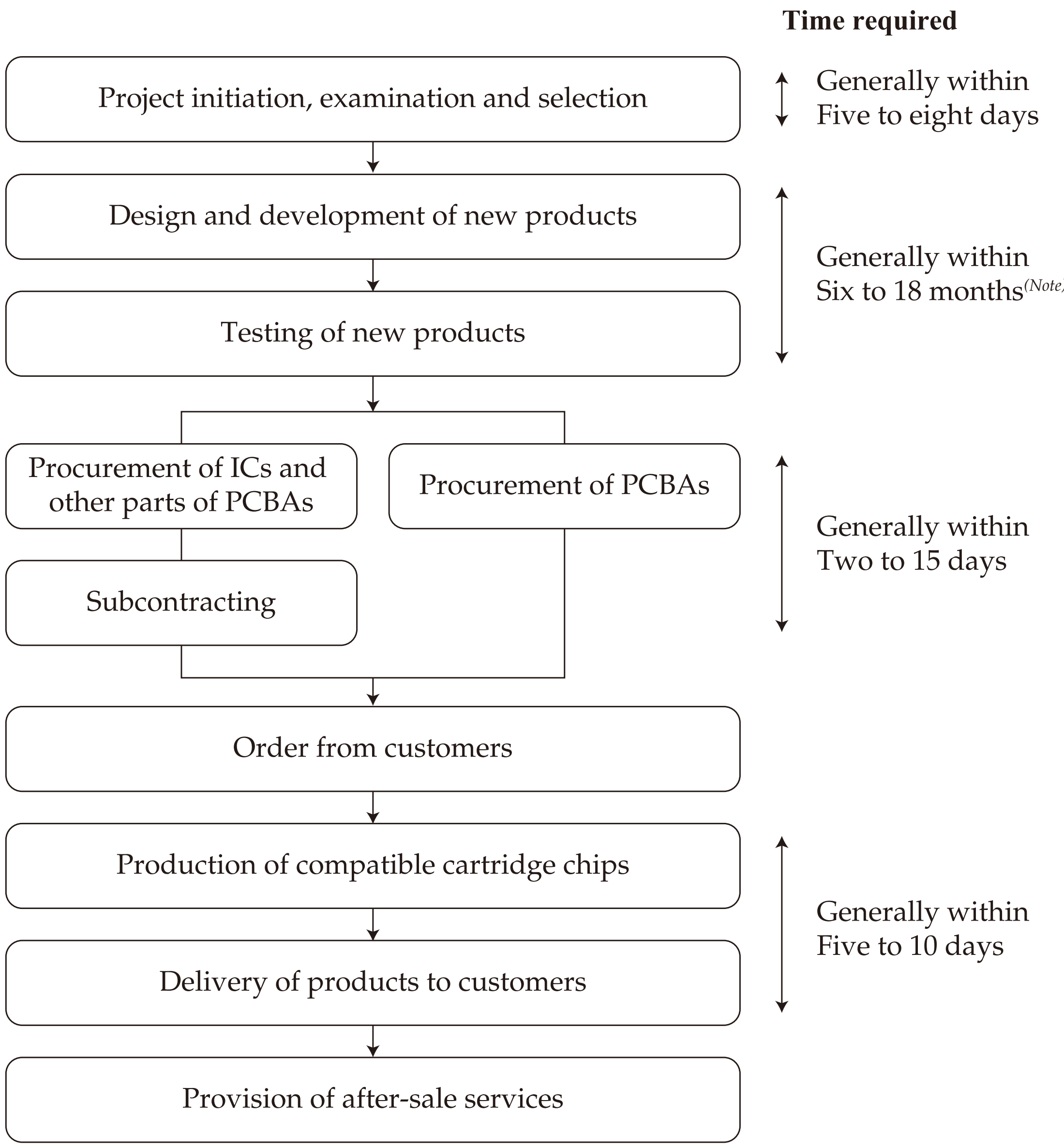
While our principal business activities are provision of compatible cartridge chips, we had also conducted trading of ICs and other cartridge components, including plastic parts and toner among others, according to the specific requests made by our customers from time to time during the Track Record Period. With our extensive network in the compatible cartridge industry, we have been able to obtain the cartridge components required to fulfil such incidental orders from our customers. Our Directors expect the trading of ICs and other cartridge components will continue as incidental business activities ancillary to our core business operation, namely provision of compatible cartridge chips.

Set forth below is a diagram which illustrates our business model:



OUR BUSINESS OPERATIONS

The key steps of our business operation are set out as follows:



Note: The time required for design, development and testing of new models of compatible cartridge chips depends on the degree of technical complexity involved and may vary according to the corresponding original-brand printer models.

Project Initiation, Examination and Selection

Our sales and marketing department keeps a close watch on the developments in the printer market, with particular attention paid to the models of printers and cartridges newly launched by the printer companies. It will identify potential projects for design and development of the new products by setting the preliminary specifications of the new products considering (i) the information in relation to new demands in the compatible cartridge industry available in the market, for instance the new printers to be launched and features of printers; (ii) comments reflected to our sales and marketing department; and (iii) our own experience in research and sales.

All potential projects are subject to approval by our key management in project examination meeting in the presence of various departments including sales and marketing department, research and development department and finance department. Our key management assesses the potential projects based on various factors including expected demands and estimated development time and costs of the new products, the feasibility of implementation proposal in terms of technologies involved, material risks involved in research and development and risk relating to intellectual property. In particular, pursuant to our intellectual property management policy, our team of designated personnel in charge of patent management shall conduct a search of patents registered by third parties that may possibly be involved in the new product development process, the results of which will form the basis of our initial assessment of intellectual property risks and taken into account later on at the stage of design and development of new products.

Design and Development of New Products

Once the project is approved by our key management, our research and development department proceeds to design and develop the new products. After understanding the principles and logics of operation of an original-brand printer model and the accompanying cartridges, our research and development department would prepare the proposals setting out the steps involved in the design and development process and the responsible person for each step. The proposals are subject to review from the perspective of risks of patent infringements; where substantive infringement risks are perceived to exist, the proposals will be modified with the adoption of a new product design in order to prevent infringements of third-party intellectual property rights.

For the hardware component of our products, during the early phase of the Track Record Period, we often chose to purchase PCBAs directly from external suppliers. To put us in a better position to secure the supply of PCBAs, we have started to engage in substantive design work in respect of PCBs. The proportion of our products sold which were produced using PCBs designed by us had been on the rise during the Track Record Period, amounting to approximately 79.6% for 10M2020. We have also been exploring the possibility of developing our own ICs since the year ended 31 December 2019 and successfully developed two models of ICs during the Track Record Period and up to the Latest Practicable Date. It is our goal to acquire complete PCBA design and development capabilities and popularise the use of PCBAs entirely of our own designs in our final products.

Our research and development department would draw up the specifications of the hardware component with a view to achieve compatibility in terms of functionality and performance and design and develop the corresponding software component simultaneously through our own endeavours leveraging our know-how. Please refer to the paragraphs headed "Research and Development" in this section for further details of the design and development process of our products.

Samples of our final products, i.e. compatible cartridge chips, are produced by installing the firmware developed by us in the PCBAs assembled by our subcontractors or supplied by our external suppliers. During the entire design, development and production process, we seek to ensure that our products would fit in well with the compatible cartridges designed for the relevant printer model and enable them to function with efficacy when installed in the printers.

Testing of New Products

After the development work regarding the new products is completed, we shall proceed to conduct multiple tests on the samples of final products before commencement of the mass production. Our research and development department will be responsible for setting the internal testing methods and parameters. All issues identified shall be recorded and our technical staff will work on adjusting the products until all identified issues are resolved.

Procurement of Raw Materials

After identifying our requirements on hardware part of our products that would be compatible with our software design during the design and development stage, we would communicate with the suppliers on our list of approved suppliers on our requirements on the hardware specifications. Based on the BOM prepared by our research and development department, our procurement department shall procure the necessary raw materials, including (i) ICs and other parts of PCBAs (where we are to use PCBAs assembled by our subcontractors); or (ii) PCBAs (where we are to use PCBAs directly procured from external suppliers).

Subcontracting

For the majority of our chips, we would carry out the design work of PCBs ourselves and engage subcontractors to assemble PCBAs using ICs and other parts sourced from external suppliers. We provide all required materials together with a guideline specifically prepared for the subcontractors by our research and development department and the subcontractors are required to use the raw materials provided by us only and follow such guidelines strictly. For details of our subcontracting arrangement, please refer to "Subcontracting" in this section.

Production of Chips

Based on our estimated demand for the new and existing products derived from regular communications with our customers, we will proceed to mass production of the developed products. Our major production steps involve (i) chip laser marking; (ii) installation of firmware; (iii) data testing; and (iv) packaging.

Orders from Customers

Our sales and marketing department introduces our product catalogue, particularly the newly developed products, to our customers regularly. After receiving orders from our customers, the managers in the sales and marketing department will review and assess the terms of such purchase orders and confirm the orders.

Delivery of Products to Customers

We will deliver the finished products to the location designated by our customers.

Provision of After-sale Services

After delivery of our products to our customers, our sales and marketing department will follow up closely with our customers to collect comments and identify problems, if any, relating to the delivered products. We also upgrade the hardware and/or software components of the chips supplied by us for our customers upon request where such upgrades are necessary to enable the cartridges of our customers to fit in well with the relevant model of printers and function with efficacy when installed.

OUR PRODUCTS

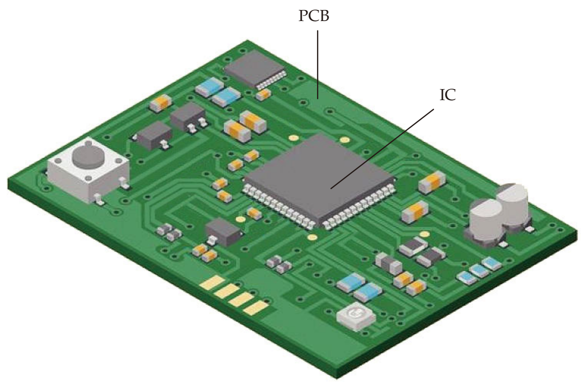
Our products, i.e. compatible cartridge chips, are a core component of compatible toner cartridges and ink cartridges. With both hardware and software components, a cartridge chip has the following major functions: (1) enabling identification of general information regarding the cartridge, such as its model number, serial number, and colour settings, such that the printer could reckon that a proper cartridge is installed; (2) storing the information sent from the printer regarding the cartridge model and area code, in order to ensure the normal operation of the printer; (3) monitoring the reserves in and the levels of usage of the cartridge; and (4) facilitating communication between the cartridge and the printer, and sending warnings when a certain ink or toner level is reached or when any other issue arises based on previously stored information.

Each of our chips consists of the following components:

- firmware, being the software component of a chip, which is a specific software that serves as the operating system of the chip and controls, monitors and stores the data and functions of the chip; and

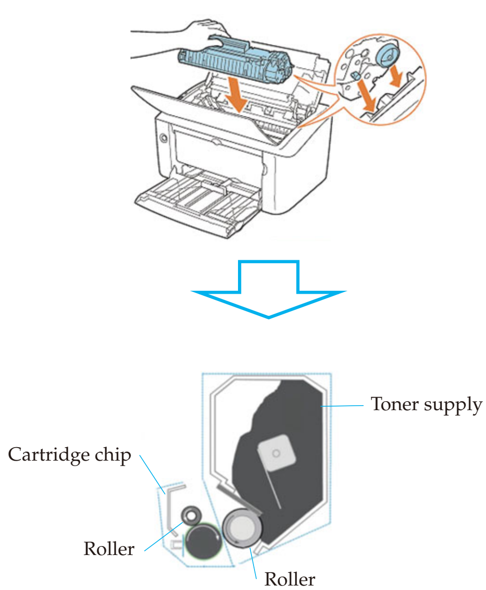
- PCBA, being the hardware component of a chip, which is a chip set with IC, PCB and other parts assembled and contains no firmware. IC, or integrated circuit, is a set of electronic circuits where all the elements of the circuits are integrated together on a single semiconductor chipset. PCB, or printed circuit board, is a supporting board for electronic components, on which metal conductors connect the electronic components to form an electrical circuit.

The diagram below shows the typical structure of a cartridge chip:

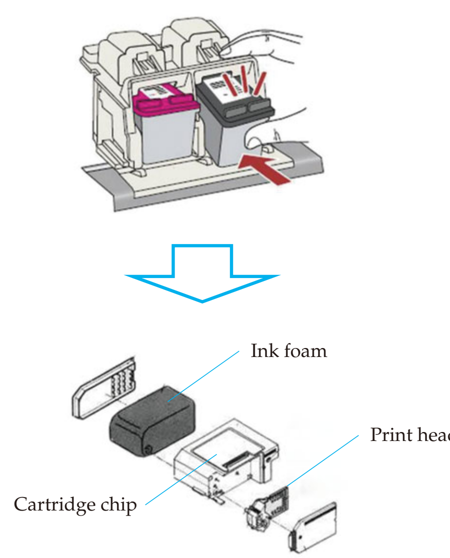


Our compatible cartridge chips are for installation in compatible cartridges, which are in turn to be installed in printers. The cartridges designed for a particular printer model may come in different colours (each colour of cartridges represents a distinctive cartridge model) to enable monochrome printing and colour printing. Hence, a model of original-brand printer usually comes along with a few number of corresponding models of compatible cartridges. The following diagrams show the typical structures of a toner cartridge and an ink cartridge in which chips are installed:

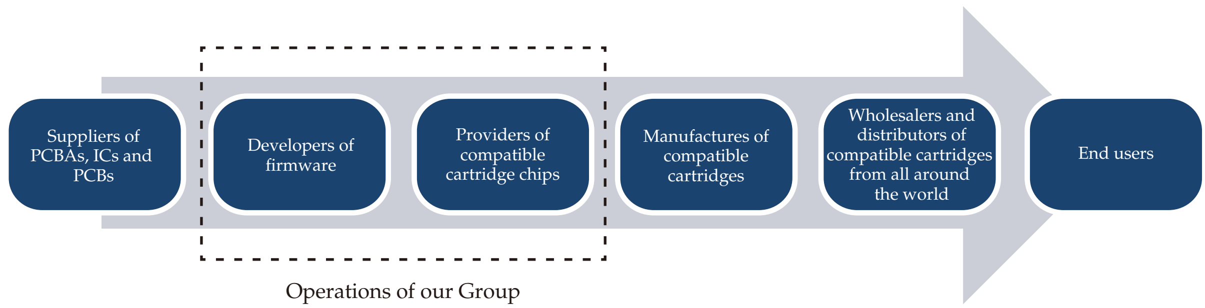
Toner cartridge



Ink cartridge



Set forth below is a value chain which depicts how our compatible cartridge chips are made available for use by the end users as a core component of compatible cartridges:



Application of Our Products

We have maintained reputable expertise in research, design and development of compatible cartridge chips. Our compatible cartridge chips can be broadly applied to compatible cartridges of (i) desktop inkjet printers; (ii) desktop laser printers; and (iii) commercial printers.

The following table summarises the revenue for each of our product categories by application for each year during the Track Record Period:

	Year ended 31 December															
	2017				2018				2019				10M2020			
	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price
	RMB'000	*%*	*'000 pieces of chips*	*RMB*	*RMB'000*	*%*	*'000 pieces of chips*	*RMB*	*RMB'000*	*%*	*'000 pieces of chips*	*RMB*	*RMB'000*	*%*	*'000 pieces of chips*	*RMB*
Sales of chips																
Product category — application																
– Desktop laser printers	169,094	79.5	8,542	19.8	192,115	78.1	10,097	19.0	66,944	42.5	10,363	6.5	54,723	41.0	9,773	5.6
– Desktop inkjet printers	21,975	10.3	2,533	8.7	21,766	8.9	2,625	8.3	77,037	48.9	6,293	12.2	62,283	46.6	7,137	8.7
– Commercial printers[1]	3,106	1.5	263	11.9	6,740	2.7	444	15.2	6,629	4.2	407	16.3	5,798	4.3	254	22.8
Subtotal	194,175	91.3	11,338	17.1	220,621	89.7	13,166	16.8	150,610	95.6	17,063	8.8	122,804	91.9	17,165	7.2
Trading of ICs and other cartridge components[2]	18,600	8.7	N/A	N/A	25,462	10.3	N/A	N/A	7,015	4.4	N/A	N/A	10,766	8.1	N/A	N/A
Total	212,775	100			246,083	100			157,625	100			133,570	100		

Notes:

1. Includes mainly commercial laser printers.

2. In addition to provision of chips, we also engaged in trading of ICs and other cartridge components, including plastic parts and toner, as ancillary services to our customers during the Track Record Period.

Desktop Laser Printers

Desktop laser printers, designated for home or small-office use, are printing devices that use an electrostatic digital printing process. After receiving signals from a connected computer, a desktop laser printer repeatedly passes a laser beam back and forth over a drum to define a differentially charged image. The drum then selectively collects electrically charged toner and transfer the text and images to papers. In contrast with the inkjet printers, desktop laser printers using toner cartridges can achieve faster printing speed and higher printing quality with precise edging and in-depth mono-chromatic colour. Further, the toner cartridges used by desktop laser printers can print more sheets of paper compared with an ink cartridges. Our compatible laser cartridge chip models are designed for use on most of the printer models of a majority of the major original-brand printers. According to CIC, major original-brand printer companies include HP, Samsung, Canon, Brothers, etc.

Desktop Inkjet Printers

Desktop inkjet printers, widely used in homes and small offices due to relatively lower prices, are printing devices that produce hard copies by spraying ink onto papers. A desktop inkjet printer generates fine ink droplets which are guided by the inkjet printhead to the designated positions, according to the instructions from a connected computer. Usually, the smaller the ink droplets, the clearer the printed image. Compared with desktop laser printer counterparts, desktop inkjet printers use ink cartridges and can produce the better colour-printing effect and high resolutions with lower energy consumption. Our compatible ink cartridge chip models are designed for use on certain printer models of some of the major original-brand printers. According to CIC, major original-brand printer companies include HP, Samsung, Canon, Brothers, etc.

Commercial Printers

Commercial printers, also known as multi-functional printers, are compact devices that incorporate into single units the functionality of a variety of devices, including email, fax, photocopier, printer and scanner. Specialised for large-office settings or other commercial environments, a commercial printer provides centralised document management, distribution and management which allow businesses to simplify their workflow and save space by combining separate machines into one. Commercial printers can use ink or toner cartridges.

Compatible Toner Cartridge Chips as Our Major Business Focus since Establishment

The compatible toner cartridge chip business has always been at the heart of our Group's operations. Since our establishment, we have been committed to the research and development, production and sales of compatible toner cartridge chips. As confirmed by our Directors and CIC, during the initial phase of our business development, the encryption technology had yet to be widely adopted in the production of cartridge chips and the level of difficulty involved in the research and development process of compatible cartridge chips was much lower than it presently is; as a result of the then lower entry barriers in terms of technological requirements and research and development investments, the market participants abounded in the compatible cartridge chip market with no absolute dominance enjoyed by any particular market player. The competitive landscape back then provided a friendlier environment for the development and growth of new market entrants. The launch by our Group of the models of compatible cartridge chips designed for several specific laser printer models in 2012 (the "**Toner Cartridge Chip Models**") was a milestone in our business development, because as confirmed by our Directors and as advised by CIC, (i) such laser printer models enjoyed a high degree of popularity in the market; and (ii) the original-brand printer company concerned was one of the first market players to encrypt the firmware codes in its printers in order to prevent access to the firmware; our Group, taking advantage of the wealth of experience and the high level of technical competence in research and development work of our Taiwanese engineers under the lead of Mr. Lee, was able to conduct the requisite analysis in respect of the printer firmware despite the encryption and thereby became the first market player to offer compatible cartridge chips for such printer models, and had remained the exclusive supplier of such compatible cartridge chips in the global market until one year after they were launched by our Group. The market response received in respect of the Toner Cartridge Chip Models was highly favourable, with which our Group, as a then small-scale chip supplier, was able to gain reputation and establish and improve our standing in the compatible toner cartridge chip market. This paved the way for the initial expansion of the compatible toner cartridge chip business of our Group, being then still a new market entrant, at a time when the market was less concentrated and the market competitions were wide open.

Building on the success in the introduction of the Toner Cartridge Chip Models, we have been actively developing other models of compatible toner cartridge chips over the years so as to enrich our product portfolio and increase our competitive strength. Over the years, we have been successful in achieving substantial growth in our compatible toner cartridge chip business. Prior to the adverse development in the market resulting primarily from the limited number of new printer models launched by the original-brand printer companies in 2019 (as more particularly set forth in the paragraphs headed "Our Products — Pricing" in this section), we had remained focused on the compatible toner cartridge chip market, where we have already firmly established our position as one of the leading market players.

In the meantime, given the limited research and development resources of our Group and the fact that the compatible toner cartridge chip business had been performing well, we had not devoted substantial effort to the development of compatible ink cartridge chips prior to the Track Record Period. Before 2019, we had only been offering a narrow range of compatible ink cartridge chip models, which were launched by us in 2015. The relatively small amount of sales of compatible ink cartridge chips recorded in 2017 and 2018 was wholly attributable to such older chip models, which were proactively designed by our Group for recycled compatible ink cartridges taking into account the prevailing demand from certain customers engaged in recycling of compatible cartridges. Other than these chip models, our Group had not launched any other compatible ink cartridge chip models before 2019. As it was foreseeable that the number of new printer models to be launched by the original-brand printer companies in 2019 would remain limited, our Directors resolved in 2018 that our Group should actively explore other opportunities in the market by diverting more of our product development resources from cartridge chips for desktop laser printers into cartridge chips for desktop inkjet printers, in view of the adverse impact that the lack of new original-brand printer models might have on the compatible cartridge chips industry as a whole. Following the implementation of such a product development strategy formulated in 2018, the Ink Cartridge Chip Models, being several new models of compatible ink cartridge chips which possessed advanced quality, functionality and upward compatibility and were designed for compatible ink cartridge models having high popularity and demand in the market, with very limited number of competitors having then launched comparable chip models, were successfully launched by us in 2019, mostly in the second or third quarter. The majority of the sales of such chip models were made to Listed Group A during the Track Record Period, as we have not focused our sales and marketing efforts on promotion of the Ink Cartridge Chip Models to other independent customers given that it would be advisable to minimise direct competitions with Listed Group A (being the dominant market player) when we have yet to gain a significant position as a market player with highly established operations or a comprehensive product portfolio in the compatible ink cartridge chip market. The launch of such chip models helped our Group cope with the significant decline in the average market selling price of compatible toner cartridge chips in 2019 as expected. While our market share in the compatible ink cartridge chip market was small in 2017 and 2018 amounting to approximately 4.2% and 3.9% by external sales and 1.3% and 1.3% by external sales volume respectively, due to the launch of such chip models with significant prevailing market demand, we became the second largest compatible ink cartridge chip provider in the PRC by external sales in 2019. That being the case, our operations in the compatible ink cartridge chip market remain relatively limited – in terms of external sales volume, in 2019, our market share as a provider of compatible ink cartridge chips in the PRC was approximately 3.2% only, whereas we had a market share of 8.1% in the compatible toner cartridge chip market in the PRC.

Please refer to the paragraphs headed "(iii) Our launch of compatible ink cartridge chip models in 2019, with a surge in sales shortly afterwards due to the high degree of recognition from customers", "(iv) The features of our chip models and our competitive advantage" and "(v) Our business development strategy in respect of the manufacturing and sale of compatible ink cartridge chips" in the subsection headed "Customers — Concentration of Customers — Commercial reasons underlying the high revenue percentages attributable to our largest customer" in this section for further details regarding the development of our compatible ink cartridge chip business during the Track Record Period.

The Trend of Digitalisation and the Potential Transition to the Paperless Workplace

Owing to technological advancement and the increasing public concern over the environment, there has been advocacy for the transition to the paperless workplace where the use of paper should be eliminated or greatly reduced through a process known as digitalisation, i.e. the conversion of documents and other papers into digital form. If it does materialise, there may be a significant reduction in the volume of documents in a printed form and the demand for printers and cartridges may decrease substantially as a result. Please refer to the section headed "Risk Factors — Risks Relating to Our Business and the Industry — The prospect of our business may be undermined in the long run by the digitalisation of documentation and information and the advent of paperless workplace due to technological advancement and environmental protection" in this prospectus for further details.

According to the CIC Report, the trend of digitalisation and the potential transition to the paperless workplace have limited impact on the printing industry at present, and printing is expected to continue to have an important role to play in the commercial world. The primary reasons are that the progress of digitalisation depends on the stage of technological development, and complete digitalisation of paper-based documents will involve issues in areas such as cyber security; in addition, it takes time to change the public's habits and adapt to paperless operations, particularly given the considerable initial outlay required. Accordingly, it is expected that the total installed base of printers around the world will remain relatively stable within the range of approximately 421.8 million units to 425.1 million units during the period from 2020 to 2024, and the total demand for cartridge chips at the global level will grow from 1,855.7 million pieces in 2019 to 1,925.6 million pieces in 2024 at a CAGR of 0.7%.

While the demand for cartridge chips and compatible cartridge chips alike is foreseen to be sustainable in the long run, our Group has also been seeking to apply our IC-technology-related know-how in other relevant industry fields so as to broaden our business coverage. As a pilot initiative, we have been exploring the possibility to develop products for the IoT market in the light of the similarities between cartridge chips and IoT chips in terms of the production process, functioning principles and performance characteristics. Please refer to the paragraphs headed "Research and Development" in this section for further details.

Trading of ICs and Other Cartridge Components

While our principal business activities are provision of compatible cartridge chips, we had also conducted trading of ICs and other cartridge components, including plastic pieces and toner among others, according to the specific requests made by our chip customers from time to time during the Track Record Period. Furthermore, Supplier A, one of our major suppliers during the Track Record Period and a member of Listed Group A, had requested us to provide certain specific types of ICs. For further details of our business relationship with Listed Group A, please refer to the paragraphs headed "Overlapping Customers and Suppliers, Industry Landscape and Transactions with Listed Group A and Listed Group B — Industry Landscape and Our Business Dealings with Listed Group A and Listed Group B" in this section. With our extensive network in the compatible cartridge industry, we have been able to obtain the cartridge components required to fulfil such incidental orders from our customers. Our Directors expect the trading of ICs and other cartridge components will continue as incidental business activities ancillary to our core business operation, namely provision of compatible cartridge chips.

Pricing

Key Pricing Factors

One of the key factors in relation to the determination of the price of our new products is whether we are the first-to-market player to introduce such type of products. In the event that we are the first compatible cartridge chip provider to launch a product for a new model of printer, we would be able to set a higher price so as to achieve our desired profit margin, taking into account primarily our costs in developing and producing the product and the market's acceptability. When we are not ahead of our competitors in launching the product, we will also take into account the price set by other market players in order to keep our products competitive.

According to the CIC Report, during 2019, the following factors have had a relatively large impact on pricing industry-wide:

- **the US-China trade war**: during 2018 and 2019, the US government had imposed three rounds of tariff on US$250 billion worth of Chinese goods at 25% and one round of tariff on US$300 billion worth of Chinese goods at 15%. Almost all ink cartridges, toner cartridges and parts imported from China had been subject to tariff at the rate of either 15% or 25%, thus reducing the price advantage of and the demand for compatible cartridges in the US market. The price of compatible cartridge chips has experienced a major decline as a result. While the U.S. and China entered into the phase one trade deal in January 2020, due to the impact of COVID-19 and in turn the recent rapidly changing political environment, currently there is no concrete expected time when a complete trade deal could be reached between the two countries. However, since (i) the majority of compatible cartridges manufacturers are located in the PRC, it is difficult for downstream wholesalers located in the U.S. to seek alternative suppliers outside China and (ii) the gross profit margin for downstream wholesalers remains high enough for them to cover the extra tariff, it is an industry trend that imposed tariff is gradually being shared between compatible cartridge manufacturers and downstream wholesalers in the U.S., it is expected that the impact of trade war on compatible cartridge manufacturers in China would be limited;

- **limited number of newly launched models of printers**: the research and development work of new compatible cartridges and the related compatible cartridge chips is generally initiated after the release of new original-brand printers. The development of compatible cartridge chips follows the same trend. During each of the three years ended 31 December 2019, the original-brand printer companies have launched 485, 288 and 380 new printer models respectively. In recent years, due to the completion of certain mergers and acquisitions among the major printer companies and the subsequent adjustments to operation of such printer companies with a view to optimising their overall management system, the release plans of new printer models in 2018 and 2019 have been postponed as a whole. As a result of the drop in the number of new printer models launched by original-brand printer companies, there were only limited new models of compatible cartridge chips for new printers introduced to the market in 2018 and 2019.

  The price of a model of compatible cartridge chip tends to fall as it goes through the product life cycle. With the limited number of new printer models launched by the original-brand printer companies, the compatible cartridge chip models offered by different market players were mostly designed for older printer models. This resulted in intensification of the market competition in respect of the relevant compatible cartridge chip models and downward pressure on the market prices. The leading market players, including Listed Group A, had correspondingly also lowered the prices of the relevant chip models in order to maintain its business relationships with its customers and safeguard its market position. As confirmed by CIC, the adoption of the price-cutting strategy by the leading market players had inevitably resulted in vicious price competitions in the compatible cartridge chip market, which was part of the major causes of the overall drop in the average price of compatible cartridge chips in 2019; and

- **industry consolidation**: the major players in the compatible cartridge industry in the PRC have been aggressive in pursuing vertical and horizontal integration and consolidated a large number of players from different parts of the value chain in the compatible cartridge industry into their group. Such corporate behaviour has affected the industry dynamics. For example, the cartridge manufacturers would naturally accord priority to companies within the same group in the selection of chip suppliers, and this favours some of the largest players in the compatible cartridge chip industry which are part of the large compatible cartridge groups and allows them to strengthen their customer base. The other players in the compatible cartridge chip industry are left with the option of cutting their prices in order to gain market share. The average price of compatible cartridge chips in the PRC has been driven down as a result. As the competition intensifies, it is expected that a number of small-scale market players will be eliminated. Upon completion of the integration and adjustment in the industry and based on the expectation that mergers and acquisitions among the major industry players would be less frequent in the future, companies with strong research and development capability including us will be able to increase market shares and obtain better control over pricing. Hence, the average price of compatible cartridge chips in the PRC is expected to gradually recover. In addition, it is expected that the number of new original-brand printer models will increase in the future since 2020, bringing in new market opportunities for compatible cartridge chip providers with strong research and development capability, which, in turn, is expected to lead to increase in the price of compatible cartridge chips in the future. Despite historical impact of the industry consolidation on the prices of our compatible cartridge chip, as one of the leading compatible cartridge chip providers with strong research and development capability, our Group is expected to continue to maintain our current market position as long as we could design and develop compatible cartridge chips of newly launched printers faster than our competitors.

Our Pricing Strategy

Our pricing strategy is closely associated with the life cycle of products in the compatible cartridge chip market. According to the CIC Report, a compatible cartridge chip model normally goes through three stages in the whole life cycle as set out below:

- **introduction stage** (within three years after launch of a new original-brand printer model): With the low level of competition and the absence or lack of substitute products in the market during the introduction stage, we would normally set the product price at its highest level acceptable to the market to obtain the optimal profit margin. We recognise the importance of designing and developing the new products faster than other competitors in order to enjoy such first-mover advantage.

- **growth stage** (three to five years after launch of the new original-brand printer model): After more customers in the market become aware of the new product, the sales volume will rise rapidly. Competitors will be attracted to launch products with similar functions and features in view of the large demand. Due to the increasing competition, the market price will go downward and we will adjust our selling price accordingly with a view to keeping our price comparable to those set by our competitors and maintaining our sales level. A significant drop in the selling price is likely to be observed at this stage.

- **maturity stage** (over five years after launch of the new original-brand printer model): The demand for the product decreases continuously while the competition remains consistently high at this stage. We would keep on lowering our selling price based on the market rate.

According to the CIC Report, the product life cycle of a compatible cartridge chip model in the PRC normally spans over 8 years starting from the launch of a new printer model in the market and the relevant chips will gradually fade out in the market. As the production and sales of relevant original brand printers will normally cease within 8 years after its launch, the demand of relevant cartridge chips will drop to a greater extent until there is no longer market demand. In addition, as the price of relevant chips will normally drop to a low level with relatively limited profit margin, the price of such chips normally remain stable at a very low level. For further details, please refer to the section headed "Industry Overview" in this prospectus.

The following table summarises the sales revenue, sales volume and average selling price during the Track Record Period of our chips and the number of models sold categorised according to the length of time that had elapsed since the launch of the corresponding original-brand printer models:

	Year ended 31 December																			
	2017					2018					2019					10M2020				
	Revenue		Sales volume	Average selling price	Number of models sold	Revenue		Sales volume	Average selling price	Number of models sold	Revenue		Sales volume	Average selling price	Number of models sold	Revenue		Sales volume	Average selling price	Number of models sold
	RMB'000	*%*	*'000 pieces of chips*	*RMB*		*RMB'000*	*%*	*'000 pieces of chips*	*RMB*		*RMB'000*	*%*	*'000 pieces of chips*	*RMB*		*RMB'000*	*%*	*'000 pieces of chips*	*RMB*	
Sales of chips																				
Length of time since the launch of corresponding original-brand printer model																				
– Within three years	**122,669**	**63.2**	**4,036**	**30.4**	**316**	**102,349**	**46.4**	**1,981**	**51.7**	**155**	**45,117**	**30.0**	**3,689**	**12.2**	**122**	**25,762**	**21.0**	**904**	**28.5**	**103**
1st year	742	0.4	10	74.4	24	2,741	1.3	65	42.4	22	221	0.1	4	53.3	2	219	0.2	2	93.4	6
2nd year	10,356	5.3	192	53.9	50	51,242	23.2	916	55.9	36	4,552	3.0	277	16.4	23	22,578	18.4	324	69.7	53
3rd year	111,570	57.5	3,834	29.1	242	48,365	21.9	1,000	48.4	97	40,344	26.8	3,408	11.8	97	2,965	2.4	578	5.1	44
– Three to five years	**39,488**	**20.3**	**2,197**	**18.0**	**124**	**67,999**	**30.8**	**4,373**	**15.6**	**238**	**74,538**	**49.5**	**6,630**	**11.2**	**372**	**52,356**	**42.6**	**6,303**	**8.3**	**387**
4th year	2,337	1.2	93	25.1	6	66,987	30.4	4,327	15.5	234	46,763	31.0	3,035	15.4	132	27,907	22.7	3,781	7.4	285
5th year	37,151	19.1	2,104	17.7	118	1,012	0.4	46	22.1	4	27,774	18.4	3,595	7.7	240	24,449	19.9	2,522	9.7	102
– Over five years	**32,018**	**16.5**	**5,106**	**6.3**	**2,102**	**50,273**	**22.8**	**6,812**	**7.4**	**2,913**	**30,955**	**20.6**	**6,744**	**4.6**	**2,728**	**44,685**	**36.4**	**9,958**	**4.5**	**2,925**
6th year	8,709	4.5	1,011	8.6	128	22,741	10.3	1,862	12.2	77	926	0.6	143	6.5	6	14,535	11.8	2,233	6.5	237
7th year	10,463	5.4	1,341	7.8	36	6,518	3.0	706	9.2	124	12,851	8.5	2,171	5.9	87	675	0.5	206	3.3	5
Eight years or above	12,846	6.6	2,754	4.7	1,938	21,014	9.5	4,243	5.0	2,712	17,178	11.4	4,430	3.9	2,635	29,476	24.0	7,519	3.9	2,683
Total	194,175	100	11,338	17.1	2,542	220,621	100	13,166	16.8	3,306	150,610	100	17,063	8.8	3,222	122,804	100	17,165	7.2	3,415

In order to enjoy the first-mover advantage, we strive to proactively introduce new models of chips ahead of our competitors from time to time with our research and development capabilities.

The unit price of our compatible cartridge chips may vary from model to model, given that (i) the degrees of technical complexity involved may be different; and (ii) the popularity of and demand for the corresponding printer models and cartridges may differ, resulting in price fluctuation to different extents. In addition, it also depends on the length of time that had elapsed at the time of sale since the launch of the corresponding original-brand printer models, to which the level of market competition tends to correlate. In general, the selling price of our products gradually decreases along the product life cycle, which is implicit in the lower average selling price of our products when sold more than five years after the launch of the corresponding original-brand printer models during the Track Record Period. During the Track Record Period, the unit price (exclusive of tax) of our products ranged from approximately RMB0.3 to RMB353.4.

Rebates

During the Track Record Period, we offered product rebates arrangement to certain customers for the purchase of compatible cartridge chips to incentivise these customers to purchase our products. For each of the three years ended 31 December 2019 and 10M2020, the sales rebates are offered to our customers in the amount of approximately RMB1.3 million, RMB0.7 million, RMB4,000 and nil respectively. Generally, we formulate rebate arrangements with each of these selected customers after arm's length negotiation with these customers having taken into account, among others, the target annual purchases of these customers from our Group.

In view of the intensified market competition, we have tightened our rebate policy gradually in terms of selection of eligible customers and the minimum purchase target to be achieved for customers' entitlement to rebates on one hand, and have reduced the selling price of some of our products on the other hand with an aim to enhance our price competitiveness and strengthen the business relationship with our customers. The decrease in the amount of sales rebates during the Track Record Period was primarily due to the decrease in sales amount to those customers we offered sales rebate arrangement. In particular, in addition to the fact that there were fewer rebate arrangements with our customers in 2019, we had also reduced the unit selling pricing of our products directly instead of offering sales rebates, and the significant decrease in the average selling price of our chips in 2019 had also contributed to the decrease in sales rebate amount in 2019 since the rebate amount and the minimum purchase target to be achieved by the customers for rebate entitlement were calculated based on the sales amount. Since 1 January 2020 and up to the Latest Practicable Date, we had not entered into any rebate arrangement with our customers.

Seasonality

Our revenue is subject to seasonal fluctuations. During the Track Record Period, we recorded higher sales revenue in the last quarter of each financial year. Our Directors believe that such seasonality is mainly attributable to (i) the marketing effects of our participation in the industry exhibition in Zhuhai that usually takes place in October of each year; and (ii) the higher demand for our products during the last quarter of each year due to the need of our customers and their downstream customers to stock up in light of possible disruption of supply during the Chinese New Year.

RESEARCH AND DEVELOPMENT

We are dedicated to the development of new models of compatible cartridge chips through our own research and development work so as to cope with the fast-changing demands of our customers amid constant technological advancement. Led by Mr. Lee, our co-founder and executive Director with more than 25 years of experience in IC solutions, our research and development team under our research and development department is responsible for (i) design and development of our new products; and (ii) management of all research projects. The engineering team under our research and development department also assists in the research and development work by (i) designing and building tools required for conducting research or testing; and (ii) conducting tests on any newly developed technologies or products.

Our Advanced Research and Development Capabilities

As mentioned in the paragraphs headed "Our Products — Compatible Toner Cartridge Chips as Our Major Business Focus since Establishment" in this section, we launched the Toner Cartridge Chip Models in 2012, which is considered a milestone in our business development. Taking advantage of the wealth of industry experience and the high level of technical competence in research and development work of our research and development team at Taiwan branch office under the lead of Mr. Lee, we were able to conduct the requisite analysis in respect of the printer firmware despite the encryption technology adopted by the original-brand printer company concerned in respect of the firmware codes in its printers, and thereby became the first market player to offer compatible cartridge chips for such printer models, and had remained the exclusive supplier of such compatible cartridge chips in the global market until one year after they were launched by our Group. The market response received in respect of the Toner Cartridge Chip Models was highly favourable, with which our Group, as a then small-scale chip supplier, was able to gain reputation and establish and improve our standing in the compatible toner cartridge chip market. Building on the success, we have been actively developing other models of compatible toner cartridge chips over the years so as to enrich our product portfolio and increase our competitive strength, thereby firmly establishing our position as one of the leading market players, being the second largest compatible cartridge chip provider in the PRC by external sales in 2019.

During the Track Record Period, we were the first player in the market to offer 107 new models of compatible cartridge chips, and we had been able to introduce 247 new models of compatible cartridge chips within 12 months after the launch of the relevant original-brand printer models. The above attest to our advanced research and development capabilities.

Superior Upward Compatibility of Our Chip Models

Our Directors believe that superior upward compatibility i.e. the capability to cope with future upgrades of printers and remain compatible with the corresponding original-brand model(s) subsequently upgraded or modified or with the printers under such model(s) produced in the future, is a salient feature of our chip models (including, among others, the Ink Cartridge Chip Models which are considered to outperform similar offerings from Listed Group A in terms of upward compatibility, further details of which are set forth in the paragraphs headed "Customers — Concentration of Customers — Commercial reasons underlying the high revenue percentages attributable to our largest customer — (iv) The features of our chip models and our competitive advantage" in this section). This has allowed us to distinguish ourselves from the industry peers and rise to the position of one of the leading compatible cartridge chip providers in the PRC.

We are able to build advanced upward compatibility into our chip models because in the new product development process, we would seek to identify the Latent Procedures in the firmware of the corresponding original-brand printer models during the comprehensive analysis stage, and design and develop compatible checking and verification procedures which are included in our firmware contained in our chip models. To the best of the knowledge of our Directors and as advised by CIC, the Latent Procedures in the original-brand printers may become activated or otherwise come into play in a number of situations, including, mostly notably,

(i) automatic upgrades of the printers already in use by the consumers, as initiated by the original-brand printer companies and installed via internet connections, to the effect that all or part of the Latent Procedures become activated;

(ii) automatic activation of all or part of the Latent Procedures in the printers already in use by the consumers at certain pre-set points of time after purchase, according to the settings built in by the original-brand printer companies during the production process; and

(iii) subsequent upgrades of the printer models made by the original-brand printer companies, such that all or part of the Latent Procedures are used in the printers of the same models produced and sold at later points of time.

Our Group designs and develops the checking and verification procedures in our firmware with a view to ensuring that they, to the largest extent possible, are consistent with the Latent Procedures and can be applied in the printers subsequently upgraded or modified or produced in the future (the "**Upgraded Printers**"). Hence, in the event that the Latent Procedures are used in the Upgraded Printers, our chip models would have a better chance of remaining compatible with such printers and fit for purpose. Comparatively speaking, a chip model with inferior upward compatibility may fit in well only with those versions of the printers existing at the time when the chip model is designed and developed, and is less likely to be compatible with the Upgraded Printers after upgrades and/or modifications have been carried out by the original-brand printer companies and with the Upgraded Printers produced in the future.

For instance, to the best of the knowledge of our Directors, prior to the launch of our Ink Cartridge Chip Models, compatibility issues had been found on multiple occasions in respect of some of the similar chip models offered by the other chip manufacturer after upgrades to the corresponding printer models had been carried out by the relevant original-brand printer company, which led to product recalls and replacement by the other chip manufacturer in each case; as a result of such compatibility issues, the compatible cartridge manufacturers purchasing and using the other chip manufacturer's chip models in turn needed to recall unused compatible cartridges from their customers (i.e. compatible cartridge distributors or retailers), which translated into further production and logistical work and additional costs for them and their customers. After the launch of our Ink Cartridge Chip Models, the relevant original-brand printer company had continued to upgrade such printer models, and our Ink Cartridge Chip Models could adapt to the upgrades better with higher chances of remaining compatible with such upgraded printer models. On the other hand, to the best of the knowledge of our Directors, such upgrades had resulted in compatibility issues of similar chip models in the market as before and product recalls and replacement by the other chip manufacturer in each case. With superior upward compatibility, our Ink Cartridge Chip Models have proved capable of coping with the compatibility issues, thereby effectively reducing the chances of product recalls and replacement and avoiding the associated further work and additional costs on the part of our customers (i.e. compatible cartridge manufacturers).

Our Directors believe that the features of our chips, including, among others, the advanced upward compatibility, are not easily replicable by other market players. This is because we do not make our firmware available as open-source software and we have implemented stringent security measures to prevent any unauthorised access to or leakage of the source codes of our firmware. In particular, (1) we use an advanced computer encryption system in our research and development process, and the data stored in our hard disks are encrypted and may only be retrieved using designated computers; (2) the findings and outcomes are stored in password-protected computers, access to which is restricted to the top management of our Group; and (3) our product development process is completed by a team of research and development officers each working on different parts of it, whereby the number of staff members with full knowledge of our product designs and development methodology is limited. In addition, as a general practice, the source codes of firmware have to be tailored to the specific structural designs and features of the PCBAs used, and the other market players are unlikely to find the firmware containing our source codes compatible with the PCBAs used by them. It should also be noted that our firmware is developed using a specific set of commands, such that it would not in any event be feasible for a third party to convert the binary data stored in the chips into a firmware. While other market players may possibly improve the upward compatibility and other features of their chips through their own research and development endeavours, our Directors are of the view that our competitive advantage is relatively secure due to the technological barriers involved.

Our Research and Development Process

As compatible cartridges are in nature substitutes for the cartridges offered by the printer companies, the general development procedures of a new product of compatible cartridge chip (being a core component of compatible cartridges) begin with the launch of a new model of printer or cartridge by the printer companies. We keep a close watch on the developments in the printer market and proactively take advantage of new market opportunities and conduct research and development work on our own initiative after assessing the feasibility and profitability. During our design process, it is essential for us to ensure the functionality of both the software and the hardware components of our chips, which are our final products. The principal functions of a compatible cartridge chip include facilitating communication between a compatible cartridge and the original-brand printer in which such a cartridge is installed, and monitoring cartridge usage. Our product development process starts with a comprehensive analysis of a new original-brand printer and its accompanying cartridges. Leveraging our know-how, after gaining an understanding of the functions of the original-brand printer and cartridges, we develop our chips based on our conceptualisation of the principles and logics of operation, with a view to achieve compatibility in terms of functionality and performance. Specifically, we would draw up the specifications of the hardware component of our chips, and simultaneously design and develop the software component through our own endeavours.

For the hardware component of our chips, if we have resolved not to use PCBAs procured directly from external suppliers for particular products, we would design the PCBs, being one of the major parts of PCBAs, ourselves and source ICs from external suppliers. As the ICs we use are not sourced from the IC suppliers of the original-brand printer companies, they may differ significantly in both electrical characteristics and physical properties from those used by the original-brand printer companies; given that the designs of PCBs have to be tailored to such characteristics and properties of the ICs, it would be neither practicable nor efficacious for us to adopt the same PCB designs that are used by the original-brand printer companies. When designing our PCBs, we would seek to make sure that the layouts of our PCBs would correspond with the structural features of the ICs used and that the PCBAs, when assembled by our subcontractors, would support the functions that our compatible cartridge chips are expected to perform, i.e. functions comparable to those built in the original-brand cartridge chips.

As regards the software component of our chips, we would simultaneously develop the software as we design the PCBs. Concerned to safeguard their commercial interests, the original-brand printer companies would not make their firmware available as open-source software, and there exists minimal possibility, if any, for us to gain access to the source codes of their firmware. In addition, as a result of the structural and mechanical differences in the PCBAs used, firmware with the original-brand printer companies' source codes is not expected to run well when installed in our PCBAs, and in turn it will not serve any meaningful purpose for us to reproduce or extract such source codes for use in our products. Therefore, it is our practice to design and create the source codes of our firmware independently according to the specific structural designs and features of the PCBAs used. We would also need to make sure that the software and hardware components of our compatible cartridge chips are in synchronisation with each other, and that they, as a whole, could fit in well with the compatible cartridges designed for the relevant printer model and would enable the compatible cartridge chips to effectively monitor cartridge usage and facilitate communication between the cartridges and the printers when installed.

Our Directors consider that we have built up expertise and technical know-how in the design process, and accumulated sufficient experience to complete the design and development procedures efficiently. As set forth in detail in the above, the design and development of both the hardware and the software components of our chips are conducted under the guiding principle of originality. To further reduce the risks of infringements of third-party intellectual property rights, we would ascertain whether any patents registered by third parties may possibly be involved in the new product development process during the project initiation, examination and selection stage, and carefully devise our product development proposals during the design and development stage with a view to creating the required critical functionalities while avoiding the use of any patented design or technology.

Our Research and Development Resources

As the original-brand printer companies continue to invest in research and development to upgrade their design technologies and have increased the complexity of the technical design of the cartridge chips from time to time, we may need to update our compatible cartridge chips accordingly to ensure their compatibility with the relevant printer models. This has in turn driven us, as a provider of compatible cartridge chips to constantly improve our research and development capabilities such that we could keep pace with the original-brand printer companies and secure our market position. We have been able to cope with the challenge through maintaining a team of technological talents. As at 31 October 2020, our research and development department, which is divided into research and development team and engineering team among others, consisted of 44 members with more than four years of work experience in the cartridge chip industry on average. The majority of them possess an undergraduate degree in electronic engineering or related disciplines.

Leveraging our research and development capabilities on compatible cartridge chips, we have been exploring the possibility to develop in the IoT market as a pilot initiative. IoT is a system of interrelated computing devices, mechanical and digital machines, objects and people with the ability to transfer data over a network. The system includes physical devices, vehicles, home appliances and other items embedded with electronics, software, sensors and actuators, which enable these objects to connect, collect and exchange data through various communication protocols. As at the Latest Practicable Date, we had successfully designed and developed temperature and humidity recorders, which measure the temperature and relatively humidity of the air within a room and may be controlled and monitored using and exchange data with smartphones, as pilot products for the IoT market. We will continue to prudently and carefully assess the market opportunities and at present we do not have any intention to expand our principal business to the IoT market.

Over the years, we have developed and registered a variety of IC-related intellectual property rights, such as computer software copyrights and IC layout designs. For further details, please refer to the paragraphs headed "Intellectual Property Rights" in this section and the section headed "Appendix V — Statutory and General Information — Further Information about Our Business — 8. Material Intellectual Property Rights" in this prospectus. During the Track Record Period, with our know-how in designing PCBAs and writing firmware, we had introduced over 620 new models of compatible cartridge chips. For each of the three years ended 31 December 2019 and 10M2020, our research and development expenses amounted to approximately RMB7.2 million, RMB7.5 million, RMB9.3 million and RMB11.0 million respectively, of which nil, RMB2.2 million, RMB0.4 million and nil were incurred by us on unsuccessful (i.e. abandoned or unresolved) research and development projects respectively.

Chip Models Launched During the Track Record Period

For the years ended 31 December 2017, 2018 and 2019 and 10M2020, we have introduced 109, 122, 224 and 172 new models of compatible cartridge chips, which contributed approximately 3.7%, 18.7%, 41.1% and 16.2% of our total revenue in the year or period of launch respectively, and generated a gross profit margin of approximately 47.1%, 60.1%, 78.5% and 90.8% in the year or period of launch respectively. The following table summarises the number of new models of compatible cartridge chips introduced by our Group and the corresponding sales volume, average selling price, gross profit margin and revenue generated from such new models of compatible cartridge chips for each year or period during the Track Record Period:

		Year ended 31 December															
		2017				2018				2019				10M2020			
Number of new models of chips launched in 2017	Length of time since the launch of corresponding original-brand printer model from 2017	Revenue	Sales volume	Average selling price	Gross profit margin	Revenue	Sales volume	Average selling price	Gross profit margin	Revenue	Sales volume	Average selling price	Gross profit margin	Revenue	Sales volume	Average selling price	Gross profit margin
		RMB'000	*'000 pieces of chips*	*RMB*	*%*	*RMB'000*	*'000 pieces of chips*	*RMB*	*%*	*RMB'000*	*'000 pieces of chips*	*RMB*	*%*	*RMB'000*	*'000 pieces of chips*	*(Note 1) RMB*	*%*
– Desktop laser printers																	
29	1st year	742	10	74.4	50.6	8,320	245	33.9	64.5	7,943	620	12.8	46.5	2,162	913	2.4	23.2
18	2nd year	6,489	89	72.8	47.6	20,911	308	68.3	52.7	1,110	160	6.9	48.0	2,452	786	3.1	47.2
24	3rd year	21	1	46.6	31.3	85	2	35.1	31.2	80	22	3.6	48.4	14	5	2.5	32.6
11	Eight years or above	67	3	22.1	43.7	318	26	12.4	41.6	210	117	1.8	33.0	359	168	2.1	29.0
82		**7,319**	**103**	**71.2**	**47.8**	**29,634**	**581**	**51.1**	**55.8**	**9,343**	**919**	**10.2**	**46.4**	**4,987**	**1,873**	**2.7**	**35.0**
– Commercial printers																	
4	2nd year	487	14	35.9	37.8	2,665	86	31.1	54.0	2,251	93	24.2	65.8	408	51	7.9	51.5
23	Eight years or above	50	3	16.3	33.1	48	5	9.5	41.8	106	5	22.3	62.4	99	8	12.0	46.6
27		**537**	**17**	**32.3**	**37.4**	**2,713**	**91**	**29.9**	**53.8**	**2,357**	**98**	**24.0**	**65.6**	**508**	**60**	**8.5**	**50.5**
109		**7,856**	**120**	**65.8**	**47.1**	**32,347**	**672**	**48.2**	**55.7**	**11,700**	**1,017**	**11.5**	**50.2**	**5,495**	**1,933**	**2.8**	**36.8**

Number of new models of chips launched in 2018	Length of time since the launch of corresponding original-brand printer model from 2018	Year ended 31 December 2018 Revenue	Sales volume	Average selling price	Gross profit margin	2019 Revenue	Sales volume	Average selling price	Gross profit margin	10M2020 Revenue	Sales volume	Average selling price	Gross profit margin
		RMB'000	*'000 pieces of chips*	*RMB*	*%*	*RMB'000*	*'000 pieces of chips*	*RMB*	*%*	*RMB'000*	*'000 pieces of chips*	*(Note 1) RMB*	*%*
– Desktop laser printers													
65	1st year	2,741	65	42.4	56.0	2,015	161	12.5	40.0	2,283	470	4.9	38.3
17	2nd year	42,922	671	60.1	60.5	3,689	565	6.5	26.7	427	213	2.0	4.5
6	3rd year	–	–	–	–	9,023	631	14.3	41.6	103	16	6.2	60.3
23	Eight years or above	273	5	59.3	43.2	79	15	5.3	69.6	393	64	6.1	70.9
111		**45,936**	**741**	**62.1**	**60.1**	**14,806**	**1,372**	**10.8**	**37.8**	**3,205**	**764**	**4.2**	**38.5**
– Commercial printers													
11	Eight years or above	1	0	8.9	20.9	13	2	6.4	26.2	1	0	6.2	61.3
122		**45,937**	**741**	**62.1**	**60.1**	**14,819**	**1,374**	**10.8**	**37.8**	**3,206**	**764**	**4.2**	**38.5**

Number of new models of chips launched in 2019	Length of time since the launch of corresponding original-brand printer model from 2019	Year ended 31 December 2019 Revenue	Sales volume	Average selling price	Gross profit margin	10M2020 Revenue	Sales volume	Average selling price (Note 1)	Gross profit margin
		RMB'000	*'000 pieces of chips*	*RMB*	*%*	*RMB'000*	*'000 pieces of chips*	*RMB*	*%*
– Desktop laser printers									
35	2nd year	2,537	116	21.8	56.3	654	116	5.6	59.3
5	Eight years or above	–	–	–	–	273	14	19.5	41.5
40		**2,537**	**116**	**21.8**	**56.3**	**927**	**130**	**7.1**	**54.1**
– Desktop inkjet printers									
59	3rd year	28,712	2,223	12.9	72.6	24,412	2,533	9.6	66.2
102	4th year	33,053	2,071	16.0	85.6	20,137	1,595	12.6	81.9
8	Eight years or above	1	0	6.7	57.5	0	0	0	0.0
169		**61,766**	**4,294**	**14.4**	**79.5**	**44,550**	**4,128**	**10.8**	**73.3**
– Commercial printers									
2	1st year	221	4	53.3	56.1	636	13	50.8	38.6
13	Eight years or above	315	8	37.5	64.8	1,368	35	39.0	39.3
15		**536**	**12**	**42.7**	**61.2**	**2,004**	**48**	**42.1**	**39.1**
224		**64,839**	**4,422**	**14.7**	**78.5**	**47,480**	**4,306**	**11.0**	**71.5**

Number of new models of chips launched in 10M2020	Length of time since the launch of corresponding original-brand printer model from 2020	10M2020 Revenue	Sales volume	Average selling price	Gross profit margin
		RMB'000	*'000 pieces of chips*	*RMB*	*%*
– Desktop laser printers					
47	1st year	215	2	91.9	94.4
68	2nd year	21,401	309	69.3	90.7
115		**21,616**	**311**	**69.4**	**90.8**
– Desktop inkjet printers					
16 *(Note 2)*	3rd year	–	–	–	–
– Commercial printers		–	–	–	–
30 *(Note 2)*	1st year	–	–	–	–
11 *(Note 2)*	2nd year	–	–	–	–
41		**–**	**–**	**–**	**–**
172		**21,616**	**311**	**69.4**	**90.8**

Notes:

(1) Despite the significant decline in selling price of our chips for desktop laser printers in 2019, our Directors believe that the selling price of our chips has become stable, with the average selling price of our chips for desktop laser printers for 10M2020 comparable with that of the fourth quarter of 2019.

(2) These new models of chips launched in 10M2020 had not generated any revenue for the period.

The percentage of our revenue attributed to new models of compatible cartridge chips increased from approximately 3.7% in 2017 to approximately 41.1% in 2019. Such increase was due to the fact that our new models of chips launched in 2017 were launched mainly near the end of the year, and was also in line with the increase in the number of new models introduced by our Group to 224 new models in 2019 as a result of our efforts to enhance our product development capacity and to diversify our product portfolio (in particular, the 169 new models of chips for desktop inkjet printers launched in 2019), and the relative decrease in the contribution of our then existing models of chips to our total revenue due to the significant decline in selling price of our chips for desktop laser printers in 2019 attributed to (i) the industry-wide pricing pressure on compatible cartridge chips as a result from the US-China trade war, limited number of newly launched models of printers in 2018 and 2019 and industry consolidation; and (ii) the intensified market competition with more competitors having successfully launched products with features and functionality similar to our products and as a result of the price-cutting strategy adopted by the leading market players. In view of the limited number of newly launched printer models and significant decline in selling price of our chips for desktop laser printers in 2019, we allocated more research and development resources to the development of chips for desktop inkjet printers, and successfully developed certain new models of chips for desktop inkjet printers which are carefully selected by our Group to revitalize our business in view of the adverse market circumstances. Despite the fact that most of these chips relate to existing models of desktop inkjet printers which had been launched for three to four years in 2019, we recorded considerable revenue and maintained a relatively high gross profit margin for the year ended 31 December 2019 due to our customers' recognition of the good quality, functionality and upward compatibility of such products with only a few competing products with similar features and functionality available in the market. We had been able to generate a substantial amount of revenue from the sales of products launched in the same year not only in 2019 but also previously in 2018, with revenue of approximately RMB45.9 million for 2018 generated from the sales of new models launched in the same year.

During 10M2020, we had developed 172 new models of chips which were launched during the year ended 31 December 2020. Such new models of compatible cartridge chips were designed for relatively new models of printers with increasing market demand, and the sales of such new chip models for desktop laser printers increased significantly after they were launched during the year ended 31 December 2020.

Our Internal Product Development Plans for the Three Years Ending 31 December 2023

For the year ended 31 December 2020 and the years ending 31 December 2021, 2022 and 2023, we had launched or expect to launch 172, 198, 107 and 303 new models of chips respectively. The following table summarises the number of new models of compatible cartridge chips launched or to be launched by us for each of the year ended 31 December 2020 and the years ending 31 December 2021, 2022 and 2023 respectively and the corresponding date of launch and latest development status as at the Latest Practicable Date:

	Number of new models of chips	**Date of launch (actual)**	**Latest development status as at the Latest Practicable Date**
Number of new models of chips launched for the year ended 31 December 2020			
– Desktop laser printers	**115** Launch year of corresponding original-brand printer models – 2019: 68 – 2020: 47	– First half of 2020: 63 chip models – Second half of 2020: 52 chip models	Already launched
– Desktop inkjet printers	**16** Launch year of corresponding original-brand printer models – 2018: 16	– Second half of 2020: 16 chip models	
– Commercial Printers	**41** Launch year of corresponding original-brand printer models – 2019: 11 – 2020: 30	– First half of 2020: 15 chip models – Second half of 2020: 26 chip models	
Total	**172**		

	Number of new models of chips	Date of launch (expected)	Latest development status as at the Latest Practicable Date
Number of new models of chips to be launched for the year ending 31 December 2021			
– Desktop laser printers	**86** Launch year of corresponding original-brand printer models – 2019: 86	– July 2021: 86 chip models	Under development
– Desktop inkjet printers	**112** Launch year of corresponding original-brand printer models – 2018: 40 – 2019: 72	– March 2021: 40 chip models – October 2021: 72 chip models	
Total	**198**		
Number of new models of chips to be launched for the year ending 31 December 2022			
– Desktop laser printers	**20** Launch year of corresponding original-brand printer models – 2019: 20	– November 2022: 20 chip models	To be developed
– Desktop inkjet printers	**87** Launch year of corresponding original-brand printer models – 2017: 69 – 2018: 18	– June 2022: 17 chip models – July 2022: 52 chip models – October 2022: 18 chip models	
Total	**107**		

	Number of new models of chips	Date of launch (expected)	Latest development status as at the Latest Practicable Date
Number of new models of chips to be launched for the year ending 31 December 2023			
– Desktop laser printers	**30** Launch year of corresponding original-brand printer models – 2017: 25 – 2018: 5	– January 2023: 5 chip models – February 2023: 25 chip models	To be developed
– Desktop inkjet printers	**273** Launch year of corresponding original-brand printer models – 2014: 124 – 2015: 149	– May 2023: 58 chip models – June 2023: 17 chip models – October 2023: 66 chip models – November 2023: 132 chip models	
Total	**303**		

We formulate our research and development plan for new chip models with reference to the original-brand printer models available in the market, based on the printer companies' new product launch plan as known to us at present. We would also take into account the market competitions, and generally select those chip models in respect of which there are expected to be limited competing products in the market as our targets for new product development. As a general rule, we will initially work on the chip models for those original-brand printer models that have been more recently launched, enjoy a greater degree of popularity in the market and are likely to carry a higher profit margin. After these chip models have been substantially covered, we will then turn to the older original-brand printer models so as to increase our product diversity.

We shall continue to roll out a considerable number of new compatible toner cartridge chip models that are expected to be in high demand in 2020 and 2021, so as to reinforce our leading position in the compatible toner cartridge chip market. We currently anticipate that by 2022 and 2023, our compatible toner cartridge chip models will have covered the majority of the popular desktop laser printer models in the market and the room for further expansion of our product portfolio in this regard will have become relatively limited. Hence, while maintaining our established market share in the compatible toner cartridge chip market, we intend to gradually shift our research and development focus towards compatible ink cartridge chip models for effective deployment of our research and development resources. We expect that our new products to be launched in 2022 and 2023 will consist primarily of compatible ink cartridge chip models to enrich our product portfolio, boost our market share (in terms of both external sales and external sales volume) and enhance our competitiveness in the compatible ink cartridge chip market. Nonetheless, we shall closely monitor the market situation and promptly adjust our research and development plan (including both the numbers and types of new chip models to be developed and launched each year) as and when appropriate, according to the original-brand printer companies' product launches and the actual market response from time to time. For example, we expect that our new chip models to be launched in 2023 for desktop inkjet printer models launched in 2014 and 2015 will mainly serve to enrich our product portfolio. If there are new printer models launched by the original-brand printer companies during the period from 2021 to 2023, we may modify our research and development plan to cover such new printer models where practicable.

Our Business Outlook Following the Adoption of the Internal Product Development Plans

In respect of the chip models expected to be launched in 2021, as at the Latest Practicable Date, we were conducting comprehensive analyses of the corresponding original-brand models and their accompanying cartridges or (for certain models in respect of which we had already completed the requisite comprehensive analyses) had already reached the design and development stage in our new product development process. We anticipate that the product development process will be completed and these chip models will be launched by the dates indicated in the table above.

In respect of the chip models expected to be launched in 2022 and 2023, we had yet to kick off the product development process as at the Latest Practicable Date. Based on our research and development capabilities (including, among other things, our estimation of the then available research and development resources), our Directors were not aware of any impediment to our launch of the new chip models in accordance with the internal product development plans for 2022 and 2023 as presented above as at the Latest Practicable Date.

The new chip models to be launched by us for the three years ending 31 December 2023 are mostly designed for the printer models of the major original-brand printer companies, with larger market shares and more robust consumer demand in general.

As presented in the paragraphs headed "Research and Development — Chip Models Launched During the Track Record Period" above in this section, our newly launched products have traditionally received immediate favourable market response during the year or period of launch, and have all along served as our Group's core revenue and profit driver with an impact that has been instantly observable. It demonstrates the business acumen and sound judgement in chip model selection of our management. Particularly, in respect of the 172 new chip models launched in 2020 and the 198 new chip models expected to be launched in 2021, we intend to be one of the first market players to offer compatible cartridge chips for the corresponding original-brand printer models generally. Accordingly, it is envisaged that we will be able to enjoy first-mover advantages with the potential to record a high gross profit margin in respect of sales of these new products.

In addition, a series of positive signs have been shown in the recent developments of our business and the market: (1) our revenue had started to pick up since January 2021 and the actual amount recorded for January 2021 had reached a level comparable to that in the corresponding month in previous year; and (2) based on the indicated orders from our customers, we also expect to be able to record revenue in a total amount comparable to that of the corresponding period in previous years from March to August 2021, the market is expected to regain growth momentum from 2021 onwards, and both Listed Group A and Listed Group B had announced increases in revenue of their compatible cartridge segment and/or compatible cartridge chip segment and indicated confidence in future growth.

Given we have successfully launched new products in 2019 that are sought-after by compatible cartridge manufacturers which may be one-off in nature and the signs of recovery in the compatible cartridge chip market, our Directors are positive that there will be adequate demand for the new chip models to be launched by us in 2021 and the rest of the three years ending 31 December 2023, as was the case during the Track Record Period. The constant rollout of new products will help ensure the sustainability of our income stream as our older chip models fade out.

It is currently expected that these new chip models will primarily be sold to some of our existing major customers, but as a general rule, we are prepared to supply these new chip models to any customer which indicates an interest in our offerings when they are actually launched.

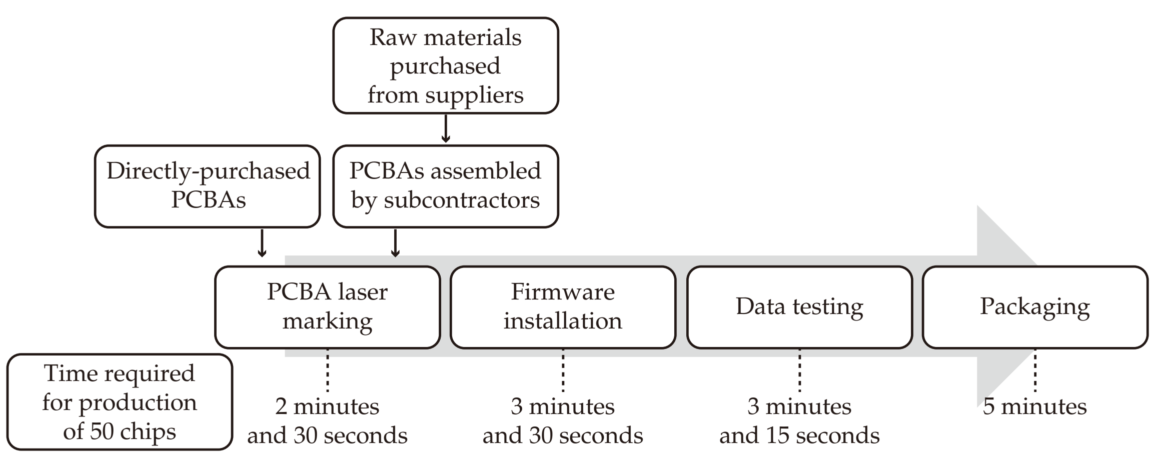
Setting of Selling Prices of the New Chip Models to Be Launched

Our Directors believe that the expected selling price of the new models of chips to be launched by us will vary from model to model depending on various factors: where there are no competing products in the market, we shall set the prices of our chips taking into account the estimated prices of the corresponding compatible cartridges (based on the prices of the corresponding original-brand cartridges) and the expected profit margin of the downstream compatible cartridge manufacturers; where competing products are available in the market, we shall take into account the prevailing market prices of such competing products, our costs in developing and producing our chip models, the quality and functionality of our chip models relative to the competing products (which are to be ascertained at the time of launch), the degree of technical complexity involved for different chip models and the demand for the corresponding printer and cartridge models. With reference to our historical performance and our costs in developing and producing the products, our Directors believe that the new models of chips launched or to be launched by us in 2020 and 2021 could generally achieve an expected average gross profit margin of not less than 70%.

The unit price of our chips may vary from model to model given the differences in the degrees of technical complexity involved for different models of chips and the difference in the popularity of, and demand for, the corresponding printer models and cartridges, which resulted in price fluctuation to different extents. In particular, the average unit selling price of our new models of chips for desktop laser printers launched in the same year decreased from approximately RMB71.2 in 2017 to approximately RMB62.1 in 2018 as our new models of chips launched in 2017 were launched mainly near the end of the year and with a relatively higher unit selling price resulting in a relatively higher average unit price for the whole year, while our new models of chips launched in 2018 were launched mainly at the beginning of the year resulting in a relatively lower average unit selling price for the whole year in line with the decline in selling price along the product life cycle. Despite the average unit selling price of the majority of our new models of chips for desktop laser printers launched in 2019 ranged from approximately RMB43.0 to approximately RMB78.5 in the first quarter of 2019, the average unit selling price for the whole year decreased to approximately RMB21.8 in 2019, as the selling price for desktop laser printers decreased significantly in 2019 principally due to the industry-wide pricing pressure on compatible cartridge chips as a result of the tariff imposed on cartridges exported to the US market as a result of the US-China trade war, the limited number of new models of printers launched by original-brand printer companies resulting in the limited number of new models of compatible cartridge chips for new printers in 2018 and 2019 and the fierce market competition as a result of industry consolidation initiated by major market players, as well as the intensified market competition with more competitors having successfully launched products with features and functionality similar to our products and lowered their selling prices significantly to capture market shares and as a result of the price-cutting strategy adopted by the leading market players.

PRODUCTION

The following flowchart shows the major steps in our production process involved in our compatible cartridge chips:



1. Chip Laser Marking

With either the PCBAs sourced from suppliers or assembled by subcontractors, we firstly conduct laser marking of information including the model number and product specification on the exterior of PCBAs in order to ensure accurate identification and traceability.

2. Firmware Installation

After the PCBAs are properly laser-marked, we install the firmware specifically designed for the corresponding product in the PCBAs.

3. Testing

The compatible cartridge chips will undergo a series of detailed tests in terms of functionality, reliability and security.

4. Packaging

The compatible cartridge chips will be packed into antistatic bag with identification card attached so that the correct type of products can be located for delivery. Our staff will further weigh each package of products to check the accuracy of amount of compatible cartridge chips therein before sealing the products by way of electrostatic discharge packaging. We then arrange the packed the compatible cartridge chips to be delivered to the designated locations according to the customers' instructions.

The whole production process (from laser printing to packaging and excluding the sourcing of the hardware components) could normally be completed within 15 minutes.

Production Facilities, Capacity and Utilisation

As at 31 October 2020, we had five production lines for production of chips. Our production lines can readily switch between production of toner cartridge chips and production of ink cartridge chips without substantial modifications being made. In addition, as the machineries and equipment which form our production lines are primarily designed and built by us, we do not foresee any significant difficulty in setting up additional production lines and increasing our production capacity at controllable costs as and when necessary. For further details, please refer to the paragraphs headed "Production — Major Machineries and Equipment" in this section.

Our supervisors in the production department delegate daily production tasks and targets to each production line manager, who manage the production workers to execute and perform the production steps so as to complete the delegated tasks.

The table below sets out the designed annual production capacity, annual production volume and the utilisation rates of our production facilities during the Track Record Period:

	Year ended 31 December			
	2017	**2018**	**2019**	**10M2020**
	'000	*'000*	*'000*	*'000*
Compatible cartridge chips				
Designed production capacity (1)	12,147	15,206	20,520	19,264
Actual production volume (2)	10,765	13,370	17,738	18,077
Utilisation rate (3)	88.6%	87.9%	86.4%	93.8%

Notes:

(1) Our designed capacity represents our management's estimate of the number of pieces of chips that we are able to produce during the relevant year/period by installing the firmware designed and developed by

us in PCBAs using chip programmers. Our designed capacity for each year during the Track Record Period is calculated on the basis of the following:

	Year ended 31 December			
	2017	2018	2019	10M2020
Number of chip programmers	26	33	45	56
Normal production speed (number of pieces of chips that can be produced by each chip programmer per hour)	200	200	200	200
Number of production hours per day	8	8	8	8
Number of production days per year/period	292	288	285	215
Designed production capacity (measured in the number of pieces of chips that can be produced) ('000)	12,147	15,206	20,520	19,264
Number of production lines	2	2	5	5

The increase in our number of production lines from two in 2017 and 2018 to five in 2019 was mainly attributable to (i) the increase in the number of chip programmers used; and (ii) the re-arrangement of our production lines with a view to improving the working environment in our workshops.

(2) The actual production volume is measured in the number of pieces of chips actually produced.

(3) The utilisation rate is calculated by dividing the actual production volume by the designed production capacity.

Major Machineries and Equipment

The machineries and equipment used in our production process are primarily designed, built and owned by us and regular checks and repair maintenance work, if necessary, are conducted by our technical engineering staff. During the Track Record Period and up to the Latest Practicable Date, we have not encountered any prolonged suspension of the production process or significant interruption in our business operations due to failures or breakdown of our machineries and equipment. As we are able to design and build such machineries and equipment for our own use, our Directors are of the view that any addition, replacement or upgrade of such machineries and equipment can be done in a timely manner at reasonable cost.

The details of the major machineries and equipment used in our production process are set forth below:

Machinery/equipment	Usage
Laser marking machine	Performing laser marking on the exterior of PCBAs
Chip Programmer	Installation of firmware in PCBAs
Testing machine	Checking if the correct data and firmware are burned into PCBAs

Machinery/equipment	Usage
Bar code printing machine	Printing the identification cards to be attached on the packing
Automatic/Pedal Plastic Sealing Machine	Sealing the packaging of compatible cartridge chips

For details of depreciation method of our machineries and equipment, please refer to the section headed "Appendix I — Accountants' Report — II. Notes to Historical Financial Information — 3.7 Property, plant and equipment" in this prospectus.

SUBCONTRACTING

We outsource to our subcontractors the assembly work of PCBAs based on our specified configurations, using ICs and other parts sourced from external suppliers. The subcontractors are required to use only raw materials provided by us. We firstly source the required raw materials and conduct an initial quality inspection. Once we are satisfied with the quality of such raw materials, we pass them to our subcontractors to ensure the quality of materials used for our products. While performing the assembly work, our subcontractors are also required to follow the workflow and specifications (including temperature and humidity involved in the production steps) provided by us strictly. Our research and development department will conduct detailed quality checks on the PCBAs delivered to us by the subcontractors before accepting them into our warehouses.

During the Track Record Period, we had principally maintained the engagement of ten subcontractors, all of whom are Independent Third Parties. In our subcontractor selection process, we will collect information about the corporate background and reputation in the industry of the potential subcontractors, and conduct site visits and inspect their production facilities to ascertain whether their manufacturing processes are carried out under proper supervision. We will also conduct testing in respect of the samples of PCBAs assembled and assess their quality of work. We engage our selected subcontractors to conduct assembly work by placing purchase orders that specify the tasks required (including the volume of PCBAs to be assembled) and the fees, instead of entering into formal agreements with purchase obligations. Generally, our procurement staff would communicate with our subcontractors for each order to be placed in order to agree on the following major matters when we place our orders with the subcontractors:

Details of the products:	We shall specify the configurations and specifications of the PCBAs to be assembled by our subcontractors
Quality requirements:	The PCBAs provided by the subcontractors shall be assembled according to (i) the requirements and standards as agreed between us and the subcontractors, or (ii) national or industry standards.

Subcontracting fee:	Our Group will agree with the sub-contractors on the subcontracting fee payable by our Group in respect of each purchase order to be placed. Such subcontracting fee is generally determined after arm's length negotiation and with reference to the market rates and the fee quotations obtained from other potential subcontractors.
Delivery:	The subcontractors shall deliver the assembled PCBA to the designated address at the agreed time with us.

During each of the three years ended 31 December 2019 and 10M2020, our subcontracting fees amounted to approximately RMB4.0 million, RMB4.1 million, RMB4.8 million and RMB4.6 million, accounting for 3.4%, 3.2%, 6.9% and 7.6% of our total cost of sales, respectively.

The main purpose of such subcontracting arrangement is to enable us to allocate our resources and manpower primarily to the design and development of compatible cartridge chips and key production steps. We believe outsourcing the assembly work can help avoid the costs of owning and operating the relevant manufacturing facilities and lower our costs of low-skilled labour.

QUALITY CONTROL

We adopt stringent quality control policy to ensure the quality of our products is of consistently high standard. Our quality control team in our research and development department is responsible for (i) setting our quality inspection standard, (ii) conducting quality inspection on the raw materials, our production lines, our finished products and (iii) handling the sub-quality raw materials or finished products that fail the quality tests. According to our own quality inspection standard, which is to be updated regularly, our quality control team examines the raw materials by way of sampling inspection and the finished product by way of 100% inspection or sampling inspection. Our quality control staff also carry out patrol inspections throughout the production process. When sub-quality raw materials or finished products are discovered, our quality control staff will issue the relevant reports and closely follow up.

We have registered our ISO9001:2015 certification in relation to our quality control system in the design and sales of compatible cartridge chips since January 2016. Our quality control team is dedicated in formulating and implementing quality control policies in accordance with the ISO9001:2015 standards and perform regular checks to ensure compliance with the such standards.

Product Returns, Exchanges and Warranty

During the Track Record Period, in line with the industry practice, we may, at the request of our customers, accept product return or exchange due to (i) upgrades of printers made by original-brand printer companies which results in our chips sold becoming no longer compatible with the printers (i.e. unable to communicate with the printers); and (ii) quality issues and defects of our products.

1. *Product Return or Exchange Due to Upgrades*

From time to time, the original-brand printer companies may conduct system upgrades to their printers. Sometimes, such system upgrades may make our compatible cartridge chips no longer compatible with the printers. In such circumstances, the firmware in our chips and, occasionally, the hardware components need to be modified to be compatible with the upgraded models of the printers.

Customers may request for returns or exchanges of compatible cartridge chips if the chips need to be modified in light of upgrades issues after the chips have been sold. According to the CIC Report, the industry norm is to allow product returns and exchanges within one year of the sales, depending on, among others, the sales volume and the business relationships with customers.

Our contracts with customers do not contain clauses for product returns and exchanges due to upgrade issues, and therefore, we have no contractual obligations to accept product return or exchange requests made by our customers in this regard. However, consistent with the industry norm, we may accept such requests after considering our business relationships with the customers concerned and their scale of operation, the likelihood that such customers will continue to purchase products from us in the future, the size of the return or exchange, and the resale possibility and value of the returned products after further modification. In general, we would only allow product returns and exchanges to be made within one year after sales, which is also consistent with industry norm.

Usually, if our customers have any unutilised chips which are no longer compatible with the original-brand printers after upgrades, they may request for (i) return of the chips to us; or (ii) exchange for the new chips which are compatible to the same upgraded printers. Set forth below are further details of our arrangements regarding product returns and exchanges and the relevant accounting treatments.

Product Returns

If we accept customers' requests for product returns, we will negotiate and mutually agree with our customers on the return value of the returned products with reference to our latest unit selling price of such products (which are generally lower than the original unit selling price as the price of chips, along its product life cycle, generally declines over time), and the credit of which will be applied towards settlement of the amounts payable by the customers for other purchases.

From accounting perspective, for each financial year, we will estimate the rate of return with reference to historical pattern, in particular return rate of previous year, and our estimation of possibility of future upgrade of the respective printer models. We will record refund liabilities for the expected product return in the forthcoming year and deduct the same amount of revenue based on the estimated rate of return. At the same time, we will recognise a right to recover returned goods asset which is measured at the former carrying amount of the inventory sold less any expected costs to recover the goods and deduct the same amount from cost of sales, based on the estimated rate of return and the average gross profit margin of our Group. The refund liability is included in other payables and right to recover returned goods asset is included in inventories. The balance of return liability and right to recover returned goods asset will be offset upon subsequent actual return. Please refer to Note 3.12 of the Accountant's Report set out in Appendix I to this prospectus for the relevant accounting policy in relation to product returns.

As at 31 December 2017, 2018 and 2019 and 31 October 2020, we have recorded refund liabilities of approximately RMB0.5 million, RMB3.9 million, RMB4.7 million and RMB2.6 million respectively, which was provided based on our estimated rate of return of approximately 0.2%, 1.8%, 3.1% and 1.3% on our revenue arising from sales of chips for each of the corresponding year. We also recorded corresponding right to recover returned goods asset in our inventories of approximately RMB0.2 million, RMB1.8 million, RMB2.0 million and RMB1.0 million as at 31 December 2017, 2018 and 2019 and 31 October 2020, respectively. The estimated rate of return increased during the period from 2017 to 2019, primarily because the original-branded printer companies tended to update their printers more frequently. With respect to the sales of compatible cartridge chips during the years ended 31 December 2017, 2018 and 2019, we recorded actual return of products of approximately RMB0.3 million, RMB3.7 million and RMB0.4 million in their respective succeeding year, representing an actual rate of return of approximately 0.2%, 1.7% and 0.3%, respectively. After the Track Record Period and up to the Latest Practicable Date, we had not recorded material product return for compatible cartridge chips sold in 2019.

During the Track Record Period, we received total actual returns of our compatible chips (including returns arising from sales of compatible cartridge chips in both the current year and the preceding year) with sales value amounting to RMB1.4 million (including return of products of approximately RMB0.4 million and RMB1.0 million with respect to the sales of compatible cartridge chips during the years ended 31 December 2016 and 2017 respectively), RMB1.6 million (including return of products of approximately RMB0.3 million and RMB1.3 million with respect to the sales of compatible cartridge chips during the years ended 31 December 2017 and 2018 respectively), RMB4.0 million (including return of products of approximately RMB3.7 million and RMB0.3 million with respect to the sales of compatible cartridge chips during the years ended 31 December 2018 and 2019 respectively) and RMB0.6 million (including return of products of approximately RMB0.4 million and RMB0.2 million with respect to the sales of compatible cartridge chips during the year ended 31 December 2019 and 10M2020 respectively) in 2017, 2018, 2019 and 10M2020, respectively. The reason for the relatively large amount of product returns in 2019 was primarily because there had been more product upgrade by the original-brand printer companies during 2018 which had affected certain models of our chips for desktop laser printers. The Directors considered that we have recorded sufficient refunded liabilities to cover product return historically, and do not expect any large scale product return in the foreseeable future.

Product Exchanges

If we accept our customers' requests for product exchanges, the customers will return the unutilised, old-versions chips of the chips to us in exchange for the upgraded versions of the chips.

From accounting perspective, for each financial year, a provision for assurance-type warranties and same amount of cost of sales are recognised when the underlying products are sold. We estimate the amount of provision for assurance-type warranties based on the estimated rate of exchange and cost to facilitate the product exchange (i.e. additional inventory cost to exchange the upgrade chips with the old-versions chips, delivery cost, etc.). Cost incurred for actual exchange (after netting off the value of the original products returned from the customers) will be offset against the balance of provision for assurance-type warranties. Please refer to Note 3.21 of the Accountants' Report set out in Appendix I to this prospectus for the relevant accounting policy in relation to product exchange.

We recorded provision for assurance-type warranties of approximately RMB1.3 million, RMB2.9 million, RMB2.1 million and RMB1.6 million as at 31 December 2017, 2018 and 2019 and 31 October 2020, respectively, which was estimated based on our estimated rate of exchange in the forthcoming year of approximately 1.2%, 2.6%, 3.3% and 2.0% on our products sold. The underlying sales value attributable to the estimated product exchange in the forthcoming year (being the revenue from sales of compatible cartridge chips times the estimated rate of exchange) amounted to approximately RMB2.4 million, RMB5.8 million, RMB5.0 million and RMB3.8 million for each of the three years ended 31 December 2017, 2018 and 2019 and 10M2020 respectively. We utilized the provision for exchange of products of approximately RMB0.6 million and RMB2.6 million as at 31 December 2017 and 2018 in their respective succeeding year, representing an actual rate of exchange of approximately 0.5% and 2.3% arising from the sales of chips in 2017 and 2018, respectively. After the Track Record Period and up to the Latest Practicable Date, we had not recorded material product exchange for compatible cartridge chips sold in 2019. The estimated rate of exchange increased during the period from 2017 to 2019, primarily because the original-branded printer companies tended to update their printers more frequently. For the details of the movement of provision, please refer to Note 27 to the Accountants' Report set out in Appendix I to this prospectus. The Directors considered that we have recorded sufficient provision to cover product exchanges historically, and do not expect any large scale product exchange in the foreseeable future.

Impact of Product Return and Exchange on Our Group

As part of our daily operation, we closely monitor and conduct continuous research and development to catch up for the upgrades made by the original-brand printer companies from time to time to ensure the latest versions of our products are compatible with the latest printer models on offer. For the products we received from our customers due to product returns and exchanges, we can generally reuse the PCBAs by installing them in the modified versions of the firmware which we have already developed. Therefore, product returns or exchanges do not generally result in the incurrence of any significant research and development expenses and materials costs.

To the best of our Directors' knowledge, information and belief and based on the historical business transactions with our customers, as the original-brand printer companies may upgrade the printers from time to time and there is no assurance that we will agree on product exchanges or returns as subsequently requested by our customers, it is the usual practice for our customers to minimise their inventory level of compatible cartridge chips. Accordingly, our customers usually make small but frequent purchases of chips from us unless they foresee an upcoming need to have our products in stock for production purpose. In addition, as compatible cartridges and chips are fast-consuming products, they are mostly consumed before any update is made by the original-brand printer companies. Therefore, while requests for product returns may arise from time to time following the printer upgrades made by the original-brand printer companies, our Directors do not expect product returns due to upgrade issues to be made on a significant scale. During the Track Record Period, the amounts of refund liability (for product returns) and provision for assurance-type warranty (for product exchanges) as stated above were not material to our Group. As at the Latest Practicable Date, the Directors were not aware of significant printer upgrades for our products, which may lead to material adverse impact on our Group.

2. Product Returns and/or Product Exchanges Due to Quality Issues and Defects

We would normally accept product returns and/or exchanges from our customers in case quality issues are identified. Where we receive complaints from our customers about the quality of our products, we will conduct investigations to collect further details in order to determine whether the complaints are justified and would only proceed with product returns upon confirmation by our sales and marketing department and our research and development department. Our research and development department would then inspect the returned products and issue inspection report. We normally do not maintain a warranty period with our customers. If the quality issues of our products are caused by defects of materials sourced from our suppliers, we may consider taking actions against our suppliers for the damage suffered by us. During the Track Record Period, only an insignificant amount of product exchanges of approximately RMB800 and RMB39,000 for the years ended 31 December 2017 and 2018 respectively was attributable to quality issues or product defects.

CUSTOMERS

During the Track Record Period, our customers mainly comprised manufacturers of compatible cartridges based in the PRC. To the best of the knowledge of our Directors, the manufacturers would generally sell compatible cartridges with our compatible cartridge chips installed to local distributors or consumers, and/or export such products to foreign countries (such as the United States and Europe).

We sell our products mainly by way of direct sales to our domestic customers in the PRC. We also sell our products to customers overseas, such as France, the United States, Spain, Italy and Canada. We strive to maintain our business relationship with our customers in the PRC while we look for new opportunities in the global market for our products.

The following table summarises the revenue by geographical location for each year during the Track Record Period:

	Year ended 31 December							
	2017		2018		2019		10M2020	
By customers' location	Revenue	% of the total revenue	Revenue	% of the total revenue	Revenue	% of the total revenue	Revenue	% of the total revenue
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
PRC	180,446	84.8	209,396	85.1	132,854	84.3	109,533	82.0
Overseas	32,329	15.2	36,687	14.9	24,771	15.7	24,037	18.0
	212,775	100.0	246,083	100.0	157,625	100.0	133,570	100.0

Major customers

On an individual basis, our sales to our five largest customers accounted for approximately 36.4%, 41.6%, 48.7% and 38.9% of our total revenue for the years ended 31 December 2017, 2018 and 2019 and 10M2020 respectively, while our sales to our largest customer accounted for approximately 11.2%, 13.6%, 16.4% and 10.7% of our total revenue for the respective year or period. We have classified each of our major customers as a different customer throughout the Track Record Period, given that, to the best of the knowledge of our Directors, they have been managed by distinct teams, have their own production facilities and in effect operated independently of each other, and our Group have been dealing with them as separate customers under varying sales terms (including but not limited to different unit selling prices and settlement terms). In particular, the selling prices of our products are agreed between each of our customers and us individually, and hence the unit selling price of the same model of chips offered by us at or around the same point of time could differ from one customer to another (even if the customers belong to the same group), depending on the outcome of the separate and independent arm's-length commercial negotiations taking into account, for example, the particular scope of business operations, position and clientele of each customer.

For the purpose of providing a further dimension to the understanding of our business relationships with major customers, customers which were under common control or otherwise associated with each other at the relevant times have been grouped together and our sales to such customers have been aggregated in the tables below. On a group basis, our sales to our five largest customers accounted for approximately 41.0%, 42.7%, 59.4% and 54.5% of our total revenue for the three years ended 31 December 2017, 2018 and 2019 and 10M2020 respectively, while our sales to our largest customer accounted for approximately 14.5%, 13.6%, 38.3% and 34.1% of our total revenue for the respective year or period.

The following table sets forth brief particulars of our top five customers during the Track Record Period:

				Year ended 31 December 2017				
Rank	Customer	Major products provided by us	Commencement year of business relationship with our Group	Business activities of the customer	Revenue attributable to the customer *RMB'000*	Approximate percentage of our total revenue	Credit period	Payment method
1.	Customer B and Customer C *(Notes 2, 3 and 4)*	Compatible cartridge chips	Customer B: 2013 Customer C: 2015	Customer B: a company based in the PRC and principally engaged in production and sale of printer consumables, spare parts and office stationeries Customer C: a company based in the PRC and principally engaged in production and sale of ICs, chips and other electronic products	Customer B: 16,370 Customer C: 14,509 Total: 30,879	Customer B: 7.7% Customer C: 6.8% Total: 14.5%	Customer B: 90 days after month end Customer C: 60 days after month end	Bank transfer
2.	Customer A *(Note 1)*	Compatible cartridge chips	2013	A company based in the PRC and principally engaged in production and sale of printer consumables, office supplies, packaging materials and other products	23,756	11.2%	100 days after month end	Bank transfer
3.	Customer D *(Note 5)*	Compatible cartridge chips	2016 *(Note 5)*	A company based in South Korea and principally engaged in wholesale of software, computers and peripherals	13,082	6.1%	30 days after month end	Bank transfer
4.	Listed Group B *(Note 15)*	Compatible cartridge chips	2012	A company listed on the Shenzhen Stock Exchange and its subsidiaries, which, collectively, are principally engaged in production and sale of PCBAs, compatible cartridge chips and compatible cartridges in the PRC, among others	9,803	4.6%	60-90 days after month end	Bank transfer
5.	Customer E *(Note 6)*	Compatible cartridge chips and other cartridge components	2015	A company based in the PRC and principally engaged in production and sale of printer consumables	9,740	4.6%	120 days after month end	Bank transfer

Rank	Customer	Major products provided by us	Commencement year of business relationship with our Group	Business activities of the customer	Revenue attributable to the customer	Approximate percentage of our total revenue	Credit period	Payment method
				Year ended 31 December 2018				
					RMB'000			
1.	Customer F *(Notes 7 & 9)*	Compatible cartridge chips	2017	A company based in the PRC and principally engaged in production, sale, research and development of printer and photocopying consumables and machineries	33,355	13.6%	120 days after month end	Bank transfer
2.	Customer G *(Notes 8 & 9)*	Compatible cartridge chips	2018	A company based in the PRC and principally engaged in production and sale of printer consumables	20,038	8.1%	120 days after month end	Bank transfer
3.	Customer A *(Note 1)*	Compatible cartridge chips	2013	A company based in the PRC and principally engaged in production and sale of printer consumables, office supplies, packaging materials and other products	17,563	7.1%	100 days after month end	Bank transfer
4.	Listed Group A *(Notes 10, 11, 12, 13 & 14)*	Compatible cartridge chips, and ICs and other cartridge component *(Note 13)*	2012 *(Note 10)*	A group of companies comprising a company listed on the Shenzhen Stock Exchange and its subsidiaries, which, collectively, are principally engaged in production and sale of PCBAs, compatible cartridge chips and compatible cartridges in the PRC, among others	Customer H: 8 Customer I: 1,651 Customer J: 3,484 Supplier A: 12,360 Total: 17,503 *(Note 13)*	Customer H: 0.0% Customer I: 0.7% Customer J: 1.4% Supplier A: 5.0% Total: 7.1%	Customer H: 60 days after month end Customer I: 30 days after month end Customer J: 90 days after month end Supplier A: 30 days after month end	Bank transfer
5.	Customer D *(Note 5)*	Compatible cartridge chips	2016 *(Note 5)*	A company based in South Korea and principally engaged in wholesale of software, computers and peripherals	16,763	6.8%	30 days after month end	Bank transfer

Year ended 31 December 2019

Rank	Customer	Major products/ services provided by us	Commencement year of business relationship with our Group	Business activities of the customer	Revenue attributable to the customer *RMB'000*	Approximate percentage of our total revenue	Credit period	Payment method
1.	Listed Group A *(Notes 10, 11, 12, 13 & 14)*	Compatible cartridge chips *(Note 13)*	2012 *(Note 10)*	A group of companies comprising a company listed on the Shenzhen Stock Exchange and its subsidiaries, which, collectively, are principally engaged in production and sale of PCBAs, compatible cartridge chips and compatible cartridges in the PRC, among others	Customer H : 25,926 Customer I: 18,526 Customer J: 14,345 Supplier A: 241 Other member: 1,339 Total: 60,377 *(Note 13)*	Customer H: 16.4% Customer I: 11.8% Customer J : 9.1% Supplier A: 0.2% Other member: 0.8% Total: 38.3%	Customer H: 60 days after month end Customer I: 60 days after month end Customer J: 90 days after month end Supplier A: 30 days after month end Other member: 60 days after month end	Bank transfer
2.	Customer F and Customer G *(Notes 7, 8 & 9)*	Compatible cartridge chips	Customer F: 2017 Customer G: 2018	Customer F: a company based in the PRC and principally engaged in production, sale, research and development of printer and photocopying consumables and machineries Customer G: a company based in the PRC and principally engaged in production and sale of printer consumables	Customer F: 8,388 Customer G: 4,831 Total: 13,219	Customer F: 5.3% Customer G: 3.1% Total: 8.4%	Customer F: 120 days after month end Customer G: 120 days after month end	Bank transfer
3.	Customer D *(Note 5)*	Compatible cartridge chips	2016	A company based in South Korea and principally engaged in wholesale of software, computers and peripherals	9,588	6.1%	30 days after month end	Bank transfer

				Year ended 31 December 2019				
Rank	**Customer**	**Major products/ services provided by us**	**Commencement year of business relationship with our Group**	**Business activities of the customer**	**Revenue attributable to the customer**	**Approximate percentage of our total revenue**	**Credit period**	**Payment method**
					RMB'000			
4.	Listed Group B *(Note 15)*	Compatible cartridge chips	2012	A group of companies comprising Customer H, a company listed on the Shenzhen Stock Exchange, and its subsidiaries, which, collectively, are principally engaged in production and sale of PCBAs, compatible cartridge chips and compatible cartridges in the PRC, among others	6,006	3.8%	60-90 days after month end	Bank transfer
5.	Customer E *(Note 6)*	Compatible cartridge chips	2015	A company based in the PRC and principally engaged in production and sale of printer consumables	4,392	2.8%	120 days after month end	Bank transfer

				Ten months ended 31 October 2020				
Rank	Customer	Major products provided by us	Commencement year of business relationship with our Group	Business activities of the customer	Revenue attributable to the customer *RMB'000*	Approximate percentage of our total revenue	Credit period	Payment method
1.	Listed Group A *(Notes 10, 11, 12, 13 & 14)*	Compatible cartridge chips *(Note 13)*	2012 *(Note 10)*	A group of companies including a company listed on the Shenzhen Stock Exchange and its subsidiaries, which, collectively, are principally engaged in production and sale of PCBAs, compatible cartridge chips and compatible cartridges in the PRC, among others	Customer H: 10,744 Customer I: 11,244 Customer J: 14,316 Supplier A: 4,842 Other members: 4,589 Total: 45,735 *(Note 13)*	Customer H: 8.0% Customer I: 8.4% Customer J: 10.7% Supplier A: 3.6% Other members: 3.4% Total: 34.1%	Customer H: 60 days after month end Customer I: 90 days after month end Customer J: 90 days after month end Supplier A: 30 days after month end Other members: 90 days after month end	Bank transfer
2.	Customer D *(Note 5)*	Compatible cartridge chips	2016	A company based in South Korea and principally engaged in wholesale of software, computers and peripherals	9,740	7.3%	30 days after month end	Bank transfer
3.	Customer F and Customer G *(Notes 7, 8 & 9)*	Compatible cartridge chips	Company F: 2017 Company G: 2018	Customer F: a company based in the PRC and principally engaged in production, sale, research and development of printer and photocopying consumables and machineries Customer G: a company based in the PRC and principally engaged in production and sale of printer consumables	Customer F: 5,880 Customer G: 1,640 Total: 7,520	Customer F: 4.4% Customer G: 1.2% Total: 5.6%	Customer F: 120 days after month end Customer G: 120 days after month end	Bank transfer
4.	Customer E	Compatible cartridge chips	2015	A company based in the PRC and principally engaged in production and sale of printer consumables	5,757	4.3%	120 days after month end	Bank transfer

				Ten months ended 31 October 2020				
Rank	Customer	Major products provided by us	Commencement year of business relationship with our Group	Business activities of the customer	Revenue attributable to the customer	Approximate percentage of our total revenue	Credit period	Payment method
					RMB'000			
5.	Customer K *(Note 16)*	Compatible cartridge chips	2017	A company based in the PRC and principally engaged in research and development, production, processing and sales of printer consumables	4,236	3.2%	120 days after month end	Bank transfer

Notes:

1. Customer A is a limited liability company established in the PRC in June 2012. To the best of the knowledge of our Directors, it had over 2,000 employees as at 30 April 2020, and the ultimate controlling shareholder of Customer A was an individual who is an Independent Third Party and an engineer with more than 18 years of experience in the compatible toner cartridge industry.

   Customer A was one of the PRC operating subsidiaries in a group of companies ("**Customer A's Group**") which were a leading export-oriented manufacturer and seller of compatible toner cartridges based in China. Customer A's Group was the second largest compatible toner cartridge manufacturer in China in terms of revenue in overseas markets in 2019. It ranked first in the U.S. and second in Europe in terms of market share in 2019.

   To the best of the knowledge of our Directors, Zhuhai Megain first gained the recognition of Customer A in or around 2013 as the only market player at that time offering compatible cartridge chips designed for certain printer models, which received favourable market response in 2013. Our business relationship subsequently commenced in 2013 through our sales visit to Customer A.

   Our trade receivables from Customer A as at 31 December 2017, 2018 and 2019 had been fully recovered as at 31 December 2020. No specific loss allowance for trade receivables had been recognised in respect of Customer A throughout the Track Record Period.

2. Customer B is a limited liability company established in the PRC in August 2009. To the best of the knowledge of our Directors, it had around 400 employees as at 30 April 2020. To the best of the knowledge of our Directors, the ultimate controlling shareholders of Customer B included three individuals who are Independent Third Parties and seasoned market players with years of experience in the compatible cartridge industry. As confirmed by CIC, established in 2009, Customer B was a compatible toner cartridge manufacturing corporation engaged in both product research and development and production. Customer B carried more than 1,000 products covering over 10 renowned printer brands, and had eight packaging lines. More than 80% of the products of Customer B were sold to overseas markets.

   The business relationship between Customer B and Zhuhai Megain was established in 2013 through our sales visit to Customer B, after our launch of certain models of compatible cartridge chips designed for certain printer models in 2012 which received favourable market response in 2013 and had been exclusively offered by us until 2014.

3. Customer C is a limited liability company established in the PRC in July 2004. To the best of the knowledge of our Directors, it had less than 100 employees as at 30 April 2020. To the best of the knowledge of our Directors, the ultimate controlling shareholders of Customer C included two individuals who are Independent Third Parties and seasoned market players with years of experience in the compatible cartridge industry.

   As confirmed by CIC, the predecessor company of Customer C was established in Zhuhai in the 1980s and one of the first cartridge companies in the PRC. With more than 30 years of professional experience in production of cartridges, Customer C carried more than 10,000 products, including toner cartridges, cartridges for photocopiers, chips, toner, ink ribbons and printing equipment. As the registered owner of more than 2,900 patents and renowned brands in the international market, Customer C had entered into business relationships with more than 3,000 distributors in the PRC and its products had been sold to more than 150 countries and regions. Customer C had received accreditation as a national major high and new technology enterprise (國家級重點高新技術企業), national intellectual property rights model corporation (國家知識產權示範企業) and national electronic product remanufacturing model corporation (國家機電產品再製造示範單位). Customer C was also the only corporation in the PRC which had participated in the setting and amendment of ISO standards in the field of office printing equipment and cartridges.

Our business relationship with Customer C commenced in 2015 through sales visits to each other, after our launch of certain models of compatible cartridge chips designed for certain printer models around the second half of 2015 which were in high demand in the market.

4. Customer B was an associated company of the holding company of Customer C during the Track Record Period. Customer B and Customer C have been grouped together in the table above solely for the purpose of presentation of the relevant financial information on a group basis, so as to provide a further dimension to the understanding of our business relationships with major customers.

Set forth below is further information regarding our sales to Customer B and Customer C during the Track Record Period:

		Year ended 31 December			
	Major products provided by us	**2017**	**2018**	**2019**	**10M2020**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Customer B	Compatible cartridge chips	16,370	7,468	1,798	1,288
Customer C	Compatible cartridge chips	14,509	6,290	1,471	175
Subtotal		30,879	13,758	3,269	1,463
Percentage to our Group's total revenue		14.5%	5.6%	2.1%	1.1%

Our sales to Customer B and Customer C were at the highest point in 2017 after our launch of certain models of compatible cartridge chips designed for certain printer models around the second half of 2015, which were in high demand in the market. To the best of the knowledge of the Directors, Customer C gained success in the research and development of the relevant models of chips in 2017, and since then Customer B and Customer C had shifted towards procurement from related parties or intra-group purchases to satisfy their demand for the relevant models of chips.

Our trade receivables from Customer B and Customer C as at 31 December 2017, 2018 and 2019 had been fully recovered as at 31 December 2020. No specific loss allowance for trade receivables had been recognised in respect of Customer B and Customer C throughout the Track Record Period.

5. Customer D is a company incorporated in Korea in April 1998. To the best of the knowledge of our Directors, it had around 10 employees as at 30 April 2020, and the ultimate controlling shareholder of Customer D was a Korean who is an Independent Third Party with over 30 years' experience in the cartridge industry in Korea.

While our Group first transacted with Customer D in 2016, our history of business relationship with Customer D can be traced back to 2014 when Customer D started to purchase products from Megain PTE, a company incorporated in Hong Kong solely controlled by Mr. Cheng and principally engaged in the sale of compatible cartridge chips, after our management was introduced to the controlling shareholder of Customer D through connections in the PRC in 2013 and met with him in person in 2014. After completion of the formalisation of the structure of our Group in September 2016, the operations and business functions of Megain PTE were taken up by our Group and transactions had been conducted between Customer D and our Group. Please refer to the section headed "History, Development and Corporate Structure — Our History and Development — Overview" for further details.

Our trade receivables from Customer D as at 31 December 2017, 2018 and 2019 had been fully recovered as at 31 December 2020. No specific loss allowance for trade receivables had been recognised in respect of Customer D throughout the Track Record Period.

6. Customer E is a limited liability company established in the PRC in February 2015. To the best of the knowledge of our Directors, it had around 100 employees as at 30 April 2020, and the ultimate controlling shareholder of Customer E was an individual who is an Independent Third Party with more than 18 years of experience in the cartridge industry.

   As confirmed by CIC, established in 2015, Customer E was a high technology corporation engaged in the research and development, production, sale and provision of services in relation to toner cartridges and their parts located in an industrial area in Zhongshan with a factory of approximately 3,000 square metres. The principal products of Customer E included different series of environmentally-friendly toner cartridges and their parts, toner, etc., which covered a number of renowned printer brands. The products of Customer E had been sold in the PRC and various countries and regions in Southeast Asia, Europe and the Americas. Customer E was the registered owner of 19 patents.

   To the best of the knowledge of our Directors, Zhuhai Megain had gained the recognition of Customer E due to our industry reputation, and our business relationship commenced in 2015 upon the establishment of Customer E due to its then production needs.

   Our trade receivables from Customer E as at 31 December 2017, 2018 and 2019 had been fully recovered as at 31 December 2020. No specific loss allowance for trade receivables had been recognised in respect of Customer E throughout the Track Record Period.

7. Customer F is a limited liability company established in the PRC in July 2017. To the best of the knowledge of our Directors, it had around 400 employees as at 30 April 2020, and during the years ended 31 December 2018 and 2019, Customer F was ultimately owned as to (i) 55% by an individual who is an Independent Third Party and a passive investor; and (ii) 45% by an individual who is an Independent Third Party and an experienced player in the industry, and in charge of management of the business operations of Customer F as its general manager since its establishment. In December 2018, the equity interests in Customer F held by the original 55% shareholder was acquired by another individual who is an Independent Third Party and a passive investor (who also acquired 55% of the equity interests in Customer G from its former passive investor) (the "**Common Investor**"). Customer F continues to be managed by the 45% shareholder subsequent to the above transfer of equity interests.

   To the best of the knowledge of our Directors, the 45% shareholder of Customer F was previously a shareholder and the general manager of one of our past customers whose business dealings with Zhuhai Megain commenced in or before 2013, and has been acquainted with the management of our Group since around that time. We entered into business relationship with Customer F in 2017 upon its establishment against the backdrop of a pre-existing business relationship between Customer F's and our Group's management. To the best of the knowledge of our Directors, it purchased a significant amount of products from our Group shortly after its establishment principally due to (i) our price competitiveness and good customer services; (ii) the recognition of the advanced functionality, quality and upward compatibility of our products by our customers; and (iii) the fact that Customer F was able to start its business promptly after its formal establishment and grow its business quickly, as a result of (a) the joint effort of the 45% shareholder and management team in preparing for the new business in advance prior to the formal establishment of Customer F; and (b) the industry knowledge and experience of the 45% shareholder and management team, who have been working together closely in printer and photocopying consumables business for many years and thereby gained good connections with various players in the industry (including both customers and suppliers) and extensive knowledge of and experience in managing various aspects of the business workflow (such as production, sales and marketing, and purchase).

   Our trade receivables from Customer F as at 31 December 2017, 2018 and 2019 had been fully recovered respectively as at 31 December 2020. No specific loss allowance for trade receivables had been recognised in respect of Customer F throughout the Track Record Period.

8. Customer G is a limited liability company established in the PRC in April 2018. To the best of the knowledge of our Directors, it had more than 200 employees as at 30 April 2020, and during the year ended 31 December 2018, Customer G was ultimately owned as to (i) 55% by an individual who is an Independent Third Party and a passive investor; and (ii) 45% by an individual who is an Independent Third Party and an experienced player in the industry, and in charge of management of the business operations of Customer G as the chairman of its board of directors since its establishment. In December 2018, the equity interests in Customer G held by the original 55% shareholder was acquired by the Common Investor. Customer G continues to be managed by the 45% shareholder subsequent to the above transfer of equity interests.

To the best of the knowledge of our Directors, the 45% shareholder of Customer G had previously worked at several other customers of our Group whose business relationships with Zhuhai Megain commenced in or after 2013 (including, among others, Customer B where he served as the general manager), and has been acquainted with the management of our Group since around that time. We entered into business relationship with Customer G in 2018 upon its establishment against the backdrop of a pre-existing business relationship between Customer G's and our Group's management. To the best of the knowledge of our Directors, it purchased a significant amount of products from our Group shortly after its establishment principally due to (i) our price competitiveness and good customer services; (ii) the recognition of the advanced functionality, quality and upward compatibility of our products by our customers and (iii) the fact that Customer G was able to start its business promptly after its formal establishment and grow its business quickly, as a result of (a) the joint effort of the 45% shareholder and management team in preparing for the new business in advance prior to the formal establishment of Customer G; and (b) the industry knowledge and experience of the 45% shareholder and management team, who have been working together closely in printer and photocopying consumables business for many years and thereby gained good connections with various players in the industry (including both customers and suppliers) and extensive knowledge of and experience in managing various aspects of the business workflow (such as production, sales and marketing, and purchase).

Our trade receivables from Customer G as at 31 December 2018 and 2019 had been fully recovered respectively as at 31 December 2020. No specific loss allowance for trade receivables had been recognised in respect of Customer G throughout the Track Record Period.

9. With effect from December 2018, Customer F and Customer G both became ultimately owned as to 55% by the Common Investor. Each of Customer F and Customer G is managed by their respective 45% shareholder, being their general manager or chairman of the board respectively who are experienced players in the industry, together with the supports of their respective independent management teams. Besides, Customer F and Customer G have their own production facilities, and their principal products are different. Therefore, Customer F and Customer G are considered two separate customers. Customer F and Customer G had been grouped together in the tables above for the year ended 31 December 2019 and 10M2020 solely for the purpose of presentation of the relevant financial information on a group basis, so as to provide a further dimension to the understanding of our business relationships with major customers.

   Our sales to Customer F and Customer G decreased in 2019 primarily due to (1) the fall in unit selling prices of the relevant models of chips caused by the adverse market developments; and (2) the decrease in quantities of chips purchased by Customer F and Customer G from our Group because of (a) the change in their respective product offerings, as a result of which they had purchased from other suppliers certain models of chips that we did not carry; and (b) the decrease in demand for their cartridge products from their own customers.

10. Listed Group A comprised Customer H and its subsidiaries, including Customer I, Customer J and Supplier A, among others. Customer H is a joint stock limited liability company established in the PRC in November 1991 whose shares are listed on the Shenzhen Stock Exchange principally engaged in the research, development, production and sale of printer SoCs, compatible cartridge chips, compatible cartridges and other printing consumables, and IoT chips, and the holding company in Listed Group A. According to the public disclosure of Customer H, as at 31 December 2019, Listed Group A had over 18,000 employees, and total assets of over RMB35,000 million and net assets of over RMB9,500 million. As disclosed in its public disclosure, Customer H was ultimately controlled by three individuals who are Independent Third Parties and, to the best of the knowledge of our Directors, had more than 20 years of experience in the cartridge industry, including the chairman of the board of directors of Customer H, and the chairman of the board of supervisors and another supervisor of Customer H.

    Listed Group A was the largest compatible cartridge manufacturer and the largest compatible cartridge chip provider in China, with a market share of more than 40.0% and approximately 41.5% respectively in terms of external sales in 2019.

    While our Group first transacted with Customer H in 2017, the business relationship between Megain PTE and the existing members of Listed Group A dated back to 2012, when Megain PTE, a company incorporated in Hong Kong solely controlled by Mr. Cheng and principally engaged in the sale of compatible cartridge chips, commenced its business dealings with an existing member of Listed Group A, which is a company incorporated in Hong Kong principally engaged in sales of cartridges. It started to make purchases of chips from Megain PTE after we had introduced to it at an industry exhibition in Zhuhai in 2012 a newly developed model of compatible cartridge chips designed for certain printer models which were then available exclusively from us. The operations and business functions of Megain PTE were taken up by our Group following completion of the formalisation of the structure of our Group in September 2016. Building on our established business relationships with various subsidiaries of Customer H (such as Customer I and Customer J), its controlling shareholder and Listed Group A as a whole, we entered into business relationship with Customer H in 2017.

11. Customer I is a limited liability company established in the PRC in May 2013 principally engaged in research, development, production and sale of cartridges. According to Customer H's public disclosure, it became a direct non-wholly-owned subsidiary of Customer H in June 2017, when Customer H completed the acquisition of 51% of the equity interests in Customer I from two individuals (who are Independent Third Parties and, as per Customer H's public disclosure, were not connected with Customer H or its top 10 shareholders), with a view to consolidating Listed Group A's leading position in the global compatible cartridge market and enhancing its profitability. To the best of the knowledge of our Directors, it had around 1,000 employees as at 30 April 2020. According to the public disclosure of Customer H, Customer I had total assets of over RMB300 million and net assets of over RMB150 million as at 31 December 2019. As disclosed in the public disclosure of Customer H, during the years ended 31 December 2018 and 2019 and 10M2020, Customer I remained a direct non-wholly-owned subsidiary of Customer H, which was in turn ultimately controlled by the three individuals as disclosed in Note 10 above.

    Customer I commenced business dealings with Zhuhai Megain in 2014 (i.e. before Customer I became a subsidiary of Customer H) subsequent to our sales visit to Customer I, given its demand for chips, and our edge in the development of the relevant chip models and the recognition of the advanced quality, functionality and upward compatibility of our products by our customers.

12. Customer J is a limited liability company established in the PRC in June 2016 principally engaged in research, development, production and sale of printer consumables and accessories, photocopying accessories and other products. According to Customer H's public disclosure, it became an indirect non-wholly-owned subsidiary of Customer H in June 2017, when Customer H completed the acquisition of 51% of the equity interests in the holding company of Customer J from three individuals (who are Independent Third Parties and, as per Customer H's public disclosure, were not connected with Customer H or its top 10 shareholders), with a view to consolidating Listed Group A's leading position in the global compatible cartridge market and enhancing its profitability. To the best of the knowledge of our Directors, it had over 800 employees as at 30 April 2020. According to the public disclosure of Customer H, during the years ended 31 December 2018 and 2019, Customer J remained an indirect non-wholly-owned subsidiary of Customer H, which was in turn ultimately controlled by the three individuals as disclosed in Note 10 above. In October 2020, the acquisition by Customer H of the remaining 49% of the equity interests in the holding company of Customer J was completed, upon which Customer J became an indirect wholly-owned subsidiary of Customer H.

    Customer J commenced business dealings with Zhuhai Megain in 2016 (i.e. before Customer J became a subsidiary of Customer H) subsequent to our sales visit to Customer J, given our edge in the development of certain models of compatible cartridge chips and the recognition of the advanced quality, functionality and upward compatibility of our products by our customers which matched the demand of Customer J.

13. As disclosed in Notes 11 and 12 above, Customer I and Customer J were each a subsidiary of Customer H at the relevant times, with Customer I being directly held as to 51% and Customer J being indirectly held as to 51% (in 2018 and 2019) or 100% (in 10M2020) by Customer H respectively. The remaining 49% of the equity interests in Customer I and in the holding company of Customer J were held by different shareholders at the relevant times.

    Set forth below is further information regarding our sales to Customer H, Customer I, Customer J and other member of Listed Group A during the Track Record Period:

	Major products provided by us	**Year ended 31 December**			
		2017	**2018**	**2019**	**10M2020**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Customer H	Chips	35	8	25,926	10,744
Customer I	Chips	854	1,651	18,526	11,244
Customer J	Chips	2,768	3,484	14,345	14,316
Supplier A	ICs and other cartridge components	1,421	12,360	241	4,842
Other member of Listed Group A	Chips	50	–	1,339	4,589
Subtotal		5,128	17,503	60,377	45,735
Percentage to our Group's total revenue		2.4%	7.1%	38.3%	34.1%

For further information regarding our sales to and purchases from members of Listed Group A and transactions with the controlling shareholder of Customer H, please refer to the paragraphs headed "Overlapping Customers and Suppliers, Industry Landscape and Transactions with Listed Group A and Listed Group B" in this section.

Our trade receivables from Listed Group A as at 31 December 2017, 2018 and 2019 had been fully recovered as at 31 December 2020. As at 31 October 2020, provision for trade receivable allowance of approximately RMB0.3 million was recognised in respect of Listed Group A due to an overdue trade receivable from a member of Listed Group A. As at the Latest Practicable Date, such an overdue trade receivable had been settled in full.

14. The members of Listed Group A had been classified as different customers of our Group throughout the Track Record Period, given that, to the best of the knowledge of our Directors, such companies had been managed by different independent teams respectively, had their own production facilities and in effect operated independently of each other, and our Group had been dealing with them as separate customers under varying sales terms (including but not limited to different unit selling prices and settlement terms). The members of Listed Group A had been grouped together in the tables above for the years ended 31 December 2018 and 2019 and 10M2020 for the purpose of presentation of the relevant financial information on a group basis, so as to provide a further dimension to the understanding of our business relationships with major customers.

15. Supplier B, the holding company in Listed Group B, is a joint stock limited liability company established in the PRC in July 2000 whose shares are listed on the Shenzhen Stock Exchange. According to its public disclosure, Listed Group B had over 2,000 employees, and total assets of over RMB4,000 million and net assets of over RMB3,500 million as at 31 December 2019. As disclosed in the public disclosure, Listed Group B was ultimately controlled by two brothers who are Independent Third Parties and had years of experience in the cartridge industry, including the chairman of the board of directors and another director (who also serves as the general manager) of Supplier B.

Listed Group B was the second largest compatible cartridge manufacturer and the third largest compatible cartridge chip provider in China with a market share of more than 10% and approximately 9.2% respectively in terms of external sales in 2019.

Our management first became acquainted with the management of an existing member of Listed Group B, a limited liability company established in the PRC principally engaged in the production of recycled toner cartridges, at an industry exhibition in Zhuhai in 2012. In 2012, it started to purchase from us several models of compatible cartridge chips designed for certain printer models, which Zhuhai Megain was the first player in the market to offer.

Our trade receivables from Listed Group B as at 31 December 2017, 2018 and 2019 had been fully recovered as at 31 December 2020. A balance of trade receivables from a member of Listed Group B in the amount of RMB96,000 has been written off as bad debt expense during the Track Record Period. Save as aforesaid, no further specific loss allowance for trade receivables had been recognised in respect of the members of Listed Group B throughout the Track Record Period.

16. Customer K is a limited liability company established in the PRC in June 2017. To the best of the knowledge of our Directors, it had around 50 employees in January 2021, and the ultimate controlling shareholder of Customer K was an individual who is an Independent Third Party with around 15 years of experience in the cartridge industry.

As confirmed by CIC, Customer K was a printing consumable manufacturer located in the PRC, whose major products included both compatible ink cartridges and compatible toner cartridges.

To the best of the knowledge of our Directors, before founding Customer K, the sole shareholder of Customer K had worked at another customer of our Group which was a manufacturer of compatible photocopier consumables, being responsible for product testing and inspection. Since around that time, he has been acquainted with the management of our Group. We entered into business relationship with Customer K in 2017 upon its establishment against the backdrop of a pre-existing business relationship between Customer K's and our Group's management.

Our trade receivables from Customer K as at 31 December 2017, 2018, and 2019 had been fully recovered as at 31 December 2020. No specific loss allowance for trade receivables had been recognised in respect of Customer K throughout the Track Record Period.

As at the Latest Practicable Date, to the best of the knowledge of our Directors and Mr. Yu, Mr. Yu, a substantial shareholder of our Company who indirectly held 26.00% of our issued Shares, held a minority and non-controlling interest in the Controlling Shareholder of Customer H through three of its minority shareholders. The Controlling Shareholder of Customer H became a controlling shareholder of Customer H when Customer H acquired the 96.67% equity interest of the Controlling Shareholder of Customer H in Supplier A by way of reverse takeover in August 2014. For further details of Mr. Yu's equity interest in the Controlling Shareholder of Customer H, please refer to the section headed "History, Development and Corporate Structure — Pre-IPO Investments — Information about our Pre-IPO Investors — Information about GLC" in this prospectus.

Several members of the senior management of our Group, including Mr. Wang Hua (王華), Ms. Lyu Liang (呂亮) and Mr. Xiang Yao (向瑤), had held non-senior management positions with Customer H or Supplier A during different periods of time prior to joining our Group.

Save as disclosed above, to the best of the knowledge of our Directors, (i) as at the Latest Practicable Date, none of our Directors or their associates or our Shareholders who owned more than 5% of the issued share capital of our Company had any interest in any of the top five customers of our Group during the Track Record Period; and (ii) there were no past or present relationships between each of our top five customers during the Track Record Period on one hand and our Group, Shareholders, Directors or senior management or their respective associates on the other hand up to the Latest Practicable Date.

Major Terms and Conditions of Agreements with Our Customers

During the Track Record Period, we did not enter into long-term or framework agreements with our customers. We generally entered into written agreements for each purchase order with our customers. The major terms and conditions of our agreements with our customers are set out as follows:

Details of the products	:	Details of the products to be provided by us to our customers, including the general description, unit of the products and unit price of the products.
Quality requirements	:	Our products shall be produced according to (i) the standards as agreed between us and our customers, or (ii) national and industry standards.
Packaging requirements	:	Our products shall be packed in accordance with the requirements of our customers or the national standard in the PRC.
Environmental requirements	:	Our products shall comply with the environmental laws and regulations in the PRC.
Delivery	:	We shall deliver our products to the designated address at the agreed time with our customers.
Credit period	:	We generally grant our customers a credit period of 30 to 120 days.

Concentration of Customers

For the year ended 31 December 2019 and 10M2020, on an individual basis, our revenue attributable to our largest customer, i.e. Customer H in 2019 and Customer J in 10M2020, amounted to approximately 16.4% and 10.7% of our total revenue respectively. Customer H is a company listed on the Shenzhen Stock Exchange and the holding company in Listed Group A. Listed Group A, which comprises Customer J, among others, as a whole is the leading integrated compatible cartridge provider; in 2019, Listed Group A was the largest compatible cartridge manufacturer and the largest compatible cartridge chip provider in China, with a market share of more than 40.0% and approximately 41.5% respectively. We have classified each of our customers in Listed Group A as a different customer throughout the Track Record Period, given that, to the best of the knowledge of our Directors, they have been managed by distinct teams, have their own production facilities and in effect operate independently of each other. It is noteworthy that Customer I and Customer J, two of our major customers, are both companies in which Customer H directly or indirectly acquired 51% of the equity interests in 2017 and their respective management team (comprising the selling shareholders) has each undertaken to provide Customer H with a profit guarantee for the years ended 31 December 2017, 2018 and 2019 respectively and thus has its own performance target to meet. Each member of Listed Group A has its own business focus and employs different sales channels — for example, some of them adopts the distributorship model and their products are sold through distributors, while some of them sells their products through e-commerce portals. Listed Group A does not have the established practice of centralised procurement and each member of it is permitted to purchase raw materials from its suppliers separately. Accordingly, our Group have been dealing with them as separate customers under varying sales terms (including but not limited to different unit selling prices and settlement terms). In particular, the selling prices of our products are agreed between each member of Listed Group A and us individually; depending on the outcome of the separate and independent arm's-length commercial negotiations between each customer and us taking into account, among others, its particular scope of business operations, position and clientele, the same model of chips could be sold by us to different customers at different unit selling prices at or around the same point of time.

Nevertheless, for the purpose of providing a further dimension to the understanding of our business relationships with Listed Group A, customers in Listed Group A have been grouped together in connection with the presentation of the relevant financial information regarding sales. On a group basis, our sales to Listed Group A represented approximately 38.3% and 34.1% of our total sales and generated 55.4% and 40.0% of our gross profit for the year ended 31 December 2019 and 10M2020 respectively, and such sales were mainly attributable to Customer H, Customer I and Customer J. The major products provided by us to Listed Group A were compatible cartridge chips for desktop inkjet printers. The number of pieces of chips sold by us to Listed Group A was approximately 4.1 million and 5.0 million during 4Q2019 (being the period of time in 2019 that is most relevant for the purpose of assessing the development trend of our sales to Listed Group A from 2019 to 10M2020 as further explained below) and 10M2020, representing 53.4% and 29.2% of our total volume of sales of chips respectively.

Commercial reasons underlying the high revenue and gross profit percentages attributable to our largest customer

Our relatively high percentages of revenue and gross profit attributable to Listed Group A in 2019 and 10M2020 was due to the following commercial reasons:

(i) Industry landscape and the reciprocal relationship between market players due to the industry dynamics

As explained in detail in the section headed "Industry Overview — Overview of the Cartridge Industry — Relationship between China's independent compatible cartridges chip providers and integrated compatible cartridge providers" in this prospectus, it is common in the industry that players enter into various sales and purchases transactions from time to time among themselves, including but not limited to purchases of compatible cartridge chips by integrated compatible cartridge providers from other market players (including independent compatible cartridge chip providers). Hence, the purchases of chips by Listed Group A (as an integrated compatible cartridge provider) from our Group (as an independent compatible cartridges chip provider) accorded well with the industry norm and constitute ordinary and usual business activities in the compatible cartridge chip industry.

(ii) The leading role of Listed Group A in the industry and its considerable demand for chips

As confirmed by CIC, Listed Group A was the world's largest manufacturer of compatible ink cartridges in 2019 and had a market share of approximately 50%. As more particularly described below, the significant sales to Listed Group in 2019 and 10M2020 were primarily attributable to certain models of compatible cartridge chips for desktop inkjet printers launched by our Group in 2019. Given the market position of Listed Group A and thus its considerable demand for ink cartridge chips, our sales to Listed Group A increased significantly after the launch of our compatible ink cartridge chip models.

(iii) Our launch of compatible ink cartridge chip models in 2019, with a surge in sales shortly afterwards due to the high degree of recognition from customers

We were able to successfully launch a number of models of compatible ink cartridge chips in 2019, mostly in the second or third quarter, i.e. the Ink Cartridge Chip Models. Listed Group A had made sizeable purchases at relatively high gross profit margins of such products from us in 2019 (most notably in 4Q2019) shortly after they were launched by virtue of (a) the substantial demand for ink cartridge chips of Listed Group A as a leading compatible ink cartridge manufacturer, as explained above; (b) the high popularity of and demand for the corresponding compatible ink cartridge models in the market, with the relevant type of ink cartridge chip models together accounting for approximately 4.5% and 5.5% of the total sales volume of compatible ink cartridge chips in 2019 and 2020 respectively according to CIC; (c) the advanced quality, functionality and upward compatibility of our newly launched Ink Cartridge Chip Models (as explained in the sub-paragraph headed "(iv) The features of our chip models and our competitive advantage" below) which clearly differentiated them from comparable products in the market; (d) the fact that our Ink Cartridge Chip Models, as new products with superior upward compatibility, were demonstrated to be capable of providing a better solution to the compatibility issues (triggered by upgrades of the corresponding original-brand printer models) encountered by Listed Group A when using similar chip models then available in the market, and Listed Group A was therefore keen to promptly purchase such new products in bulk such that it could have a sufficiently large inventory of such new products at its disposal as soon as possible to cope with the significant demand; (e) the competitive prices we offered in respect of such chip models; and (f) the fact that only a very limited number of competitors had successfully launched comparable chip models due to the higher degree of technical complexity involved and the longer development cycle required, as confirmed by CIC. Consequently, there was a significant increase in our sales of chips to Listed Group A in 2019. Our total sales of such products to Listed Group A in 2019 were approximately RMB58.0 million, representing 96.1% of our total sales to Listed Group A during the year.

Our sales of the Ink Cartridge Chip Models to Listed Group A remained robust during 10M2020. Our total sales of such products to Listed Group A in 10M2020 were approximately RMB40.7 million, representing 89.1% of our total sales to Listed Group A during the period. In terms of the monthly sales amount, our sales of the Ink Cartridge Chip Models to Listed Group A were not as significant in 10M2020 as in 4Q2019, which was because (1) Listed Group A had already established an inventory of some size of the Ink Cartridge Chip Models through the bulk purchases made in 4Q2019; (2) Listed Group A's business operations had been temporarily suspended during the Chinese New Year holiday in the PRC and as a result of the outbreak of COVID-19 in the PRC during the first quarter of 2020; (3) Listed Group A had scaled down its purchases of the Ink Cartridge Chip Models in the second quarter of 2020 in the light of the outbreak of COVID-19 in other countries which created uncertainty over the demand for its products in overseas markets, and the expected lower demand for its products during the third quarter of each year; (4) our sales of the Ink Cartridge Chip Models to Listed Group A were particularly significant in 4Q2019 for the reasons set forth in the paragraph above (particularly factor (d)); and (5) Listed Group A had significantly reduced its purchases of certain of the Ink Cartridge Chip Models in September 2020 and October 2020, as the relevant original-brand printer company had initiated certain substantial upgrades of its corresponding printer models which were expected to affect the compatibility of all existing relevant chip models in the market, and our Group had been developing new versions of such Ink Cartridge Chip Models to tackle such upgrades. After we had completed the development of the new versions of such chip models in October 2020, Listed Group A has continued to purchase the Ink Cartridge Chip Models from us.

As demonstrated above, the significant increase in our Group's sales to Listed Group A in 2019 and 10M2020 was in alignment with the prevailing market situation and commercial reality.

(iv) The features of our chip models and our competitive advantage

To the best of the knowledge of our Directors, Supplier A (being the chip manufacturing arm of Listed Group A) had been offering chips comparable to those compatible ink cartridge chip models sold by us to Listed Group A during 4Q2019 and 10M2020. To the best of the knowledge of the Directors, in spite of the fact that comparable products were available from their fellow group company (i.e. Supplier A), members of Listed Group A had purchased our Ink Cartridge Chip Models for the reasons that our selling prices were competitive and often lower than those of comparable products available from their fellow group company, and our chip models were perceived to be of more advanced quality, functionality and upward compatibility and could in turn enable them to improve the performance of the compatible ink cartridges to be produced and offered by them.

Specifically, our Directors believe that our Ink Cartridge Chip Models have superior quality and functionality because self-developed testing devices are used in our mass production process, and stringent checking and verification procedures (which are of a higher standard than those adopted by the relevant original-brand printers) are used for testing purpose. This practice serves to ensure that our chips will fit in well with the printers and satisfactorily perform the expected functions, i.e. functions comparable to those built in the original-brand cartridge chips, according to the designed standards. The rate of complaints received from and product returns demanded by our customers as a result of quality issues had been minimal throughout the Track Record Period. As regards the advanced upward compatibility of our chips, it is achieved taking advantage of, in particular, the wealth of industry experience and the high level of technical competence of our research and development team at Taiwan branch office. As more particularly explained in the paragraphs headed "Research and Development — Features of Our Chip Models" in this section, we are able to build advanced upward compatibility into our Ink Cartridge Chip Models because in the new product development process, we have sought to identify the Latent Procedures in the firmware of the corresponding original-brand printer models during the comprehensive analysis stage, and design and develop compatible checking and verification procedures which are included in our firmware contained in our Ink Cartridge Chip Models. Our Group designs and develops the checking and verification procedures in our firmware with a view to ensuring that they, to the largest extent possible, are consistent with the Latent Procedures and can be applied in the printers subsequently upgraded or modified or produced in the future. Hence, in the event that the Latent Procedures are used in such printers, the Ink Cartridge Chip Models would have a better chance of remaining compatible with such printers and fit for purpose.

To the best of the knowledge of our Directors, prior to the launch of our Ink Cartridge Chip Models, compatibility issues had been found on multiple occasions in respect of some of the similar chip models offered by the other chip manufacturer after upgrades to the corresponding printer models had been carried out by the relevant original-brand printer company, which led to product recalls and replacement by the other chip manufacturer in each case; as a result of such compatibility issues, the compatible cartridge manufacturers purchasing and using the other chip manufacturer's chip models in turn needed to recall unused compatible cartridges from their customers (i.e. compatible cartridge distributors or retailers), which translated into further production and logistical work and additional costs for them and their customers. After the launch of our Ink Cartridge Chip Models, the relevant original-brand printer company had continued to upgrade such printer models, and our Ink Cartridge Chip Models could adapt to the upgrades better with higher chances of remaining compatible with such upgraded printer models. On the other hand, to the best of the knowledge of our

Directors, such upgrades had resulted in compatibility issues of similar chip models in the market as before and product recalls and replacement by the other chip manufacturer in each case. This constitutes clear proof of the advanced upward compatibility of our Ink Cartridge Chip Models; our Ink Cartridge Chip Models have gained recognition for their stability, which could effectively reduce the chances of product recalls and replacement and avoid the further work and additional costs associated.

In addition, members of Listed Group A were under separate management and in effect operated independently of each other, and they were permitted to make procurement of raw materials from external suppliers individually. To the best of the knowledge of our Directors Listed Group A has, from the risk management perspective, maintained diversity in its upstream supply of chips so as to mitigate against the risk of supply chain disruption arising from, among others, any operational disruption to any single supplier, or the incompatibility of any chip model sourced from any particular supplier upon system upgrades to printers conducted by original-brand printer companies, which may in turn have a significant adverse impact on Listed Group A's compatible cartridge manufacturing business. Therefore, to the best of the knowledge of our Directors, members of Listed Group A had adopted the risk-averse approach of satisfying at least part of their demand for chips through external procurement from our Group and other external suppliers.

(v) Our business development strategy in respect of the manufacturing and sale of compatible ink cartridge chips

As explained in detail in the paragraphs headed "Our Products — Compatible Toner Cartridge Chips as Our Major Business Focus since Establishment" in this section, our Group had traditionally been focusing on the development and sales of compatible toner cartridge chips, where our Group had already firmly established our position as one of the leading market players. As it was foreseeable that the number of new printer models to be launched by the original-brand printer companies in 2019 would remain limited, our Directors resolved in 2018 that our Group should actively explore other opportunities in the market by diverting more of our product development resources from cartridge chips for desktop laser printers into cartridge chips for desktop inkjet printers, in view of the adverse impact that the lack of new original-brand printer models might have on the compatible cartridge chips industry as a whole. Following the implementation of such a product development strategy formulated in 2018, the Ink Cartridge Chip Models were launched by us in 2019, which helped our Group cope with the significant decline in the average market selling price of compatible toner cartridge chips in 2019 as expected.

When formulating our specific product development plan, we had identified the Ink Cartridge Chip Models as our targets for new product development after taking into account the high popularity of and demand for the corresponding compatible ink cartridge models in the market, and the competitive landscape under which only a very limited number of competitors had successfully launched comparable chip models (further details of which are set forth in the sub-paragraphs headed "(iii) Our launch of compatible ink cartridge chip models in 2019, with a surge in sales shortly afterwards due to the high degree of recognition from customers" above). Our Directors also saw the potential to build into our Ink Cartridge Chip Models superior quality, functionality and upward compatibility (as explained in the sub-paragraphs headed "(iv) The features of our chip models and our competitive advantage" above), with which our Ink Cartridge Chip Models could be readily differentiated from the then existing similar products in the market. Specifically, our Directors believe that this would be feasible thanks to our advanced research and development approach, under which we would analyse not only the chips in the original-brand cartridges but also the original-brand printers themselves; at the same time, since there existed similarities from the technical perspective between the Ink Cartridge Chip Models to be developed and our then existing chip models developed for laser printers of the same brand, we could take advantage of our abundant experience in the development of compatible toner cartridge chips to overcome the technical hurdles that may be involved. As the market in respect of such chip models had yet to become saturated and the market demand had been robust, our Directors anticipated that our Group would stand a reasonable chance of securing substantial orders for such chip models from our customers after they were launched.

Our Directors considered that sizeable market demand for the Ink Cartridge Chip Models would be key to our expansion in the compatible ink cartridge chip market. To err on the side of caution, we had specifically selected those compatible ink cartridge chip models which we believed would be sought-after by the major market players. Hence, it was well foreseen that a significant proportion of the demand for our Ink Cartridge Chip Models might originate from the compatible cartridge manufacturing arms of Listed Group A (being the dominant compatible cartridge manufacturer), which had been purchasing similar products from the chip manufacturing arm of Listed Group A. For the reasons explained in the sub-paragraphs headed "(iv) The features of our chip models and our competitive advantage" above, our Directors expected that Listed Group A would be prepared to make substantial external procurement from us of our Ink Cartridge Chip Models, as it actually did in 4Q2019 and 10M2020.

In the meantime, in accordance with our Group's current strategy, while we had not rejected any order for the Ink Cartridge Chip Models from other independent customers, we had not focused our sales and marketing efforts on the promotion of the Ink Cartridge Chip Models to other independent customers. This is because Listed Group A itself enjoys a dominant position as a manufacturer of compatible ink cartridge chips with a market share of approximately 63.1% in terms of sales volume in 2019 as confirmed by CIC, and our Directors considered that it would be advisable to minimise direct competitions with Listed Group A during the expansion stage of our development in the compatible ink cartridge chip market. On account of that, we were disposed to sell the compatible ink cartridge chips so produced to Listed Group A to satisfy its substantial demand. Our Directors believed that such arrangements could help ensure more time for our compatible ink cartridge chip business to grow and mature into a more sizeable business with more diversified product offerings and a more established reputation in the market.

Going forward, our Group will seek to adopt specific sales and marketing strategy for each new compatible ink cartridge chip product, taking into account the target customer group and the then market competition for comparable products, in order to minimise the risks of vicious competitions in the market that we may be subject to. Our strategy is to continue developing and offering compatible ink cartridge chips of superior quality, functionality and upward compatibility. While our Directors expect that the compatible ink cartridge chip models to be developed in the near future will likewise stand a reasonable chance of winning the recognition of Listed Group A and other major compatible cartridge manufacturers in the PRC, the purchases of any particular model of new products from our Group by any compatible cartridge manufacturer ultimately come down to the market conditions and, in particular, the commercial decisions of such customers. Subject to favourable response being received from Listed Group A in respect of our new products, our Group will be willing to continue to supply such new products to Listed Group A to satisfy its substantial demand in arm's-length transactions, as it is, after all, in our every interest to prevent any form of vicious competitions with any major player in the compatible ink cartridge chip market when we have yet to gain a significant position as a market player with highly established operations or a comprehensive product portfolio in the compatible ink cartridge chip market. The whole exercise is purely market-driven and if there is robust demand from Listed Group A (being the dominant player in the downstream market), our Directors do not see any compelling reason against reaping the benefits from the associated sales.

While the adoption of the above strategy might have resulted in concentration of sales of the Ink Cartridge Chip Models to Listed Group A during 4Q2019 and 10M2020, our Directors expects that the effects will not be long-term in nature and it will not give rise to any material reliance issue. This is because the strategy is not intended to be adopted on a sustained basis, and our Group has been seeking to build our market power and competitive strength in the compatible ink cartridge chip segment, as detailed in the sub-paragraphs headed "Our future business development against the backdrop of concentration of customers on a group basis in 2019 and 10M2020" below, at which time we will become better prepared for a change in our competitive strategy. With a diversified and ever-expanding product portfolio (comprising a myriad of other chip models, such as compatible toner cartridge chips in respect of which sales to Listed Group A have not been significant, and also new compatible ink cartridge chip models to be launched), more established reputation and an enhanced competitive position in the compatible ink cartridge chip market, it is expected that our Group will in the longer term become more well equipped for competitions with Listed Group A and other major players and enjoy greater latitude when setting our product and sales strategies in our compatible ink cartridge chip business, as we currently are in our compatible toner cartridge chip business. Hence, it is expected the need for our Group to prioritise the sales of newly developed compatible ink cartridge chips to any major customer will be gradually reduced. As mentioned above, the sales of new products will also hinge on market demand and it is not unlikely that at the initial stage after product launch, the larger orders will still mostly come from the major customers with more considerable internal demand. As a general rule, our Group will not reject any order from any particular customer. At the same time, we shall more actively seek to reach a wider group of customers through our sales and marketing efforts early on after the launch of new products.

Our future business development against the backdrop of concentration of customers on a group basis in 2019 and 10M2020

Despite our relatively high percentages of revenue and gross profit attributable to Listed Group A in 2019 and 10M2020, our Directors are of the view that our apparent customer concentration in 2019 and 10M2020 was merely transitional in nature and not indicative of any reliance issue. During 2017 and 2018, we did not record sales to Listed Group A or any other customer that were as significant in terms of proportion to total sales, and our business growth had not in any way been inhibited. Our relatively high revenue and gross profit percentages attributable to Listed Group A in 2019 and 10M2020 was in large part associated with the timing of the launch of our Ink Cartridge Chip Models, the then prevailing market circumstances (including particularly the high popularity of the corresponding printer models) and the particular situation of Listed Group A, which conduced to the immediate customers' recognition of our new Ink Cartridge Chip Models.

Besides, the relatively higher unit selling prices of our products purchased by Listed Group A had been instrumental in bringing about our high percentage of revenue attributable to Listed Group A in 2019 and 10M2020. While our sales to Listed Group A represented approximately 38.3% and 34.1% of our total sales for 2019 and 10M2020 respectively, the volume of sales of chips to Listed Group A, in terms of the number of pieces of chips sold, represented only 25.2% and 29.2% of our total chip sales volume for the respective year and period and did not point to any significant concentration issue. While approximately 96.1% and 89.1% of our total sales to Listed Group A during the year ended 31 December 2019 and 10M2020 were attributable to Listed Group A's purchases of our Ink Cartridge Chip Models, which had higher average unit selling prices (i.e. RMB14.4 and around RMB10.8 for the year and period respectively), the products purchased by other independent customers during the respective year and period covered a wider spectrum, resulting in our relatively lower overall average unit selling price (i.e. approximately RMB8.8 and RMB7.2 for the respective year and period). The decrease in average unit selling prices of our Ink Cartridge Chip Models by approximately 25.0% from 2019 to 10M2020 was due to the decrease in market price of similar chips along their product life cycle and mild market competition. During 10M2020, there was an increase in our sales volume of chip models with lower selling prices, which also contributed to the decrease in average unit selling prices of our Ink Cartridge Chip Models. Despite the superior quality, functionality and upward compatibility of our Ink Cartridge Chip Models, during the process of price negotiation with our customers, we will also make reference to the prices of similar products offered by other suppliers and generally price our Ink Cartridge Chip Models slightly below them where practicable in order to ensure market competitiveness and thus sales volume of our products. The extent of the price reduction had varied from one chip model to another due to the different market dynamics and competitive landscape (including, among others, the pricing strategies adopted by the competitors) in respect of each chip model. To the best of the knowledge of our Directors, based on information collected from our customers regarding the prices of similar products offered by other suppliers, the decreasing trend of average selling price of our Ink Cartridge Chip Models from 2019 to 10M2020 was generally in line with the industry price trend.

To the best of the knowledge of our Directors and as confirmed by CIC, before our launch of the Ink Cartridge Chip Models, the major market players with similar chip models were mainly Listed Group A and/or Listed Group B. As the major competitors which offered products similar to our Ink Cartridge Chip Models had still consistently been Listed Group A and/or Listed Group B since our launch of the Ink Cartridge Chip Models up to the Latest Practicable Date, our Directors are of the view that the market competition in respect of our Ink Cartridge Chip Models in the foreseeable future will be similar to the extent during the Track Record Period and there is no indication that there will be other material adverse impact on the selling price and sales volume of our Ink Cartridge Chip Models. The sales volume of our Ink Cartridge Chip Models amounted to approximately 39,000 pieces for the second quarter of 2019, 153,000 pieces for the third quarter of 2019, 4.1 million pieces for the fourth quarter of 2019, 2.2 million pieces for the first quarter of 2020 and 1.3 million pieces for the second quarter of 2020 respectively. The sales volume for the fourth quarter of 2019 was relatively higher compared to the first quarter of 2020 due to the need of our customers to stock up in light of the holiday season while the relatively lower sales volume for the second quarter of 2020 was also in line with the seasonal fluctuation as we generally recorded higher sales revenue in the last quarter. For details of the risks we may be exposed to in connection with market competition, please refer to the sections headed "Risk Factors — Risks Relating to Our Business and Industry — We face significant competition in our business and our profitability and prospects for future growth depend on our ability to compete effectively with the other competitors" and "Risk Factors — Risks Relating to Our Business and Industry — Our business, result of operations and financial conditions may be affected by the market competition in the compatible cartridge chip market" in this prospectus.

Notwithstanding the above, the impact stemming from the launch of the Ink Cartridge Chip Models, including our resultant high percentages of revenue and gross profit attributable to Listed Group A in 2019 and 10M2020, could be temporary. Any change in the product mix and/or preference of our customers, including Listed Group A, or the consumers' preference of the corresponding models of printers, can significantly affect the demand for, and hence our sales attributable to, these products. Apart from that, the launch of substitute products by our competitors in the market may result in decrease in the selling price of any particular model of products, which may also in turn affect the relative significance of our sales to Listed Group A and/or other independent customers.

Our Directors believe that our revenue and gross profit percentages attributable to Listed Group A will further reduce going forward and our future business development will not be materially constrained in any case for the following reasons:

(i) The actual decrease in our proportions of sales and gross profit attributable to Listed Group A during the relevant periods of time, i.e. from 4Q2019 to 10M2020

The Ink Cartridge Chip Models were mostly launched by our Group in the second or third quarter of 2019. As we were able to gain high customer recognition shortly after the launch of such chip models, 4Q2019 had seen a significant increase in our sales of such chip models and also our overall sales to Listed Group A – our overall sales to Listed Group A during 4Q2019 represented approximately 96.2% of our total sales to Listed Group A during 2019. While our overall proportions of revenue and gross profit attributable to sales to Listed Group A in 4Q2019 amounted to approximately 73.1% and

85.5%, such proportions had gone down significantly to 34.1% and 40.0% respectively in 10M2020. In terms of the number of chips sold, our volume of chips sold to Listed Group A as a percentage of our total chip sales volume fell from approximately 53.4% in 4Q2019 to 29.2% in 10M2020. Even when considered on a group basis, there was a marked decrease in our proportion of sales (in terms of both revenue amount, gross profit amount and chip sales volume) attributable to Listed Group A during the relevant periods of time. Our Directors believe that the decrease was associated with our continuing effort in developing and introducing new models of chips which stimulated the sales of our other chip models to other customers in terms of proportions during 10M2020. It is manifest that the effects of the launch of specific chip models on our overall sales may not be long-lasting. The above also constitute evidence that we are not faced with any material reliance issue or customer concentration risk in our business.

We will continue to keep a close watch on the reliance issue and seek to avoid any undue actual reliance on any major customer through the adoption of our expansion plan as detailed in the sub-paragraphs headed "(v) Our continued effort in proactively developing and introducing new chip models" and "(vi) The widening of our customer base as a result of our proposed acquisitions of downstream compatible cartridge manufacturers in the PRC" below. Particularly, we believe that the continuous introduction of new products, including new compatible toner cartridge chip models among others, will serve to effectively bring down our proportion of revenue and gross profit attributable to sales to Listed Group A, as it did during 10M2020.

(ii) Members of Listed Group A are in effect independent customers of our Group

As explained in the paragraphs headed "Our Customers – Major customers" in this section and above, members of Listed Group A have been grouped together and our sales to them have been aggregated solely for the purpose of providing a further dimension to the understanding of our business relationships with major customers. They are managed by distinct teams, have their own production facilities and in effect operated independently of each other. In sum, we have been dealing with each member of Listed Group A as a separate customer under varying sales terms. When considered individually, Customer H and Customer J alone was our largest customer during 2019 and 10M2020, which accounted for approximately 16.4% and 10.7% of our total revenue and 24.4% and 13.7% of our gross profit for the respective year or period respectively only.

In view of the individual nature of each member of Listed Group A, our Directors believe that our risk exposure as a result of the aggregate size of our dealings with Listed Group A is not highly relevant. We are not subject to material customer concentration risks in connection with our sales to each member of Listed Group A as an individual customer.

(iii) The gradual expansion in the customer base of our relevant chip models

It should be further noted that as we launch a new model of chips, from a commercial perspective it is not unusual that we would initially sell our new products to a limited group of customers, especially those with a stronger market position and demand for a broader range of chips which tend to be more disposed to take initiatives in broadening their own product range. As the corresponding original-brand printer and compatible cartridge models gain a higher degree of popularity in the market and our new chip models attract wider recognition as a result of our sales and marketing efforts, other customers may commence or scale up their purchases of the relevant chip models from us and our customer base in relation to such chip models may gradually become more diversified.

Given the customer base development trend as described above and the fact that the relatively high proportion of our sales attributable to the members of Listed Group A in 2019 and 10M2020 were likely to be coincidental as explained above, there are grounds to believe that the downward trend in our proportion of sales attributable to Listed Group A will continue and the proportion will normalise in future.

(iv) Our commitment to developing and offering chips with reliable and advanced quality and functionality

We recognise that the significant demand for our chips from the members of Listed Group A and other customers of our Group in general is backed by the recognition of the advanced quality, functionality and upward compatibility of our products by them. We have been firmly committed to developing and offering chips with reliable and advanced quality and functionality, which our Directors believe is of central importance to the success of our business. Going forward, we shall continue our unwavering endeavours in this regard, such that we can cement our competitive edge and position as one of the suppliers of choice in the market, thereby sustaining the demand for our existing chip models and stimulating the sales of the new models to be launched by us from time to time (as set forth in detail below) to the largest extent possible, subject to the market developments.

(v) Our continued effort in proactively developing and introducing new chip models

Cognisant of (a) the facts that the launch of new products has been instrumental in strengthening our competitiveness and bringing in additional revenue, and that market players which are able to launch new products in advance of their competitors would usually be able to capture additional market shares amid the fierce competition and domination of particular market players; and (b) the risks that Supplier A (being the manufacturing arm of Listed Group A) and/or other market players may be able to enhance their research and development capabilities and develop products comparable to the Ink Cartridge Chip Models in terms of both cost and quality, and consequently Listed Group A's demand for our products could decline in future, we have sought to be steadfast and proactive in developing and introducing new chip models. To this end, we have formulated concrete and extensive product development plans for the coming years. Please refer to the paragraphs headed "Business Strategies — Strengthen Our Product Development Capacity and Diversify Our Product Portfolio" in this section for further details of our existing internal product development plans.

With a further increased product range and diversified product portfolio in terms of model number and categories, we will be better positioned to broaden our customer base and revenue sources, and thus sustain or even improve our overall revenue and profit margin levels notwithstanding fluctuations in demand for any particular chip models of ours due to change in business relationships with our customers, intensified market competitions or otherwise.

(vi) The widening of our customer base as a result of our proposed acquisitions of downstream compatible cartridge manufacturers in the PRC

As set forth in the paragraphs headed "Business Strategies — Increase Our Presence in the Compatible Cartridge Industry through Forward Vertical Expansion" in this section, we will seek to increase our presence in the compatible cartridge industry through forward vertical expansion, whereby we propose to acquire equity interests in certain downstream compatible cartridge manufacturers in the PRC in the future. Upon completion of the acquisitions, on top of external sales of our chips to our customers, we will also provide part of our chips to our own manufacturing companies for production of compatible cartridges. Our forward vertical expansion will be an additional means for us to widen our customer base, and the internal demand generated will effectively bring down our overall proportion of sales to our existing customers relative to our total sales and lessen the risks associated with any potential concentration of external sales or reliance on any particular customer(s).

As explained above, the significant increase in our sales to Listed Group A during 2019 and 10M2020 was caused by several market factors and commercial reasons, including most notably the timing of our product launch, our advanced product quality, the significant demand of Listed Group A associated with its dominant market position, and the strategy we have adopted in respect of the development of our compatible ink cartridge chip business. Further, our overall proportion of sales attributable to Listed Group A had actually decreased from 4Q2019 to 10M2020, and in any case it may not be appropriate to attach much weight to such a proportion in assessing our business performance since each member of Listed Group A can be classified as a different customer. It follows that there is no undue reliance of our Group on Listed Group A arising from our high revenue and gross profit percentages attributable to it in 2019 and 10M2020 or substantive customer concentration risks in our business operations.

For details of the risks we may be exposed to in connection with our dealings with Listed Group A, please refer to the section headed "Risk Factors — Risks Relating to Our Business and Industry — Our business could be materially and adversely affected if we are unable to maintain our business relationship with our largest customer for the year ended 31 December 2019 and 10M2020, which is our competitor and whose demand may decline with the improvement of its research and development capabilities" in this prospectus. We are committed to maintaining the quality and functionality of our products in order to minimise the likelihood of any material adverse change in our business relationships with Listed Group A and our other existing customers. Since the launch of the Ink Cartridge Chip Models, Listed Group A has been purchasing the Ink Cartridge Chip Models on a continuing basis and the demand has been sustainable. The strategy adopted by us proves successful, and our Directors do not foresee that Listed Group A will largely reduce or cease to make purchases of such products from us in the short run given the superiority in quality, functionality and upward compatibility of our Ink Cartridge Chip Models over the comparable products in the market, the significant demand of Listed Group A for these chip models for its own production purpose, and our established business relationship with Listed Group A as our customer with no vicious competition between us in the compatible ink cartridge chip market. In addition, we have a highly diversified customer base and our products had been sold to over 900 customers during the Track Record Period, including various cartridge manufacturers that are not part of Listed

Group A. It paves the way for our gradual expansion of the customer base of our Ink Cartridge Chip Models. Meanwhile, we have been proactively developing and introducing new chip models including, among others, compatible toner cartridge chips which are our core products, in order to continue extending our product range and customer base (which was also one of the contributing factors of the decrease in our proportion of sales attributable to Listed Group A from 4Q2019 to 10M2020). The proposed acquisitions of downstream compatible cartridge manufacturers will further generate internal demand for our chips and reduce our overall revenue and gross profit percentages attributable to our existing customers which are all external customers. Our Directors believe that all the above are effective means to mitigate our exposure in connection with our dealings with any particular customer and to lift our market position as a whole such that Listed Group A and our other existing customers will be better incentivised to maintain their business relationships with us, and in any event any change in our business relationship with Listed Group A is unlikely to have a material adverse impact on our business, financial position and results of operations.

As regards the development of our compatible ink cartridge chip business, our Group has been actively seeking to enhance our competitive position vis-à-vis the other market players, including Listed Group A. Our Directors believe that the Listing and the expansion plan as disclosed in the paragraphs headed "Business Strategies" in this section are effective means to achieve this goal. Among others:

(i) we are strengthening our product development capabilities based on our existing internal product development plans for the three years ending 31 December 2023 cover not less than 700 models of ink cartridge chip. 16 new models of chips for desktop inkjet printers were launched in the year ended 31 December 2020, and it is currently intended that for the years ending 31 December 2021, 2022 and 2023, 112, 87 and 273 new models of chips for desktop inkjet printers will be launched respectively. Where we are the first market player to offer compatible cartridge chips for the relevant printer models, the revenue that can be generated will depend on the actual market response and dynamics as our new chip models are launched; where similar products are already available in the market at the time of launch, the sales performance will further depend on the quality and functionality of our chip models as compared with the competing products. We are prepared to supply these new chip models to any customer which has indicated an interest in our offerings. Meanwhile, we shall carefully monitor our transactions with Listed Group A to make sure that no substantive competition or reliance issue shall arise in connection with the sales of these new chip models; and

(ii) we also expect to supply part of our chips to our own manufacturing arm for production of compatible cartridges following the completion of our forward vertical expansion.

All these future strategies, once implemented, will serve to expand our revenue sources and reduce our susceptibility to changes in the condition of the chip market and fluctuations in demand from any particular customer for any particular chip model. In addition, with an increased scale of operation in terms of enhanced product diversity and a broadened customer base, we will enjoy improved competitive strength in the compatible ink cartridge chip segment. Overall, we will have greater flexibility in our business operations including latitude in selling our newly launched compatible ink cartridge chips to a broader group of customers, with reduced concern over actual or potential competitions with Listed Group A and other market players, which at the same time will also allow us to effectively further lessen our reliance on Listed Group A as our customer. Our Directors are positive that the prospects of our compatible ink cartridge chip segment and the overall business of our Group will improve in the long run.

Please refer to the section headed "Risk Factors — Risks Relating to Our Business and the Industry — Our business could be materially and adversely affected if we are unable to maintain our business relationship with our largest customer for the year ended 31 December 2019 and 10M2020, which is our competitor and whose demand may decline with the improvement of its research and development capabilities" in this prospectus for further details of the potential customer concentration risks.

Sales and Marketing

Serving mainly the PRC market, we count on our sales force to maintain reliable and long-term business relationships with our customers. Our sales and marketing functions are stationed in Zhuhai and responsible for leading, monitoring and managing the overall sales and marketing strategies of our Company. As at 31 October 2020, our Zhuhai headquarters had a total of 30 sales and marketing staff. For more effective and efficient management, our sales force comprises the domestic sales team and export sales team, responsible for managing our sales to customers based in the PRC, Taiwan and the rest of the world respectively.

To reach our potential customers which are mainly manufacturers of compatible cartridges, we actively participate in industry fairs and exhibitions relating to their businesses. Since 2015, we have been a participating merchant in the RemaxWorld Expo, one of the largest trade shows for the cartridge industry in China. During the Track Record Period, we expanded our reach by taking part in international trade fairs and exhibitions in America, Europe and other parts of Asia, such as Paperworld, RechargExpo, RT Imaging Summit & Expo and Business-Inform held in Germany, India, Egypt and Russia, respectively. For the three years ended 31 December 2017, 2018, 2019 and 10M2020, we have participated in 7, 5, 4 and 2 industry exhibitions, respectively. As part of our marketing strategies, we have sponsored the RemaxWorld Expo for three consecutive years since 2017. Our Directors believe that our regular participation in domestic and international trade fairs and exhibitions allows us to connect with new customers in both the Chinese and the global market to achieve our objective of expanding our presence in the compatible cartridge chip industry.

Apart from industry fairs and exhibitions, our potential customers also know of us through (i) referral from our clients or other market players who recognise our expertise in compatible cartridge chips; and (ii) our advertisement in various industry publications.

Focused on achieving potential for growth with steady sales revenue, we value keeping existing customers as well as attracting new ones. Our sales force keeps in touch with our existing customers through site visits and active follow-up on after-sales services with an aim to nurturing our business relationships and keeping abreast of market conditions. Whilst we also benefit from the opinions from our customers for research and development, we inform them the launch of our advanced compatible cartridge chips that may be of relevance to their business. Further, as we make strenuous efforts in conducting market research, we from time to time share information with our customers in terms of market practice, including cost fluctuations and other latest trends in the cartridge industry. Our interactive approach with existing customers does not only assists us with identifying business opportunities, but also helps facilitate our credit assessment of our customers and secure our market share in the compatible cartridge chip market.

SUPPLIERS

Our raw material suppliers comprise (i) suppliers of ICs and other parts of the hardware component of our chips and (ii) suppliers of PCBAs.

During the Track Record Period, we had directly procured PCBAs from external suppliers for production use. Alternatively, we had (i) carried out the design work of PCBs, being a major part of PCBAs, ourselves; and (ii) sourced ICs and other parts of PCBAs from external suppliers. In the latter case, subcontractors had been engaged to assemble PCBAs based on our specified configurations. The table below summarises the volume of our products sold that were produced using PCBAs (i) directly purchased from external suppliers; and (ii) assembled by our subcontractors using ICs and other parts sourced from external suppliers during the Track Record Period:

	Year ended 31 December							
	2017		2018		2019		10M2020	
	Sales volume	% of the total sales volume	Sales volume	% of the total sales volume	Sales volume	% of the total sales volume	Sales volume	% of the total sales volume
	'000 pieces of chips	*%*	*'000 pieces of chips*	*%*	*'000 pieces of chips*	*%*	*'000 pieces of chips*	*%*
Directly-purchased PCBAs	8,685	76.6	10,645	80.9	5,416	31.7	3,504	20.4
PCBAs assembled by subcontractors	2,653	23.4	2,521	19.1	11,647	68.3	13,661	79.6
	11,338	100.0	13,166	100.0	17,063	100.0	17,165	100.0

PCBAs directly purchased from external suppliers had been used in approximately 76.6% and 80.9% of our total volume of chips sold for the years ended 31 December 2017 and 2018, respectively and thus had been our most substantial type of procurement in 2017 and 2018. We had chosen to purchase PCBAs instead of their parts so that we can save time and cost arising from sourcing all the parts of PCBAs and arranging for assembly work to be done by our subcontractors. The PCBA parts procured by us include mainly ICs. We have been strengthening our own research and development capacity in relation to PCBAs and predominantly using PCBAs assembled by our subcontractors based on our specified configurations using ICs and other parts sourced from external suppliers since 2019, in order to put ourselves in a better position to secure the supply of PCBAs and reduce overall costs of sales after economies of scale have been created. Accordingly, the volume of chips sold that were produced using PCBAs directly purchased from external suppliers had decreased to approximately 31.7% and further to 20.4% of our total sales volume for the year ended 31 December 2019 and 10M2020 respectively. Suppliers of both PCBAs and their parts are required to closely communicate with us regarding our requirements and specifications to ensure the raw materials provided by them match with our design of compatible cartridge chips in various aspects including the functions, hardware operation logics and compatibility with the software part.

We generally procure raw materials from suppliers on our list of approved suppliers. To become qualified, potential suppliers must firstly undergo an initial qualification assessment, during which we would obtain numerous aspects of information by means of on-site investigation and sample tests. We would gather information in relation to their history of operation, size of the company, production facility, capacity, quality control and more details regarding their business operation. Based on the information gathered, we then assess these potential suppliers available in the market according to criteria including quality of finished goods, punctuality of delivery, price and quality of services. The final choice of suppliers are determined after joint evaluation by our research and development department, procurement department, finance department and our general manager. After shortlisting the suppliers who can pass our selection assessment, we would compare fee quotations from various shortlisted suppliers and when necessary, further negotiate with each of them to maintain our estimated profit margins for our products. After the formal engagement of a supplier, each batch of incoming raw materials delivered by the supplier is subject to our quality control procedures and would be put into our warehouse only when the approval from the engineering team under our research and development department is obtained. We conduct regular review of our approved suppliers so as to ensure their product or service quality, delivery performance and supply prices meet our requirements.

We have built business relationships with various suppliers based in the PRC, Taiwan or the United States. We purchased our raw materials mainly from IC design companies and PCBA manufacturers in the PRC and Taiwan. Our Directors are of the view that it would be easy to find alternative suppliers at reasonable cost and in a timely manner due to the large number of PCBA manufacturers available in the market and the fact that the raw materials sourced by us mostly involve a relatively lower level of technical complexity. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material lack of capacity, supply shortages, delays or disruptions in our operations relating to our suppliers, or any material product claims attributable to our suppliers.

Major Suppliers

Our five largest suppliers accounted for approximately 90.0%, 89.1%, 89.6% and 84.8% of our total purchases for the years ended 31 December 2017, 2018 and 2019 and 10M2020, respectively, while our largest supplier accounted for approximately 40.1%, 46.2%, 46.0% and 49.3% of our total purchases for the respective periods.

The following table sets forth brief particulars of our top five suppliers during the Track Record Period:

			Year ended 31 December 2017					
Rank	Supplier	Major products provided to us	Commencement year of business relationship with our Group	Business activities of the supplier	Purchases attributable to the supplier *RMB'000*	Approximate percentage of our total purchases	Credit period	Payment method
1.	Listed Group A *(Note 1)*	PCBAs	2012	A group of companies comprising a company listed on the Shenzhen Stock Exchange and its subsidiaries, which, collectively, are principally engaged in production and sale of PCBAs, compatible cartridge chips and compatible cartridges in the PRC, among others	Supplier A: 44,498 Other members: 3,949 Total: 48,447	Supplier A: 36.9% Other members: 3.2% Total: 40.1%	Supplier A: 60 days after month end Other members: 30-60 days after month end	Bank transfer
2.	Supplier B *(Note 2)*	PCBAs and ICs	2015	A company based in the PRC and principally engaged in production and sale of cartridge chips and ICs	31,774	26.4%	60 days after month end	Bank transfer
3.	Supplier C *(Note 3)*	PCBAs and ICs	2016	Two companies based in Taiwan and principally engaged in research, development and/or sale of IC products	12,307	10.2%	30 days after month end	Bank transfer
4.	Supplier D	PCBAs	2016	A company based in the PRC and principally engaged in trading of IC, chips, electrical appliances, computers and spare parts	10,665	8.9%	30 days after month end	Bank transfer
5.	Supplier E	Plastic components of PCBAs	2015	A company based in the PRC and principally engaged in production and sale of printer consumables, components and plastic products	5,266	4.4%	30 days after month end	Bank transfer

Rank	Supplier	Major products provided to us	Commencement year of business relationship with our Group	Business activities of the supplier	Purchases attributable to the supplier *RMB'000*	Approximate percentage of our total purchases	Credit period	Payment method
				Year ended 31 December 2018				
1.	Listed Group A *(Note 1)*	PCBAs and ICs	2012	A group of companies comprising a company listed on the Shenzhen Stock Exchange and its subsidiaries, which, collectively, are principally engaged in production and sale of PCBAs, compatible cartridge chips and compatible cartridges in the PRC, among others	Supplier A: 56,817 Other members: 1,194 Total: 58,011	Supplier A: 45.3% Other members: 1.0% Total: 46.3%	Supplier A: 60 days after month end Other members: Nil, 30-60 days after month end	Bank transfer
2.	Supplier C *(Note 3)*	PCBAs and ICs	2016	Two companies based in Taiwan and principally engaged in research, development and/or sale of IC products	18,917	15.1%	30 days after month end	Bank transfer
3.	Supplier D	PCBAs	2016	A company based in the PRC and principally engaged in trading of ICs, chips, electrical appliances, computers and spare parts	15,093	12.0%	30 days after month end	Bank transfer
4.	Supplier B *(Note 2)*	PCBAs and ICs	2015	A company based in the PRC and principally engaged in production and sale of cartridge chips and ICs	14,717	11.7%	60 days after month end	Bank transfer
5.	Supplier F	Toner	2017	A company based and listed in the United States, and an original equipment manufacturer and aftermarket toner manufacturer specialising in colour toners for copiers, printers and multi-function printers	5,050	4.0%	Nil	Bank transfer

Rank	Supplier	Major products/ provided to us	Commencement year of business relationship with our Group	Business activities of the supplier	Purchases attributable to the supplier	Approximate percentage of our total purchases	Credit period	Payment method
			Year ended 31 December 2019					
					RMB'000			
1.	Supplier C *(Note 3)*	ICs	2016	Two companies based in Taiwan and principally engaged in research, development and/or sale of IC products	29,692	46.0%	30 days after month end	Bank transfer
2.	Listed Group A *(Note 1)*	PCBAs and ICs	2012	A group of companies comprising a company listed on the Shenzhen Stock Exchange and its subsidiaries, which, collectively, are principally engaged in production and sale of PCBAs, compatible cartridge chips and compatible cartridges in the PRC, among others	Supplier A: 21,842 Other members: nil Total: 21,842	Supplier A: 33.9% Other members: nil Total: 33.9%	Supplier A: 60 days after month end Other members: N/A	Bank transfer
3.	Supplier F	Toner	2017	A company based and listed in the United States, and an original equipment manufacturer and aftermarket toner manufacturer, specialising in colour toners for copiers, printers and multi-function printers	2,397	3.7%	Nil	Bank transfer
4.	Supplier G	PCBs	2018	A company based in the PRC and principally engaged in production of PCBs for application in peripherals and other equipment	2,109	3.3%	30 days after month end	Bank transfer
5.	Supplier D	PCBAs	2016	A company based in the PRC and principally engaged in trading of ICs, chips, electrical appliances, computers and spare parts	1,712	2.7%	30 days after month end	Bank transfer

Ten months ended 31 October 2020

Rank	Supplier	Major products provided to us	Commencement year of business relationship with our Group	Business activities of the supplier	Purchases attributable to the supplier *RMB'000*	Approximate percentage of our total purchases	Credit period	Payment method
1.	Supplier C	ICs	2016	Two companies based in Taiwan and principally engaged in research, development and/or sale of IC products	20,161	49.3%	30 days after month end	Bank transfer
2.	Listed Group A *(Note 1)*	PCBAs and ICs	2012	A group of companies comprising a company listed on the Shenzhen Stock Exchange and its subsidiaries, which, collectively, are principally engaged in production and sale of PCBAs, compatible cartridge chips and compatible cartridges in the PRC, among others	Supplier A: 7,144 Other member: 766 Total: 7,910	Supplier A: 17.5% Other member: 1.9% Total: 19.4%	Supplier A: 60 days after month end Other member: Nil	Bank transfer
3.	Supplier H	Toner	2020	A company based and listed in Japan and principally engaged in manufacture and sale of ink used for printing on paper and film	2,945	7.2%	Nil	Bank transfer
4.	Supplier G	PCBs	2018	A company based in the PRC and principally engaged in production of PCBs for application in peripherals and other equipment	1,827	4.5%	30 days after month end	Bank transfer
5.	Supplier I	Toner	2020	A company based in the PRC and principally engaged in trading of toners, which is a subsidiary of a company listed on Tokyo Stock Exchange	1,785	4.4%	Nil	Bank transfer

Notes:

(1) Supplier A was a direct wholly-owned subsidiary of Customer H and a member of Listed Group A at the relevant times.

Set forth below are the number of units of materials purchased by our Group from Supplier A and the relevant average unit purchase price during the Track Record Period:

	Year ended 31 December			
	2017	**2018**	**2019**	**10M2020**
Total purchases from Supplier A (RMB'000)	44,498	56,817	21,842	7,144
Number of units of materials purchased from Supplier A ('000)	6,765	7,869	7,509	3,861
Average unit purchase price (RMB)	6.6	7.2	2.9	1.9

Based on the total sales of Supplier A as disclosed in the public disclosure of Customer H, our Group's purchases from Supplier A amounted to approximately 4.0%, 4.7% and 1.7% of Supplier A's overall sales for the years ended 31 December 2017, 2018 and 2019 respectively.

The substantial decrease in our overall average unit price of purchases from Supplier A in 2019 and 10M2020 was primarily due to the significant drop in the average unit purchase price of PCBAs achieved through negotiations with Supplier A, taking into account the fierce market competition and the significant decrease in selling price of compatible cartridge chips.

(2) Supplier B was a member of Listed Group B at the relevant times.

(3) Supplier C comprises two companies based in Taiwan and principally engaged in research, development and sale of IC products. These two companies had been classified as one single supplier of our Group during the Track Record Period because, to the best of the knowledge of our Directors, they were in effect both controlled by the same couple, operated under the direction of the same management and had worked together to provide the same types of products to our Group, and could therefore be seen as a whole as one single supplier.

As at the Latest Practicable Date, to the best of the knowledge of our Directors and Mr. Yu, Mr. Yu, a substantial shareholder of our Company who indirectly held 26.00% of our issued Shares, held a minority and non-controlling interest in the Controlling Shareholder of Customer H (being the direct holding company of Supplier A) through three of its minority shareholders. For further details of Mr. Yu's equity interest in the Controlling Shareholder of Customer H, please refer to the section headed "History, Development and Corporate Structure Pre-IPO Investments — Information about our Pre-IPO Investors — Information about GLC" in this prospectus.

Save as disclosed above, to the best of the knowledge of our Directors, as at the Latest Practicable Date, none of our Directors or their associates or our Shareholders who owned more than 5% of the issued share capital of our Company had any interest in any of the top five suppliers of our Group during the Track Record Period.

We generally do not enter into long-term supply agreements with our suppliers. Instead, we would place purchase orders based on the BOM and product design specification. During the Track Record Period, the orders from our approved suppliers were generally delivered to us within two to 15 days and payments to the suppliers are made by us within the agreed credit period. Pricing terms are negotiated with the suppliers at the time of purchase based on the prevailing market rates and comparison of various fee quotations obtained from our pool of suppliers.

Concentration of Suppliers

For the years ended 31 December 2017, 2018 and 2019 and 10M2020, our purchases from top five suppliers accounted for approximately 90.0%, 89.1%, 89.6% and 84.8% of our total purchases respectively. In particular, for the years ended 31 December 2017, 2018 and 2019 and 10M2020, our purchases from our largest supplier amounted to approximately 40.1%, 46.3%, 46.0% and 49.3% of our total purchases respectively. We had opted to procure the raw materials required (being primarily PCBAs in 2017 and 2018, and ICs in 2019 and 10M2020) primarily from the above limited group of suppliers during the Track Record Period given their stable supply of products that met our quality requirements and the savings on procurement costs and administrative costs that could be made through bulk purchases.

During the early phase of the Track Record Period, we often chose to purchase PCBAs directly from external suppliers, instead of designing and developing PCBAs from scratch, and hence our largest supplier in 2017 and 2018 was a PCBA supplier. In the meantime, we had been strengthening our own research and development capacity in relation to PCBAs, which had permitted us to predominantly use PCBAs assembled by our subcontractors based on our specified configurations using ICs and other parts sourced from external suppliers in production since 2019; therefore, our purchases of ICs increased significantly in 2019 with a corresponding decrease in purchases of PCBAs, and our largest supplier became suppliers of primarily ICs in 2019 and 10M2020.

Please refer to the section headed "Risk Factors — Risks Relating to Our Business and the Industry — Our business could be materially and adversely affected if we are unable to maintain our business relationships with major suppliers due to the fact that our suppliers are highly concentrated" in this prospectus for further details of the supplier concentration risk.

Risks of Supplier Concentration

Notwithstanding the relatively high degree of supplier concentration which the proportions of purchases attributable to our top five suppliers during the Track Record Period may suggest, our Directors are of the view that we are not reliant on any single supplier or subject to excessive risks of supplier concentration for the following reasons:

(i) we are able to promptly switch to other suppliers from time to time according to the prevailing circumstances, as we generally do not enter into long-term supply agreements with our suppliers and would place individual purchase orders for each purchase based on our BOM and product design specification. While we are at present well prepared to procure the respective parts of PCBAs from external suppliers and engage subcontractors to assemble PCBAs for us based on our specified configurations, we may switch to direct procurement of PCBAs as an alternative in case of emergency or where otherwise necessary. Such a practice allows us to maintain flexibility in supplier selection;

(ii) we have maintained a list of approved suppliers from which we procure PCBAs and their parts. As at the Latest Practicable Date, there were 47 suppliers on our list of approved suppliers. To qualify as an approved supplier of our Group, a supplier must undergo an initial qualification assessment to be conducted by way of on-site investigations and sample tests. We would also gather further information in relation to the supplier's history of operation, company size, production facility and capacity, quality control procedures and business operation. Our selection criteria include, among others, quality of goods, punctuality of delivery, price and quality of services. We conduct regular reviews to ensure that the approved suppliers are able to meet the above criteria on a continuing basis. When making each purchase, we would compare the fee quotations from various approved suppliers and where necessary, we would further negotiate with each of them to maintain our estimated profit margins for our products. Given that there is a list of suppliers we can choose from as we see fit, our Directors do not consider that it will cause any material disruption to our business if any of our approved suppliers is not able to or decides not to take orders from us;

(iii) we evaluate procurement opportunities from new suppliers and seek to increase our procurement choices from time to time. New suppliers would be added to our list of approved suppliers if they meet our selection criteria, thereby further improving our procurement flexibility;

(iv) PCBAs and their parts (including ICs) are in abundant supply in the market according to the CIC Report. In the event that any of our existing suppliers ceases to supply ICs, PCBAs or other parts PCBAs to us, our Directors believe that we will be able to source items of similar quality from alternative suppliers with ease on largely comparable terms;

(v) to reduce our reliance on the suppliers of PCBAs and their parts, we have been strengthening our own research and development works in relation to PCBAs and already acquired expertise in respect of design of PCBs. Meanwhile, we are also seeking to acquire IC development capacity. As our research and development capability continues to improve, it is expected that we will become well-equipped to meet our demand for PCBAs internally (i.e. using PCBAs entirely of our own designs (comprising self-designed ICs) produced and assembles by our subcontractors) and gradually further reduce the amount of PCBAs and/or ICs purchased from external suppliers; we will thus become less susceptible to any adverse change in the state of operation of our existing major suppliers or our business relationships with them; and

(vi) our Directors consider that we have established and maintained good business relationships with our suppliers. During the Track Record Period and up to the Latest Practicable Date, there had not been any material shortage of raw materials required by us or any indication from our suppliers that they would not be able to continue to satisfy our demand in the future.

Inventory Control

Our inventory includes (i) raw materials, including primarily PCBAs and their parts (such as ICs); and (ii) finished products, which are compatible cartridge chips. For more information, please refer to the section headed "Financial Information — Description of on Major Components of Statements of Financial Position — Inventories" in this prospectus.

We strategically keep a low level of inventory. For raw materials, we usually maintain a level sufficient for use in the next two to three months, since the raw materials can be readily purchased from the market or our subcontractors. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material shortage of inventory supply. Further, as vast majority of our suppliers are situated in Guangdong where our headquarters is located, the time period between placement of purchase order and inventory delivery is relatively short and generally within two to 15 days. For finished goods, we generally maintain a low inventory level for meeting future orders to be received, as the whole production process can usually be completed within five to 10 days. We closely monitor our inventory level on a continuous basis to prevent any situation of stock-out or over-stocking by conducting stock take on a monthly basis. To the best of the knowledge of our Directors having made all reasonable enquiry, our inventory strategy is in line with the market practice among compatible cartridge chip providers in the PRC.

As our inventory is crucial assets to our business, we strictly enforce our inventory control procedures as part of our internal control policy sanctioned by our Directors. According to our internal control handbook, our responsible staff keep corresponding certificates for all batches of our inventory evidencing their specification and quality, whereas our finance department maintains separate accounts for the purpose of record-keeping and auditing. Regular checks are carried out and monitoring systems are in place to ensure that the environment, such as temperature and humidity, is appropriate for inventory storage. We further employ standardised procedures to make sure that our venue and facility that stores and contains our inventory are compliant with our anti-fire, anti-theft, anti-humidity and anti-dust standards.

Inventory Control Measures and Policies for Product Return and Exchange

In terms of the return and exchange policy of our Group, our Group has adopted, among others, the following inventory control measures and policies:

(a) our Group will discuss with its customers on the reasons leading to the exchange or return of products;

(b) if the exchange or return was due to the quality issue of our Group's products, its research and development team will identify the issues and formulate solutions to improve the quality of products;

(c) in respect of unutilised chips which are no longer compatible with the original-brand printers after upgrades and returned to us or exchanged for new compatible chips, our Group would explore to reuse the PCBAs by installing them in the modified versions of the firmware developed by our Group;

(d) meeting will be held every month between our research and development team, warehousing team, production team, procurement team and sales and marketing team to discuss arrangement of the long-aged obsolete inventory of raw materials, semi-finished products, and finished goods;

(e) our warehousing team will provide a list of long-aged obsolete inventories every month, in order to monitor the amount of long-aged obsolete inventories;

(f) our production team will analyse on the reasons for the long-aged obsolete inventories to avoid further accumulation of long-aged obsolete inventories;

(g) our research and development team will evaluate the quality and functionality of the long-aged obsolete inventories, and consider if they can still be used in production or for sale;

(h) for finished goods which are still suitable for sale after further modification, our sales and marketing team will formulate sales plan to sell such products; and

(i) for long-aged obsolete inventories which are not suitable for sale due to its obsolescence or defects, our warehousing team will arrange for write-off of such long-aged obsolete inventories.

OVERLAPPING CUSTOMERS AND SUPPLIERS, INDUSTRY LANDSCAPE AND TRANSACTIONS WITH LISTED GROUP A AND LISTED GROUP B

During the Track Record Period, we had certain major customers whose fellow group companies were also our suppliers, and certain major suppliers which themselves or whose fellow group companies were also our customers, including members of Listed Group A and Listed Group B. Listed Group A and Listed Group B were engaged in production and sale of PCBAs, compatible cartridge chips and compatible cartridges in the PRC. While we had primarily purchased PCBAs and other cartridge components from these two groups during the Track Record Period, we had also sold to them compatible cartridge chips made of PCBAs sourced from other suppliers. Further details of our transactions with Listed Group A and Listed Group B are set forth below.

In addition, during the Track Record Period, we had purchased an insignificant amount of compatible cartridges from one of our major customers, and sold an insignificant amount of compatible cartridge chips to a major supplier. Such cartridges and chips had been purchased by us and by our suppliers for use in our respective research and development processes (in the testing stage, in particular), such that we could make sure our chips could satisfy our customers' cartridge production requirements, and likewise our suppliers could make sure the PCBAs to be supplied to us would meet our needs in production of chips.

Negotiations of the terms of our sales to and purchases from the above customers and suppliers had been conducted on an individual basis, and such sales and purchases were neither inter-connected nor inter-conditional. Our Directors confirm that all of our sales to and purchases from these counterparties had been made on normal commercial terms and an arm's length basis in the ordinary course of business of our Group.

During the Track Record Period, the credit periods granted by us to customers (excluding members of Listed Group A) generally ranged from 30 to 120 days, and we had normally been offered credit periods ranging from 30 to 60 days by our suppliers (excluding members of Listed Group A). The credit periods we had granted to members of Listed Group A ranged from 30 to 90 days; on the other hand, members of Listed Group A had principally allowed us credit periods ranging from 30 to 60 days. The above credit periods fell within the ranges of credit periods we had granted to other independent customers and had been offered by other independent suppliers during the Track Record Period.

During the Track Record Period, our unit selling prices (and hence gross profit margins) for sales to members of Listed Group A had been comparable to, or below, the unit selling prices (and hence gross profit margins) at which we had sold similar products to other independent customers at or around the relevant points of time. Our unit selling prices were primarily set using the prevailing market prices of the products or comparable products as the benchmarks, and taking into account our costs in developing and producing the products and the market's acceptability as might be reflected by the price levels in the compatible cartridge market. During the Track Record Period, we had been minded to offer our products to members of Listed Group A at more competitive unit selling prices primarily due to their favourable credit standing given their status as a listed company or its subsidiaries, and their relatively larger order size. We had also taken into consideration their future plans in relation to purchases from us, and we would seek to offer our products at more competitive selling prices in order to secure future sales and maintain amicable business relationships.

As regards our purchases from members of Listed Group A, during the Track Record Period, the average unit prices of PCBAs purchased from members of Listed Group A had been comparable to, or below, the unit prices at which we had purchased similar products from other independent suppliers at or around the relevant points of time. The average prices offered by members of Listed Group A were generally comparable or lower primarily due to (i) our long-standing and well-established business relationship with, among others, Supplier A (our principal supplier within Listed Group A) and sound payment records over the years; (ii) the fact that Listed Group A, as the largest compatible cartridge manufacturer and the largest compatible cartridge chip provider in China, was well-positioned to achieve economies of scale in production of PCBAs and therefore had generally been able to offer its PCBAs to our Group at more competitive prices than other suppliers; (iii) discounts from time to time offered by Supplier A for bulk purchases by us during the Track Record Period (including discounts offered at the rate of approximately 2.5%, 3.0%, 12.5% and 12.1% for the three years ended 31 December 2017, 2018 and 2019 and 10M2020 respectively, taking into account the long-term business cooperation between Supplier A and us and, in particular, the significant industry-wide pricing pressure in the downstream compatible cartridge chip market in 2019); and (iv) the incentive rebates offered by Supplier A to our Group from time to time during the Track Record Period (including annual incentive rebates offered at the rate of approximately 10.3% and 10.6% for the years ended 31 December 2018 and 2019) when our aggregate purchases from Supplier A had reached certain prescribed levels of quantities (which, to the best of the knowledge of our Directors, had also been made available by Supplier A to some of its other valued customers). Notwithstanding that the unit prices of PCBAs offered by Supplier A were generally more favourable than those offered by other independent suppliers, our Group had adopted a stringent procurement process, in which we had obtained quotations from different PCBA suppliers and compared and assessed their offers (including the prices and any discount and/or rebate that might be available) before making our procurement decisions; other factors including the respective operational scale, product quality, industry reputation, length of business relationship with us and dependability as demonstrated in previous transactions of the potential suppliers were also taken into account in the course of supplier selection, so as to ensure that our purchases would be made from suppliers (including Supplier A) on normal commercial terms.

Our Directors confirm that the terms of the transactions between Listed Group A and our Group had been agreed purely based on commercial considerations and reflected the prominent corporate profile of Listed Group A and our well-maintained mutual beneficial business relationship with Listed Group A and that the transactions between Listed Group A and our Group had been carried out on normal commercial basis.

The following table below sets out the total sales and total purchases attributable to the above customers and suppliers during the Track Record Period:

		Year ended 31 December			
	Major products involved	**2017**	**2018**	**2019**	**10M2020**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Transactions with members of Listed Group A					
Sales					
– Customer H	Chips	35	8	25,926	10,744
– Customer I	Chips	854	1,651	18,526	11,244
– Customer J	Chips	2,768	3,484	14,345	14,316
– Supplier A *(Note 1)*	ICs, chips other cartridge components	1,421	12,360	241	4,842
– Other member of Listed Group A	Chips	50	–	1,339	4,589
Subtotal *(Note 13)*		5,128	17,503	60,377	45,735
Percentage to our total revenue		2.4%	7.1%	38.3%	34.1%
Gross profit margin *(Notes 12, 13 & 18)*		39.3%	35.1%	80.8%	63.9%

	Major products involved	2017	2018	2019	10M2020
		Year ended 31 December			
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Purchases					
– Supplier A *(Note 2)*	PCBAs and ICs	44,498	56,817	21,842	7,144
– Other members of Listed Group A *(Note 3)*	PCBAs and other cartridge components	3,948	1,194	–	766
Subtotal		48,447	58,011	21,842	7,910
Percentage to total purchases		40.2%	46.3%	33.9%	19.4%
Other transactions					
Controlling shareholder of Customer H *(Note 4)*	Other income – research and development services	7,449	–	–	–
Transactions with members of Listed Group B					
Sales					
– Supplier B *(Note 5)*	Chips	1,459	2,082	5,874	705
– Other members of Listed Group B *(Note 6)*	Chips	8,344	3,776	132	63
Subtotal		9,803	5,858	6,006	768
Percentage to total revenue		4.6%	2.4%	3.8%	0.6%
Gross profit margin *(Notes 12, 14 & 18)*		45.8%	43.0%	55.7%	45.9%
Purchases					
– Supplier B *(Notes 5 & 7)*	PCBAs	31,774	14,717	116	8
– Other member of Listed Group B	Other cartridge components	637	448	516	718
Subtotal		32,411	15,165	632	726
Percentage to total purchases		26.9%	12.1%	1.0%	1.8%

	Major products involved	Year ended 31 December 2017	2018	2019	10M2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Transactions with Other Overlapping Customers & Suppliers					
Customer C					
– Sales *(Note 8)*	Chips	14,509	6,290	1,471	175
• Gross profit margin *(Notes 12, 15 & 18)*		40.3%	51.3%	76.6%	86.1%
– Purchase *(Note 8)*	PCBAs	137	134	113	76
Customer E					
– Sales	Chips and other cartridge components	9,740	14,730	4,392	5,757
• Gross profit margin *(Notes 12, 16 & 18)*		35.4%	55.6%	15.6%	77.0%
– Purchase *(Note 9)*	Cartridges for testing purpose	9	–	38	–
Supplier D					
– Sales *(Note 10)*	Chips for testing purpose	58	–	90	73
• Gross profit margin *(Notes 12, 17 & 18)*		(1.7%)	–	3.3%	11.1
– Purchase	PCBAs	10,665	15,093	1,712	390
– Other transaction *(Note 11)*	– Other income				
	– research and development service	–	–	1,132	–

Notes:

(1) During the Track Record Period, the products we sold to Supplier A mainly included ICs and other cartridge components sold in transactions of a trading nature. The relatively significant amount recorded in 2018 was mainly attributable to the sales of certain custom-made models of ICs we sourced for Supplier A upon request. To the best of the knowledge of our Directors, during 2018, Supplier A encountered problems in coping with certain printer upgrades made by the original-brand printer company, which rendered the relevant IC models developed by Supplier A itself unfit for use. Our Group had been offering compatible cartridge chips for the relevant printer models, using ICs sourced from other suppliers that were custom-made for us according to our specifications. Due to the facts that the customised IC models used by us were perceived to be of more advanced upward compatibility and would be compatible with the upgrade models of the printers, and that Supplier A could not source the same directly from our supplier (as the relevant models of ICs were customer-made according to the specifications prescribed by us, and the specifications of the ICs used belong to our Group and therefore our supplier may not supply such ICs to other customers due to confidentiality), Supplier A had approached us for supply of the relevant IC models procured from our supplier. We were minded to sell such specialised models of ICs to Supplier A with a view to capturing additional revenue and gross profits.

(2) For the years ended 31 December 2017, 2018 and 2019 and 10M2020, the number of units of materials purchased from Supplier A amounted to approximately 6.8 million, 7.9 million, 7.5 million and 3.9 million respectively while the average unit purchase price was RMB6.6, RMB7.2, RMB2.9 and RMB1.9 respectively. While the volume of materials purchased by us from Supplier A remained stable in 2019 as compared with that in 2018, the monetary amount of purchase made by us from Supplier A decreased significantly in 2019 as compared with that in 2018 due to the decrease in average unit purchase price of PCBAs we purchased from Supplier A as a result of (i) the strengthening of our research and development capacity in relation to PCBAs, which had permitted us to predominantly use PCBAs assembled by our subcontractors based on our specified configurations using ICs and other parts sourced from external suppliers in production starting from 2019, as a result of which we have reduced the proportion of purchase of PCBAs for new models of chips which are of higher price from Supplier A and the reliance in procurement on Supplier A (which primarily served as our PCBA supplier throughout the Track Record Period); and (ii) our active negotiations with Supplier A in order to lower our costs by agreeing on a lower purchase price of PCBAs in view of the fierce market competition and the significant decrease in selling

price of compatible cartridge chips according to the CIC Report and considering our long-term business relationship with Supplier A and the availability of alternative suppliers in the market.

(3) The products purchased by us from other members of Listed Group A mainly included PCBAs for production use and other cartridge components, such as toner for trading purpose.

(4) The amount represents income from services provided to a controlling shareholder of Customer H in research and development in relation to printer chips in 2017. Such income had been recognised as other income.

The controlling shareholder of Customer H was engaged in production, processing and sales of laser printers, among others, and would therefore have demand for printer chips in its ordinary and usual course of business. To the best of the knowledge of our Directors, there was a variety of models of printer chips that it would need to use in the production of each printer model, and it was beyond its capacity to develop all such printer chip models through its own research and development endeavours; it has therefore adopted the practice of outsourcing the development of certain printer chip models to suitably qualified outside service providers at reasonable costs, and/or importing certain chip models. The research and development project undertaken by us involved design and development of a model of chip for monochrome laser printers for the controlling shareholder of Customer H. Our Group had participated in tendering process, and our Directors believe we were awarded the contract out of (i) recognition of the experience and competence of our research and development team (including, in particular, several members of our senior staff stationed at our Taiwan or Shanghai branch office who were experienced in IC design and had gained years of work experience at companies principally engaged in manufacturing of semiconductors or provision of scanning and imaging solutions), (ii) our industry reputation for developing and offering products with satisfactory dependability, and (iii) the reasonable fees quoted by us.

Pursuant to the service contract, the research and development cycle shall be 14 months, and the total fees were RMB13 million, which shall be payable by instalments at different stages of the research and development process. Since printer chips have more advanced functionality and performance and involve a higher degree of technical complexity and we did not possess the requisite specialised testing equipment for printer chips, we had engaged an independent IC processing and testing company established in the PRC to perform validation in respect of the printer chips upon completion of IC design and testing of reliability of the software component, based on the printer chips, components and parts, and design proposals provided by us. The above step in the research and development process of printer chips is relatively complex in nature and requires the use of sophisticated equipment, and hence it is typical in the industry that such tasks are delegated to external service providers due to cost concerns. To the best of the knowledge of our Directors, except for the engagement of this company by our Group for the provision of testing services, there were no past or present relationships (business, employment, family, financing or otherwise) between the IC processing and testing company or its associates on one hand and our Group, Directors or senior management or any of their respective associates on the other hand. We incurred testing fees of RMB4 million as a result, the amount of which was determined based on the complexity and technical specifications of the testing involved. The income from the provision of research and development services recognised is net of the testing fees and other expenses incurred in connection therewith given that the Group had no control on the testing results is therefore considered to have acted as an agent in providing the research and development services to the controlling shareholder of Customer H under the relevant accounting standard. The full amount of such net income was recognised by the Group in 2017 since the project was completed in 2017 within 10 months from the commencement date of the project (i.e. 20 December 2016).

(5) Supplier B was principally engaged in production and sale of cartridge chips and ICs. During the Track Record Period, while we mainly purchased PCBAs from Supplier B, we also sold our compatible cartridge chips to Supplier B for printer models they did not cover.

(6) They are mainly cartridge manufacturers, being the cartridge manufacturing arms of Listed Group B.

(7) During the Track Record Period, there had been a significant decrease in our purchases of PCBAs from Supplier B in 2019 and 10M2020 as compared with 2017 and 2018. There has been a drop in our demand for ready-made PCBAs from external suppliers, as we have started to conduct substantive design work in respect of PCBs and engage subcontractors to assemble PCBAs on our own based on our specified configurations.

(8) Customer C was principally engaged in production and sale of ICs, chips and other electronic products. During the Track Record Period, while we mainly sold our compatible cartridge chips to Customer C for printer models they did not cover, we also purchased from Customer C products mainly including PCBAs as production materials for production of the chips to be supplied by us.

(9) The amount mainly represents our purchases of compatible cartridges from our customers for use in our research and development process (in the testing stage, in particular) in order to ensure our chips could satisfy the requirements of our customers in cartridge production.

(10) The amount mainly represents our sales of chips to our suppliers (being PCBAs providers) for their use in research and development process (in the testing stage, in particular) to ensure their PCBAs could meet our needs in production of chips.

(11) The amount represents income from services provided to Supplier D in research and development in relation to ICs. Such income had been recognised as other income.

(12) For the years ended 31 December 2017, 2018 and 2019 and 10M2020, our average gross profit margin of sales to other independent customers, i.e. customers of our Group other than members of Listed Group A and Listed Group B, Customer C, Customer E and Supplier D, was approximately 45.3%, 47.6%, 40.1% and 47.9% respectively.

(13) For the years ended 31 December 2017, 2018 and 2019 and 10M2020, our average gross profit margin of sales to customers other than members of Listed Group A was approximately 44.5%, 48.1%, 40.3% and 49.9% respectively. Our gross profit margin of sales to Listed Group A for each of 2017 and 2018 was lower than our average gross profit margin of sales to other independent customers. The lower gross profit margin of sales to Listed Group A for each of 2017 and 2018 was primarily attributable to the sales of ICs to Supplier A at a relatively low gross profit margin in our trading business, where we typically recorded a lower gross profit margin overall. In addition, for 2017, we had also made sales of certain models of chips to Customer I at relatively low selling prices, which were typical of those particular models and consistent with the overall sales of such models to all customers of our Group given that such models had already reached the maturity stage.

We recorded a gross profit margin in relation to sales to Listed Group A that was significantly or noticeably higher than our average gross profit margin of sales to other independent customers in 2019 and 10M2020. It was primarily attributable to the sales of the Ink Cartridge Chip Models that we successfully developed in 2019 to Customer H, Customer I and Customer J. We had in general sold such chip models at a relatively high gross profit margin in that year/period, which we were able to achieve due to the recognition of the good quality, functionality and upward compatibility of such products by our customers and the facts that market demand was substantial and only a very limited number of competitors had successfully launched comparable chip models. Following the launch of the Ink Cartridge Chip Models in the second or third quarter of 2019, the commencement of our sales of the Ink Cartridge Chip Models to Listed Group A since September 2019 and the significant increase in the same in 4Q2019, our gross profit margin in respect of sales of the Ink Cartridge Chip Models to Listed Group A was approximately 82% in 4Q2019 and 72% in 10M2020, which was comparable to the gross profit margin in respect of sales of the Ink Cartridge Chip Models to other independent customers of approximately 81% in 4Q2019 and 80% in 10M2020. The gross profit margins that such chip models carried exceeded the average range in the industry and were higher than those of the chip models we sold to Listed Group A (as well as the ICs sold to Listed Group A in our trading business, where a lower gross profit margin was typically recorded overall as explained above) in 2017 and 2018, which contributed to the significant increase in our overall gross profit margin of sales to Listed Group A in 2019 and 10M2020.

While our chip models were sold to Customer H, Customer I and Customer J at comparable or (taking into account, among others, the favourable credit standing of the relevant member of Listed Group A and the size of the particular order) lower unit prices (and thus lower gross profit margins) as compared with sales of the same products to other independent customers at or around the relevant points of time, our overall gross profit margin of sales to Listed Group A in 2019 and 10M2020 far exceeded the average level of sales to other independent customers because of the difference in the relevant product mix (i.e. sales to Listed Group A mainly involved products that carried a high gross profit margin by nature (i.e. the Ink Cartridge Chip Models newly launched in 2019), while other independent customers purchased a larger proportion of other products with a lower gross profit margin).

Owing to (i) the considerable demand for chips for compatible ink cartridges of Listed Group A, being the world's largest manufacturer of compatible ink cartridges in 2019 with a market share of approximately 50% by sales volume as confirmed by CIC; and (ii) the advanced quality, functionality and upward compatibility of our new compatible ink cartridge chip models launched in 2019 and the fact that only a very limited number of competitors had successfully launched comparable chip models (as described above), Listed Group A had made sizeable purchases of such products from us since 2019, which resulted in the significant increase in our sales of chips to Listed Group A in 2019 and 10M2020. Our total sales of such products to Listed Group A in 2019 and 10M2020 were approximately RMB58.0 million and RMB40.7 million, with an average gross profit margin of 81.8% and 72.3% respectively.

(14) Our gross profit margin of sales to Listed Group B for each of 2017, 2018 and 10M2020 was comparable to our average gross profit margin of sales to other independent customers.

We recorded a gross profit margin in relation to sales to Listed Group B that was noticeably higher than our average gross profit margin of sales to other independent customers in 2019. The higher gross profit margin in 2019 was primarily attributable to the sales of the upgraded version of certain models of chips for desktop inkjet printers to Supplier B at a relatively high gross profit margin, which were typical of those particular models and consistent with the overall sales of such models to all customers of our Group. We were able to achieve such a gross profit margin due to the recognition of the good quality, functionality and upward compatibility of such products by our customers and the fact that only a few competitors had successfully launched products with similar features and functionality at that time.

(15) Our gross profit margin of sales to Customer C for each of 2017 and 2018 was comparable to our average gross profit margin of sales to other independent customers.

We recorded a gross profit margin in relation to sales to Customer C that was significantly higher than our average gross profit margin of sales to other independent customers in 2019 and 10M2020, mainly due to the sales of a number of models of chips within the introduction stage at relatively high selling prices, which were typical of those particular models and consistent with the overall sales of such models to all customers of our Group.

(16) Our gross profit margin of sales to Customer E for each of 2017 and 2019 was lower than our average gross profit margin of sales to other independent customers. During the Track Record Period, while the majority of our revenue from sales to Customer E was derived from sales of chips to Customer E, we had also sold other cartridge components to Customer E in our trading business. The lower gross profit margin of sales to Customer E for 2017 was primarily attributable to the sales of certain other cartridge components, such as plastic parts, at a relatively low gross profit margin in our trading business, where we typically recorded a lower gross profit margin overall. The lower gross profit margin of sales to Customer E for 2019 was primarily attributable to the sales of certain models of toner cartridge chips at a relatively low gross profit margin as a result of the decline in the average selling prices of those models.

Our gross profit margin of sales to Customer E for 2018 was comparable to our average gross profit margin of sales to other independent customers.

We recorded a gross profit margin in relation to sales to Customer E that was significantly higher than our average gross profit margin of sales to other independent customers in 10M2020, mainly due to the sales of a number of models of chips within the introduction stage at relatively high gross profit margins, which were typical of those particular models and consistent with the overall sales of such models to all customers of our Group.

(17) Our chips were sold to Supplier D in 2017, 2019 and 10M2020 for their research and development use, as a means to ensure that the PCBAs to be supplied by Supplier D to us would fit our production requirements. Hence, such sales of chips, which were minimal in amount, were not intended to be profit-making and made at or around the costs of sales.

(18) On the basis of the factors explained above, our Directors confirm that all of our transactions with such counterparties were conducted on normal commercial terms.

Industry Landscape and Our Business Dealings with Listed Group A and Listed Group B

According to the CIC Report, notwithstanding the fierce market competition, compatible cartridge chip providers maintain a reciprocal relationship with each other out of commercial consideration, and it is an industry norm that independent compatible cartridge chip providers (which engage in production of compatible cartridge chips) and integrated compatible cartridge providers (which engage in production of PCBAs, compatible cartridge chips and compatible cartridges) enter into various sales and purchases transactions from time to time. Please refer to the section headed "Industry Overview — Overview of the Cartridge Industry — Relationship between China's independent compatible cartridge chip providers and integrated compatible cartridge providers" in this prospectus for further analysis on their business relationships. In particular, it is not practical and cost effective for integrated compatible cartridge providers to cover compatible cartridge chips for all printer brands and models, and the chips provided by their competitors may be better designed with higher quality and functionality. Hence, integrated compatible cartridge providers may purchase chips from their competitors, including independent compatible cartridge chip providers such as our Group. On the other hand, if integrated compatible cartridge providers, which are normally enterprises with a larger scale of operation and production, have additional production capability, they may also sell PCBAs to their competitors, including independent cartridge chip providers. By so doing, they can generate additional profits while benefiting from economies of scale, and establish a mutual beneficial relationship in case that they may need to source chips from their competitors due to the reasons stated above. Independent compatible cartridge chip providers like us may also source PCBAs from integrated compatible cartridge providers due to their better understanding of products in the industry, as compared with PCBA providers with no in-depth experience in the compatible cartridge industry.

Listed Group A was the largest compatible cartridge manufacturer and the largest compatible cartridge chip provider in China, with a market share of more than 40.0% and approximately 41.5% respectively in terms of external sales in 2019. Customer H is an A-share listed company and the holding company in Listed Group A. Customer I and Customer J, principally engaged in manufacturing of cartridges, were acquired in June 2017 by Customer H and have since then become 51%-owned subsidiaries of Customer H. Listed Group A collectively was our fourth largest customer in 2018 and largest customer in 2019 and 10M2020. Listed Group A collectively was also our largest supplier in 2017 and 2018 and second largest supplier in 2019 and 10M2020. In particular, we primarily purchased PCBAs from Supplier A and sold certain specialised models of ICs to it in our trading business during the Track Record Period. During the Track Record Period, we had also purchased mainly PCBAs and other cartridge components for trading purpose (such as toner) from other members of Listed Group A, and provided services in research and development in relation to printer chips to a controlling shareholder of Customer H in 2017, from which other income in the amount of approximately RMB7.4 million was recognised.

Listed Group B, with its holding company being an A-share listed company, was the second largest compatible cartridge manufacturer and the third largest compatible cartridge chip provider in China with a market share of more than 10% and approximately 9.2% respectively in terms of external sales in 2019. Supplier B, a member of Listed Group B, was our second largest supplier in 2017 and fourth largest supplier in 2018. During the Track Record Period, while we mainly purchased PCBAs from Supplier B, we also sold our compatible cartridge chips to Supplier B for printer models they did not cover, and to other members of Listed Group B which principally engaged in manufacturing of compatible cartridges. Listed Group B collectively was our fourth largest customer in 2017 and 2019 respectively.

While Listed Group A and Listed Group B collectively took up more than 50% of the market share in the compatible cartridge market in China in terms of external sales in 2019, our Directors are positive that there remains room for us to grow our business and thrive in the compatible cartridge chip market. There exists between Listed Group A and Listed Group B, being integrated compatible cartridge manufacturers, and us, being an independent compatible cartridge chip providers, a mutual beneficial relationship, which is characteristic of the market players in the industry. Thanks to our edge in the development of certain models of compatible cartridge chips, the purchases of chips by Listed Group A and Listed Group B from us are likely to be conducted on a continuing basis, which will render us primed to maintain our market position and achieve joint business growth with the major market players. On top of that, according to the CIC Report, the rest of the compatible cartridge market is shared by a number of compatible cartridge manufacturers with notable demand for chips from independent compatible cartridge chip providers. Given our strategies to (i) achieve further diversification of our product portfolio; and (ii) accelerate the development of our hardware design capabilities through acquisition of IC design company, we believe we are well positioned to pursue business growth independently with persistent demand for our products from Listed Group A, Listed Group B and other compatible cartridge manufactures. In the meantime, we will also seek to increase our footprint in the compatible cartridge industry through forward vertical expansion, i.e. acquisition of downstream compatible cartridge manufacturers, which is also expected to help bolster our position as one of the leading market players.

During the Track Record Period, we sold our compatible cartridge chips to the cartridge manufacturing arms of Listed Group A (including Customer H, Customer I and Customer J) and, to a lesser extent, to the cartridge manufacturing arms of Listed Group B. In the compatible cartridge chip market, there exist numerous printer models and each provider of compatible cartridge chips may have a competitive advantage in developing different models or may even be the exclusive supplier of certain models. In line with the industry norm, we understand that the cartridge manufacturing arms of Listed Group A and Listed Group B normally source from us compatible cartridge chips for certain cartridge models which are not covered by their chips; in case the cartridge chip division of Listed Group A and Listed Group B could produce chips for such cartridge models, they may nevertheless still make external procurement of chips for such cartridge models from us to meet part of their demand, in view of the competitive prices offered by us and the recognition of the outstanding quality, functionality and upward compatibility of our products by our customers and the need to mitigate supplier concentration risks by diversifying its upstream supply of chips so as to mitigate against the risk of supply chain disruption arising from, among others, any operational disruption of any particular supplier, or the incompatibility of any chips sourced from any particular supplier upon system upgrades to printers by the original-brand printer companies.

On the other hand, in line with the industry norm, we had sourced mainly PCBAs from Listed Group A (primarily Supplier A) and Listed Group B (primarily Supplier B), during the Track Record Period. We opted to source such products from them for the following reasons:

(i) the engagement of the Listed Group A and Listed Group B as our suppliers was regarded as an effective cost-saving measure. The major products we purchased from Listed Group A and Listed Group B during the Track Record Period were PCBAs. Listed Group A and Listed Group B have high demands for PCBAs for their internal uses and possess relatively large production capacity in order to meet such demands. Due to the economies of scale achieved through the large production volume, Listed Group A and Listed Group B generally offered lower prices than other suppliers of PCBAs;

(ii) as compared with those PCBA suppliers with no in-depth experience in the compatible cartridge industry, integrated compatible cartridge providers are normally in a better position to provide PCBAs that answer our needs in production of compatible cartridge chips due to their expertise in development and production of the final products. Besides, it would not be cost-effective for us to engage in the production of certain models of PCBAs on our own, as the demand for the relevant final products might be not sizeable enough or the raw materials required might be relatively uncommon;

(iii) as confirmed by CIC, it is in line with the industry norm for Listed Group A and Listed Group B, as the leading market participants, to sell PCBAs to other market participants in the compatible cartridge chip market, so that they could maximise utilisation of their production capacity and generate additional profits by selling the PCBAs produced; and

(iv) we had maintained an amicable business relationship with Listed Group A and Listed Group B during the respective term thereof. Our Directors confirm that throughout the Track Record Period, Listed Group A and Listed Group B had not rejected any order from us and we had not encountered any material shortage of supply of products from them.

Given that (1) we enjoy a high degree of flexibility in supplier selection as our purchases from our suppliers are made on an order-by-order basis, we have a list of approved suppliers which we seek to expand from time to time, and PCBAs and their parts are readily available from other suppliers in the market; and (2) we have acquired enhanced research and development capability in relation to PCBAs and significantly reduced the purchases of PCBAs starting from 2019, our Directors are of the view that we do not have any undue reliance on Listed Group A and Listed Group B, as our suppliers. Please refer to the paragraphs headed "Concentration of Suppliers — Risks of Supplier Concentration" in this section for further elaboration of the two relevant factors mentioned above. As a matter of fact, while Listed Group A was our top supplier in 2017 and 2018, it became our second largest supplier in 2019 and 10M2020 with a continuing decrease in the percentage of our total purchases attributable to it; our purchases from Listed Group B were also on the decline throughout the Track Record Period and it was no longer among our top five suppliers starting from 2019. On the other hand, we have a highly diversified customer base and our products had been sold to over 900 customers during the Track Record Period. Thanks to our product quality and swiftness in responding to the market developments, we have been a sought-after provider of compatible cartridge chips among an extensive group of customers, which encompasses various cartridge manufacturers that are not part of Listed Group A or Listed Group B. After completion of our proposed acquisitions downstream compatible cartridge manufacturers, part of our chips produced will be applied towards satisfaction of our internal demand for chips in connection with production of compatible cartridges, and this will effectively bring down our proportion of sales attributable to our existing customers, including members of Listed Group A and Listed Group B. Therefore, our Directors believe that we are not exposed to excessive risks in connection with our business dealings with Listed Group A and Listed Group B and would not be materially and adversely affected if our business relationships with them are terminated due to competition issues or otherwise.

IMPACT OF US-CHINA TRADE WAR ON OUR GROUP

According to the CIC report, different level of tariff was imposed on compatible cartridges by the U.S. government based on the HTS code of compatible cartridges. The applicable tariff imposed on compatible cartridges exported from the PRC to the U.S. with certain HTS code was 25% since 6 July 2018. The applicable tariff imposed on compatible cartridges with other HTS code was 15% from 1 September 2019 to 13 February 2020 and 7.5% since 14 February 2020. Most compatible cartridges exported from the PRC to the U.S. are subject to tariff of 7.5% as at the Latest Practicable Date. Prices of compatible cartridges and their chips had experienced a major decline as a result. Sales of our customers, being compatible cartridge manufacturers, may be affected by the trade war as they exported their products to the U.S. However, since (i) the majority of compatible cartridges manufacturers are located in the PRC, it is difficult for downstream wholesalers located in the U.S. to seek alternative suppliers outside China; and (ii) the gross profit margin for downstream wholesalers remains high enough for them to cover the extra tariff, it is an industry trend that imposed tariff is gradually being shared between compatible cartridge manufacturers and downstream wholesalers in the U.S., it is expected that the impact of trade war on compatible cartridge manufacturers in China would be limited.

According to CIC, during 2019, the average selling price of compatible cartridge chips has been affected by a few factors, including the US-China trade war, limited number of newly launched models of printers and industry consolidation. The US-China trade war, being one of the factors affecting the pricing industry-wide, has led to a decrease in average price of compatible cartridge chips, which in turn led to a decrease in the average selling price of products of our Group. The average selling price of our chips has decreased from RMB16.8 for the year ended 31 December 2018 to RMB8.8 for the year ended 31 December 2019. Although most of our major customers have exported their products to U.S. market and were under the influence of the US-China trade war, the sales volume of our chips increased from 13.2 million for the year ended 31 December 2018 to 17.1 million for the year ended 31 December 2019. In addition, for the years ended 31 December 2018 and 2019, we recorded a gross profit margin of approximately 47.1% and 55.9% and a net profit margin of 25.4% and 26.2% respectively. Despite the decrease in average selling price of our chips, our gross profit margin for the year ended 31 December 2019 has increased, mainly due to the increase in gross profit margin of our chips for inkjet printers from approximately 30.6% to approximately 71.4% due to (i) the higher profit margin of certain models of chips for desktop inkjet printers we successfully developed and started to sell in 2019, which were recognised by our customers in terms of good quality, functionality and upward compatibility, and with only a few competitors having successfully launched products with similar features; and (ii) the decrease in cost of sales due to the proportional increase of our purchase of ICs and other parts of PCBAs as a result of the increase of our independent research and development and the lower purchase prices of PCBAs and ICs in view of our long-term business relationship with the suppliers and the availability of alternative suppliers in the market. While the market selling prices of chips (including that of our Group) had generally experienced a major decline in 2019 due to, among others, the US-China trade war, during the Track Record Period, we had not received any request from customers to cancel orders, further reduction of the selling price and/or reduction of order size as a result of the US-China trade war. Taken into account that the tariff rates have shown a decreasing trend, and the world, including the United States, has been heavily relying on the import of compatible cartridges and compatible cartridge chips from the PRC with approximately 79.3% of compatible cartridges and 90.5% of compatible cartridge chips in terms of production volume in the world in 2019 were made in the PRC, our Directors are of the view that the US-China trade war will have no material adverse impact on the business and financial performance of our Group going forward. In addition, with the demand and need for printing, compatible cartridges have always been commercial necessities, and demand of compatible cartridge chips, being important components of compatible cartridges, may maintain accordingly. We expect that the selling price of our products may not further drop significantly as was the case in 2019 due to fierce market competition. Further, according to the CIC Report, except for the tariff imposed generally along with other Chinese merchandises, no other additional action and/or tariffs has been taken or imposed by the US government specifically against the compatible cartridge made in, or imported from, the PRC. We will continue to monitor the development of the US-China trade war and adopt appropriate business strategies shall it affect the business and financial performance of our Group.

BUSINESS SUSTAINABILITY

Despite the decrease in our overall revenue and net profit in 2019 as a result of market volatility and our temporary customer concentration in 2019 and 10M2020, our Directors are of the view that our business as a whole will be sustainable in the long-run for the following reasons:

- **Proven track record of successfully launching new products with significant demand**

  As presented in the sales breakdown of new products launched during the Track Record Period set forth in the paragraphs headed "Research and Development — Chip Models Launched During the Track Record Period" in this section, significant revenue and gross profit have traditionally been recorded by our Group from the sales of our newly launched products.

  Our new chip models for desktop laser printers launched in 2018 had received immediate favourable market response and contributed approximately 20.8% of our total revenue from sales of chips for 2018. Likewise, the products launched by us in 2017 (among which those chip models with high market demand were launched towards the end of the year (i.e. in November 2017)) were well received by the market and the sales generated in 2018 represented approximately 14.7% of our total revenue from sales of chips for that year. In other words, approximately 35.5% of our revenue from sales of chips in 2018 were mainly contributed by new products launched during the period of around one year from late 2017 to 2018.

During 2019, we had launched a number of new chip models for desktop inkjet printers (being primarily the Ink Cartridge Chip Models), which generated approximately 41.1% of our total revenue from sales of chips for 2019.

During 10M2020, approximately 17.6% of our total revenue from sales of chips were attributable to the new models of compatible toner cartridge chips mainly launched in the six months ended 30 June 2020 (all of which were sold to customers other than Listed Group A). These chip models were mostly launched in the second quarter of 2020 and hence the above amount represent sales during a period spanning not more than six months only. Further sales of these chip models had been made at an approximate rate in the fourth quarter of 2020.

It is clear that newly launched products have all along served as our Group's core revenue and profit driver, and the positive impact that the launch of new chip models can bring is instantly observable. As long as we are able to carry on launching new products that can gain sufficient market recognition, our profitability can be maintained and our business will be sustainable;

- **Proven resilience of our Group amid extreme adverse market conditions**

Against the backdrop of the foreseeable adverse impact that the lack of new original-brand printer models in 2019 might have on the compatible cartridge chips industry as a whole, we have sought to expand our compatible ink cartridge chip business and embarked upon the development of the Ink Cartridge Chip Models. The launch of such chip models proved successful and had given a material uplift in our revenue for 2019 as intended, thereby enabling us to cope with the significant decrease in the overall selling prices of compatible cartridge chips caused by a series of exceptional market developments.

In 2020, the outbreak of the COVID-19 pandemic has caused material disruption to the global economy and shrouded the compatible cartridge chip industry in the PRC in uncertainty. In spite of that, our Group managed to continue to achieve satisfactory results during 10M2020 through, among others, continuous rollout of new products. Most notably, as mentioned above, we had launched new models of compatible toner cartridge chips in the second quarter of 2020 which principally contributed approximately 17.6% of our total revenue from sales of chips during 10M2020 and had continued to bring in additional revenue at an approximate rate during the remaining months of 2020. Overall, we recorded revenue of approximately RMB133.6 million and profit of RMB25.6 million in 10M2020, representing an improvement by 54.8% and 265.1% on the results for 10M2019.

The above are testimony to the resilience of our Group amid extreme adverse market conditions and the sustainability of our business. In any event, as the second largest compatible cartridge chip provider in China in terms of external sales in 2019, we are well equipped to make necessary adjustments to our business strategies and operations to safeguard our financial position in case of unexpected material market deteriorations;

- **2019 as an exceptional year with unusual market developments that may have distorted the picture, and the coincidental and temporary nature of the concentration of sales to Listed Group A in 2019**

As explained above, for the compatible cartridge chip industry, 2019 was a year characterised by exceptional market developments. The atypical market situation and the consequential fall in the selling prices of our existing chip models in 2019 might have magnified the materiality of the new products launched that year, which consisted primarily of the Ink Cartridge Chip Models, in terms of revenue contribution, as compared with other years. Hence, our results in 2019 may not be highly reflective of our sales pattern or the significance of our business relationship with Listed Group A as our customers (which is primarily built on the sales of our Ink Cartridge Chip Models), or broadly the sustainability of our business model going forward. In comparison, the proportion of sales in terms of sales volume may provide more meaningful insights into the scale of our transactions with Listed Group A with the pricing effects eliminated. While Listed Group A accounted for approximately 38.3% and 34.1% of our total sales in terms of revenue in 2019 and 10M2020, in terms of sales volume, it only accounted for 25.2% and 29.2% of our total sales in 2019 and 10M2020.

As normality returns to the compatible cartridge chip market and the market prices of chips become stabilised, the amount of sales generated by older chip models may become more notable than in 2019 and the proportion of revenue attributable to the Ink Cartridge Chip Models or any other newly launched chip model may not be as salient. In this sense, the concentration of sales to Listed Group A, being the major customer with significant demand for the newly launched products, in 2019 was both coincidental and temporary in nature;

- **Our commitment to research and development and introduction of new products**

For every technology-based company, the launch of new products is vital in that it has the effect of revitalising the business. In the compatible cartridge chip industry, sustainability ultimately comes down to the research and development capacity of each market player — so long as a market player can develop and launch products with advanced quality and functionality in a timely manner ahead of the competitors, it will be able to enjoy the first-mover advantages with the liberty to set the selling prices at a high level so as to achieve optimal gross profit margins.

Recognising the central significance of new products as our revenue and profit driver, we have been dedicated to strengthening our research and development capabilities and rolling out new chip models from time to time, and we shall remain resolute in pursuing this strategy going forward. We will apply approximately 51.4% of our net proceeds from the Global Offering for implementing our existing internal product development plans for the three years ending 31 December 2023, which covers not less than 1,800 chip models, including not less than 600 new chip models. We had launched a total of 172 new chip models for the year ended 31 December 2020, and currently expect to launch 198 new chip models for the year ending 31 December 2021. A portion of these new products will be compatible toner cartridge chip models to be introduced shortly after the launch of the corresponding original-brand printer models, and in general we intend to be one of the first market players to offer compatible cartridge chips for the corresponding original-brand printer models. Accordingly, it is envisaged that we will be able to enjoy first-mover advantages with the potential to record a high gross profit margin in respect of sales of these new products. The constant rollout of new products will help ensure the sustainability of our income stream as our older chip models fade out;

- **Insignificant risks of infringements of third-party intellectual property rights in our business operations**

In our new product development process, after completing a comprehensive analysis of a new original-brand printer and its accompanying cartridges, we would, through our own endeavours, draw up the specifications of a new model of compatible cartridge chip and simultaneously design and develop the software component, i.e. the firmware, based on our understanding of the product functions and conceptualisation of the principles and logics of operation. The hardware component, i.e. the PCBAs, are principally assembled by our subcontractors based on our specified configurations, and the source codes of our firmware are designed and created independently by us.

To the best of the knowledge of our Directors, as at the Latest Practicable Date, cases in the PRC relating to claims of infringements of IC designs, patents or copyrights in the field of cartridge chips were either non-existent or minimal. In addition, according to the CIC Report, while the US authorities have conducted certain compatible-cartridge-related patent infringement investigations targeting Chinese companies, such investigations pertain to the cartridges' external physical structure only and do not involve compatible cartridge chips or their providers. As more particularly set forth in the paragraphs headed "Intellectual Property Rights" in this section, based on, among other things, the in-depth review and analysis of the patents underlying the communication protocol associated with our products, the intellectual property legal team of our PRC Legal Advisers concluded that the risk of patent infringement is minimal, and are of the view that our self-designed compatible cartridge chips present a relatively low risk of infringements of third-party intellectual property rights in the PRC. During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any legal proceedings in relation to any alleged infringement of third-party intellectual property rights by us.

- **Our continuing business relationship with Listed Group A and the decreasing reliance**

It is acknowledged that members of Listed Group A remain major customers of our Group at present. We are committed to maintaining the quality and functionality of our products, in order to minimise the likelihood of any material adverse change in our business relationships with existing customers. Since the launch of the Ink Cartridge Chip Models, Listed Group A has been purchasing the Ink Cartridge Chip Models on a continuing basis and the demand has remained sustainable. Given (1) the superiority in quality, functionality and upward compatibility of the Ink Cartridge Chip Models over comparable products in the market; (2) the significant demand for these chip models for Listed Group A's own production purpose; and (3) our established business relationship with Listed Group A as our customer with no vicious competition between us in the compatible ink cartridge chip market, we believe that Listed Group A is unlikely to largely reduce or cease to make purchases of the Ink Cartridge Chip Models from us in a way that will threaten our business sustainability in the foreseeable future.

On the other hand, thanks to our effort in continuously rolling out new chip models which has stimulated our sales to other customers, our percentage of revenue attributable to Listed Group A had decreased from approximately 73.1% in 4Q2019 to 34.1% for 10M2020. Our Directors expect that the decreasing trend would continue during the year ending 31 December 2021. As regards our new compatible ink cartridge chip models launched or to be launched in 2020 and 2021, (1) the penetration rate of some of the corresponding original-brand printer models in the market is relatively low; (2) there exists uncertainty over the actual degree of market interest in and customer demand for these chip models when they are launched, owing to our position as a relatively small player in the compatible ink cartridge chip market at present; and (3) it is also uncertain whether there will be competing products at the respective time of launch of these chip models. Hence, our Directors expect that the revenue generated or to be generated by these chip models may not be significant in 2020 and 2021. Therefore, it is envisaged that the additional sales to be made to Listed Group A in connection with these chip models, which in the first place are subject to recognition being gained from Listed Group A, will be immaterial in any event and unlikely to contribute to any further competition or reliance issue.

The decreasing trend lends credence to the conclusion that the significant increase in our revenue proportion attributable to Listed Group A in 4Q2019 following the launch of the Ink Cartridge Chip Models in the second or third quarter of 2019 was merely transitional;

- **Favourable future market developments**

According to the CIC Report, the market size of the compatible cartridge chip market is expected to grow steadily from 2021 to 2024. It is expected that the number of new original-brand printers to be launched will regain growth, the trade tension between US and China will ease and the market players will have adjusted to the market condition after industry consolidation. Accordingly, it is expected that the vicious price competition in 2019 which led to the overall drop in the average price of compatible cartridge chips is unlikely to repeat itself in the near future, and the average price of compatible cartridge chips is expected to grow in the foreseeable future with the increasing demand for compatible cartridges.

As disclosed in the section headed "Industry Overview — Overview of the Cartridge Industry — New product launch of original-brand printers" in this prospectus, 330, 480 and 580 new models of original-brand printers are expected to be launched in 2020, 2021 and 2022 respectively. As one of the leading market players, we are well-placed to take advantage of the increasing trend in the number of original-brand printer models to be launched in the coming years to achieve growth in revenue and profit through rolling out new chip models and expanding our product portfolio; and

- **Other business strategies adopted to maintain business sustainability**

In addition to constant development and introduction of new chip models, we have also adopted the following business strategies with a view to increasing our market share and maintaining our high gross profit margin, which will also serve to ensure our business sustainability:

- we will continue to lower our costs of sales by leveraging our research and development capabilities, in particular, to develop our own ICs such that we may use ICs designed by us and produced by our subcontractors in production. We will also strengthen our research and development capacity in relation to PCBAs and increase our purchases of ICs and other parts of PCBAs (as opposed to direct procurement of PCBAs from external suppliers) to further lower our cost of sales;

- we will improve our research and development capabilities in relation to both the software component i.e. the firmware, and the hardware component, i.e. PCBAs, of our chips by enhancing our research and development efficiency through acquisition of additional equipment, use rights of software tools and licences for patents and expanding our teams of talents, in order to maintain the advanced quality, upward compatibility and functionality of our products so as to safeguard our competitiveness in the market. Please refer to the paragraphs headed "Business Strategies — Strengthen Our Product Development Capacity and Diversify Our Product Portfolio" in this section for further details;

- we intend to acquire an IC design company based in the PRC or Taiwan in the year ending 31 December 2022 as a means to further enhance our capabilities in development of PCBAs and, in particular, ICs. Please refer to the paragraphs headed "Business Strategies — Accelerate the Development of Our Hardware Design Capabilities through Acquisition of IC Design Company" in this section for further details; and

- we also intend to increase our presence in the compatible cartridge industry through forward vertical expansion, whereby we may acquire equity interests in certain downstream compatible cartridge manufacturers in the PRC in the year ending 31 December 2022 and embark upon the design, production and/or sale of compatible cartridges through the target companies. Please refer to the paragraphs headed "Business Strategies — Increase Our Presence in the Compatible Cartridge Industry through Forward Vertical Expansion" in this section for further details.

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, our Group had registered a total of 59 trademarks, 20 patents, 25 software copyrights, seven IC layout designs and 18 domain names in Hong Kong, Taiwan, the PRC, the United States and the European Union that were material to our business. In particular, our registered patents mainly involve designs and technologies relating to cartridge chips, including circuit designs, algorithm and firmware installation. As at the Latest Practicable Date, we also had 31 pending patent registrations. Details of our intellectual property rights, which, in the opinion of our Directors, are material to our business and operations, are set out in the section headed "Appendix V — Statutory and General Information — Further Information About Our Business — 8. Material Intellectual Property Rights" in this prospectus. Our Directors believe that our Group has applied for registration or has registered all intellectual property rights that are essential and material to our business and operation.

To the best of the knowledge of our Directors, as at the Latest Practicable Date, cases in the PRC relating to claims of infringements of IC designs, patents or copyrights in the field of cartridge chips were either non-existent or minimal. In addition, according to the CIC Report, while the US authorities have conducted certain compatible-cartridge-related patent infringement investigations targeting Chinese companies, such investigations pertain to the cartridges' external physical structure only and do not involve compatible cartridge chips or their providers. Nevertheless, any investigations and/or legal proceedings against compatible cartridge manufacturers may disrupt their operations, which may in turn adversely affect the demand for our products and our business operation. Please refer to the section headed "Risk Factors — Risks Relating to Our Business and Industry — Our business operation is subject to the risk of infringements of third-party intellectual property rights by our customers and, following completion of our vertical expansion, members of our Group, as compatible cartridge manufacturers" in this prospectus for further details.

In our new product development process, after completing a comprehensive analysis of a new original-brand printer and its accompanying cartridges, we would, through our own endeavours, draw up the specifications of a new model of compatible cartridge chip and simultaneously design and develop the software component, based on our understanding of the product functions and conceptualisation of the principles and logics of operation. The PCBAs are principally assembled by our subcontractors based on our specified configurations, and the source codes of our firmware are designed and created independently by us. For further details of our product development process, please refer to the paragraphs headed "Research and Development" in this section.

As advised by the intellectual property legal team of our PRC Legal Advisers, our self-designed compatible cartridge chips present a relatively low risk of infringements of third-party intellectual property rights in the PRC, based on the following factors: (1) up to the Latest Practicable Date, lawsuits in the PRC relating to claims of infringement of IC layout designs, patents, copyrights as well as trade secret misappropriations in the field of cartridge chips were either non-existent or minimal; (2) to the best of the knowledge of our Directors and as confirmed by CIC, while some of the Major Customers had been subject to legal proceedings and/or regulatory investigations against them involving claims of infringements of third-party intellectual property rights, such proceedings and investigations had been dismissed or settled out of court, and for cases where the infringements were established, no material penalties, financial damages or criminal penalties had been imposed, and the outcome was, at the most, prohibitions on the importation or sale of the compatible cartridges in question into or in the specified territory, such as the United States; (3) we conduct research and development activities independently with no direct reproduction of IC layout designs or source code of the original-brand printers or original-brand cartridges; (4) we routinely conduct prior art patent searches and assess patent infringement risks during the project initiation, examination and selection stage, and would design our products in a way that avoids the use of any patented design or technology at the stage of design and development of new products so as to reduce patent infringement risks; (5) the number of registered software patents is not significantly high in the PRC as at the Latest Practicable Date due to the controversy over whether software is a patentable subject matter in the past several years; (6) based on, among other things, the in-depth review and analysis of the patents underlying the communication protocol associated with our products, the intellectual property legal team of our PRC Legal Advisers concluded that the risk of patent infringement is minimal; (7) the intellectual property legal team of our PRC Legal Advisers have conducted independent searches against official database which only revealed a limited number of registered IC layout designs in the PRC under the name of major original-brand printer companies as at the Latest Practicable Date; (8) we generally comply with the license terms in using third party software (including open source components); (9) our key research and development employees have been bound by legal contracts prohibiting them from using or disclosing confidential information of their former employers; and (10) most of the key components and parts of our chips are procured from well-known suppliers in the industry with strong research and development capability, and in turn, the potential intellectual property infringement risks caused by external procurement are deemed to be relatively low. Taking into account the above factors and views of the intellectual property legal team of the PRC Legal Advisers, our Directors are of the view that our exposure to the risks of infringements of third-party intellectual property rights is immaterial. During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any legal proceedings in relation to any alleged infringement of third-party intellectual property rights by us or relevant legal proceedings that would have a material adverse impact on our business.

As regards the exposure of our customers, i.e. compatible cartridge manufacturers, as at the Latest Practicable Date, our Directors were not aware of any involvement of any of our major customers in any legal proceedings concerning infringements of third-party intellectual property rights that would have a material impact on our business operations or financial performance during the Track Record Period. Moreover, during the Track Record Period, there had been no instances of termination of purchase orders or business relationship with our Group by any of our major customers occasioned by or arising from legal proceedings involving infringements of third-party intellectual property rights by them that could have a material impact on our business operations or financial performance. It should further be noted that the leading compatible cartridge manufacturers in the PRC have a long-standing history, and as disclosed in the section headed "Industry Overview — Overview of the Cartridge Industry — Lawsuit and related risk" in this prospectus, (1) the compatible cartridge market has been growing steadily and the expansion is expected to continue; (2) the leading compatible cartridge manufacturers have invested heavily in research and development and obtained an extensive patent coverage to protect themselves from infringements of third-party intellectual property rights; and (3) there exist co-existence dynamics between original-brand printer companies and compatible cartridge providers. On account of all of the above, our Directors are of the view that the risks that litigations will be instituted against compatible cartridge manufacturers resulting in a material impact on our business operations and financial performance are relatively low.

AWARDS AND RECOGNITIONS

During the Track Record Period and up to the Latest Practicable Date, we received the following awards and recognitions for our business:

Year of award	Entity	Award/ Recognition	Awarding body
2016 and 2019	Zhuhai Megain	High and New Technology Enterprise Certificate	Department of Science and Technology of Guangdong Province, Department of Finance of Guangdong Province, Guangdong Provincial Tax Service and Guangdong Local Taxation Bureau
2017	Zhuhai Megain	Zhuhai Intellectual Property Protection Significant Enterprise	Zhuhai Intellectual Property Bureau
2017	Zhuhai Megain	Guangdong Integrity and Good Faith Enterprise	Guangdong Administration Bureau for Industry and Commerce
2018	Zhuhai Megain	The Most Beautiful Taxpayer in Zhuhai	Zhuhai National Taxation Bureau

COMPETITION

According to the CIC Report, the compatible cartridge chip industry in the PRC is gradually maturing as a result of the increase in demand for printers, which have become commercial necessities. The leading market players continue to distinguish themselves from their competitors by investing heavily in research and development, and building their own brand image. As a result, compatible cartridge chip providers that only have limited product offerings or a weak innovation capacity will either be eliminated or absorbed by the market leaders. The concentration level in the compatible cartridge chip market is expected to increase in the future. For further details, please refer to the section headed “Industry Overview” in this prospectus.

EMPLOYEES

As 31 October 2020, we had approximately 141 full-time employees, of which 120, 11, 5 and 5 are based at our Zhuhai headquarters and our branch offices in Taiwan, Hangzhou and Shanghai, respectively. The following table sets forth the numbers of our full-time employees classified by function and location as at 31 October 2020:

Function	Zhuhai headquarters	Taiwan branch office	Hangzhou branch office	Shanghai branch office	Total
Management and Administration	6	7	2	–	15
Research and Development	34	2	3	5	44
Procurement	6	–	–	–	6
Production	28	–	–	–	28
Warehousing	4	–	–	–	4
Sales and Marketing	30	–	–	–	30
Finance	6	2	–	–	8
Human resources	6	–	–	–	6
Total	120	11	5	5	141

We have entered into employment agreements with our full-time employees. We have also signed confidentiality agreements with our senior management, research and development personnel and other key personnel in the sales and finance functions, under which such employees shall, during or after the course of employment, keep all confidential information strictly confidential. Confidential information includes all data and information that is obtained, created or developed or became aware of, whether directly or indirectly, as a result of using any equipment or resources or due to the performance of duties by such employees or information marked with "confidential" or similar wordings, regardless of whether such information is written, completed, or registrable as intellectual properties.

Our business strongly relies on our skilled and competent employees and our ability to attract and retain qualified staff is of the utmost importance. We have adopted policies on recruitment, compensation, dismissal, equal opportunities, diversity, anti-discrimination, and other benefits and welfare. We conduct recruitment of staff through online recruitment platforms and employee referrals and we have not engaged any third-party recruitment agency. We provide induction to our new employees on our business, culture, structure, and products. We also provide on-the-job trainings for our existing employees. During the Track Record Period, we had arranged training on intellectual property for our employees. In addition, we regularly assess the performance of our employees, the results of which would form the basis for salary increments, bonuses and promotions. In view of the importance of board diversity, we shall implement a board diversity policy prior to Listing. For further details, please refer to the section headed "Directors and Senior Management – Board Diversity Policy" in this prospectus.

During the Track Record Period, we had not experienced any interruptions to our operations caused by major labour disputes and there were no complaints or claims from our employees which had a material adverse impact on our business. We have a labour union established for our employees pursuant to the applicable labour law in the PRC. Our Directors believe we have established a good relationship with our employees.

PROPERTIES

As at the Latest Practicable Date, we leased a total of nine properties with a total GFA of approximately 5,351 sq.m in Zhuhai, Hangzhou, Shanghai and Taiwan that were material to our business.

Set forth below are further details of our leased properties in the PRC:

No.	Location	GFA *(sq.m)*	Usage	Term
1.	Area A, 3rd Floor, Factory 1, No. 115 Huawei Road, Zhuhai, China	2,730.00	Office, industrial workshops and warehouses	8 March 2017 to 7 October 2021
2.	Area C, 2nd Floor, Block 1 Xinyuan Digital Science Park, No. 115 Huawei Road, Zhuhai, China	1,830.00	Office, industrial workshops and warehouses	15 September 2018 to 14 April 2022
3.	Rooms 507, 508 and 510, 5th Floor, Block 2, No.117 Huawei Road, Qianshan Industrial Site, Zhuhai, China	81.60	Staff dormitories	1 March 2020 to 28 February 2023
4.	Rooms 401-404, 407 and 412, 4th Floor, Block 2, No.117 Huawei Road, Qianshan Industrial Site, Zhuhai, China	150.90	Staff dormitories	1 March 2020 to 28 February 2022
5.	Rooms 1116 and 1117, Block 1, Tongren Jinghua Building, Xihu District, Hangzhou, China	106.10	Office	27 April 2020 to 26 April 2021
6.	Room 612, No 3, Lane 1058, Jufeng Road, New Pudong Area, Shanghai, China	56.34	Office	1 April 2020 to 31 March 2021

No.	Location	GFA (sq.m)	Usage	Term
7.	Room 610, No 3, Lane 1058, Jufeng Road, New Pudong Area, Shanghai, China	59	Office	1 April 2020 to 31 March 2021
8.	Room 509, 5th Floor, Zonghe Building, No.117 Huawei Road, Xiangzhou District, Zhuhai, China	50	Staff dormitories	1 November 2020 to 31 October 2023

Set forth below are further details of our leased property in Taiwan:

No.	Location	GFA (sq.m)	Usage	Term
1.	Room 7, 19th Floor, No.75, Section 1, Xintai 5th Road, Xizhi District, New Taipei City, Taiwan	286.73	Office	1 January 2021 to 31 December 2021

In the light of our business growth, we have been locating a new office in Zhuhai of a larger size for relocation of our staff and production facilities, as we may need extra room to accommodate the additional production lines we may set up for the production of new products and our research and development, sales and marketing and other back-office teams to be established or expanded from time to time. The potential acquisition of a property for use as our new headquarters is intended to be funded with the internal resources and/or borrowings of our Group. In addition to accommodating our business expansion, our Directors consider that the potential acquisition will also provide the added benefits of enhancing our corporate image, avoiding the risks of material business disruption or suspension that may be caused by any failure in lease renewal or unanticipated rise in rentals, and lowering our total property-related cash outflows in the long run and hence conduce to our future business development.

INSURANCE

We have obtained insurance to protect against a range of risk against our properties, including but not limited to public liability and damage to machineries, property and inventory.

In addition, our Group is subject to the PRC's social insurance system and are required to make contributions for our PRC employees towards five categories of insurance, including basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance.

Furthermore, in accordance with the laws of Taiwan, our Group is required to obtain labour insurance and national health insurance for our employees in Taiwan.

As at the Latest Practicable Date, we had not made nor been subject to any material insurance claims. Given the above, our Directors are of the view that the insurance coverage is adequate and in line with industry norm.

HEALTH, WORK SAFETY, SOCIAL AND ENVIRONMENTAL MATTERS

Our Group has established procedures to provide our staff with a safe and healthy working environment by setting out a series of work safety measures in the staff manual. We also provide separate health and safety guidelines for our staff on performance of job duties in our industrial workshops and warehouses.

Our operational activities do not directly generate industrial pollutants, and we did not directly incur material costs of compliance with applicable environmental protection rules and regulations during the Track Record Period. Our Directors expect that our Group will not directly incur significant costs for compliance with applicable environmental protection rules and regulations in the future. Our Directors further confirm that our Group had not been involved in any material non-compliance issues in respect of any applicable laws and regulations on environmental protection during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period and up to the Latest Practicable Date, our Group had not experienced any significant incidents or accidents in relation to workers' safety. Furthermore, our Directors confirm that we had not been subject to any material claim, whether for personal or property damage, or penalty in relation to health, work safety, social or environmental protection issues, or involved in any accident or fatality, and had been in compliance with the applicable laws and regulations in all material aspects during the Track Record Period and up to the Latest Practicable Date.

Prevention and Control Measures Adopted In Relation to COVID-19

In response to the COVID-19, we have adopted the following prevention and control measures:

(i) Establishment of working group on diseases prevention work

We have established a working group on diseases prevention work ("**Working Group**") which comprises of Mr. Cheng and the all department heads of our Group. The purpose of establishing the Working Group is to (i) formulate prevention of COVID-19 management policy ("**Prevention of COVID-19 Management Policy**") which sets out the prevention measures regarding hygiene control and work arrangement of our staff; (ii) monitor and review the implementation of prevention measures; and (iii) enhance the communication between the staff and the Board of the impacts of the COVID-19 on the daily business operation. The Working Group holds meetings from time to time to discuss the implementation of prevention measures, work arrangement and other issues in relation to COVID-19.

(ii) Other hygiene measures adopted

Pursuant to the Prevention of COVID-19 Management Policy, our Group has adopted the following prevention and control measures at our offices, industrial workshops and warehouses in the PRC and Taiwan:

– providing face masks, disinfectant and other sanitising equipment to our staff

– daily disinfection of the common areas

– requiring our staff to report their travel history

– temperature scanning of our staff and visitors on a daily basis, and those staff or visitors whose body temperature exceeds 37.2 degree Celsius are not allowed to have access to our offices, industrial workshops and warehouses

– requiring our staff to wear face masks at our workplace all the time

– mandatory quarantine for staff who return to our workplace from locations outside Zhuhai

– restricting entrance of visitors

Guidelines have been given to our staff on the hygiene measures adopted by our Group. The Working Group is responsible for monitoring and implementing our preventive measures to prevent and limit any spread of COVID-19 and to promote good hygiene.

LEGAL COMPLIANCE, LICENCES AND PERMITS

Our Directors confirm that we have obtained all necessary licences, permits and/or approvals for conducting our business in the PRC, Taiwan and other relevant jurisdictions.

During the Track Record Period and up to the Latest Practicable Date, save as disclosed below, we were in compliance with, in all material respects, all applicable laws and regulations in the jurisdictions where we conduct our business.

Failure to Make Full Contribution to the Social Insurance and Housing Provident Funds for Our Employees in the PRC

(i) Particulars of Non-compliance Incident

For the years ended 31 December 2017 and 2018, Zhuhai Megain, our PRC operating subsidiary, contributed to the social insurance and housing provident fund for its employees based on the minimum standard of the respective contribution bases of the social insurance and housing provident fund in Zhuhai. Under the applicable PRC laws and regulations, such contributions should instead be calculated based on actual wages of employees, subject to further adjustment in the event that the actual wages of the employees are less than the minimum standard of or more than the maximum standard of the contribution bases published by the competent authorities in Zhuhai. We estimated our aggregate outstanding amount of the social insurance and the housing provident fund contributions for the years ended 31 December 2017 and 2018 amounted to approximately RMB1.3 million and RMB1.5 million, respectively. Since November 2018, Zhuhai Megain has started to make full contributions to the social insurance and the housing provident fund for all its employees in the PRC, which is in compliance with the PRC laws and regulations in the view of our PRC Legal Advisers.

(ii) Reasons for the Non-Compliance Incident

The non-compliance was primarily due to the fact that our human resources personnel who were formerly in charge of this matter did not fully understand the legal requirements on the contribution base of the social insurance and the housing provident fund.

(iii) Legal Consequences and Potential Maximum Penalties

Our PRC Legal Advisers have advised that, pursuant to the PRC laws and regulations, if an enterprise fails to pay the full amount of the social insurance contributions as legally required, the social insurance authority may order it to pay the outstanding amount of the social insurance contributions within a prescribed time limit and may impose an overdue fine of 0.05% of the delayed payment per day from the date when the payment is due. If the enterprise still fails to make the payment within the prescribed time limit, the social insurance authority may further impose a fine equivalent to one to three times of the amount of the overdue payment.

Our PRC Legal Advisers have further advised that, pursuant to the PRC laws and regulations, if an enterprise fails to pay the full amount of the housing provident fund contributions as legally required, the competent authority of housing provident fund may order it to pay the outstanding amount of the housing provident fund contributions within a prescribed time limit. If the enterprise still fails to make the payment within the prescribed time limit, the competent authority of housing provident fund may apply to court for compulsory enforcement.

(iv) Remedial Actions Taken, Latest Status and Internal Control Measure Taken

Since November 2018, Zhuhai Megain has started to make full contributions to the social insurance and the housing provident fund for all its employees in the PRC, which is in compliance with the PRC laws and regulations in the view of our PRC Legal Advisers.

Both of our Directors and our PRC Legal Advisers are of the view that the historical non-compliance would not have a material adverse effect on our business operations and the financial conditions, considering that: (i) Zhuhai Megain has rectified the non-compliance by making full contributions to the social insurance and housing provident fund since November 2018; (ii) we have obtained the Deed of indemnity from our Controlling Shareholders to indemnify our Group against any costs, expenses, claims, fines and other liabilities arising from or in connection with this non-compliance; (iii) as at the Latest Practicable Date, we had neither received any notification from the PRC authorities requiring us to pay any outstanding amount of the social insurance and housing provident fund contributions, nor been subject to any administrative penalties in relation to the social insurance or the housing provident fund; (iv) we were not aware of any material employee compliant nor were involved in any material labour disputes in relation to the social insurance or the housing provident fund; and (v) the likelihood is low that the competent social insurance authority will take initiative to verify and collect the outstanding amount of the social insurance contributions from the enterprise based on the Emergency Notice of General Office of the Ministry of Human Resources and Social Security of the PRC on Implementation of the Principles of the Executive Meeting of the State Council and Stabilisation of the Collection of the Social Insurance Premiums (中國人力資源社會保障部辦公廳關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知). As a result of the above and the fact that the outstanding amount were not material and would not have a material adverse effect on our financial position, our Group has not made provision for the outstanding amount of social insurance and the housing provident fund contributions for the years ended 31 December 2017 and 2018.

We have taken the following measures to improve our internal control system:

Training. Strengthen legal compliance training to our personnel, including by engaging our PRC Legal Advisers to provide training to our personnel on the relevant laws and regulations;

Policy. Formulate and distribute to our employees an internal control policy with respect to social insurance and housing provident fund contribution in compliance with relevant PRC laws and regulations, which we have started to implement;

Reviewing and record-keeping. Designate our human resources staff to monitor the payment status and prepare monthly reports of salary and contribution amounts, which shall be reviewed by our human resources department head and our finance department head to ensure that we make these payments in full and on time in accordance with relevant laws and regulations;

Increasing awareness of developments in law. Regularly keep abreast of latest developments in PRC laws and regulations in relation to social insurance and housing provident fund; and

External counsel. Consult external PRC legal counsel for advice on relevant PRC laws and regulations.

LITIGATION AND POTENTIAL CLAIMS

During the Track Record Period and as at the Latest Practicable Date, no member of our Group was engaged in any claim, litigation or arbitration of material importance and no claim, litigation or arbitration of material importance is known to our Directors to be pending or threatened against any member of our Group.

RISK MANAGEMENT AND INTERNAL CONTROL

We have formulated internal control measures and procedures in various aspects, including risks relating to information system, human resources, internal control and credit in order to provide reasonable assurance for our operations, reporting and compliance.

Information System Risk Management

In order to prevent data leakage and hacking activities, we have implemented internal control procedures for data protection, system maintenance and data management. For instance, data stored on our staff's computers cannot be transferred to external drives or USB. All emails sent from our employees to external parties are encrypted. We have also signed confidentiality agreement with all of our key personnel, under which, such personnel cannot disclose confidential information of our Group to third parties. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material data leakage or hacking activities.

Human Resources Risk Management

We provide internal trainings to our new and existing employees to familiarise them with our operation and development.

Internal Control Risk Management

In preparation for the Listing, we engaged an independent internal control consulting firm (the "**Internal Control Consultant**") to perform an overall assessment on certain of our procedures, systems and internal controls. During the course of the internal control review, the Internal Control Consultant has provided some recommendations for us to enhance our internal control measures.

We have adopted the following measures to enhance our corporate governance and internal control:

(i) all of our Directors and senior management have attended training conducted by our Hong Kong legal advisers on the ongoing obligations, duties and responsibilities of directors of publicly listed companies under certain applicable laws and regulations, including the Listing Rules prior to the Listing;

(ii) we will engage appropriate external legal advisers and/or institutions and/or consultants to advise, update the knowledge of and/or provide trainings to our Directors, senior management and/or relevant employees on the relevant laws and regulations, including changes thereto, which may affect our business operations;

(iii) when necessary, we will engage external professionals, such as auditors, internal control adviser, external legal advisor(s) and other advisors to render professional advice as to compliance with statutory and regulatory requirements, as applicable to our Group from time to time;

(iv) we have appointed CMBC International Capital Limited as our compliance adviser in compliance with the applicable Listing Rules with effect from the date of Listing;

(v) we have appointed three independent non-executive Directors to ensure the effective exercise of independent judgment on our Board's decision-making process and provide independent advice to our Board and our Shareholders; and

(vi) the audit committee of our Board, comprising three independent non-executive Directors, will continuously provide our Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of our Group and oversees the audit process and performs other duties and responsibilities as assigned by our Directors.

Credit Risk Management

We have internal policies in place for the use of reserve, sales and trade receivables management and contract management. For trade receivables, during the Track Record Period, we generally granted credit period ranging from 30 to 120 days to our customers. In deciding the length of credit period to be granted to our customers, we would assess the operational ability and credit worthiness of our customers by conducting due diligence, background search, and our past transaction experience with them.

OVERVIEW

On 4 January 2019, Mr. Cheng and Mr. Lee entered into the Concert Parties Confirmatory Deed to acknowledge and confirm that they have been parties acting in concert in respect of each of the members of our Group since the date of its incorporation or establishment. Details of the Concert Parties Confirmatory Deed are set out in the section headed "History, Development and Corporate Structure — Parties Acting in Concert" in this prospectus.

Immediately following completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares which may be issued upon exercise of any options granted or to be granted under the Share Option Scheme), GMTL (which is wholly owned by Mr. Cheng) and AGL (which is wholly owned by Mr. Lee) will be interested in approximately 19.99% and 18.26% of the issued share capital of our Company, respectively. By virtue of the Concert Parties Confirmatory Deed, GMTL, Mr. Cheng, AGL and Mr. Lee will together be deemed to be interested in approximately 38.25% of the issued share capital of our Company and will be regarded as our Controlling Shareholders.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors are satisfied that our Group can function, operate and carry on our business and is financially and operationally independent from our Controlling Shareholders and their respective close associates based on the following reasons:

No Competition and Clear Delineation of Business

To the best of our Directors' knowledge and belief after making reasonable enquiries, as at the Latest Practicable Date, none of our Controlling Shareholders or their respective close associates had an interest in businesses which compete, or are likely to compete, either directly or indirectly, with our business.

Mr. Cheng's Former Interest in Other Companies

Mr. Cheng, one of our Controlling Shareholders, was the beneficial owner of (i) 35% of the equity interest in Zhongshan Mingqi Electronic Technology Company Limited* (中山銘祺電子科技有限公司) ("**Zhongshan Mingqi**"), a company incorporated in the PRC, from November 2014 to November 2017; and (ii) 100% of the equity interest in Zhuhai Mingqi Electronic Technology Company Limited* (珠海銘祺電子科技有限公司) ("**Zhuhai Mingqi**"), a company incorporated in the PRC, from March 2014 to April 2015 and 55% of its equity interest from April 2015 to November 2017. Zhongshan Mingqi was principally engaged in the production of compatible cartridge chips that we did not produce, whereas Zhuhai Mingqi was principally engaged in the trading of low-end compatible cartridge chips and was mainly a trading arm of Zhongshan Mingqi. The business scale of Zhongshan Mingqi and Zhuhai Mingqi was relatively small. For the year ended 31 December 2017, Zhongshan Mingqi's revenue amounted to approximately RMB8.7 million, and its loss after tax was approximately RMB0.03 million. For the year ended 31 December 2017, Zhuhai Mingqi's revenue amounted to approximately RMB4.34 million, and its profit after tax was approximately RMB0.14 million. The remaining 65% equity interest in Zhongshan Mingqi and the remaining 45% equity interest in Zhuhai Mingqi were held by the management personnel of Zhongshan Mingqi (the "**Relevant Management Personnel**"), who were Independent Third Parties.

During the Track Record Period, our Group procured compatible cartridge chips from Zhongshan Mingqi to fulfil our customers' purchase orders. For the years ended 31 December 2017, 2018 and 2019 and 10M2020, our purchases from Zhongshan Mingqi amounted to approximately RMB1.92 million, RMB1.25 million, RMB0.42 million and RMB0.02 million, respectively. During the Track Record Period, Zhongshan Mingqi and Zhuhai Mingqi also procured compatible cartridge chips from us. For the years ended 31 December 2017, 2018 and 2019 and 10M2020, our sales to Zhongshan Mingqi amounted to approximately RMB0.46 million, RMB0.92 million, RMB0.004 million and nil, respectively, whereas our sales to Zhuhai Mingqi amounted to approximately RMB1.37 million, nil, nil and nil, respectively.

In November 2017, Mr. Cheng disposed of his interest in Zhongshan Mingqi and Zhuhai Mingqi to one of the Relevant Management Personnel and another Independent Third Party, respectively. Since then, Mr. Cheng no longer (i) held any legal or beneficial interest in Zhongshan Mingqi and Zhuhai Mingqi; or (ii) had any interest in businesses which compete, or are likely to compete, either directly or indirectly, with our business.

Management Independence

Our Board and members of our senior management function independently of our Controlling Shareholders and their respective close associates. Our Board comprises two Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. Our senior management consists of six members. On the basis of the following reasons, our Directors believe that our Directors and members of our senior management are able to manage our business independently of our Controlling Shareholders and their respective close associates:

(a) with three Independent Non-executive Directors out of a total of seven Directors in our Board, there will be a sufficiently robust and independent voice within our Board to counter-balance any situation involving a conflict of interest and to protect the interests of our independent Shareholders;

(b) our senior management team is primarily responsible for managing and supervising our operational and financial matters as well as implementing our business strategies, and its management and supervisory functions ensure that the management and daily operations of our Group are independent of those of our Controlling Shareholders;

(c) instances of actual or potential conflict of interest have been identified and minimised by virtue of the Deed of Non-competition and other corporate governance measures adopted by our Group;

(d) each of our Directors is aware of his/her fiduciary duties as a Director of our Company, which require, among other things, that he/she acts for the benefit and in the best interests of our Shareholders as a whole and does not allow any conflict between his/her duties as a Director and his/her personal interests to affect the performance of his/her duties as a Director;

(e) all of our Executive Directors and members of our senior management will be able to devote their full time and attention to managing our Group's operations; and

(f) a number of corporate governance measures set out in the paragraph headed "Corporate Governance Measures" in this section are in place to avoid any potential conflict of interest between our Company and our Controlling Shareholders and to safeguard the interests of our independent Shareholders.

Operational Independence

Our Company makes business decisions independently. On the basis of the following reasons, our Directors consider that our Company will continue to be operationally independent of our Controlling Shareholders and other companies controlled by our Controlling Shareholders:

(a) our Group holds all relevant licences, permits and approvals that are material to the operation of our business and has sufficient capital, equipment and employees to operate our business independently;

(b) our Company has our own operational and administrative resources and we do not share such resources with our Controlling Shareholders or other companies controlled by our Controlling Shareholders;

(c) our Company has our own organisational and corporate governance structure and has established our own accounting, administrative and human resources divisions; and

(d) our Company has established a set of internal control procedures to facilitate the effective operation of our business.

Based on the abovementioned arrangements, our Directors are of the view that our Company will be able to operate independently of our Controlling Shareholders.

Financial Independence

Our Directors are of the view that our Group will be financially independent of our Controlling Shareholders and any of their respective close associates upon Listing. As at the Latest Practicable Date, there were no loans, advances and balances due to and from our Controlling Shareholders and their respective close associates (e.g. shareholder's loan) and there were no share pledges, guarantees and other securities provided by our Controlling Shareholders and their respective close associates for our Group's borrowings.

In addition, we have our own financial and accounting system, internal control system, accounting and finance department, independent treasury function for cash receipts and payments and independent access to third-party financing. We make financial decisions according to our own business needs. Our Directors are satisfied that we have sufficient capital for our financial needs and are capable of conducting our business independently of any of our Controlling Shareholders (including their respective close associates) upon Listing. Our Directors further believe that our Group is capable of obtaining financing from external sources independently without the support of our Controlling Shareholders or their respective close associates.

DEED OF NON-COMPETITION

For the purpose of the Listing, our Controlling Shareholders have entered into the Deed of Non-competition, pursuant to which each of our Controlling Shareholders has irrevocably undertaken to our Company (for itself and on behalf of each other member of our Group) that he/it would not, and would procure that his/its close associates (except any members of our Group) not to, during the restricted period set out below, either on his/its own account or in conjunction with or on behalf of any person, firm or company, and whether directly or indirectly or on behalf of or to assist or act in concert with any other person, firm or company, among others, carry on, participate in or be interested or engaged in or acquire or hold, or otherwise be involved in (in each case whether as a shareholder, director, partner, agent, employee or otherwise, and whether for profit, reward or otherwise) any Restricted Business.

The "Restricted Business" stated in the Deed of Non-competition refers to any activity or business which competes, or is likely to compete, either directly or indirectly, with:

(a) our Group's business activities as set out in the section headed "Business" in this prospectus; and

(b) any other activity or business from time to time conducted, entered into, engaged in or invested in by any member of our Group or which any member of our Group has otherwise publicly announced its intention to conduct, enter into, engage in or invest in pursuant to the Listing Rules.

Each of our Controlling Shareholders has also undertaken to our Company to, among others:

(a) provide all information necessary for (i) the annual review by our Independent Non-executive Directors with regard to compliance of the terms and conditions of the Deed of Non-competition; and (ii) the enforcement of the undertakings in the Deed of Non-competition; and

(b) make an annual declaration on compliance with his/its undertakings under the Deed of Non-competition in the annual reports of our Company as our Independent Non-executive Directors may think fit and/or as may be required by the relevant requirements under the Listing Rules.

Each of our Controlling Shareholders has further undertaken to, during the restricted period set out below, refer to us and procure the referral to us of any business investment or other commercial opportunity, which is identified by or offered to him/it and/or his/its close associate(s) (other than any member of our Group) and competes or is likely to compete, either directly or indirectly, with the Restricted Business (the "**New Opportunity**") in the following manner:

(a) the relevant Controlling Shareholder is required to refer, or to procure the referral of, the New Opportunity to us, and shall give written notice (the "**Offer Notice**") to us of any New Opportunity containing all information reasonably necessary for us to consider whether (i) such New Opportunity would constitute competition with the Restricted Business; and (ii) it is in the interest of our Company and our Shareholders as a whole to pursue such New Opportunity, including but not limited to the nature of the New Opportunity and the details of the investment or acquisition costs; and

(b) upon receiving the Offer Notice, our Company shall seek approval from a board committee (comprising, among others, all Independent Non-executive Directors who do not have an interest in the New Opportunity) (the "**Independent Board**") as to whether to pursue or decline the New Opportunity. Any Director who has actual or potential interest in the New Opportunity shall not be a member of the Independent Board and shall abstain from attending (unless their attendance is specifically requested by the Independent Board) and voting at, or counting towards the quorum for, any meeting or part of a meeting convened to consider such New Opportunity:

   (i) the Independent Board shall consider the financial impact of pursuing the New Opportunity, whether the nature of the New Opportunity is consistent with our Group's strategies and development plans and the general market conditions; if appropriate, the Independent Board may, at the cost of our Company, appoint independent financial advisers, legal advisers and other professional experts to assist in the decision-making process in relation to such New Opportunity;

   (ii) the Independent Board shall, within 20 business days upon receipt of the Offer Notice, inform the relevant Controlling Shareholder in writing on behalf of our Company of its decision whether to pursue or decline the New Opportunity. Such notice period can be extended if mutually agreed in writing;

   (iii) the relevant Controlling Shareholder shall be entitled but not obliged to pursue such New Opportunity if he/it has received a notice from the Independent Board declining such New Opportunity or if the Independent Board has failed to respond within such 20 business days' period (or any extended period, where applicable) pursuant to sub-paragraph (b)(ii) above; and

(iv) if there is any material change in the nature, terms or conditions of such New Opportunity pursued by the relevant Controlling Shareholder, he/it shall refer such New Opportunity as so revised to our Company in the manner as outlined in the Deed of Non-competition as if it were a New Opportunity.

Our Independent Non-executive Directors will also review, on an annual basis, compliance with the Deed of Non-competition by our Controlling Shareholders, the results of which will be disclosed in our annual reports.

The Deed of Non-competition does not apply to:

(a) any interest in the shares of any member of our Group;

(b) interests in the shares of a company other than our Company provided that any Restricted Business conducted or engaged in by such company (and assets relating thereto) account for less than 10% of that company's consolidated turnover or consolidated assets, as shown in that company's latest accounts; or

(c) interests in the shares of a company other than our Company whose shares are listed on a recognised stock exchange provided that the aggregate number of shares held by the relevant Controlling Shareholder and/or his/its close associates does not exceed 5% of the issued shares of the company in question and the relevant Controlling Shareholder and/or his/its close associates, whether acting singly or jointly, are not entitled to appoint a majority of the directors of that company.

The "restricted period" stated in the Deed of Non-competition refers to the period during which (i) our Shares remain listed on the Stock Exchange; and (ii) so far as each Controlling Shareholder is concerned, he/it or his/its close associates are jointly or severally entitled to exercise or control the exercise of not less than 30% (or such higher percentage as constituting a controlling shareholder under the Listing Rules and the applicable requirements from time to time) in aggregate of the voting power at general meetings of our Company. In other words, if our Company was no longer listed on the Stock Exchange or the relevant Controlling Shareholder and/or his/its close associates came to hold less than 30% of our Shares then issued, the undertakings in the Deed of Non-competition would not apply. We believe that the 30% threshold is justifiable as it is equivalent to the thresholds applied under the Listing Rules and the Takeovers Code for the concept of "control".

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to further manage any potential conflict of interest between our Company and our Controlling Shareholders and to safeguard the interests of our independent Shareholders:

(a) our Company has adopted our Articles of Association in compliance with the Listing Rules. In particular, our Articles of Association provide that, except for certain exceptions provided therein, a Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested;

(b) each Director is aware of his/her fiduciary duties as a Director, which require, among other things, him/her to act for the benefit of our Company and our Shareholders as a whole and not to allow any conflict of interests between his/her duties as a Director and his/her personal interests;

(c) we have appointed CMBC International Capital Limited as our compliance adviser, which will provide advice and guidance to us with respect to the compliance with applicable laws and regulations and the Listing Rules, including but not limited to various requirements relating to directors' duties and internal controls;

(d) our Independent Non-executive Directors will review, at least on an annual basis, compliance with the Deed of Non-competition by our Controlling Shareholders;

(e) each of our Controlling Shareholders has undertaken to provide all information necessary for the annual review by our Independent Non-executive Directors and the enforcement of the Deed of Non-competition;

(f) we will disclose decisions on matters reviewed by our Independent Non-executive Directors relating to the compliance and enforcement of the Deed of Non-competition either in the annual reports of our Company or by way of announcement to the public;

(g) our Independent Non-executive Directors will review, on an annual basis, the implementation of the Deed of Non-competition and any decision in relation to the new business opportunities referred to us (including their bases and reasons);

(h) each of our Controlling Shareholders will make an annual declaration of compliance with the Deed of Non-competition in the annual reports of our Company;

(i) the management structure of our Group includes the Audit Committee, the Remuneration Committee and the Nomination Committee, the terms of reference of each of which will require them to be alert to potential conflicts of interest and to formulate proposals to address any potential conflict of interest; and

(j) pursuant to the Corporate Governance Code, our Directors, including our Independent Non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at our Company's costs.

Our Company expects to comply with the Corporate Governance Code which sets out the principles of good corporate governance in aspects such as directors' responsibilities and their appointment, re-selection and removal, board composition, remuneration of directors and senior management, accountability and audit, and communication with shareholders. Our Company will state in our interim and annual reports whether we have complied with these code provisions, and will provide details of, and reasons for, any deviation from them in the corporate governance reports attached to our annual reports.

OVERVIEW

Our Board

Our Board currently consists of seven directors, comprising two Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. Our Board is responsible and has general powers for the management and conduct of our business. The following table sets out certain information of our Directors:

Name	Age	Position(s)	Date of appointment as Director	Date of joining our Group	Roles and responsibilities in our Group	Relationship with other Directors and senior management
Mr. Cheng Hsien-Wei (鄭憲徽)	44	Executive Director and chairman of our Board	22 June 2016 (re-designated as an Executive Director on 24 March 2020)	13 September 2010	Overall strategic planning and business development of our Group	N/A
Mr. Lee Kuo-Chang (李國彰)	52	Executive Director	22 June 2016 (re-designated as an Executive Director on 24 March 2020)	13 September 2010	Research and development of the hardware and firmware of IC	N/A
Mr. Lam Tsz Leung (林子良)	57	Non-executive Director	27 February 2020 (re-designated as a Non-executive Director on 24 March 2020)	27 February 2020	Participating in the formulation of our general corporate business plans and strategies	N/A
Ms. Yu Erhao (余尔好)	30	Non-executive Director	4 June 2018 (re-designated as a Non-executive Director on 24 March 2020)	4 June 2018	Participating in the formulation of our general corporate business plans and strategies	N/A
Mr. Chen Mark Da-jiang	52	Independent Non-executive Director	26 February 2021	26 February 2021	Overseeing the management of our Group independently	N/A
Mr. Kao Yi-Ping (高亦平)	48	Independent Non-executive Director	26 February 2021	26 February 2021	Overseeing the management of our Group independently	N/A
Mr. Li Huaxiong (李華雄)	57	Independent Non-executive Director	26 February 2021	26 February 2021	Overseeing the management of our Group independently	N/A

Our Senior Management

Our senior management is responsible for the day-to-day management of our business. The following table sets out certain information of the members of our senior management:

Name	Age	Position(s)	Date of appointment	Date of joining our Group	Roles and responsibilities in our Group	Relationship with other Directors and senior management
Mr. Wang Hua (王華)	34	Chief executive officer of our Group and Zhuhai Megain	1 January 2016	18 June 2013	Formulating our corporate strategies and operation plans as well as overseeing the overall management and operations of our Company and Zhuhai Megain	N/A
Ms. Lyu Liang (吕亮)	47	Chief financial officer of our Group	1 March 2020	16 December 2019	Overseeing the financial matters of our Group	N/A
Mr. Hung Chien-Yuan (洪健元)	51	Head of the hardware department of the Taiwan branch office of Megain Holding (BVI)	1 December 2015	1 December 2015	Overseeing and managing our hardware design and research and development matters	Elder brother of Mr. Hung Wen-Lung (洪文隆)
Mr. Hung Wen-Lung (洪文隆)	49	Head of the software department of the Taiwan branch of Megain Holding (BVI)	1 December 2015	1 December 2015	Overseeing and managing our software design matters	Younger brother of Mr. Hung Chien-Yuan (洪健元)
Mr. Xiang Yao (向瑤)	35	Deputy director of the technical engineering department of Zhuhai Megain	28 February 2019	21 October 2017	Assisting in the management of the business operations of our research and development department	N/A
Mr. Lee Meng-Shiou (李孟修)	51	External sales director of the Taiwan branch office of Megain Holding (BVI)	1 February 2017	1 February 2017	Overseeing and managing our export sales and marketing	N/A

DIRECTORS

Executive Directors

Mr. Cheng Hsien-Wei (鄭憲徽), aged 44, is the chairman of our Board, and was appointed as a Director in June 2016 and re-designated as an Executive Director in March 2020. He is one of the founders of our Group and one of our Controlling Shareholders. He has been a director of Megain Group (HK) since July 2015 and a director of Megain International since July 2016. He is primarily responsible for overall strategic planning and business development of our Group.

Mr. Cheng has over 11 years of experience in the compatible cartridge related industries. He served as the deputy general manager of business development in Chen Phon General Construction Co. Ltd.* (成豐綜合營造有限公司), a company principally engaged in the development of residential buildings and leasing of immovable properties, from July 2004 to March 2007. From 2008 to 2010, he was the director and chief executive officer of and held 80% equity interest in Megain Technology Pte. Ltd., a company principally engaged in the trading of computer hardware and peripheral equipment in Singapore.

Mr. Cheng completed his studies in automobile maintenance at KaiNan Vocational High School (台北市私立開南高級商工職業學校) in Taiwan in June 1994. He obtained a master's degree in science in Chaoyang University of Technology (朝陽科技大學) in Taiwan in June 2020. He is currently pursuing a master's degree in green technology at National Ilan University (國立宜蘭大學) in Taiwan.

Mr. Cheng was a director of the following companies prior to their respective dissolution, which were solvent at the time of dissolution:

Name of company	Place of incorporation	Nature of business before dissolution	Date of dissolution	Means of dissolution	Reason for dissolution
MEGAIN TECHNOLOGY (HK) PTE Limited (香港美佳音科技有限公司)	Hong Kong	Trading of cartridge chips	25 May 2018	Deregistration	Cessation of business
Yuan Quan (HK) Trading Company Limited (源泉貿易(香港)有限公司)	Hong Kong	N/A	25 September 2015	Striking off	No business operations since incorporation
Megain Technology Pte. Ltd.	Singapore	Wholesale of computer hardware and peripheral equipment	7 February 2013	Striking off	Cessation of business

As confirmed by Mr. Cheng, as far as he is aware, the dissolution of the abovementioned companies has not resulted in any liability or obligation being imposed against him.

Mr. Lee Kuo-Chang (李國彰), aged 52, was appointed as a Director in June 2016 and re-designated as an Executive Director in March 2020. He is one of the founders of our Group and one of our Controlling Shareholders. He has been a director of Megain Group (HK) since June 2017. He is primarily responsible for the research and development of the hardware and firmware of IC.

Mr. Lee has over 25 years of experience in the research and development of IC solutions. During the period from September 1992 to August 2001, he worked in a number of electronic and computer companies in Taiwan, where he was mainly responsible for engineering-related work. From December 2008 to December 2016, he served as a director in Echip-Tech Electronic Corporation (宏利科技有限公司), a company principally engaged in the trading of electronic and ancillary equipment. He was a director of Easic International Corporation (海耀國際有限公司), a company principally engaged in the manufacturing of electronic components and sale of ancillary products, from May 2014 to December 2016. He has been serving as a director of Fujishing Enterprise Co., Ltd. (富基興企業有限公司), a company principally engaged in the trading of computer software, since January 2017.

Mr. Lee completed his studies in electronic engineering at Sze Hai College of Technology and Commerce (四海工商專科學校) (now known as Hungkuo Delin University of Technology (宏國德霖科技大學)) in Taiwan in June 1994.

Mr. Lee was a director of the following companies prior to their dissolution, which were solvent at the time of dissolution:

Name of company	Place of incorporation	Nature of business before dissolution	Date of dissolution	Means of dissolution	Reason for dissolution
Echip-Tech Electronic Corporation (宏利科技有限公司)	Taiwan	Trading of electronic and ancillary equipment	1 December 2016	Dissolution with the approval of shareholders	Cessation of business
Easic International Corporation (海耀國際有限公司)	Taiwan	Manufacturing of electronic components and sale of ancillary products	30 December 2016	Dissolution with the approval of shareholders	Cessation of business

As confirmed by Mr. Lee, as far as he is aware, the dissolution of the abovementioned companies has not resulted in any liability or obligation being imposed against him.

Non-executive Directors

Mr. Lam Tsz Leung (林子良), aged 57, was appointed as a Director in February 2020 and re-designated as a Non-executive Director in March 2020. He is primarily responsible for participating in the formulation of our general corporate business plans and strategies.

During the period from 1987 to 1992, Mr. Lam was a salesperson in the Jiangmen branch office of China National Metals & Minerals Import & Export Corporation* (中國五金礦產進出口公司江門支公司), a company principally engaged in the trading of iron and steel, non-ferrous metal and mineral products. He served as a business manager in Jiangmen Sanrong Mining Company* (江門三榮礦業公司), a company principally engaged in the export of mining products, from 1992 to 2003. He then served as a research and development director of Jiangmen Jianghai District Sanrong Hardware Airproof Products Factory* (江門市江海區三榮五金密封件製品廠), a company principally engaged in the manufacturing and sale of spare parts of printer consumables, as well as airproof and metal products, from October 2003 to April 2019.

Mr. Lam graduated from Wuhan University of Technology (武漢理工大學) in the PRC in July 1987.

Ms. Yu Erhao (余尔好) (formerly known as Yu Erhao (余迩好)), aged 30, was appointed as a Director in June 2018 and re-designated as a Non-executive Director in March 2020. Ms. Yu is the daughter of Mr. Yu, a substantial shareholder of our Company. She is primarily responsible for participating in the formulation of our general corporate business plans and strategies.

Since November 2019, Ms. Yu has been an assistant to the chief executive officer in Xinsheng Liliang (Tianjin) Cultural Brokerage Co., Ltd.* (新生麗量(天津)文化經紀有限公司), a company principally engaged in performance and brokerage business.

Ms. Yu obtained a bachelor's degree in arts from California State University, Northridge in the United States in December 2016.

Independent Non-Executive Directors

Mr. Chen Mark Da-jiang, aged 52, was appointed as an Independent Non-Executive Director in February 2021. He is responsible for overseeing the management of our Group independently.

Mr. Chen has more than 20 years of extensive private equity investment experience in a wide range of industry sectors globally, including semiconductor and life sciences. From December 1999 to 2006, he was a managing director of Easton Hunt Capital Partners, L.P., a private equity investment firm. From April 2006 to 2009, he was the chairman of the board of directors, the chief executive officer and the president of Pantheon China Acquisition Corp., a public listed special purpose acquisition company which he founded. He has been a managing partner of Pantheon Pacific Capital Management Ltd., a global private equity investment advisory company, since 2009. He is also an independent non-executive director of Global Cord Blood Corporation, a life sciences enterprise principally engaged in the storage of umbilical cord blood stem cells and a public company listed on the New York Stock Exchange (NYSE: CO).

Mr. Chen received a bachelor's degree in material science and engineering from Shanghai Jiao Tong University in the PRC in July 1989, a master's degree in material science and engineering from The Pennsylvania State University in the United States in December 1994, and a master's degree in business administration from the Columbia Business School at Columbia University in the United States in May 1999.

Mr. Kao Yi-Ping (高亦平), aged 48, was appointed as an Independent Non-executive Director in February 2021. He is responsible for overseeing the management of our Group independently.

Mr. Kao was a deputy manager in VIA Technologies, Inc., a company listed on the Taiwan Stock Exchange (stock code: 2388) and principally engaged in the production of hardware, software and cloud building blocks for systems and devices, from January 2004 to March 2006. He joined Media Tek Inc., a company listed on the Taiwan Stock Exchange (stock code: 2454) and principally engaged in chipset technology for electrical appliances, in April 2006, and has been serving as the director of the high-performance processors technology advanced CPU & Technology Division II since April 2016.

Mr. Kao obtained a master's degree in science from National Taiwan University (國立臺灣大學) in Taiwan in June 1999.

Mr. Li Huaxiong (李華雄), aged 57, was appointed as an Independent Non-executive Director in February 2021. He is responsible for overseeing the management of our Group independently. He is the Independent Non-executive Director who has the qualifications and experience to meet the requirements under Rule 3.10(2) of the Listing Rules.

During the period from 1990 to 2004, Mr. Li held various positions in Hainan Hong Kong-Macau Industrial Co., Ltd.* (海南港澳實業股份有限公司), Zhuhai Huadian Co., Ltd.* (珠海華電股份有限公司), Xiangcai Securities Co., Ltd.* (湘財證券有限公司) and Youlian Strategic Management Center* (友聯戰略管理中心) under Delong Group* (德隆集團). He also served as the strategic management director of Zhongkezhi Holdings Group Co., Ltd.* (中科智控股集團有限公司) and the general manager of Shenzhen Zhongkezhi Capital Investment Co., Ltd.* (深圳中科智資本投資有限公司), from 2007 to 2015. He has been serving as an independent director of Shenzhen Guofu Gold Co., Ltd.* (深圳市國富黃金股份有限公司), a company principally engaged in the development of precious metal cultural industry since December 2011. In addition, Mr. Li currently serves as an independent director of Shenzhen AOTO Electronics Co., Ltd.* (深圳市奧拓電子股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002587) and principally engaged in the production of display products for a term from December 2019 to January 2022 where he also served for the same position for two terms from December 2009 to December 2012, and from December 2012 to January 2016.

Mr. Li obtained a master's degree in economics from Zhongnan University of Finance and Economics (中南財經大學) (now known as Zhongnan University of Economics and Law (中南財經政法大學)) in the PRC in October 1988. He further obtained a doctoral degree in accounting from Renmin University of China (中國人民大學) in the PRC in July 1998. He is a certified public accountant and a non-practising member of the Chinese Institute of Certified Public Accountants.

Mr. Li was a director of the following companies prior to their dissolution, which were solvent at the time of dissolution:

Name of company	Place of incorporation	Nature of business before dissolution	Date of dissolution	Means of dissolution	Reason for dissolution
Hainan Dezhong Agricultural Development Co., Ltd.* (海南德眾農業開發有限公司)	PRC	Agricultural development	24 October 2017	De-registration	Cessation of business
Shenzhen Zhongkezhi Yuehua Venture Capital Management Co., Ltd.* (深圳市中科智悦華創業投資管理有限公司)	PRC	Venture investment	20 April 2009	De-registration	Cessation of business
Shenzhen Dezhong Investment Management Co., Ltd.* (深圳市德眾投資管理有限公司)	PRC	Investment management	17 November 2006	Revocation of business license	Cessation of business

As confirmed by Mr. Li, as far as he is aware, the dissolution of the abovementioned companies has not resulted in any liability or obligation being imposed against him.

Save as disclosed hereinabove, each of our Directors has confirmed that he/she (i) did not hold any directorship in other public companies, the securities of which are listed on any securities markets in Hong Kong or overseas, in the last three years immediately preceding the date of this prospectus; (ii) did not hold any other positions in our Company or other members of our Group as at the Latest Practicable Date; and (iii) did not have any relationships with any Directors, senior management or Controlling Shareholders as at the Latest Practicable Date. Save as disclosed in the section headed "Substantial Shareholders" in this prospectus and the section headed "Appendix V — Statutory and General Information — Further Information about Our Directors and Chief Executive — 9. Disclosure of Interests" in this prospectus, each of our Directors did not have any interests in our Shares within the meaning of Part XV of the SFO.

Save as disclosed hereinabove, to the best of the knowledge, information and belief of our Directors and after having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules as at the Latest Practicable Date.

SENIOR MANAGEMENT

Mr. Wang Hua (王華), aged 34, is the chief executive officer of our Group and Zhuhai Megain. He has been an executive director and the general manager of Zhuhai Megain since August 2017. He is primarily responsible for formulating our corporate strategies and operation plans as well as overseeing the overall management and operations of our Company and Zhuhai Megain.

Mr. Wang has over ten years of experience in the IC solutions industry. From July 2009 to June 2011, he was a sales manager in Zhuhai Apex Microelectronics Co., Ltd.* (珠海艾派克微電子有限公司), a company principally engaged in the research, development, manufacturing and sale of ICs and IT products and accessories. He was a co-founder, a director and a deputy general manager in Zhuhai Taisi Technology Co., Ltd.* (珠海泰斯科技有限公司) ("**Zhuhai Taisi**"), an ink cartridge manufacturer, from February 2012 until its deregistration in September 2018. He joined our Group in June 2013 as a deputy general manager of Zhuhai Megain. After Mr. Wang joined our Group, the operations of Zhuhai Taisi ceased and Mr. Wang was able to focus his time on managing the operations of Zhuhai Megain.

Mr. Wang obtained a bachelor's degree in electronic information science and technology from the Zhuhai College of Jilin University* (吉林大學珠海學院) in the PRC in July 2009.

Ms. Lyu Liang (呂亮), aged 47, is the chief financial officer of our Group. She is primarily responsible for overseeing the financial matters of our Group.

During the period from September 1996 to May 2015, Ms. Lyu worked in Zhuhai SMH Electronic Co., Ltd.* (珠海新明珠電子有限公司), a subsidiary of The Swatch Group Limited and principally engaged in the manufacturing, processing and sale of mechanical products, where she last served as the general manager. She was a service centre manager of O Grupo Swatch (Macau) Limitada (斯沃琪集團(澳門)有限公司), a subsidiary of The Swatch Group Limited and principally engaged in the sale and distribution of watches, from June 2015 to December 2015, and a senior manager of the investment department in Zhuhai Apex Technology Co., Ltd.* (珠海艾派克科技股份有限公司), a company principally engaged in the manufacturing of printing equipment and consumables, from September 2016 to August 2017. She then worked in Profilex Plastic Technology (Zhuhai FTZ) Co., Ltd.* (波菲麗斯塑膠科技(珠海保稅區)有限公司), a company principally engaged in the manufacturing of industrial plastic products, from August 2017 to November 2019, where she last served as the vice general manager. She joined our Group in December 2019.

Ms. Lyu obtained a diploma in water transportation finance and accounting from Wuhan Transportation University (武漢水運工程學院) (now known as Wuhan University of Technology (武漢理工大學)) in the PRC in June 1993, and a master's degree in business administration from Huazhong University of Science and Technology (華中科技大學) in the PRC in December 2006. She was qualified as an intermediate accountant by the Ministry of Personnel of the PRC in May 2002, and received the advanced diploma in management accounting from the Chartered Institute of Management Accountants in December 2014.

Mr. Hung Chien-Yuan (洪健元), aged 51, is the head of the hardware department of the Taiwan branch office of Megain Holding (BVI). He is primarily responsible for overseeing and managing our hardware design and research and development matters.

Mr. Hung was an assistant manager in Syntek Semiconductor Co., Ltd. (太欣半導體股份有限公司), an IC design company, from July 1994 to November 2005. From March 2010 to November 2015, he was an engineer in Echip-Tech, a company principally engaged in the research, design, development and sale of compatible cartridge chips. He joined our Group in December 2015 as the head of the hardware department of the Taiwan branch office of Megain Holding (BVI).

Mr. Hung completed his studies in electrical engineering at St John's and St Mary's Institute of Technology (新埔工業專科學校) (now known as St. John's University (聖約翰科技大學)) in Taiwan in June 1992.

Mr. Hung is the elder brother of Mr. Hung Wen-Lung (洪文隆).

Mr. Hung Wen-Lung (洪文隆), aged 49, is the head of the software department of the Taiwan branch office of Megain Holding (BVI). He is primarily responsible for overseeing and managing our software design matters.

Mr. Hung worked in the research and development department in Pacific Image Electronics Co., Ltd. (全譜科技股份有限公司), a scanning and imaging solution provider, from October 1998 to November 2005, where his last position was hardware engineer. From May 2006 to May 2010, he was a senior engineer in Good Way Technology Co., Ltd. (東碩資訊股份有限公司), a company principally engaged in computer and peripheral equipment manufacturing. From June 2010 to November 2015, he was an engineer in Echip-Tech Electronic Corporation (宏利科技有限公司), a company principally engaged in the research, design, development and sale of compatible cartridge chips. He joined our Group in December 2015 as the head of the software department of the Taiwan branch office of Megain Holding (BVI).

Mr. Hung graduated from Taipei Municipal Nangang Vocational High School (臺北市立南港高級工業職業學校) in Taiwan in July 1989.

Mr. Hung is the younger brother of Mr. Hung Chien-Yuan (洪健元).

Mr. Xiang Yao (向瑤), aged 35, is the deputy director of the technical engineering department of Zhuhai Megain. He is primarily responsible for assisting in the management of the business operations of our research and development department.

Mr. Xiang has over nine years of experience in the IC solutions industry. He was a research and development engineer in Zhuhai Apex Microelectronics Co., Ltd.* (珠海艾派克微電子有限公司), a company principally engaged in the research, development, manufacturing and sale of ICs and IT products and accessories, from July 2010 to March 2016. He then served as a senior engineer in ALi Corp. (珠海揚智電子科技有限公司), a company principally engaged in the research and design of IC, from June 2016 to October 2017. He joined our Group in October 2017 as the manager of the technical engineering department of Zhuhai Megain.

Mr. Xiang obtained a bachelor's degree in engineering from the South-Central University for Nationalities (中南民族大學) in the PRC in June 2010.

Mr. Lee Meng-Shiou (李孟修) (also known as Dennis Lee), aged 51, is the external sales director of the Taiwan branch office of Megain Holding (BVI). He is primarily responsible for overseeing and managing our export sales and marketing.

Mr. Lee has over 18 years of experience in the sales industry. From February 2002 to April 2007, he was a deputy general manager in Sinonar Corporation (光華開發科技股份有限公司), a company principally engaged in the research, development, manufacturing and sale of solar battery products. He was a general sales manager in Dean Smart Development Limited (凱晉(香港)發展有限公司), a company principally engaged in the sales of cartridges, from April 2013 to August 2014, and a project manager in E Ink Holdings Inc. (元太科技工業股份有限公司), a company listed on the Taiwan Stock Exchange (stock code: 8069) and principally engaged in epaper technology, from August 2014 to July 2015. He joined our Group in February 2017 as the external sales director of the Taiwan branch office of Megain Holding (BVI).

Mr. Lee completed his studies in banking management at Tamsui Institute of Business Administration* (私立淡水工商管理專科學校) (now known as Aletheia University (真理大學)) in Taiwan in June 1992, and obtained a master's degree in business administration from the University of Sunderland in the United Kingdom in October 1997.

Save as disclosed hereinabove, each member of our senior management has confirmed that he/she (i) did not hold any directorship in other public companies, the securities of which are listed on any securities markets in Hong Kong or overseas, in the last three years immediately preceding the date of this prospectus; (ii) did not hold any other positions in our Company or other members of our Group as at the Latest Practicable Date; and (iii) did not have any relationships with any Directors, senior management or Controlling Shareholders as at the Latest Practicable Date.

COMPANY SECRETARY

Mr. Wong Cheuk Lam (黃焯琳), aged 52, was appointed as the company secretary of the Company on 1 March 2020. He is primarily responsible for the secretarial affairs of our Company.

Mr. Wong has over 17 years of experience in the company secretarial field. From February 2003 to January 2013, he worked in Zhengzhou China Resources Gas Company Limited (formerly known as Zhengzhou Gas Company Limited), a company previously listed on the Main Board of the Stock Exchange (stock code: 3928) and delisted in February 2012, where he last served as the chief financial officer and company secretary. He then worked in Genvon Group Limited (currently known as Beijing Enterprises Medical and Health Industry Group Limited), a company listed on the Main Board of the Stock Exchange (stock code: 2389), from January 2015 to May 2015, where he last served as the financial controller and deputy company secretary. From May 2015 to June 2016, he worked in ASR Logistics Holdings Limited (currently known as Beijing Sports and Entertainment Industry Group Limited), a company listed on the Main Board of the Stock Exchange (stock code: 1803), where he last served as the chief financial officer and company secretary. He was the deputy company secretary of China Shun Ke Long Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 974), from August 2018 to October 2019. Since November 2010, he has been serving as an independent non-executive director of Kingworld Medicines Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1110).

Mr. Wong obtained a bachelor's degree in arts from The University of Hong Kong in December 1992 and a master's degree in business from Victoria University of Technology in Australia in November 1997. He was admitted as a certified public accountant of the Hong Kong Institute of Certified Public Accountants in February 2001 and a certified practising accountant of CPA Australia in December 2000.

BOARD COMMITTEES

Audit Committee

We have established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code. The Audit Committee has three members, namely Mr. Li Huaxiong (李華雄), Mr. Chen Mark Da-jiang and Mr. Kao Yi-Ping (高亦平), all being our Independent Non-executive Directors. Mr. Li Huaxiong (李華雄) has been appointed as the chairman of the Audit Committee, and is the Independent Non-executive Director possessing the appropriate professional qualifications as required under Rule 3.10(2) of the Listing Rules. The primary duties of the Audit Committee include, among other things, making recommendations to our Board on the appointment, reappointment and removal of the external auditor, reviewing our financial information, and assisting our Board in providing an independent view of our financial reporting, risk management and internal control systems.

Remuneration Committee

We have established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code. The Remuneration Committee has three members, namely Mr. Chen Mark Da-jiang, Mr. Li Huaxiong (李華雄) and Ms. Yu Erhao (余尔好). Mr. Chen Mark Da-jiang has been appointed as the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee include, among other things, making recommendations to our Board on our policy and structure for the remuneration of our Directors and senior management, the establishment of a formal and transparent procedure for developing remuneration policy, and the remuneration packages of our Executive Directors and senior management.

Nomination Committee

We have established the Nomination Committee with written terms of reference in compliance with the Corporate Governance Code. The Nomination Committee has three members, namely, Mr. Cheng Hsien-Wei (鄭憲徽), Mr. Chen Mark Da-jiang and Mr. Li Huaxiong (李華雄). Mr. Cheng Hsien-Wei (鄭憲徽) has been appointed as the chairman of the Nomination Committee. The primary duties of the Nomination Committee include, among other things, making recommendations on any proposed changes to our Board to complement our corporate strategies.

BOARD DIVERSITY POLICY

We consider diversity at the Board level an essential element in promoting our long-term business development. We have adopted a board diversity policy (the "**Board Diversity Policy**"), which sets out the approach to promote, achieve and maintain adequate diversity in our Board. Pursuant to the Board Diversity Policy, the selection of Board candidates will be based on a range of diversity perspectives, including gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry experience. The selected candidates will be considered against objective criteria, having due regard to the benefits of diversity on our Board, and the ultimate decision will be based on merit and contribution that the selected candidates will bring to our Board. We believe that the Board Diversity Policy will ensure that our Board has the right balance of skills, experience and diversity of perspectives that are required to support the formulation and implementation of business strategies, thus allowing us to achieve sustainable development.

We value gender diversity and will continue to take steps to promote gender diversity at all levels of our Company, in particular at the Board level. In order to achieve an appropriate balance of gender diversity in our Board, it is our policy that our Board should have at least one female Director. In addition, we are committed to providing career development and training opportunities for female staff whom we consider have the suitable experience, skills and knowledge with an aim to promote them to senior management members or Directors. We will also ensure that there is gender diversity when recruiting staff at mid to senior level so as to develop a pipeline of potential female successors to our Board. Noting that we currently have one female Director and one female senior management member, we expect to have more female staff members who will be eligible for managerial and board-level positions in the future. Further, our Company targets to add at least one female Director latest by the re-election of our Board in 2023, subject to the review and recommendation by the Nomination Committee.

The Nomination Committee is responsible for ensuring the diversity of our Board. After Listing, the Nomination Committee will review the Board Diversity Policy from time to time to ensure its effectiveness. We will also disclose the implementation of the Board Diversity Policy in our Company's corporate governance reports on an annual basis.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive remuneration from us in the form of salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind.

The aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) paid to our Directors for the years ended 31 December 2017, 2018 and 2019 and 10M2020 was RMB1.4 million, RMB3.5 million, RMB3.1 million and RMB1.2 million, respectively. None of the Directors had waived any remuneration during the same period.

The aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) paid to our Group's five highest paid individuals, including the Directors, for the years ended 31 December 2017, 2018 and 2019 and 10M2020 was RMB2.6 million, RMB5.4 million, RMB4.7 million and RMB2.8 million, respectively.

No payment was made by us to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the Track Record Period.

Save as disclosed above, no other payments have been made or are payable in respect of the Track Record Period by any member of our Group to any of our Directors.

Under the arrangements currently in force, we estimate the aggregate remuneration, excluding discretionary bonus, of our Directors for the year ending 31 December 2020 to be RMB1.9 million.

COMPLIANCE ADVISER

We have appointed CMBC International Capital Limited as our compliance adviser in compliance with Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, we will consult with and seek advice from our compliance adviser in the following circumstances:

(a) before the publication of any regulatory announcement, circular or financial report;

(b) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;

(c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and

(d) where the Stock Exchange makes an inquiry regarding unusual movements in the price or trading volume of our securities, the possible development of a false market in our securities or any other matters under Rule 13.10 of the Listing Rules.

The term of the appointment shall commence on the Listing Date and end on the date on which our Company complies with Rule 13.46 of the Listing Rules and distributes its annual report in respect of its financial results for the first full financial year commencing after the Listing Date.

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares which may be issued upon exercise of any options granted or to be granted under the Share Option Scheme), the following persons will have an interest or a short position in the Shares and the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

		As at the date of this prospectus		Immediately following completion of the Capitalisation Issue and the Global Offering	
Name of Shareholder	**Capacity/ Nature of interest**	**Number of Shares**	**Shareholding percentage**	**Number of Shares[1]**	**Shareholding percentage**
GMTL	Beneficial owner, interest held jointly with another person[2]	5,100	51.00%	191,250,000(L)	38.25%
AGL	Beneficial owner, interest held jointly with another person [3]	5,100	51.00%	191,250,000(L)	38.25%
Mr. Cheng	Interest in a controlled corporation, interest held jointly with another person [2]	5,100	51.00%	191,250,000(L)	38.25%
Mr. Lee	Interest in a controlled corporation, interest held jointly with another person [3]	5,100	51.00%	191,250,000(L)	38.25%
GLC	Beneficial owner[4]	2,600	26.00%	97,500,000(L)	19.50%
Mr. Yu	Interest in a controlled corporation[4]	2,600	26.00%	97,500,000(L)	19.50%
Mr. Lam	Beneficial owner	2,300	23.00%	86,250,000(L)	17.25%

Notes:

(1) The letter "L" denotes a long position in the Shares.

(2) Immediately following completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares which may be issued upon exercise of any options granted or to be granted under the Share Option Scheme), our Company will be approximately 19.99% directly owned by GMTL. As at the Latest Practicable Date, GMTL was wholly owned by Mr. Cheng. By virtue of the SFO and the Concert Parties Confirmatory Deed, GMTL and Mr. Cheng will be deemed to be interested in all the Shares held by GMTL and AGL.

(3) Immediately following completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares which may be issued upon exercise of any options granted or to be granted under the Share Option Scheme), our Company will be approximately 18.26% directly owned by AGL. As at the Latest Practicable Date, AGL was wholly owned by Mr. Lee. By virtue of the SFO and the Concert Parties Confirmatory Deed, AGL and Mr. Lee will be deemed to be interested in all the Shares held by AGL and GMTL.

(4) Immediately following completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares which may be issued upon exercise of any options granted or to be granted under the Share Option Scheme), our Company will be approximately 19.50% directly owned by GLC. As at the Latest Practicable Date, GLC was wholly owned by Mr. Yu. By virtue of the SFO, Mr. Yu is deemed to be interested in all the Shares held by GLC.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares which may be issued upon exercise of any options granted or to be granted under the Share Option Scheme), have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

AUTHORISED SHARE CAPITAL

The authorised share capital of our Company is as follows:

		HK$
750,000,000	Shares	7,500,000

ISSUED SHARE CAPITAL

The issued share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue (assuming the Over-allotment Option is not exercised and without taking into account the Shares which may be issued upon exercise of any options granted or to be granted under the Share Option Scheme) will be as follows:

		HK$
Issued and to be issued, fully paid or credited as fully paid		
10,000	Shares in issue as at the date of this prospectus	100
374,990,000	Shares to be issued pursuant to the Capitalisation Issue	3,749,900
125,000,000	Shares to be issued pursuant to the Global Offering	1,250,000
500,000,000	Shares in total	5,000,000

Assuming the Over-allotment Option is exercised in full, the share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account the Shares which may be issued upon exercise of any options granted or to be granted under the Share Option Scheme) will be as follows:

		HK$
Issued and to be issued, fully paid or credited as fully paid		
10,000	Shares in issue as at the date of this prospectus	100
374,990,000	Shares to be issued pursuant to the Capitalisation Issue	3,749,900
143,750,000	Shares to be issued pursuant to the Global Offering and the Over-allotment Option	1,437,500
518,750,000	Shares in total	5,187,500

ASSUMPTIONS

The above table assumes that the Global Offering has become unconditional and takes no account of (i) any Shares which may be allotted and issued upon exercise of any options granted or to be granted under the Share Option Scheme; or (ii) any Shares which may be allotted and issued or repurchased by our Company under the general mandate for the allotment and issue or the repurchase of Shares granted to our Directors as referred to below.

RANKING

The Offer Shares and the Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options granted or to be granted under the Share Option Scheme shall carry the same rights as all existing Shares in issue on the date of the allotment and issue of such Shares, and in particular will be entitled to all dividends or other distributions declared, made or paid after the date of this prospectus save for entitlements under the Capitalisation Issue.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Cayman Islands Companies Act and the terms of our Memorandum of Association and our Articles of Association, our Company may from time to time by ordinary resolution of shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into several classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may subject to the provisions of the Cayman Islands Companies Act reduce its share capital by special resolution of shareholders. For further details, please refer to Appendix IV in this prospectus.

Pursuant to the Cayman Islands Companies Act and the terms of our Memorandum of Association and our Articles of Association, all or any of the special rights attached to our Shares or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares in that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares in that class. For further details, please refer to Appendix IV in this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted the Issuing Mandate, the particulars of which are set out in the section headed "Appendix V — Statutory and General Information — Further Information about our Group — 3. Written Resolutions of our Shareholders Passed on 26 February 2021" in this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted the Repurchase Mandate, the particulars of which are set out in the section headed "Appendix V — Statutory and General Information — Further Information about our Group — 3. Written Resolutions of our Shareholders Passed on 26 February 2021" in this prospectus.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme as further described in the section headed "Appendix V — Statutory and General Information — Other Information — 14. Share Option Scheme" in this prospectus.

You should read the following discussion and analysis in conjunction with our consolidated financial statements including the notes thereto, as set forth in the Accountants' Report included as Appendix I to this prospectus. The Accountants' Report has been prepared on the basis set out in Appendix I to this prospectus and in accordance with our accounting policies that are in conformity with HKFRSs.

Our historical results do not necessarily indicate our performance for any future periods. The following discussion and analysis of our financial conditions and results of operations contain forward-looking statements that involve risks and uncertainties. Our actual results may differ from those discussed below due to a number of factors, including those set out in the sections headed "Risk Factors", "Forward-looking Statements", "Business" and elsewhere in this prospectus.

Potential investors should read the whole of the Accountants' Report set out in Appendix I to this prospectus and not rely merely on the information contained in this section.

The following discussion and analysis also contain certain amounts and percentage figures that have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them and all monetary amounts shown are approximate amounts only.

OVERVIEW

We are one of the leading providers of compatible cartridge chips based in the PRC. According to the CIC Report, we ranked second with a market share of approximately 11.1% in terms of external sales, and third with a market share of approximately 4.3% in terms of production volume in the PRC compatible cartridge chip market in 2019. Our products are one of the core components of compatible cartridges, which are printer consumables designed and manufactured by third-party cartridge manufacturers and include ink cartridges for use in inkjet printers and toner cartridges for use in laser printers. The principal functions of a compatible cartridge chip include facilitating communication between a compatible cartridge and the original-brand printer in which such a cartridge is installed, and monitoring cartridge usage. We take pride in our ability to introduce new models of compatible cartridge chips to the market in a timely manner, as a result of which we were able to record higher levels of profit margins throughout the Track Record Period. The majority of our revenue generated during the Track Record Period was derived from the sale of compatible cartridge chips. For the years ended 31 December 2017, 2018 and 2019 and 10M2020, our total revenue was approximately RMB212.8 million, RMB246.1 million, RMB157.6 million and RMB133.6 million, respectively.

MAJOR FACTORS AFFECTING OUR FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Demand of our customers

Substantial portion of our revenue was derived from the sale of our compatible cartridge chips during the Track Record Period. Our Directors believe that the demand for our compatible cartridge chips is dependent upon factors such as the demand for printers and/or printers consumables, market conditions, global economy and technological advancement. We cannot assure you that the demand for our compatible cartridge chips will not drop in the future. If the demand for our compatible cartridge chips drops significantly in the future, we may lose our bargaining power and have to lower the selling price of our products to tackle the drop of demand for our compatible cartridge chips and our gross profit will eventually decrease. Reducing the gross profit of our compatible cartridge chips would adversely affect our financial results and profitability.

Industry competition

According to the CIC Report, we face competition from major competitors in the market of compatible cartridge chips in the PRC. Although we ranked second with a market share of approximately 11.1% in terms of external sales, and third with a market share of approximately 4.3% in terms of production volume in the PRC compatible cartridge chip market in 2019, there is no assurance that we can maintain our competitiveness in the future. On an individual basis, our five largest customers accounted for approximately 36.4%, 41.6%, 48.7% and 38.9% of our total revenue for the years ended 31 December 2017, 2018 and 2019 and 10M2020 respectively, while our largest customer accounted for approximately 11.2%, 13.6%, 16.4% and 10.7% of our total revenue for the respective year or period. When sales to customers which were under common control or otherwise associated with each other at the relevant times are aggregated, for the years ended 31 December 2017, 2018 and 2019 and 10M2020, our top five customers accounted for approximately 41.0%, 42.7%, 59.4% and 54.5% of our total revenue respectively while our single largest customer accounted for approximately 14.5%, 13.6%, 38.3% and 34.1% of our total revenue respectively. We cannot assure you that we can maintain the business relationships with our major customers. If any of them were to substantially reduce the sales volume procured from us for any reason, we may not be able to obtain business from other customers to compensate for the loss of revenue. As a result, our financial results and profitability would be adversely affected.

Furthermore, in order to compete effectively, we may need to offer lower prices of our products and/or better terms than our competitors and if we are unable to reduce our costs accordingly, our financial results and profitability will be adversely affected.

Fluctuation of selling price of our products

According to the CIC Report, the selling price of a new model of compatible cartridge chip depends largely on how quickly the product is introduced to the market after the launch of the corresponding printer model; a first-to-market player can charge a higher price and enjoy a higher profit margin for its product given that it introduces the product earlier than the others. The selling price of our products gradually decreases along the life cycle of products. In 2019, there was a decrease in market price of compatible cartridge chips as a result of (a) the tariff imposed to cartridges exported to US market as a result of the US-China trade war resulting in the decrease of selling price of compatible cartridges; (b) the limited number of new models of printers launched by original-brand printer companies in 2018 and 2019, resulting in the limited number of new models of compatible cartridge chips for new models of printers, which are by nature with higher selling price during the introduction stage and therefore the focus on limited products by many competitors together; (c) the fierce market competition as a result of industry consolidation initiated by major market players. Please refer to the section headed "Business — Pricing" in this prospectus for further details. We rely on our research and development capabilities to introduce new models of chip ahead of our competitors from time to time. We cannot assure you that we are able to launch our products sooner than our competitors so as to enjoy the first-mover advantage. In addition, the launch of alternative models of compatible cartridge chips in the market, whether by us or by our competitors, may force us to reduce the selling price of our products as a result from the intensified market competition. As a result, our financial results and profitability would be adversely affected.

Our ability to remain competitive in technologies and product capacity

The market for our products is characterised by continuous technological developments and innovation to provide better product performance and to address the increasingly diverse market needs. As a result, our future growth and prospects are dependent on our ability to introduce new products or to enhance our existing products to meet the requirements of our existing or potential customers. We conduct research and development activities through our research and development department. However, new product development or enhancement is a complex, uncertain and time-consuming process which requires considerable human resources and capital investments. It may not necessarily result in the successful development of any new products or enhancement of our existing products either. As such, we may not be able to recover the related costs of such research and development activities, consequently materially and adversely affecting our financial conditions and results of operations.

To maintain our competitiveness, we have continuously invested in the research and development for our business. However, we cannot assure you that we can successfully leverage our research and development efforts by translating the efforts into new products or solutions. In addition, the technological standards and requirements by customers may change and we may not be able to respond to such changes in a timely manner. We cannot assure you that the new products or enhancement will be well received by our customers or the market. Our results of operations and profitability may be adversely affected if we fail to invent new products or solutions in order to respond to the changes in technological standards and requirements by our customers.

Direct materials

Our direct materials used in our products mainly include PCBAs, ICs and other parts of PCBAs for the production of our products. According to the CIC report, between 2015 and 2019, the average price of ICs had decreased, representing a CAGR of -3.3% mainly due to the declining prices of raw materials and the intensified competition among IC manufacturers. During the Track Record Period, our average direct material cost per unit of compatible cartridge chips sold were approximately RMB9.9, RMB9.3, RMB3.7 and RMB3.2 respectively. If our direct material cost rises in the future, we cannot assure you that we can pass on all such changes in the costs of sales to our customers. Our results of operations will be affected if we are not able to pass on all such changes in the costs of sales to our customers.

During the Track Record Period, direct material costs contributed to a significant portion of our cost of sales. For each of the years ended 31 December 2017, 2018, 2019 and 10M2020, our direct material costs amounted to approximately RMB112.0 million, RMB122.4 million, RMB62.6 million and RMB54.1 million, representing approximately 94.5%, 94.1%, 90.1% and 89.4% of our total cost of sales during the respective year/period and we expect direct material costs to continue to represent a significant percentage of our total cost of sales. For illustrative purpose, set out below is a sensitivity analysis of the estimated increase/decrease in of our profit before tax for the years ended 31 December 2017, 2018 and 2019 and 10M2020 in relation to a hypothetical change in our direct material costs in the respective year/period, assuming all other factors remain unchanged:

	For the year ended 31 December			
	2017	**2018**	**2019**	**For 10M2020**
Hypothetical change in direct material cost	**Change in profit before tax**	**Change in profit before tax**	**Change in profit before tax**	**Change in profit before tax**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
+/-60%	+/-67,177	+/-73,421	+/-37,572	+/-32,482
+/-40%	+/-44,784	+/-48,947	+/-25,048	+/-21,655
+/-20%	+/-22,392	+/-24,474	+/-12,524	+/-10,827

Seasonality

Our revenue is subject to seasonal fluctuations. During the Track Record Period, we recorded higher sales revenue in the last quarter of each financial year. Our Directors believe that such seasonality is mainly attributable to (i) the marketing effects of our participation in the industry exhibition in Zhuhai that usually takes place in October of each year; and (ii) the higher demand for our products during the last quarter of each year due to the need of our customers and their downstream customers to stock up in light of possible disruption of supply during the Chinese New Year holiday in the PRC.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on 22 June 2016 as an exempted company with limited liability. The formalisation of the structure of the Group was substantially completed in 2016, as detailed in the section headed "History, Development and Corporate Structure" in this prospectus, our Company became the holding company of the companies now comprising our Group then throughout the Track Record Period. The historical financial information has been prepared based on a consolidated basis as a continuing of the business of our Group by using the principles of merger accounting.

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of our Group for the Track Record Period include the results and cash flows of all companies now comprising our Group as if the current structure had been in existence throughout the Track Record Period, or since their respective dates of acquisition or incorporation/establishment, whichever is the shorter period. The consolidated statements of financial position of our Group as at 31 December 2017, 2018 and 2019 and 31 October 2020 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values, as if the current structure had been in existence at these dates or since their respective dates of acquisition or incorporation/establishment, whichever is the shorter period. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in consolidation. 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 HKICPA has issued a number of new or revised HKFRSs which are relevant to our Group and became effective during the Track Record Period. For the purpose of preparing and presenting the historical financial information, we have consistently adopted HKFRS 9 Financial Instruments, HKFRS 15 Revenue from Contracts with Customers and amendments to HKFRS 15 Clarifications to HKFRS 15 Revenue from Contracts with Customers and HKFRS 16 Leases which are effective for annual periods beginning on or after 1 January 2017.

Impact of adoption of certain accounting policies and amendments

HKFRS 9, HKFRS 15, HKFRS 16 and Amendments to HKFRS 16 have been adopted by us in the preparation of the historical Financial Information throughout the Track Record Period.

We have assessed the effects of the adoption of HKFRS 9, HKFRS 15, HKFRS 16 and Amendments to HKFRS 16 on the financial information and identified the following areas that have been affected:

- HKFRS 9 replaced the provision of HKAS 39 that related to the recognition, classification and measurement of financial assets and liabilities, derecognition of financial liabilities, impairment of financial assets and hedge accounting. The adoption of HKFRS 9 did not give rise to change of recognition and classification of financial assets and liabilities to be measured at amortised cost, fair value in other comprehensive income or fair value in profit or loss. HKFRS 9 has changed the impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit loss model" and the impairment is insignificant for the Track Record Period. The adoption of HKFRS 9 did not have material impact on our financial performance and position as compared to that of HKAS 39.

- HKFRS 15 replaced HKAS 18 and related interpretations. Under HKFRS 15, revenue from contract with customers is recognised when control of goods and services is transferred to the customers at an amount that reflect the consideration to which our Group expects to be entitled in exchange for those goods or services. HKAS 18 required revenue to be recognised when it is probable that the economic benefits will flow to our Group and when the revenue can be measured reliably. HKFRS 15 did not result in significant impact on our Group's financial performance and position and accounting policies.

- HKFRS 16 superseded HKAS 17 and related interpretations, introduced a single lessee accounting model and required a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying assets is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. The accounting treatment is different from the lessee accounting for leases that are classified as operating lease under HKAS 17. Based on our below assessment, the net impact on our financial performance and our net assets as a result of the adoption of HKFRS 16 is not significant as compared to that of HKAS 17, however, our right-of-use assets and lease liabilities on the consolidated statements of financial position have been recognised as a result of the adoption of HKFRS 16 as set out below, as compared to that of HKAS 17.

- Accounting by lessees (performance): Operating lease expense of approximately RMB781,000, RMB1,292,000, RMB1,354,000 and RMB1,203,000 under HKAS 17 were replaced with interest expense of approximately RMB133,000, RMB185,000, RMB151,000 and RMB99,000, and depreciation of approximately RMB691,000, RMB1,175,000, RMB1,262,000 and RMB1,180,000 under HKFRS 16 for the three years ended 31 December 2019 and 10M2020 respectively.

- Accounting by lessees (financial position): HKFRS 16 removes the current distinction between operating and financing leases. Based on our assessment, assets (the rights to use the leased properties) of approximately RMB2,593,000, RMB3,639,000, RMB2,378,000 and RMB1,721,000, and lease liabilities of approximately RMB2,775,000, RMB3,715,000, RMB2,518,000 and RMB1,847,000 were recognised as at 31 December 2017, 2018 and 2019 and 31 October 2020 respectively.

- Amendments to HKFRS 16: COVID-19-Related Rent Concessions provide a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

  During the Track Record Period, a monthly lease payment for a lease of our Group's office has been reduced by the lessor as a result of the COVID-19 pandemic and there are no other changes to the terms of the lease. Our Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for the rent concession granted by the lessor as a result of the COVID-19 pandemic during the Track Record Period. The adoption of amendment to HKFRS 16 did not have material impact on our Group's financial performance and position.

SIGNIFICANT ACCOUNTING POLICIES

Our significant accounting policies, estimates and judgements are disclosed in Notes 3 to 5 to the Accountants' Report as set out in Appendix I to this prospectus.

Our Directors have identified the below accounting policies, estimates and judgements that they believe are significant to the preparation of our financial statements.

Revenue

Revenue from sales of compatible cartridge chips is recognised at a point in time upon delivery of the goods to the customer.

Our Group permits the customer to return an item. Returned goods are exchanged only for new goods — i.e. no cash refunds are offered. The revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

Therefore, the amount of revenue recognised is adjusted for expected returns, which are estimated based on the historical data of products. In these circumstances, a refund liability and a right to recover returned goods asset are recognised.

Please refer to Note 3.12 to the Accountants' Report set out in Appendix I to this prospectus for further details of our accounting policy in relation to revenue.

Impairment loss on financial assets

Our Group recognises loss allowances for 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 our Group is exposed to credit risk.

Please refer to Note 3.9(b) to the Accountants' Report set out in Appendix I to this prospectus for further details of our accounting policy in relation to the impairment loss on financial assets.

Leases

Our Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and short-term leases with a lease term of twelve months or less. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Please refer to Note 3.13 to the Accountants' Report set out in Appendix I to this prospectus for further details of our accounting policy in relation to leases.

RESULTS OF OPERATIONS

The following table presents the results of operations of our Group during the Track Record Period, which are derived from the consolidated statements of profit or loss and other comprehensive income as set out in the Accountants' Report in Appendix I to this prospectus.

	For the year ended 31 December			For the ten months ended 31 October	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Revenue	212,775	246,083	157,625	86,290	133,570
Cost of sales	(118,432)	(130,080)	(69,515)	(49,134)	(60,524)
Gross profit	94,343	116,003	88,110	37,156	73,046
Other net income	8,259	3,923	3,803	2,590	3,604
Research and development expenses	(7,181)	(7,476)	(9,276)	(7,134)	(11,040)
Selling and distribution expenses	(4,777)	(8,397)	(7,771)	(6,905)	(4,766)
Administrative expenses	(11,966)	(18,469)	(18,850)	(14,745)	(14,760)
Listing expenses	–	(7,261)	(2,636)	(2,508)	(14,519)
Finance costs	(133)	(185)	(151)	(130)	(99)
Profit before income tax expense	78,545	78,138	53,229	8,324	31,466
Income tax expense	(15,410)	(15,518)	(11,916)	(1,302)	(5,830)
Profit for the year/period	63,135	62,620	41,313	7,022	25,636
Other comprehensive income, net of tax:					
Items that may be reclassified subsequently to profit or loss:					
Exchange difference on translation of operation outside the PRC	(1,644)	1,851	462	1,114	(1,188)
Other comprehensive income for the year/period	(1,644)	1,851	462	1,114	(1,188)
Total comprehensive income for the year/period	61,491	64,471	41,775	8,136	24,448

	For the year ended 31 December			For the ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Profit for the year/period attributable to:					
Owners of the Company	63,448	62,681	41,313	7,022	25,636
Non-controlling interests	(313)	(61)	–	–	–
	63,135	62,620	41,313	7,022	25,636
Total comprehensive income for the year/period attributable to:					
Owners of the Company	61,804	64,532	41,775	8,136	24,448
Non-controlling interests	(313)	(61)	–	–	–
	61,491	64,471	41,775	8,136	24,448

NON-HKFRS MEASURES

In order to supplement our consolidated statements of profit or loss and other comprehensive income, which are presented in accordance with HKFRS, we also use adjusted net profit as an additional financial measure, which is not required by, or presented in accordance with HKFRS. We believe that these non-HKFRS measures help identify underlying trends in our business that could otherwise be distorted by the effect of the expenses that we include in income from operations and net profit, and therefore provide useful information to investors and others in understanding and evaluating our results of operation by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance, which is in the same manner as the action of our management when comparing financial results across accounting periods. We also believe that these non-HKFRS measures provide useful information about our operating results, enhance the overall understanding of our past performance and future prospects, and allow for greater visibility with respect to key metrics used by our management in its financial and operational decision-making.

We define adjusted net profit as profit for the year/period adjusted by listing expenses. The use of adjusted net profit has material limitations as an analytical tool because they do not reflect all items of income and expenses that affect our operations. When assessing our operating and financial performance, you should not consider adjusted net profit in isolation from or as a substitute for our profit or loss for the year/period, gross profit or any other financial performance measure that is calculated in accordance with HKFRS. The term "adjusted net profit" is not defined under HKFRS, and such term may not be comparable to other similarly titled measures used by other companies.

The following table sets forth our adjusted net profit in each respective year/period during the Track Record Period:

	Year ended 31 December			Ten months ended 31 October	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit for the year/period	63,135	62,620	41,313	7,022	25,636
Add:					
Listing expenses *(Note)*	–	7,261	2,636	2,508	14,519
Adjusted net profit	63,135	69,881	43,949	9,530	40,155

Note: Our expenses incurred for Listing is non-recurring as it is derived from a one-off event.

SELECTED LINE ITEMS IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

For each of the years ended 31 December 2017, 2018 and 2019 and 10M2020, our revenue amounted to approximately RMB212.8 million, RMB246.1 million, RMB157.6 million and RMB133.6 million, respectively. Our revenue was principally generated from the sales of compatible cartridge chips, which represent 91.3%, 89.7%, 95.6% and 91.9% of the total revenue during the Track Record Period. Our compatible cartridge chips can be broadly applied to compatible cartridges of (i) desktop laser printers; (ii) desktop inkjet printers; and (iii) commercial printers.

The following table summarises the revenue for each of the product categories by application during the Track Record Period:

	Year ended 31 December												Ten months ended 31 October							
	2017				2018				2019				2019 (unaudited)				2020			
	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price
	RMB'000	*%*	*'000 pieces of chips*	*RMB*	*RMB'000*	*%*	*'000 pieces of chips*	*RMB*	*RMB'000*	*%*	*'000 pieces of chips*	*RMB*	*RMB'000*	*%*	*'000 pieces of chips*	*RMB*	*RMB'000*	*%*	*'000 pieces of chips*	*RMB*
Sales of chips																				
Product category-application																				
– Desktop laser printers	169,094	79.5	8,542	19.8	192,115	78.1	10,097	19.0	66,944	42.5	10,363	6.5	57,791	67.0	8,214	7.0	54,723	41.0	9,773	5.6
– Desktop inkjet printers	21,975	10.3	2,533	8.7	21,766	8.9	2,625	8.3	77,037	48.9	6,293	12.2	18,382	21.3	2,009	9.2	62,283	46.6	7,137	8.7
– Commercial printers[1]	3,106	1.5	263	11.9	6,740	2.7	444	15.2	6,629	4.2	407	16.3	5,230	6.0	330	15.8	5,798	4.3	255	22.7
Subtotal	194,175	91.3	11,338	17.1	220,621	89.7	13,166	16.8	150,610	95.6	17,063	8.8	81,403	94.3	10,553	7.7	122,804	91.9	17,165	7.2
Trading of ICs and other cartridge components[2]	18,600	8.7	N/A	N/A	25,462	10.3	N/A	N/A	7,015	4.4	N/A	N/A	4,887	5.7	N/A	N/A	10,766	8.1	N/A	N/A
Total	212,775	100			246,083	100			157,625	100			86,290	100			133,570	100		

Notes:

1. Includes mainly commercial laser printers.

2. In addition to provision of chips, we also engaged in trading of ICs and other cartridge components, including plastic parts and toner, as ancillary services to our customers during the Track Record Period.

The following table summarises the revenue, sales volume and average selling price during the Track Record Period of our compatible cartridge chips and the number of models sold categorised according to the length of time that had elapsed since the launch of the corresponding original-brand printer model:

	Year ended 31 December															Ten months ended 31 October									
	2017					2018					2019					2019 (unaudited)					2020				
	Revenue		Sales volume	Average selling price	Number of models sold	Revenue		Sales volume	Average selling price	Number of models sold	Revenue		Sales volume	Average selling price	Number of models sold	Revenue		Sales volume	Average selling price	Number of models sold	Revenue		Sales volume	Average selling price	Number of models sold
	RMB'000	*%*	*'000 pieces of chips*	*RMB*		*RMB'000*	*%*	*'000 pieces of chips*	*RMB*		*RMB'000*	*%*	*'000 pieces of chips*	*RMB*		*RMB'000*	*%*	*'000 pieces of chips*	*RMB*		*RMB'000*	*%*	*'000 pieces of chips*	*RMB*	
Sales of chips																									
Length of time since the launch of corresponding original-brand printer model																									
– Within three years	**122,669**	**63.2**	**4,036**	**30.4**	**316**	**102,349**	**46.4**	**1,981**	**51.7**	**155**	**45,117**	**30.0**	**3,689**	**12.2**	**122**	**19,279**	**23.7**	**1,432**	**13.5**	**117**	**25,762**	**21.0**	**904**	**28.5**	**103**
1st year	742	0.4	10	74.4	24	2,741	1.3	65	42.4	22	221	0.1	4	53.3	2	–	–	–	–	–	219	0.2	2	93.4	6
2nd year	10,356	5.3	192	53.9	50	51,242	23.2	916	55.9	36	4,552	3.0	277	16.4	23	4,062	5.0	217	18.7	23	22,578	18.4	324	69.7	53
3rd year	111,570	57.5	3,834	29.1	242	48,365	21.9	1,000	48.4	97	40,344	26.8	3,408	11.8	97	15,217	18.7	1,215	12.5	94	2,965	2.4	578	5.1	44
– Three to five years	**39,488**	**20.3**	**2,197**	**18.0**	**124**	**67,999**	**30.8**	**4,373**	**15.6**	**238**	**74,538**	**49.5**	**6,630**	**11.2**	**372**	**37,135**	**45.6**	**3,828**	**9.7**	**372**	**52,356**	**42.6**	**6,303**	**8.3**	**387**
4th year	2,337	1.2	93	25.1	6	66,987	30.4	4,327	15.5	234	46,763	31.0	3,035	15.4	132	14,390	17.7	862	16.7	132	27,907	22.7	3,781	7.4	285
5th year	37,151	19.1	2,104	17.7	118	1,012	0.4	46	22.1	4	27,774	18.4	3,595	7.7	240	22,745	27.9	2,966	7.7	240	24,449	19.9	2,522	9.7	102
– Over five years	**32,018**	**16.5**	**5,106**	**6.3**	**2,102**	**50,273**	**22.8**	**6,812**	**7.4**	**2,913**	**30,955**	**20.6**	**6,744**	**4.6**	**2,728**	**24,989**	**30.7**	**5,293**	**4.7**	**2,726**	**44,686**	**36.4**	**9,958**	**4.5**	**2,925**
6th year	8,709	4.5	1,011	8.6	128	22,741	10.3	1,862	12.2	77	926	0.6	143	6.5	6	744	0.9	102	7.3	4	14,535	11.8	2,233	6.5	237
7th year	10,463	5.4	1,341	7.8	36	6,518	3.0	706	9.2	124	12,851	8.5	2,171	5.9	87	10,649	13.1	1,651	6.5	87	675	0.5	206	3.3	5
Eight years or above	12,846	6.6	2,754	4.7	1,938	21,014	9.5	4,243	5.0	2,712	17,178	11.4	4,430	3.9	2,635	13,596	16.7	3,540	3.8	2,635	29,476	24.0	7,519	3.9	2,683
Total	194,175	100	11,338	17.1	2,542	220,621	100	13,166	16.8	3,306	150,610	100	17,063	8.8	3,222	81,403	100	10,553	7.7	3,215	122,804	100	17,165	7.2	3,415

As illustrated above, 2,542 models of chips were sold during the year ended 31 December 2017, most of which were attributable to models of chips developed by us before the Track Record Period. We have been able to develop a large number of models of chips, particularly for chips for the corresponding original-brand printer models launched eight years or before, mainly due to the relatively lower technical requirements or barrier involved in the development of these products. The number of models sold increased from 2,542 for the year ended 31 December 2017 to 3,306 for the year ended 31 December 2018 mainly due to our initiative in 2018 to offer diversified range of products (including chips launched over three years since the launch of corresponding original-brand printer model) to our customers with the aim to strengthen the business relationship with our customers.

As illustrated above, 97 models of our chips, with corresponding revenue, sales volume and average selling price of approximately RMB40.3 million, 3.4 million pieces and RMB11.8 respectively during the year ended 31 December 2019 will be reclassified from the introduction stage (within three years from the launch of corresponding original-brand printer model) to the growth stage (three years to five years from the launch of corresponding original-brand printer model) during the year ended 31 December 2020. On the other hand, 240 models of our chips, with corresponding revenue, sales volume and average selling price of approximately RMB27.8 million, 3.6 million pieces and RMB7.7 respectively during the year ended 31 December 2019 will be reclassified from the growth stage to the maturity stage (over five years from the launch of corresponding original-brand printer model) during the year ended 31 December 2020.

The unit price of our compatible cartridge chips may vary from model to model, given that (i) the degrees of technical complexity involved may be different; and (ii) the popularity of and demand for the corresponding printer models and cartridges may differ, resulting in price fluctuation to different extents. In addition, it also depends on the length of time that had elapsed at the time of sale since the launch of the corresponding original-brand printer models, to which the level of market competition tends to correlate. In general, the selling price of our products gradually decreases along the product life cycle, which is implicit in the lower average selling price of our products when sold more than five years after the launch of the corresponding original-brand printer models during the Track Record Period.

Cost of sales

During the Track Record Period, our cost of sales primarily comprised direct material costs, subcontracting charges and staff costs. Our direct material used in our products mainly include PCBAs, ICs and other parts of PCBAs. For each of the years ended 31 December 2017, 2018 and 2019 and 10M2020, our cost of sales amounted to approximately RMB118.4 million, RMB130.1 million, RMB69.5 million and RMB60.5 million, respectively. The following table sets forth a breakdown of our cost of sales during the Track Record Period:

	Year ended 31 December						Ten months ended 31 October			
	2017		2018		2019		2019		2020	
							(unaudited)			
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Direct material costs										
– PCBAs sourced from external suppliers	84,218	71.1	85,146	65.4	26,768	38.5	23,205	47.2	12,948	21.4
– ICs, other parts of PCBAs and others	27,743	23.4	37,222	28.6	35,852	51.5	21,462	43.7	41,189	68.1
Subcontracting charges	3,995	3.4	4,128	3.2	4,781	6.9	2,992	6.1	4,600	7.6
Warranty provision	1,260	1.1	1,627	1.3	(782)	(1.1)	(783)	(1.6)	(529)	(1.0)
Staff costs	994	0.8	1,521	1.2	2,162	3.1	1,677	3.4	1,608	2.7
Others	222	0.2	436	0.3	734	1.1	581	1.2	708	1.2
Total	118,432	100	130,080	100	69,515	100	49,134	100	60,524	100

As illustrated in the above breakdown, our direct material costs accounted for over 89.5% of our total cost of sales during the Track Record Period and PCBAs sourced from external suppliers accounted for 71.1%, 65.4%, 38.5% and 21.4% of our total cost of sales for the years ended 31 December 2017, 2018 and 2019 and 10M2020 respectively. As such, we are subject to the impact of fluctuations in our cost of direct materials. For details of hypothetical fluctuations in our cost of direct materials, please refer to the paragraph headed "Major factors affecting our financial conditions and results of operations — Direct materials" in this section.

The procurement cost of PCBAs and ICs are affected by various factors including (i) the procurement volume; (ii) the technical requirement for PCBAs and ICs and the initial research and development cost incurred by the suppliers; and (iii) market price of compatible cartridge chips. For instance, in line with industry norm, since suppliers need to incur certain amount of initial research and development and testing cost, they would generally charge a higher price at earlier stage. Along the increase in production volume, the suppliers can gradually recover such initial cost and as such, we will be able to negotiate for a lower price with suppliers. In addition, for those chips with high price and profit margin to chips providers and its upstream suppliers (i.e. PCBAs and ICs suppliers), in case of the significant decrease in the price of chips, we also can lower our costs by agreeing on a lower purchase price of PCBAs and ICs considering our long-term business relationship with the suppliers and the availability of alternative suppliers in the market.

Gross profit

During the Track Record Period, we were able to maintain gross profit margin of approximately 44.3%, 47.1%, 55.9% and 54.7% respectively which was generally in line with the industry norm according to the CIC Report. The following table sets forth a breakdown of our gross profit and gross profit margin for each of the product categories by application during the Track Record Period:

	Year ended 31 December						Ten months ended 31 October			
	2017		2018		2019		2019 (unaudited)		2020	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Sales of chips										
Product category-application										
– Desktop laser printers	84,194	49.8	100,842	52.5	28,062	41.9	24,525	42.4	32,978	60.3
– Desktop inkjet printers	6,879	31.3	6,660	30.6	55,003	71.4	8,546	46.5	35,999	57.8
– Commercial printers[1]	1,013	32.6	3,223	47.8	4,170	62.9	3,246	62.1	3,403	58.7
Subtotal	92,086	47.4	110,725	50.2	87,235	57.9	36,317	44.6	72,380	58.9
Trading of ICs and other cartridge components[2]	2,257	12.1	5,278	20.7	875	12.5	839	17.2	666	6.2
Total	94,343	44.3	116,003	47.1	88,110	55.9	37,156	43.1	73,046	54.7

Notes:

1. Includes mainly commercial laser printers.

2. In addition to provision of chips, we also engaged in trading of ICs and other cartridge components, including plastic parts and toner, as ancillary services to our customers during the Track Record Period.

The following table sets forth a breakdown of our gross profit and gross profit margin of our compatible cartridge chips categorised according to the length of time that had elapsed since the launch of the corresponding original-brand printer model:

	Year ended 31 December						Ten months ended 31 October			
	2017		2018		2019		2019		2020	
							(unaudited)			
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Sales of chips										
Length of time since the launch of corresponding original-brand printer model										
– Within three years	**50,933**	**41.5**	**62,022**	**60.6**	**27,634**	**61.2**	**8,800**	**45.6**	**21,677**	**84.1**
1st year	376	50.6	1,534	56.0	126	57.0	–	–	206	94.4
2nd year	4,695	45.3	32,533	63.5	2,421	53.2	2,154	53.0	20,169	89.3
3rd year	45,862	41.1	27,955	57.8	25,088	62.2	6,646	43.7	1,302	43.9
– Three to five years	**29,448**	**74.6**	**28,647**	**42.1**	**49,988**	**67.1**	**20,140**	**54.2**	**35,965**	**68.7**
4th year	1,486	63.6	28,051	41.9	35,942	76.9	8,560	59.5	16,978	60.8
5th year	27,962	75.3	596	58.9	14,046	50.6	11,580	50.9	18,987	77.7
– Over five years	**11,705**	**36.6**	**20,057**	**39.9**	**9,613**	**31.1**	**7,377**	**29.5**	**14,738**	**33.0**
6th year	4,172	47.9	12,613	55.5	457	49.3	349	46.8	6,883	47.4
7th year	6,156	58.8	2,648	40.6	4,797	37.3	3,885	36.5	261	38.8
Eight years or above	1,378	10.7	4,797	22.8	4,359	25.4	3,143	23.1	7,594	25.8
Total	92,086	47.4	110,725	50.2	87,235	57.9	36,317	44.6	72,380	58.9

Our gross profit from sales of our chips launched within three years from the launch of corresponding original-brand printer model increased from approximately RMB50.9 million for the year ended 31 December 2017 to approximately RMB62.0 million for the year ended 31 December 2018. Our gross profit margin from the sales of our chips launched within three years from the launch of corresponding original-brand printer model increased from approximately 41.5% for the year ended 31 December 2017 to approximately 60.6% for the year ended 31 December 2018 due to the increase in average selling price. Our gross profit from sales of our chips launched within three years from the launch of corresponding original-brand printer model decreased from approximately RMB62.0 million for the year ended 31 December 2018 to approximately RMB27.6 million for the year ended 31 December 2019 due to the decrease in revenue. The slight increase of our respective gross profit margin from approximately 60.6% for the year ended 31 December 2018 to approximately 61.2% for the year ended 31 December 2019 despite the decrease of the average selling price was mainly due to the fact that we were able to lower our costs by agreeing on lower purchase price of direct materials considering our long-term business relationship with the suppliers and the availability of alternative suppliers in the market. In addition, the proportional increase of purchase of ICs and other parts of PCBAs (as opposed to PCBAs sourced from external suppliers) as a result of the increase of our independent research and development had further lowered our cost of sales. Our gross profit from sales of our chips launched within three years from the launch of corresponding original-brand printer model increased from approximately RMB8.8 million for 10M2019 to approximately RMB21.7 million for 10M2020 due to the increase in revenue. The increase of our respective gross profit margin from approximately 45.6% for 10M2019 to approximately 84.1% for 10M2020 was mainly due to the selling of certain models of chips for desktop laser printers with relatively higher gross profit margin we successfully developed during 10M2020.

Our gross profit from sales of our chips launched from three years to five years from the launch of corresponding original-brand printer model decreased from approximately RMB29.4 million for the year ended 31 December 2017 to approximately RMB28.6 million for year ended 31 December 2018 due to the decrease in our respective gross profit margin from approximately 74.6% for the year ended 31 December 2017 to approximately 42.1% for the year ended 31 December 2018 mainly since a popular model of our chips (being classified as launched from three to five years from the launch of corresponding original-brand printer model in 2017) with relatively high gross profit margin had reached the maturity stage of the product life cycle (i.e. being classified as launched over five years from the launch of corresponding original-brand printer model) in 2018. The gross profit of such products also decreased in 2018 as a result of the product life cycle and market competition. Our gross profit from the sales of our chips launched from three to five years from the launch of corresponding original-brand printer model increased from approximately RMB28.6 million for the year ended 31 December 2018 to approximately RMB50.0 million for the year ended 31 December 2019 due to the respective revenue growth. The increase of our respective gross profit margin from approximately 42.1% for the year ended 31 December 2018 to approximately 67.1% for the year ended 31 December 2019 was mainly due to the selling of certain models of chips for desktop inkjet printers that we successfully developed in 2019 and with relatively high gross profit margin to our customers (in particular, the cartridge manufacturers in Listed Group A). Despite such products were at the growth stage of the product life cycle (i.e. three to five years from launch of the corresponding original-brand printer model), we could maintain a relatively high gross profit margin due to the recognition of the good quality, functionality and upward compatibility of such products by our customers with only a few competitors having successfully launched products with similar features and functionality. Our gross profit from sales of our chips launched from three years to five years from the launch of corresponding original-brand printer model increased from approximately RMB20.1 million for 10M2019 to approximately for RMB36.0 million for 10M2020 due to the increase in revenue. The increase of our respective gross profit margin from approximately 54.2% for 10M2019 to approximately 68.7% for 10M2020 was mainly due to the selling of certain models of chips for desktop inkjet printers that we successfully developed in 2019 and with relatively high gross profit margin to our customers (in particular, the cartridge manufacturers in Listed Group A).

Our gross profit from the sales of our chips launched over five years from the launch of corresponding original-brand printer model increased from approximately RMB11.7 million for the year ended 31 December 2017 to approximately RMB20.1 million for the year ended 31 December 2018 due to the revenue growth. Our gross profit margin from the sales of our chips launched over five years from the launch of corresponding original-brand printer model maintained relatively stable at approximately 36.6% for the year ended 31 December 2017 and approximately 39.9% for the year ended 31 December 2018. Our gross profit from the sales of our chips launched over five years from the launch of corresponding original-brand printer model decreased from approximately RMB20.1 million for the year ended 31 December 2018 to approximately RMB9.6 million for the year ended 31 December 2019 mainly due to the decrease in the respective revenue. The decrease of our respective gross profit margin from approximately 39.9% for the year ended 31 December 2018 to approximately 31.1% for the year ended 31 December 2019 was mainly due to the decrease of average selling price along the life cycle of products as well as the fierce market competition. Our gross profit from sales of our chips launched over five years from the launch of corresponding original-brand printer model increased from approximately RMB7.4 million for 10M2019 to approximately RMB14.7 million for 10M2020 due to the increase in revenue. The increase of our respective gross profit margin from approximately 29.5% for 10M2019 to approximately 33.0% for 10M2020 was mainly due the increase of purchase of ICs for production which had lowered our cost of sales for 10M2020.

As illustrated above, 97 models of our chips, with corresponding gross profit and gross profit margin of approximately RMB25.1 million and 62.2% respectively during the year ended 31 December 2019 will be reclassified from the introduction stage (within three years from the launch of corresponding original-brand printer model) to the growth stage (three years to five years from the launch of corresponding original-brand printer model) during the year ended 31 December 2020. On the other hand, 240 models of our chips, with corresponding gross profit and gross profit margin of approximately RMB14.0 million and 50.6% respectively during the year ended 31 December 2019 will be reclassified from the growth stage to the maturity stage (over five years from the launch of corresponding original-brand printer model) during the year ended 31 December 2020.

Our gross profit margin of approximately 41.5% from sales of our chips launched within three years from the launch of corresponding original-brand printer model in 2017 was lower than our gross profit margin of approximately 74.6% from sales of our chips launched from three years to five years from the launch of corresponding original-brand printer model in 2017. The gross profit from sales of our chips launched within three years from the launch of corresponding original-brand printer model in 2017 was relatively lower mainly due to the significant decrease in unit price of some of the products within this category as a result of the launch of competing products with similar features and functionality within this category during the year of 2017 by other market players resulting in intensified price pressure for these products. On the other hand, the gross profit from sales of our chips launched from three years to five years from the launch of corresponding original-brand printer model in 2017 was relatively higher mainly due to the relatively stable unit price of the principal models of our products falling in this category with fewer competing products with similar features and functionality available in the market, enabling us to maintain relatively stable selling price and profit margin of our products falling in this category.

Our gross profit of approximately 76.9% from sales of our chips launched four years from the launch of corresponding original-brand printer model in 2019 was higher than our gross profit of approximately 57.8% from sales of our chips launched three years from the launch of corresponding original-brand printer model in 2018 mainly due to the increase in sales of our newly launched chips for desktop inkjet printers, which fell within the category of four years from the launch of the corresponding original-brand printer model, in 2019 with high gross profit margin.

Our gross profit of approximately 50.6% from sales of our chips launched five years from the launch of corresponding original-brand printer model in 2019 was higher than our gross profit of approximately 41.9% from sales of our chips launched four years from the launch of corresponding original-brand printer model in 2018 mainly due to the relatively lower costs of sales for some models of our products falling in the category of five years from the launch of corresponding original brand printer models as a result of the increase of purchase of ICs (as opposed to PCBAs sourced from external suppliers) for production of such products in 2019.

Our gross profit margin from sales of our chips launched two years from the launch of corresponding original-brand model increased from approximately 53.0% for 10M2019 to approximately 89.3% for 10M2020, which was mainly due to the increase in sales of our newly launched chips for 10M2020 with higher average selling price and higher gross profit margin in the introduction stage. Our gross profit margin from sales of our chips launched five years from the launch of corresponding printer model increased from approximately 50.9% for 10M2019 to approximately 77.7% for 10M2020 mainly due to selling of certain models of chips for desktop inkjet printers that we successfully developed in 2019 with relatively high gross profit margin to our customers.

Other net income

	Year ended 31 December						**Ten months ended 31 October**			
	2017		**2018**		**2019**		**2019**		**2020**	
							(unaudited)			
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Bank interest income	66	0.8	44	1.1	409	10.7	109	4.2	1,463	40.6
Exchange (loss)/gain, net	(718)	(8.7)	1,196	30.5	663	17.4	134	5.2	561	15.6
Government grants	1,195	14.5	1,869	47.6	1,413	37.2	1,126	43.5	1,553	43.1
Service income	7,449	90.2	–	–	1,132	29.8	1,132	43.7	–	–
Sundry income	267	3.2	814	20.8	186	4.9	89	3.4	27	0.7
Total	8,259	100	3,923	100	3,803	100	2,590	100	3,604	100

Our other net income during the Track Record Period primarily consisted of (i) bank interest income; (ii) net exchange gain or loss; (iii) government grants which mainly comprised of one-off and discretionary subsidies related to our innovation projects and social insurance contribution for our employees and refunds of value-added tax; and (iv) service income, representing one-off service income as other income for providing technical services to third-party companies. Service income of approximately RMB7.4 million for the year ended 31 December 2017 represented income from the provision of services in research and development in relation to printer chips to a controlling shareholder of Customer H. Service income of approximately RMB1.1 million for the year ended 31 December 2019 represented income from the provision of services in research and development in relation to ICs for one of our major suppliers.

Research and development expenses

We are dedicated to the research of new IC technologies and development in relation to new compatible cartridge chips so as to cope with the fast-changing demand of our customers amid constant technological advancement. For details of our research and development, please refer to the section headed "Business — Research and development" in this prospectus. Research and development expenses incurred in relation to new compatible cartridge chips include staff costs for our research and development personnel, testing fee and raw material costs, software costs, depreciation and amortisation and other expenses.

During the Track Record Period, leveraging our research and development capabilities on compatible cartridge chips, we had been exploring the possibility to develop the IoT market as a pilot initiative. For details of our research and development in relation to IoT, please refer to the section headed "Business — Research and development" in this prospectus.

Our research and development cost incurred was approximately RMB7.2 million, RMB7.5 million, RMB9.3 million and RMB11.0 million for the years ended 31 December 2017, 2018 and 2019 and 10M2020, respectively.

The following table sets forth a breakdown of our research and development expenses during the Track Record Period:

	Year ended 31 December						Ten months ended 31 October			
	2017		2018		2019		2019		2020	
							(unaudited)			
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Staff costs	2,938	40.9	3,729	49.9	5,586	60.2	4,261	59.7	4,495	40.7
Testing fee and raw material costs	934	13.0	1,472	19.7	1,309	14.1	1,431	20.1	3,108	28.2
Software costs	2,735	38.1	1,557	20.8	297	3.2	–	–	–	–
Depreciation and amortisation	64	0.9	392	5.2	1,001	10.8	754	10.6	1,297	11.7
Others[1]	510	7.1	326	4.4	1,083	11.7	688	9.6	2,140	19.4
Total	7,181	100	7,476	100	9,276	100	7,134	100	11,040	100

Note:

1. Others mainly include consultancy fee for research and development purpose, travelling expenses, rental expense and other expenses.

Selling and distribution expenses

	Year ended 31 December						Ten months ended 31 October			
	2017		2018		2019		2019 (unaudited)		2020	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Staff costs	2,163	45.3	4,939	58.8	5,701	73.4	4,889	70.8	3,417	71.7
Marketing, promotion and exhibition expenses	1,308	27.4	1,280	15.2	1,001	12.9	763	11.0	518	10.9
Others[1]	1,306	27.3	2,178	26.0	1,069	13.7	1,253	18.2	831	17.4
Total	4,777	100	8,397	100	7,771	100	6,905	100	4,766	100

Note:

1. Others mainly include service charge, office expense, entertainment expense, courier expense and other expenses.

Our selling and distribution expenses during the Track Record Period primarily include (i) staff costs (including salaries, commissions, travel expense, social insurance contribution and housing provident fund) for our sales and marketing personnel; and (ii) marketing, promotion and exhibition expenses. For each of the years ended 31 December 2017, 2018 and 2019 and 10M2020, our selling and distribution expenses amounted to approximately RMB4.8 million, RMB8.4 million, RMB7.8 million and RMB4.8 million, respectively, representing approximately 2.2%, 3.4%, 4.9% and 3.6% of our revenue, respectively.

Administrative expenses

The following table sets forth a breakdown of our administrative expenses during the Track Record Period:

	Year ended 31 December						Ten months ended 31 October			
	2017		2018		2019		2019 (unaudited)		2020	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Staff costs	6,497	54.3	9,242	50.0	8,333	44.2	6,941	47.1	5,166	35.0
(Reversal of impairment)/ impairment loss on trade receivables	(2,295)	(19.2)	192	1.1	(4)	0.0	–	–	440	3.0
Bad debt expenses	–	–	–	–	–	–	–	–	764	5.1
Taxation	2,122	17.7	1,997	10.8	1,239	6.6	310	2.1	1,587	10.8
Depreciation and amortisation	1,143	9.6	1,999	10.8	2,309	12.2	1,952	13.2	2,184	14.8
Auditors' remuneration	700	5.8	758	4.1	925	4.9	415	2.8	587	4.0
Business travelling and entertainment	958	8.0	1,653	9.0	1,336	7.1	1,229	8.3	373	2.5
Others	2,841	23.8	2,628	14.2	4,712	25.0	3,898	26.5	3,659	24.8
Total	11,966	100	18,469	100	18,850	100	14,745	100	14,760	100

For each of the years ended 31 December 2017, 2018 and 2019 and 10M2020, our administrative expenses amounted to approximately RMB12.0 million, RMB18.5 million, RMB18.9 million and RMB14.8 million, respectively, representing approximately 5.6%, 7.5%, 12.0% and 11.1% of our revenue, respectively. Administrative expenses mainly include (i) staff costs (including salaries, directors' emoluments, benefits, social insurance contribution and housing provident fund); (ii) reversal of impairment/impairment loss on trade receivables; (iii) taxation; (iv) depreciation of machinery and equipment and amortisation of intangible assets; and (v) others which mainly include rental expenses, transportation expenses, utility expenses, office expenses, service fee, insurance and other expenses.

Income tax expenses

Income tax comprises current tax and deferred tax. The following table sets forth our income tax expenses during the years/periods indicated:

	For the year ended 31 December			Ten months ended 31 October	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Current tax					
– Hong Kong Profits Tax	171	–	–	–	–
– PRC Corporate Income Tax	11,222	13,574	7,961	1,283	5,635
– Overseas Tax	145	–	–	–	–
	11,538	13,574	7,961	1,283	5,635
Deferred tax					
Charged/(credited) to profit or loss for the year/period	553	(1,677)	1,364	(2,562)	(3,843)
Withholding tax on dividend declared by a PRC subsidiary	3,319	3,621	2,591	2,581	4,038
	15,410	15,518	11,916	1,302	5,830

Pursuant to the rules and regulations of the Cayman Islands and BVI, our Group is not subject to any income tax in the Cayman Islands and BVI.

Our Group's subsidiaries operating in Hong Kong are subject to Hong Kong profits tax. The provision for Hong Kong profits tax for the year ended 31 December 2017 is calculated at 16.5% of estimated assessable profits.

For the years ended 31 December 2018 and 2019 and 10M2020, under two-tiered profits tax rates regime, if the entity has one or more connected entity, the two-tiered profits tax rates would only apply to the one which is nominated to be chargeable at the two-tiered rates. Hong Kong profits tax of the nominated entity is calculated at 8.25% on assessable profits up to HK$2 million and 16.5% on any part of assessable profits over HK$2 million. For those entities which do not qualify for two-tiered profits tax rates, a profits tax rate of 16.5% on assessable profit shall remain in calculating Hong Kong profits tax.

Under the PRC Corporate Income Tax Law, which became effective on 1 January 2008, our Group's PRC entities are subject to income tax at a rate of 25%, unless otherwise specified. One of our Group's subsidiaries, Zhuhai Megain, is entitled to a preferential income tax rate of 15% since 2016 as a High New Technology Enterprise and was thus entitled to a preferential tax rate of 15% during the Track Record Period.

According to the PRC Corporate Income Tax Law and its related regulations, our Group is subject to a withholding tax at 10%, unless reduced by tax treaties or arrangements, for dividends distributed by a PRC enterprise to its immediate holding company outside the PRC or earnings generated beginning on 1 January 2008 and undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, our Group had no material disputes or unresolved tax issues with the relevant tax authorities.

The effective tax rates for us were approximately 19.6%, 19.9%, 22.4% and 18.5% for the years ended 31 December 2017, 2018 and 2019 and 10M2020 respectively. Tax charge at our Group's effective tax rate was approximately RMB15.4 million, RMB15.5 million, RMB11.9 million and RMB5.8 million for the years ended 31 December 2017, 2018 and 2019 and 10M2020, respectively. The increase in effective tax rate from approximately 19.9% for the year ended 31 December 2018 to approximately 22.4% for the year ended 31 December 2019 was due to the increase in tax effect of undistributed earnings of a PRC subsidiary by approximately RMB1.4 million. The effective tax rate for 10M2020 decreased to approximately 18.5% mainly due to the increase in additional reduction in research and development expenses.

Profit for the year/period and net profit margin

As a result of the foregoing, our net profit was approximately RMB63.1 million, RMB62.6 million, RMB41.3 million and RMB25.6 million for the years ended 31 December 2017, 2018 and 2019 and 10M2020, respectively. The net profit margin was approximately 29.7%, 25.4%, 26.2% and 19.2% for the corresponding year/period. Due to the nature of the industry of compatible cartridge chips in which we conduct business, we have been achieving satisfactory revenue and profit margin during the Track Record Period. Please refer to the section headed "Business — Satisfactory revenue and gross profit margin due to high barrier of entry in the market of compatible cartridge chips" in this prospectus for the reasons.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Ten months ended 31 October 2020 compared to ten months ended 31 October 2019

Revenue

Our overall revenue increased by approximately 54.8% from approximately RMB86.3 million for 10M2019 to approximately RMB133.6 million for 10M2020, which was mainly attributable to the increase in revenue from the sales of compatible cartridge chips.

(i) Sales of compatible cartridge chips

Our revenue from the sales of compatible cartridge chips increased by approximately 50.9% from approximately RMB81.4 million for 10M2019 to approximately RMB122.8 million for 10M2020.

By product category application

The increase in revenue was mainly due to increase in revenue from the sales of our chips for desktop inkjet printers to our customers (in particular, the cartridge manufacturers in Listed Group A) from approximately RMB18.4 million for 10M2019 to approximately RMB62.3 million for 10M2020 attributable to the sales of certain models of chips mainly designated for certain desktop inkjet printer models we successfully developed in 2019, which contributed significant amount of sales since the last quarter in 2019 and were recognised by our customers in terms of good quality, functionality and upward compatibility, and with only a few competitors having successfully launched products with similar features. Notwithstanding that the average selling price of our chips for desktop inkjet printers decreased from approximately RMB9.2 for 10M2019 to approximately RMB8.7 for 10M2020, according to the CIC Report, after the significant price decline in 2019, the price of compatible cartridge chips had already decreased to a lower price range and the price of compatible cartridge chips remained relatively stable during the first quarter of 2020 comparing to the fourth quarter of 2019. In addition, the price of compatible cartridge chips does not show signs of further sharp decline and it is expected to continue its growth with the compatible cartridge industry in the next few years.

Length of time since the launch of corresponding original-brand printer model

Our revenue from the sales of chips launched within three years from the launch of corresponding original-brand printer model increased by approximately 33.6% from approximately RMB19.3 million for 10M2019 to approximately RMB25.8 million for 10M2020, which was mainly due to the increase in revenue of approximately RMB21.6 million from the sales of certain models of chips mainly for certain desktop laser printers we launched in 2020.

Our revenue from the sales of chips launched three to five years from the launch of corresponding original-brand printer model increased by approximately 41.0% from approximately RMB37.1 million for 10M2019 to approximately RMB52.4 million for 10M2020, which was mainly due to the increase in the respective sales volume from approximately 3.8 million pieces to approximately 6.3 million pieces due to the increase in sales of certain models of chips for desktop inkjet printers we successfully developed in 2019 (mainly classified as launched three to five years from launch of corresponding original-brand printer model for 10M2020).

Our revenue from the sales of chips launched over five years from the launch of corresponding original-brand printer model increased from approximately RMB25.0 million for 10M2019 to approximately RMB44.7 million for 10M2020, which was mainly due to the increase in the respective sales volume from approximately 5.3 million pieces to approximately 10.0 million pieces.

(ii) Trading of ICs and other cartridge component

Our revenue generated from trading of ICs and other cartridge components increased from approximately RMB4.9 million for 10M2019 to approximately RMB10.8 million for 10M2020 mainly due to increase in the sales of toner.

Cost of sales

Our cost of sales increased by approximately 23.2% from approximately RMB49.1 million for 10M2019 to approximately RMB60.5 million for 10M2020. The increase was primarily due to the increase in direct material costs, in line with the increase in our revenue for 10M2020. In addition, the proportional increase of purchase of ICs and other parts of PCBAs (as opposed to PCBAs sourced from external suppliers) as a result of the increase of our independent research and development had also increased our subcontracting charges.

Gross profit and gross profit margin

Our overall gross profit increased by approximately 96.6% from approximately RMB37.2 million for 10M2019 to approximately RMB73.0 million for 10M2020. Our overall gross profit margin increased from approximately 43.1% for 10M2019 to approximately 54.7% for 10M2020.

(i) Sales of compatible cartridge chips

<u>*By product category application*</u>

The gross profit from the sales of compatible cartridge chips increased from approximately RMB36.3 million for 10M2019 to approximately RMB72.4 million for 10M2020, mainly due to the increase in gross profit from the sales of our chips for desktop inkjet printers from approximately RMB8.5 million for 10M2019 to approximately RMB36.0 million for 10M2020, which was mainly due to in the increase in revenue attributable to the sales of certain models of chips for desktop inkjet printers we successfully developed in 2019 to our customers (in particular the cartridge manufacturers in Listed Group A) as discussed above, and the increase in revenue attributable to the sales of certain models of chips for desktop laser printers we launched in 2020 with higher profit margin and higher average selling price.

Our gross profit margin of compatible cartridge chips increased from approximately 44.6% for 10M2019 to approximately 58.9% for 10M2020, mainly due to (i) the increase in gross profit margin of our chips for desktop laser printers from approximately 42.4% for 10M2019 to approximately 60.3% for 10M2020 due to the higher profit margin of certain models of chips for desktop laser printers we launched in 2020 with relatively limited competing products; (ii) the increase in gross profit margin of our chips for desktop inkjet printers from approximately 46.5% for 10M2019 to approximately 57.8% for 10M2020 due to the higher profit margin of certain models of chips for desktop inkjet printers we successfully developed in 2019, which were recognized by our customers in terms of good quality, functionality and upward compatibility and with only a few competitors having successfully launched products with similar features; partially offset by the decrease in gross profit margin of certain other models of chips for desktop inkjet printers produced with relatively long-aged hardware components with higher historical purchase cost as part of our inventory management to utilize those long-aged raw materials; and (iii) the decrease in average unit cost attributable to the increase in purchase of ICs and other parts of PCBAs as a result of the increase of our independent research and development.

Length of time since the launch of corresponding original-brand printer model

Our gross profit from sales of our chips launched within three years from the launch of corresponding original-brand printer model increased from approximately RMB8.8 million for 10M2019 to approximately RMB21.7 million for 10M2020 due to the increase in revenue. The increase of our respective gross profit margin from approximately 45.6% for 10M2019 to approximately 84.1% for 10M2020 was mainly due to the selling of certain models of chips for desktop laser printers with relatively higher gross profit margin we successfully developed during 10M2020.

Our gross profit from sales of our chips launched three years to five years from the launch of corresponding original-brand printer model increased from approximately RMB20.1 million for 10M2019 to approximately RMB36.0 million for 10M2020 due to the increase in revenue. The increase of our respective gross profit margin from approximately 54.2% for 10M2019 to approximately 68.7% for 10M2020 was mainly due to the selling of certain models of chips for desktop inkjet printers that we successfully developed in 2019 and with relatively high gross profit margin to our customers (in particular, the cartridge manufacturers in Listed Group A).

Our gross profit from sales of our chips launched over five years from the launch of corresponding original-brand printer model increased from approximately RMB7.4 million for 10M2019 to approximately for RMB14.7 million for 10M2020 due to the increase in revenue. The increase of our respective gross profit margin from approximately 29.5% for 10M2019 to approximately 33.0% for 10M2020 was mainly due to the increase of purchase of ICs for production which had lower our cost of sales for 10M2020.

(ii) Trading of ICs and other cartridge component

Our gross profit from trading of ICs and other cartridge components remained relatively stable at approximately RMB0.8 million for 10M2019 and approximately RMB0.7 million for 10M2020 respectively. The decrease in gross profit margin from approximately 17.2% to approximately 6.2% was mainly due to the increase in sales of toner with lower profit margin.

Other net income

Our other net income increased by approximately 39.2% from approximately RMB2.6 million for 10M2019 to approximately RMB3.6 million for 10M2020, which was mainly due to the increase in government grants in relation to social insurance contribution for our employees and the increase in bank interest income.

Research and development expenses

Our research and development expenses increased by approximately 54.8% from approximately RMB7.1 million for 10M2019 to approximately RMB11.0 million for 10M2020. Such increase was mainly due to (i) the increase in staff costs attributable to the increase in headcount for our research and development team; (ii) the increase in testing fee and raw material cost attributable to the increase in subcontracting fee for research and development on the hardware component of our chips; (iii) the increase in depreciation and amortisation; and (iv) the increase in other expenses due to the increase in the initial fee for research and development for the IoT market.

Selling and distribution expenses

Our selling and distribution expenses decreased by approximately 31.0% from approximately RMB6.9 million for 10M2019 to approximately RMB4.8 million for 10M2020. Such decrease was mainly attributable to (i) the decrease in staff costs and the decrease in expenses on social insurance contribution for our employees due to government's waiver; and (ii) the decrease in travelling and exhibition expenses due to the outbreak of COVID-19.

Administrative expense

Our administrative expenses remained relatively stable at approximately RMB14.7 million for 10M2019 and approximately RMB14.8 million for 10M2020.

Income tax expenses

Our income tax expenses increased by approximately 347.8% from approximately RMB1.3 million for 10M2019 to approximately RMB5.8 million for 10M2020 in line with the increase in the profit before income tax expense for 10M2020 due to the reasons discussed above.

Net profit and net profit margin

As a result of the foregoing, our profit for the period increased by approximately 265.1% from approximately RMB7.0 million for 10M2019 to approximately RMB25.6 million for 10M2020. Our net profit margin increased from approximately 8.1% for 10M2019 to approximately 19.2% for 10M2020. Such increase in net profit margin was primarily due to the increase in gross profit margin as discussed above.

Year ended 31 December 2019 compared to year ended 31 December 2018

Revenue

Our overall revenue decreased by approximately 35.9% from approximately RMB246.1 million for the year ended 31 December 2018 to approximately RMB157.6 million for the year ended 31 December 2019, which was mainly attributable to the decrease in revenue from sales of compatible cartridge chips.

(i) Sales of compatible cartridge chips

Our revenue from the sales of compatible cartridge chips decreased by approximately 31.7% from approximately RMB220.6 million for the year ended 31 December 2018 to approximately RMB150.6 million for the year ended 31 December 2019.

By product category application

Despite the increase in overall sales volume of our chips, the decrease in our revenue was mainly attributable to the decrease in revenue from the sales of our chips for desktop laser printers from approximately RMB192.1 million for the year ended 31 December 2018 to approximately RMB66.9 million for the year ended 31 December 2019 as a result of the significant decrease in average selling price of our chips for desktop laser printers, partially offset by the increase in revenue from the sales of our chips for desktop inkjet printers.

The significant decrease in the selling price of our chips for desktop laser printers was mainly due to various factors, including but not limited to (i) the industry-wide pricing pressure on compatible cartridge chips (in particular, with more impact on those chips which were relatively new and with higher price originally) as a result of (a) the tariff imposed to cartridges exported to US market as a result of the US-China trade war resulting in the decrease of selling price of compatible cartridges; (b) the limited number of new models of printers launched by original-brand printer companies resulting in the limited number of new models of compatible cartridge chips for new models of printers, which are by nature with higher selling price during the introduction stage and therefore the focus on limited products by many competitors together; (c) the fierce market competition as a result of industry consolidation initiated by major market players, details of which can be referred to in the section headed "Business — Pricing" in this prospectus; (ii) the intensified market competition with more competitors having successfully launched products with features and functionality similar to our products and offered significantly lower price to capture market shares leading to the significant decline in the average selling price and as a result of the price-cutting strategy adopted by the leading market players; and (iii) the decline in selling price of our products along their product life cycle.

According to the CIC Report, the average price of compatible toner cartridge chips decreased by approximately 14.8% in 2019, which was lower than the percentage decrease in the average selling price of our chips for desktop laser printers of approximately 65.8%. As explained in the CIC Report, the impact of the above industry-wide factors on the selling price of individual model of chips varied. Prices of compatible cartridge chips of over five years after launch of the new original-brand printer model (i.e. maturity stage chips), which accounted for the largest market share in the cartridge chip industry, were less affected by these factors as the prices for this category were already at a relatively low level. On the other hand, prices of compatible cartridge chips within five years after launch of the new original-brand printer model (i.e. introduction and growth stage) enjoyed a relatively higher profit margin and therefore had more rooms for compatible cartridge chip providers and PCBAs providers to adjust their price in order to maintain market share and profit. Besides, due to the lack of new printers launched by original-brand printer companies in 2018 and 2019, more compatible cartridge chip providers focused on developing and producing compatible cartridge chip for a limited number of printer models with similar quality and functionality and introduced to the market in 2019. As a result, chips falling in this category had experienced a more notable decline in price, with the price of certain types of compatible cartridge chip could drop by over 90% in 2019. As our chips in this category had been the principal contributor to our Group's revenue during the Track Record Period, the negative impact of the above industry-wide factors on the average selling price of our chips in 2019 had been more significant than the industry average.

Notwithstanding the fact that we inclined to put more focus on desktop laser printers prior to 2019 due to the limitation on our research and development capacity, in view of the limited number of newly launched printer models and significant decline in selling price of our chips for desktop laser printers as explained above, we allocated more research and development resources to the development of chips for desktop inkjet printers. In 2019, we successfully developed and started to sell certain models of chips for desktop inkjet printers which were recognised by our customers in terms of good quality, functionality and upward compatibility and with only a few competitors having successfully launched products with similar features and functionality. As such, significant amount of such chips were sold to our customers (in particular, the cartridge manufacturers in Listed Group A) in 2019, with considerable profitability. Therefore, the decrease in total revenue was partially offset by the increase in revenue from the sales of our chips for desktop inkjet printers which increased from approximately RMB21.8 million for the year ended 31 December 2018 to approximately RMB77.0 million for the year ended 31 December 2019.

Length of time since the launch of corresponding original-brand printer model

Our revenue from the sales of chips launched within three years since the launch of corresponding original-brand printer model decreased from approximately RMB102.3 million for the year ended 31 December 2018 to approximately RMB45.1 million for the year ended 31 December 2019, which was mainly due to the decrease in the respective average selling price from approximately RMB51.7 per unit to approximately RMB12.2 per unit mainly attributable to the decrease in market price of compatible cartridge chips for desktop laser printers due to the reasons discussed above. Due to the lack of new printers launched by original-brand printer companies in 2018 and 2019, more compatible cartridge chip providers focused on developing and producing compatible cartridge chips for a limited number of printer models with similar quality and functionality and introduced to the market in 2019. As a result, despite that compatible cartridge chips within three years after launch of the new original-brand printer model (i.e. introduction stage) should generally enjoy relatively higher profit margin and therefore have more rooms for compatible cartridge chip providers and PCBAs providers to adjust their price in order to maintain market share and profit, our chips falling in this category had experienced a more notable decline in price in 2019 as compared with that in 2018, due to the increased market competition for these products in 2019. Such decrease was partially offset by the increase in sales volume mainly attributable to the increase in demand for some of our chips launched in 2017, with increased penetration rate of the corresponding printer model in the market.

Our revenue from the sales of chips launched from three to five years since the launch of corresponding original-brand printer model increased from approximately RMB68.0 million for the year ended 31 December 2018 to approximately RMB74.5 million for the year ended 31 December 2019 mainly due to the increase in our newly launched chips for desktop inkjet printers (the respective printer models of which were launched in 2016) which were mainly sold to our customers (in particular, the cartridge manufacturers in Listed Group A) in 2019, partially offset by the decrease in average selling price of our products.

Our revenue from the sales of chips launched over five years from the launch of corresponding original-brand printer model decreased from approximately RMB50.3 million for the year ended 31 December 2018 to approximately RMB31.0 million for the year ended 31 December 2019 mainly due to the decrease in average selling price as mentioned above.

(ii) Trading of ICs and other cartridge components

Our revenue generated from trading of ICs and other cartridge components decreased from approximately RMB25.5 million for the year ended 31 December 2018 to approximately RMB7.0 million for the year ended 31 December 2019 mainly due to the reduced incidental sales of certain types of ICs sourced for one of our suppliers upon request in 2018.

Cost of sales

Our cost of sales decreased by approximately 46.6% from approximately RMB130.1 million for the year ended 31 December 2018 to approximately RMB69.5 million for the year ended 31 December 2019. The decrease was primarily due to the decrease in direct material costs, in line with the decrease in our revenue for the year ended 31 December 2019 and the decrease in our average direct material cost per unit sold due to the negotiation with our suppliers in view of the significant drop in selling price of our products, our long-term business relationship with our suppliers and the availability of alternative suppliers in the market.

In line with industry norm, in view of the significant decrease in market price of compatible cartridge chips in 2019 as discussed, we had actively discussed with our suppliers in order to mitigate the impact to our profitability and had lowered our costs by agreeing on lower purchase prices of PCBAs and ICs. Please refer to the paragraph headed "Selected line items in the consolidated statements of profit or loss and other comprehensive income — Cost of sales" in this section for further details. In addition, the proportional increase of purchase of ICs and other parts of PCBAs (as opposed to PCBAs sourced from external suppliers) as a result of the increase of our independent research and development had further lowered our direct material costs.

Gross profit and gross profit margin

Our overall gross profit decreased by approximately 24.0% from approximately RMB116.0 million for the year ended 31 December 2018 to approximately RMB88.1 million for the year ended 31 December 2019. Our overall gross profit margin increased from approximately 47.1% for the year ended 31 December 2018 to approximately 55.9% for the year ended 31 December 2019.

(i) Sales of compatible cartridge chips

By product category application

The gross profit from the sales of compatible cartridge chips decreased from approximately RMB110.7 million for the year ended 31 December 2018 to approximately RMB87.2 million for the year ended 31 December 2019, mainly due to the decrease in gross profit from the sales of our chips for desktop laser printers as a result of the decrease in average selling prices attributable to the reasons mentioned above. The decrease was partly offset by (i) the increase of gross profit from our chips for desktop inkjet printers from approximately RMB6.7 million for the year ended 31 December 2018 to approximately RMB55.0 million for the year ended 31 December 2019, which was mainly due to the increase in revenue attributable to the sales of certain models of chips for desktop inkjet printers successfully developed by us in 2019 to our customers (in particular the cartridge manufacturers in Listed Group A) as discussed above; and (ii) the slight increase in gross profit from the sales of our chips for commercial printers. The revenue, sales volume, average selling price and gross profit margin of the new models of chips for desktop inkjet printers successfully developed by us in 2019 were approximately RMB61.8 million, 4.3 million pieces, RMB14.4 and 79.5% for the year ended 31 December 2019, respectively.

Our gross profit margin of compatible cartridge chips increased from approximately 50.2% for the year ended 31 December 2018 to approximately 57.9% for the year ended 31 December 2019, mainly due to the increase in gross profit margin of our chips for inkjet printers from approximately 30.6% to approximately 71.4% due to the higher profit margin of certain models of chips for desktop inkjet printers we successfully developed and started to sell in 2019, which were recognised by our customers in terms of good quality, functionality and upward compatibility, and with only a few competitors having successfully launched products with similar features; partially offset by the decrease in gross profit margin of our chips for desktop laser printers from approximately 52.5% to approximately 41.9% as a result of the combined effect of the decrease in selling price and the decrease in the procurement price from our supplier as discussed above.

Length of time since of launch of corresponding original-brand printer model

Our gross profit from sales of our chips launched within three years from the launch of corresponding original-brand printer model decreased from approximately RMB62.0 million for the year ended 31 December 2018 to approximately RMB27.6 million for the year ended 31 December 2019 due to the revenue decrease as mentioned above. The slight increase of our respective gross profit margin from approximately 60.6% for the year ended 31 December 2018 to approximately 61.2% for the year ended 31 December 2019 despite the decrease of the average selling price was mainly due to the fact that we were able to lower our costs by agreeing on lower purchase price of direct materials considering our long-term business relationship with the suppliers and the availability of alternative suppliers in the market. In addition, the proportional increase of purchase of ICs and other parts of PCBAs (as opposed to PCBAs sourced from external suppliers) as a result of the increase of our independent research and development had further lowered our cost of sales.

Our gross profit from the sales of our chips launched from three to five years from the launch of corresponding original-brand printer model increased from approximately RMB28.6 million for the year ended 31 December 2018 to approximately RMB50.0 million for the year ended 31 December 2019 due to the respective revenue growth attributable to the reasons mentioned above. The increase of our respective gross profit margin from approximately 42.1% for the year ended 31 December 2018 to approximately 67.1% for the year ended 31 December 2019 was mainly due to the selling of certain chips for desktop inkjet printers that we successfully developed in 2019 and with relatively high gross profit margin to our customers (in particular, the cartridge manufacturers in Listed Group A). Despite such products were at the growth stage of the product life cycle (i.e. three to five years from launch of the corresponding original-brand printer model), we could maintain a relatively high gross profit margin due to the recognition of the good quality, functionality and upward compatibility of such products by our customers with only a few competitors having successfully launched products with similar features and functionality.

Our gross profit from the sales of our chips launched over five years from the launch of corresponding original-brand printer model decreased from approximately RMB20.1 million for the year ended 31 December 2018 to approximately RMB9.6 million for the year ended 31 December 2019 mainly due to the decrease in the respective revenue as mentioned above. The decrease of our respective gross profit margin from approximately 39.9% for the year ended 31 December 2018 to approximately 31.1% for the year ended 31 December 2019 was mainly due to the decrease of average selling price along the life cycle of products as well as the fierce market competition.

(ii) Trading of ICs and other cartridge components

The decrease in gross profit from the trading of ICs and other cartridge components from approximately RMB5.3 million for the year ended 31 December 2018 to approximately RMB0.9 million for the year ended 31 December 2019 and the decrease in gross profit margin from approximately 20.7% to approximately 12.5% was mainly due to the reduced incidental sales of certain types of ICs with generally higher profit margin sourced for one of our major suppliers upon request in 2018 as discussed above.

Other net income

Our other net income decreased by approximately 3.1% from approximately RMB3.9 million for the year ended 31 December 2018 to approximately RMB3.8 million for the year ended 31 December 2019 which was relatively stable. The service income increased from nil for the year ended 31 December 2018 to approximately RMB1.1 million for the year ended 31 December 2019 mainly as we were engaged to provided services in research and development in relation to ICs for one of our major suppliers.

Research and development expenses

Our research and development expenses increased by approximately 24.1% from approximately RMB7.5 million for the year ended 31 December 2018 to approximately RMB9.3 million for the year ended 31 December 2019. Such increase was mainly due to (i) the increase in staff costs as we hired more employees for our research and development team during the year of 2019; and (ii) the increase in depreciation of machinery and office equipment and the amortisation of intangible assets.

Selling and distribution expenses

Our selling and distribution expenses decreased by approximately 7.5% from approximately RMB8.4 million for the year ended 31 December 2018 to approximately RMB7.8 million for the year ended 31 December 2019. The decrease was mainly due to the decrease in other costs including entertainment expenses, office expense and courier expense, offset by the increase in staff costs.

Administrative expenses

Our administrative expenses amounted to approximately RMB18.5 million and approximately RMB18.9 million for the years ended 31 December 2018 and 2019 respectively which was relatively stable.

Income tax expenses

Our income tax expenses decreased by approximately 23.2% from approximately RMB15.5 million for the year ended 31 December 2018 to approximately RMB11.9 million for the year ended 31 December 2019 in line with the decrease in the profit before income tax expense for the year ended 31 December 2019 due to the reason discussed above.

Net profit and net profit margin

As a result of the foregoing, our profit for the year decreased by approximately 34.0% from approximately RMB62.6 million for the year ended 31 December 2018 to approximately RMB41.3 million for the year ended 31 December 2019. Our net profit margin increased from approximately 25.4% for the year ended 31 December 2018 to approximately 26.2% for the year ended 31 December 2019. Such increase in net profit margin was primarily due to the increase in gross profit margin as discussed above.

Year ended 31 December 2018 compared to year ended 31 December 2017

Revenue

Our overall revenue increased by approximately 15.7% from approximately RMB212.8 million for the year ended 31 December 2017 to approximately RMB246.1 million for the year ended 31 December 2018, which was mainly attributable to the increase in revenue from the sales of compatible cartridge chips.

(i) Sales of compatible cartridge chips

Our revenue from the sales of compatible cartridge chips increased by approximately 13.6% from approximately RMB194.2 million for the year ended 31 December 2017 to approximately RMB220.6 million for the year ended 31 December 2018.

By product category application

Our revenue from the sales of chips for desktop laser printers increased from approximately RMB169.1 million for the year ended 31 December 2017 to approximately RMB192.1 million for the year ended 31 December 2018, which was mainly due to the increase in sales volume attributable to the increase in demand for a few models of our newly launched products in 2017, with lower level of competition and fewer substitute products.

Our revenue from the sales of chips for desktop inkjet printers slightly decreased from approximately RMB22.0 million for the year ended 31 December 2017 to approximately RMB21.8 million for the year ended 31 December 2018 due to the slight decrease in selling price partially offset by the slight increase in sales volume.

Our sales of chips for commercial printers increased from approximately RMB3.1 million for the year ended 31 December 2017 to approximately RMB6.7 million for the year ended 31 December 2018 mainly due to the increase in selling price and sales volume.

Length of time since of launch of corresponding original-brand printer model

Our revenue from the sales of chips launched within three years from the launch of corresponding original-brand printer model decreased from approximately RMB122.7 million for the year ended 31 December 2017 to approximately RMB102.3 million for the year ended 31 December 2018, mainly due to the decrease in sales volume from approximately 4.0 million pieces to approximately 2.0 million pieces as some of our major products (being classified as launched within three years from the launch of corresponding original-brand printer model in 2017) had reached the growth stage of the product life cycle (i.e. launched from three to five years from the launch of corresponding original-brand printer model) in 2018; partially offset by the increase in average selling price from approximately RMB30.4 per unit to approximately RMB51.7 per unit attributable to increase in sales of certain product launched in 2017 with higher price and lower level of competition and fewer substitute products in the market during the introduction stage.

Our revenue from the sales of chips launched from three to five years from the launch of corresponding original-brand printer model increased from approximately RMB39.5 million for the year ended 31 December 2017 to approximately RMB68.0 million for the year ended 31 December 2018, mainly due to the reclassification of some of our major products as discussed above, partially offset by the slight decrease in selling price.

Our revenue from the sales of chips launched over five years from the launch of corresponding original-brand printer model increased from approximately RMB32.0 million for the year ended 31 December 2017 to approximately RMB50.3 million for the year ended 31 December 2018, mainly due to the increase in sales volume and the slight increase in average selling price since a popular model of our chips (being classified as launched from three to five years from the launch of corresponding original-brand printer model in 2017) had reached the maturity stage of the product life cycle (i.e. launched over five years from the launch of corresponding original-brand printer model) in 2018 but remained competitive in the market with a few competitors being able to develop products with similar functionality and quality.

(ii) Trading of ICs and other cartridge components

The increase in revenue generated from trading of ICs and other cartridge components from approximately RMB18.6 million for the year ended 31 December 2017 to approximately RMB25.5 million for the year ended 31 December 2018 was mainly due to the incidental sales of certain types of ICs sourced for one of our major suppliers upon request.

Cost of sales

Our cost of sales increased by approximately 9.8% from approximately RMB118.4 million for the year ended 31 December 2017 to approximately RMB130.1 million for the year ended 31 December 2018. The increase was primarily due to the increase in direct material costs, subcontracting charges and staff costs in line with the increase in our revenue for the year ended 31 December 2018.

Gross profit and gross profit margin

Our gross profit increased by approximately 23.0% from approximately RMB94.3 million for the year ended 31 December 2017 to approximately RMB116.0 million for the year ended 31 December 2018.

(i) Sales of compatible cartridge chips

Our gross profit from the sales of compatible cartridge chips increased by approximately 20.2% from approximately RMB92.1 million for the year ended 31 December 2017 to approximately RMB110.7 million for the year ended 31 December 2018.

By product category application

The increase in our gross profit from the sales of compatible cartridge chips was mainly due to the increase in gross profit from the increase in sales of our chips for desktop laser printers and commercial printers as discussed above.

Our gross profit margin increased from approximately 44.3% for the year ended 31 December 2017 to approximately 47.1% for the year ended 31 December 2018 mainly due to (i) the slight increase in gross profit margin of our chips for desktop laser printers from approximately 49.8% to approximately 52.5%; and (ii) the increase in gross profit margin of our chips for commercial printers due to the increase in average selling price.

Length of time since of launch of corresponding original-brand printer model

Our gross profit from the sales of our chips launched within three years from the launch of corresponding original-brand printer model increased from approximately RMB50.9 million for the year ended 31 December 2017 to approximately RMB62.0 million for the year ended 31 December 2018. Our gross profit margin from the sales of our chips launched within three years from the launch of corresponding original-brand printer model increased from approximately 41.5% for the year ended 31 December 2017 to approximately 60.6% for the year ended 31 December 2018 due to the increase in average selling price as mentioned above.

Notwithstanding the increase in revenue, our gross profit from sales of our chips launched from three years to five years from the launch of corresponding original-brand printer model decreased from approximately RMB29.4 million for the year ended 31 December 2017 to approximately RMB28.6 million for year ended 31 December 2018 due to the decrease in our respective gross profit margin from approximately 74.6% for the year ended 31 December 2017 to approximately 42.1% for the year ended 31 December 2018 mainly since a popular model of our chips (being classified as launched from three to five years from the launch of corresponding original-brand printer model in 2017) with relatively high gross profit margin had reached the maturity stage of the product life cycle (i.e. being classified as launched over five years from the launch of corresponding original-brand printer model) in 2018 as discussed above. The gross profit of such products also decreased in 2018 as a result of the product life cycle and market competition.

Our gross profit from the sales of our chips launched over five years from the launch of corresponding original-brand printer model increased from approximately RMB11.7 million for the year ended 31 December 2017 to approximately RMB20.1 million for the year ended 31 December 2018 due to the revenue growth attributable to the reasons discussed above. Our gross profit margin from the sales of our chips launched over five years from the launch of corresponding original-brand printer model maintained relatively stable at approximately 36.6% for the year ended 31 December 2017 and approximately 39.9% for the year ended 31 December 2018.

(ii) Trading of ICs and other cartridge components

The increase in gross profit from the trading of ICs and other cartridge components from approximately RMB2.3 million for the year ended 31 December 2017 to approximately RMB5.3 million for the year ended 31 December 2018 and the increase in respective gross profit margin from approximately 12.1% to approximately 20.7% was mainly due to the incidental sales of certain types of ICs with generally higher profit margin sourced for one of our major suppliers upon request as discussed above.

Other net income

Our other net income decreased by approximately 52.5% from approximately RMB8.3 million for the year ended 31 December 2017 to approximately RMB3.9 million for the year ended 31 December 2018. The decrease was primarily due to the non-recurrence in 2018 of an one-off service income of approximately RMB7.4 million in relation to the services in research and development in relation to printer chips to a controlling shareholder of Customer H provided by us in 2017. The decrease was partially offset by (i) the increase in government grants of approximately RMB0.7 million; and (ii) the net exchange gain of approximately RMB1.2 million for the year ended 31 December 2018.

Research and development expenses

Our research and development expenses increased by approximately 4.1% from approximately RMB7.2 million for the year ended 31 December 2017 to approximately RMB7.5 million for the year ended 31 December 2018. Such increase was mainly due to the increase in staff costs attributable to the increase in headcount for our research and development team in 2018.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately 75.8% from approximately RMB4.8 million for the year ended 31 December 2017 to approximately RMB8.4 million for the year ended 31 December 2018. The increase was mainly attributable to the increase in staff costs by approximately RMB2.8 million mainly due to the increase in bonus to our sales staff due to the increase in sales.

Administrative expenses

Our administrative expenses increased by approximately 54.3% from approximately RMB12.0 million for the year ended 31 December 2017 to approximately RMB18.5 million for the year ended 31 December 2018. Such increase was primarily due to (i) the increase in salary as we hired more back office staff during the year of 2018; and (ii) no reversal of impairment loss on trade receivables was recorded for the year ended 31 December 2018.

Income tax expenses

Our income tax expenses increased by approximately 0.7% from approximately RMB15.4 million for the year ended 31 December 2017 to approximately RMB15.5 million for the year ended 31 December 2018 in line with the increase in the profit before income tax expense for the year ended 31 December 2018 due to the reason discussed above.

Net profit and net profit margin

As a result of the foregoing, our profit for the year decreased by approximately 0.8% from approximately RMB63.1 million for the year ended 31 December 2017 to approximately RMB62.6 million for the year ended 31 December 2018. Our net profit margin decreased from approximately 29.7% for the year ended 31 December 2017 to approximately 25.4% for the year ended 31 December 2018.

LIQUIDITY AND FINANCIAL RESOURCES

Financial resources

Our primary use of cash is to fund our operations and dividend payment during the Track Record Period. We have financed our operations mainly by cash generated from our operations during the Track Record Period. After the Listing, we expect to meet our liquidity needs and finance our working capital requirements from cash generated from our operations, debt and equity financings, and the proceeds of the Global Offering.

Cash flow of our Group

The following table is a condensed summary of our consolidated statements of cash flows for the years indicated:

Selected consolidated statements of cash flows

	Year ended 31 December			Ten months ended 31 October	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Operating profit before working capital changes	77,581	81,027	57,477	11,752	35,048
Net amount of changes in working capital	(12,001)	13,483	(19,074)	4,278	40,916
Income tax paid	(16,055)	(11,857)	(7,587)	(7,180)	(10,644)
Withholding tax paid	(3,319)	(3,621)	(2,591)	(2,581)	(4,038)
Net cash generated from operating activities	46,206	79,032	28,225	6,269	61,282
Net cash used in investing activities	(2,253)	(3,807)	(5,171)	(4,734)	(473)
Net cash used in financing activities	(46,826)	(33,228)	(22,255)	(22,039)	(30,971)
Net (decrease)/increase in cash and cash equivalents	(2,873)	41,997	799	(20,504)	29,838
Cash and cash equivalents at the beginning of the year/period	43,613	38,832	82,800	82,800	84,088
Effect of foreign exchange rate changes	(1,908)	1,971	489	1,107	(1,131)
Cash and cash equivalents at the end of the year/period	38,832	82,800	84,088	63,403	112,795

Cash flow generated from operating activities

For the ten months ended 31 October 2020, we had net cash generated from operating activities of approximately RMB61.3 million. This represents our profit before income tax expense of approximately RMB31.5 million, adjusted mainly by (i) bank interest income of approximately RMB1.5 million; (ii) depreciation of property, plant and equipment of approximately RMB1.8 million; (iii) changes in working capital items that positively affected the operating cash flows, mainly including the decrease in trade and bills receivables of approximately RMB36.4 million; (iv) changes in working capital items that negatively affected the operating cash flows, mainly including the increase in deposits, prepayments and other receivables of approximately RMB4.0 million and the decrease in trade payables of approximately RMB5.6 million; and (v) the income tax paid of approximately RMB10.6 million and withholding tax paid of approximately RMB4.0 million.

For the ten months ended 31 October 2019, we had net cash generated from operating activities of approximately RMB6.3 million. This represents our profit before income tax expense of approximately RMB8.3 million, adjusted mainly by (i) depreciation of property, plant and equipment of approximately RMB1.5 million; (ii) changes in working capital items that positively affected the operating cash flows, mainly including the decrease in trade and bills receivables of approximately RMB39.4 million; (iii) changes in working capital items that negatively affected the operating cash flows, mainly including the decrease in trade payables of approximately RMB21.0 million; and (iv) the income taxes paid of approximately RMB7.2 million and withholding tax paid of approximately RMB2.6 million. The relatively lower level of net cash flow generated from operating activities was primarily attributable to (i) the relatively lower amount of profit before income tax expense of approximately RMB8.3 million mainly due to the decrease in the selling price of our products attributed to industry-wide pricing pressure on compatible cartridge chips as a result from the US-China trade war, limited number of newly launched models of printers in 2018 and 2019 and industry consolidation; (ii) the increase in deposits, prepayments and other receivables of approximately RMB8.6 million; and (iii) the decrease in trade payables of approximately of RMB21.0 million due to the settlement of trade payables to our suppliers.

For the year ended 31 December 2019, we had net cash generated from operating activities of approximately RMB28.2 million. This represents our profit before income tax expense of approximately RMB53.2 million, adjusted mainly by (i) depreciation of property, plant and equipment of approximately RMB1.9 million; (ii) depreciation of right-of-use assets of approximately RMB1.3 million; (iii) changes in working capital items that positively affected the operating cash flows, mainly including the decrease in trade and bills receivables of approximately RMB1.2 million; (iv) changes in working capital items that negatively affected the operating cash flows, mainly including the increase in inventories of approximately RMB1.8 million, the increase in deposits, prepayments and other receivables of approximately RMB3.2 million, the decrease in trade payables of approximately RMB12.8 million and the decrease in accruals and other payables of approximately RMB1.8 million; and (v) the income taxes paid of approximately RMB7.6 million and withholding tax paid of approximately RMB2.6 million.

For the year ended 31 December 2018, we had net cash generated from operating activities of approximately RMB79.0 million. This represents our profit before income tax expense of approximately RMB78.1 million, adjusted mainly by (i) depreciation of property, plant and equipment of approximately RMB1.2 million; (ii) depreciation of right-of-use assets of approximately of RMB1.2 million; (iii) changes in working capital items that positively affected the operating cash flows, mainly including the increase in accruals and other payables of approximately RMB5.7 million, the decrease in amounts due from immediate shareholders of approximately RMB18.3 million and the increase in provision of approximately RMB1.6 million; (iv) changes in working capital items that negatively affected the operating cash flows, mainly including the increase in inventories of approximately RMB2.9 million, the increase in trade and bills receivables of approximately RMB9.2 million, the increase in deposits and prepayments and other receivables of approximately RMB2.1 million; and (v) the income taxes paid of approximately RMB11.9 million and withholding tax paid of approximately RMB3.6 million.

For the year ended 31 December 2017, we had net cash generated from operating activities of approximately RMB46.2 million. This represents our profit before income tax expense of approximately RMB78.5 million, adjusted mainly by (i) reversal of impairment of trade and other receivables of approximately RMB2.3 million; (ii) changes in working capital items that negatively affected the operating cash flows, mainly including the increase in trade and bills receivables of approximately RMB11.1 million, the increase in deposits, prepayments and other receivables of approximately RMB2.4 million, and the decrease in contract liabilities of approximately RMB1.1 million; (iii) changes in working capital items that positively affected the operating cash flows, mainly including the decrease in amount due from immediate shareholders of approximately RMB9.8 million, and increase in provisions of approximately RMB1.3 million; and (iv) the income taxes paid of approximately RMB16.1 million and withholding tax paid of approximately RMB3.3 million.

Cash flow used in investing activities

For the ten months ended 31 October 2020, net cash used in investing activities was approximately RMB0.5 million. The cash had primarily been spent on the purchases of property, plant and equipment of approximately RMB1.5 million.

For the ten months ended 31 October 2019, net cash used in investing activities was approximately RMB4.7 million. The cash had primarily been spent on (i) the purchases of property, plant and equipment of approximately RMB1.5 million; and (ii) the purchase of intangible assets of approximately RMB3.3 million.

For the year ended 31 December 2019, net cash used in investing activities was approximately RMB5.2 million. The cash had primarily been spent on (i) the purchases of property, plant and equipment of approximately RMB2.0 million; and (ii) the purchase of intangible assets of approximately RMB3.6 million.

For the year ended 31 December 2018, net cash used in investing activities was approximately RMB3.8 million. The cash had primarily been spent on (i) the purchases of property, plant and equipment of approximately RMB2.9 million; and (ii) the purchase of intangible assets of approximately RMB1.0 million.

For the year ended 31 December 2017, net cash used in investing activities was approximately RMB2.3 million. The cash had primarily been spent on (i) the purchases of property, plant and equipment of approximately RMB2.0 million; and (ii) the purchase of intangible assets of approximately RMB0.3 million.

Cash flow used in financing activities

For the ten months ended 31 October 2020, we had net cash used in financing activities of approximately RMB31.0 million. The cash flows from financing activities was mainly negatively affected by the dividend paid of approximately RMB29.7 million.

For the ten months ended 31 October 2019, we had net cash used in financing activities of approximately RMB22.0 million. The cash flows from financing activities was mainly negatively affected by the dividend paid of approximately RMB20.9 million.

For the year ended 31 December 2019, we had net cash used in financing activities of approximately RMB22.3 million. The cash flows from financing activities was mainly negatively affected by the dividend paid of approximately RMB20.9 million.

For the year ended 31 December 2018, we had net cash used in financing activities of approximately RMB33.2 million. The cash flows from financing activities was mainly negatively affected by the dividend paid of approximately RMB31.8 million.

For the year ended 31 December 2017, we had net cash used in financing activities of approximately RMB46.8 million. The cash flows from financing activities was negatively affected by (i) the decrease in amounts due to an immediate shareholder of approximately RMB17.1 million; and (ii) the dividend paid of approximately RMB29.2 million.

Net current assets

The following table sets forth a breakdown of our current assets, current liabilities, and net current assets as at the dates indicated:

	As at 31 December			As at 31 October	As at 31 January
	2017	**2018**	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)
Current assets					
Inventories	22,360	25,222	26,556	12,001	12,457
Trade and bill receivables	78,378	87,364	86,146	48,513	46,095
Deposits, prepayments and other receivables	3,277	5,406	8,558	11,148	12,378
Amount due from immediate shareholders	18,320	–	–	–	–
Income tax recoverable	–	74	–	–	–
Cash and cash equivalents	38,832	82,800	84,088	112,795	120,486
	161,167	200,866	205,348	184,457	191,416
Current liabilities					
Trade payables	25,261	26,871	14,065	8,465	8,223
Accruals and other payables	7,935	13,630	11,804	12,104	12,803
Lease liabilities	730	1,198	1,209	1,502	1,744
Contract liabilities	91	491	521	250	289
Provisions	1,261	2,888	2,105	1,576	473
Income tax payable	4,659	6,448	6,746	1,737	1,711
	39,937	51,526	36,450	25,634	25,243
Net current assets	121,230	149,340	168,898	158,823	166,173

We recorded net current assets of approximately RMB121.2 million, RMB149.3 million, RMB168.9 million, RMB158.8 million and RMB166.2 million as at 31 December 2017, 2018, 2019, 31 October 2020 and 31 January 2021 respectively. Our current assets increased from approximately RMB161.2 million as at 31 December 2017 to approximately RMB200.9 million as at 31 December 2018. Such increase was mainly due to the increase in trade and bills receivables and cash and cash equivalents due to the increase in revenue. Our current assets further increased to approximately RMB205.3 million as at 31 December 2019, mainly due to the increase in deposits, prepayments and other receivables and cash and cash equivalents. Our current assets decreased from approximately RMB205.3 million as at 31 December 2019 to approximately RMB184.5 million as at 31 October 2020, mainly due to the declaration of final dividend in respect of the year ended 31 December 2019 of RMB29,677,000 during 10M2020. Our current assets increased from approximately RMB184.5 million as at 31 October 2020 to approximately RMB191.4 million as at 31 January 2021, mainly due to the increase in deposits, prepayments and other receivables and cash and cash equivalents.

On the other hand, our current liabilities increased from approximately RMB39.9 million as at 31 December 2017 to approximately RMB51.5 million as at 31 December 2018 primarily due to the increase in accruals and other payables, provisions and income tax payable. Our current liabilities decreased from approximately RMB51.5 million as at 31 December 2018 to approximately RMB36.5 million as at 31 December 2019 primarily due to the decrease in trade payables and accrual and other payables. Our current liabilities further decreased to approximately RMB25.6 million as at 31 October 2020 primarily due to the decrease in trade payables and income tax payable. Our current liabilities further decreased from approximately RMB25.6 million as at 31 October 2020 to approximately RMB25.2 million as at 31 January 2021 primarily due to the decrease in trade payables and provisions.

WORKING CAPITAL SUFFICIENCY

During the Track Record Period, we met our working capital and other liquidity requirements principally through our cash flow from operations. As at 31 December 2017, 2018 and 2019, 31 October 2020 and 31 January 2021, we had cash and cash equivalents of approximately RMB38.8 million, RMB82.8 million, RMB84.1 million, RMB112.8 million and RMB120.5 million, respectively. Our policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

Taking into consideration the financial resources presently available to us, including the balance of cash and cash equivalents, expected cash generated from our operations and the estimated net proceeds from the Global Offering (after a possible Downward Offer Price Adjustment setting the final Offer Price up to 10% below HK$1.15, being the low end of the Offer Price range), our Directors are of the opinion that we have sufficient working capital for our present working capital requirements for at least the next 12 months from the date of this prospectus.

Our Directors confirm that there was no material defaults in payment of trade and non-trade payables and bank borrowings, and/or breaches of finance covenants during the Track Record Period.

DESCRIPTION ON MAJOR COMPONENTS OF STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment

During the Track Record Period, our property, plant and equipment consisted mainly of leased properties, leasehold improvements, machineries and equipment and motor vehicles. As of 31 December 2017, 2018 and 2019 and 31 October 2020, the net book value of our property, plant and equipment were approximately RMB5.5 million, RMB8.3 million, RMB7.1 million and RMB6.1 million, respectively. The increase in the net book value of our property, plant and equipment from approximately RMB5.5 million as at 31 December 2017 to approximately RMB8.3 million as at 31 December 2018 was mainly due to the addition in our right-of-use assets of approximately RMB2.2 million and addition in machineries and equipment of approximately RMB1.6 million attributable to the renting of additional space for our office, industrial workshops and warehouses in Zhuhai. The decrease in the net book value of our property, plant and equipment from approximately RMB8.3 million as at 31 December 2018 to approximately RMB7.1 million as at 31 December 2019 was mainly due to the depreciation charge of approximately RMB3.1 million partly offset by the addition of machinery and equipment of approximately RMB1.5 million. The net book value of our property, plant and equipment as at 31 October 2020 further decreased to approximately RMB6.1 million mainly due to the depreciation charge of approximately RMB3.0 million partly offset by the addition of machinery and equipment of approximately RMB1.0 million.

Intangible assets

During the Track Record Period, our intangible assets consisted mainly of software and patent. As of 31 December 2017, 2018 and 2019 and 31 October 2020, the net book value of our intangible assets were approximately RMB0.6 million, RMB1.4 million, RMB4.5 million and RMB5.6 million, respectively. The increase in the net book value of our intangible assets from approximately RMB0.6 million as at 31 December 2017 to approximately RMB1.4 million as at 31 December 2018 and further increase to approximately RMB4.5 million as at 31 December 2019 and approximately RMB5.6 million as at 31 October 2020 was mainly due to the addition of software and patent for the design of new products.

Our software and patent is amortised on a straight-line basis over estimated useful life of 5 to 10 years. In view of the understanding of our management and research and development personnel that the software and patents can be applied to design various new model of chips, and the expectation that such software and patents could generate future economic benefits to us in future years, as well as the reference from some leading companies among the industry in the PRC that it is an industry norm to amortise the similar assets with a relatively longer period (generally within 5 to 10 years), our Directors considered that useful lives of 5 to 10 years is a reasonable estimation.

Inventories

Inventories primarily comprise raw materials, finished goods, goods-in-transit and right to recover returned goods. The following table sets out the breakdown of our inventories as of the dates indicated which were stated at cost, as well as our inventory turnover days for the periods indicated:

	As at 31 December			As at 31 October
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	18,202	19,209	21,098	9,621
Finished goods	3,561	4,070	3,351	1,094
Goods-in-transit	360	112	147	253
Right to recover returned goods	237	1,831	1,960	1,033
	22,360	25,222	26,556	12,001
Inventory turnover days(1)	58	67	136	97

Note:

(1) Inventory turnover days is derived by dividing the average of opening and closing balance of inventories (net of provision) by the cost of sales for the relevant period and then multiplied by the number of days in the relevant period.

As our customers usually make small but frequent purchases of chips from us unless they foresee an upcoming need to have our products in stock for production purpose, it is the usual practice for our customers to minimise their inventory level of compatible cartridge chips, which is also in line the industry norm. Also, our Directors are of the view that it would be easy to find alternative suppliers at reasonable cost and in a timely manner due to the large number of PCBAs manufacturers available in the market especially in the Guangdong province. Furthermore, the production time of whole production process (from raw material procurement to packaging) was normally short.

Changes in Inventories and Inventory Turnover Days

Inventories increased from approximately RMB22.4 million as at 31 December 2017 to approximately RMB25.2 million as at 31 December 2018 and further increased to approximately RMB26.6 million as at 31 December 2019. The increase was mainly due to (i) the increase in raw materials and finished goods in anticipation of the expected purchase orders from our customers after the industry exhibition held in the fourth quarter of each year and the higher demand for our products during the last quarter of each year due to the need of our customers and their downstream customers to stock up in light of possible disruption of supply during the Chinese New Year holiday in the PRC; and (ii) the increase in right to recover returned goods as a result of higher estimated rate of return for sales made during the years, mainly attributable to the anticipation of the high frequency of system update to printers made by original-brand printer companies. Please refer to the section headed "Business — Quality Control — Product Returns, Exchanges and Warranty" in this prospectus for further details on our return policy and accounting treatment. The amount of our inventory increased to approximately RMB26.6

million as at 31 December 2019, of which the amount of raw materials increased to approximately RMB21.1 million as at 31 December 2019. In view of the industry-wide pricing pressure on compatible cartridge chips and the intensified market competition in 2019 leading to the significant decrease in the average selling price of our chips, we have taken measures to reduce our costs and improve our profit margin. In particular, we increased our purchase of ICs (instead of PCBAs sourced from external suppliers) in 2019 and has undertaken substantive design work in respect of PCBs in order to reduce our reliance on the suppliers of PCBAs which has resulted in the significant increase in our inventories of ICs and started to switch to the model of purchasing and using ICs for production in 2019, with an aim to maintain the gross profit margin of our products by reducing the unit cost of ICs through bulk purchase from suppliers, especially due to the significant decrease in the unit selling price of our products in 2019. Notwithstanding such increase in purchase of ICs since 2019, we had maintained certain quantity of PCBAs as our inventory in order to meet our production requirements for any potential orders from our customers. As a result of the above, despite the significant decrease in our revenue and raw material costs in 2019, the quantity of our inventories increased which lead to the increase in the amount of our inventories in 2019. We will continue to closely monitor our inventory level taking into account the demand and potential orders from our customers to tighten our inventory policy. Inventories decreased from approximately RMB26.6 million as at 31 December 2019 to approximately RMB12.0 million as at 31 October 2020 mainly due to the decrease in inventory level including raw materials and finished goods attributable to the tightening of our inventory control.

Our inventory turnover days remained relatively stable at 58 days and 67 days for the year ended 31 December 2017 and for the year ended 31 December 2018 respectively.

Our inventory turnovers days increased to 136 days for the year ended 31 December 2019 mainly due to the decrease in our revenue and thus cost of sales while the amount of inventory slightly increased from approximately RMB25.2 million as at 31 December 2018 to approximately RMB26.6 million as at 31 December 2019. In particular, the amount of raw materials increased from approximately RMB19.2 million as at 31 December 2018 to approximately RMB21.1 million as at 31 December 2019 mainly as a result of the combining effect of (i) the increase in the amount of ICs, which was mainly due to the decrease in average cost and the increase in quantity; and (ii) the decrease in the amount of PCBAs, which was mainly due to the decrease in average cost while the quantity remained at a similar level. The increase in the quantity of ICs was mainly due to (1) the increase of our purchase of ICs (instead of PCBAs sourced from external suppliers) in 2019 as a result of our effort to undertake substantive design work in respect of PCBs and source ICs independently to reduce our reliance on the suppliers of PCBAs; (2) the increase in ICs for potential orders; and (3) the increase in ICs for our chips for desktop inkjet printers newly launched in 2019 with considerable demand. Notwithstanding such increase in purchase of ICs since 2019, we had maintained certain quantity of PCBAs as our inventory in order to meet our production requirements for any potential orders from our customers. In addition, as at 31 December 2018 and 2019, we had maintained similar level of toner of approximately RMB2.4 million and RMB2.3 million respectively for any potential orders from our customers. As a result of the above, in particular, higher level of ICs, the amount of inventory as at 31 December 2019 was relatively higher in view of the total revenue in 2019, resulting in the significant increase in inventory turnover days. Our inventory turnover days decreased to 97 days for the ten months ended 31 October 2020 mainly due to the decrease in our inventory as at 31 October 2020.

Ageing analysis of inventories

The ageing of analysis of inventories at the end of each reporting period is as follows:

	As at 31 December						As at 31 October	
	2017		2018		2019		2020	
	Less than 1 year	1 year to 2 years	Less than 1 year	1 year to 2 years	Less than 1 year	1 year to 2 years	Less than 1 year	1 year to 2 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	18,176	26	17,100	2,109	18,295	2,803	5,948	3,673
Finished goods	3,228	333	3,762	308	2,532	819	1,009	85
Goods-in-transit	360	–	112	–	147	–	253	–
Right to recover returned goods	237	–	1,831	–	1,960	–	1,033	–
Total	22,001	359	22,805	2,417	22,934	3,622	8,243	3,758

Inventory Management Policy

We implement inventory management policy with the aim of enhancing the accuracy of the quantity of our inventory. We closely monitor our inventory level on a continuous basis to prevent any situation of stock-out or over-stocking by conducting stock take on a monthly basis.

Inventory Provision

During the Track Record Period, no provision had been made against the carrying value of inventories except for a provision of RMB421,000 and a reversal of provision of RMB37,000 made for the year ended 31 December 2019 and the ten months ended 31 October 2020, respectively, against the carrying value of inventories, among which provision on slow-moving inventories (i.e. inventories aged over 1 year) amounted to RMB89,000 and approximately RMB265,000 respectively. The provision was included in the cost of sales. In assessing whether provision should be made against the carrying value of inventories (including slow-moving inventories), our Directors considered various factors, such as the prevailing selling price of our products, demand and potential orders from our customers and whether we are still using such inventories for production and/or sale to meet customers' orders, and consider that the provision made during the Track Record Period was sufficient. As at 31 October 2020, our inventories aged over 1 year were mainly raw materials, including PCBAs and ICs. Our PCBAs of approximately RMB1.4 million will be mainly used for production of older chip models with relatively stable selling price. Our ICs of approximately RMB2.1 million will be mainly used for production of new chip models to be developed in the future and was purchased in bulk in order to lower the cost of such new models. The lower utilization rate for such ICs was mainly due to the delay in the research and development of the relevant chip models resulting in those ICs yet being used for production. Our Directors considered that the provision made on such inventories was sufficient as these PCBAs and ICs can be used as hardware components of our existing chip models or new chip models in the future and there is no indication of decline in price of such raw materials that require additional provision.

Subsequent utilization of inventory

Our inventories as at 31 October 2020 amounted to approximately RMB12.0 million, of which approximately RMB5.7 million, or 47.7%, had been utilized as at the Latest Practicable Date. For those inventories aged over 1 year as at 31 October 2020, as evidenced by the fact that approximately RMB0.6 million (representing approximately 16.5% of total inventories aged over 1 year as at 31 October 2020) was subsequently utilized as at the Latest Practicable Date, our Directors are of the view that there is no recoverability issue for such inventories.

Trade and bills receivables

Our trade and bills receivables amounted to approximately RMB78.4 million, RMB87.4 million, RMB86.1 million and RMB48.5 million as at 31 December 2017, 2018 and 2019 and 31 October 2020, respectively. The following sets forth our trade and bills receivables as at 31 December 2017, 2018 and 2019 and 31 October 2020 respectively:

	As at 31 December			As at 31 October
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills receivables	79,168	88,346	87,128	49,935
Less: allowances for doubtful debts	(790)	(982)	(982)	(1,422)
	78,378	87,364	86,146	48,513

Ageing analysis of trade and bills receivables

We normally allow a credit period ranging from 30 to 120 days to our customers. We assess the potential customer's credit quality before accepting any new customer. We also regularly review the credit term that we granted to our customers. The ageing analysis of trade and bills receivables at the end of each reporting period, based on the invoice date and net of allowance for doubtful debts, is as follows:

	As at 31 December			As at 31 October
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 90 days	59,238	71,572	79,563	29,044
91 – 180 days	14,721	13,195	5,197	15,811
Over 180 days	4,419	2,597	1,386	3,658
Total	78,378	87,364	86,146	48,513

The ageing of trade and bills receivables over 180 days decreased from approximately RMB4.4 million as at 31 December 2017 to RMB2.6 million as at 31 December 2018 and further decreased to approximately RMB1.4 million as at 31 December 2019 mainly due to our enhanced collection effort. The ageing of trade and bills receivables over 180 days increased to approximately RMB3.7 million as at 31 October 2020 mainly due to the extension of credit period granted to one of our customers as requested by such customer. The relevant trade receivables of approximately RMB2.8 million from such customer had been settled as at the Latest Practicable Date.

Our Group recognised loss allowances for ECLs on trade and bills receivables for each of the reporting period as follows:

31 December 2017	**ECLs rate**	**Gross carrying amount**	**Loss allowance**
	%	*RMB'000*	*RMB'000*
Current (not past due)	0.2	54,403	121
Less than 90 days past due	0.2	19,417	45
91 days to 180 days past due	0.3	2,339	7
Over 180 days past due	20.5	3,009	617
		79,168	790

31 December 2018	**ECLs rate**	**Gross carrying amount**	**Loss allowance**
	%	*RMB'000*	*RMB'000*
Current (not past due)	0.2	72,886	182
Less than 90 days past due	0.3	10,900	32
91 days to 180 days past due	1.2	1,488	18
Over 180 days past due	24.4	3,072	750
		88,346	982

31 December 2019	**ECLs rate**	**Gross carrying amount**	**Loss allowance**
	%	*RMB'000*	*RMB'000*
Current (not past due)	0.3	77,832	262
Less than 90 days past due	0.5	7,040	33
91 days to 180 days past due	6.4	829	53
Over 180 days past due	44.4	1,427	634
		87,128	982

31 October 2020	**ECLs rate**	**Gross carrying amount**	**Loss allowance**
	%	*RMB'000*	*RMB'000*
Current (not past due)	0.3	30,147	102
Less than 90 days past due	0.4	14,666	62
91 days to 180 days past due	11.3	3,714	418
Over 180 days past due	59.7	1,408	840
		49,935	1,422

Trade and bills receivables that were neither past due nor impaired related to wide range of customers for whom there were no recent history of default.

Trade and bills receivables that were past due but not impaired accounted for approximately 31.3%, 17.5%, 10.7% and 39.6% of our total gross trade and bills receivables as at 31 December 2017, 2018 and 2019 and 31 October 2020, respectively. Such receivables mainly related to a number of customers that have good track record with our Group. Based on our past experience, our Directors consider that no significant impairment allowance in respect of these balances is necessary as there has not been a significant change in credit quality and the balance are still considered to be fully recoverable.

Our Group recognised impairment loss based on the accounting policy set out in the paragraph headed "Significant Accounting Policies — Impairment loss on financial assets" in this section. Our trade and bills receivable as at 31 December 2017, 2018 and 2019 and 31 October 2020 were neither past due nor impaired amounted to approximately RMB54.4 million, RMB72.9 million, RMB77.8 million and RMB30.1 million, respectively. Our past due but not impaired trade and bills receivables amounted to approximately RMB24.8 million, RMB15.5 million, RMB9.3 million and RMB19.8 million, as at 31 December 2017, 2018 and 2019 and 31 October 2020, respectively.

Our Group applies the simplified approach to provide for expected credit loss prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. Our Group considers the credit risk characteristics and the days past due to measure the expected credit losses.

Further details on our credit policy and credit risk arising from trade and bills receivables are set out in Note 35(c) to the Accountants' Report as set out in Appendix I to this prospectus.

Policies in relation to doubtful debts

We have implemented the policies of allowances for doubtful debts. The supervisor of our sales team would supervise and urge our sales team members to collect the doubtful debts. Our sales team generally would contact our customers via telephone and email for the doubtful debts collection. For the trade and bills receivables that are long past due, we may consider initiating legal action for the doubtful debts collection. At the end of each month, our finance department would check the progress on doubtful debts collection.

Trade and bills receivables turnover days

The following table sets out for the periods presented the turnover of our average trade and bills receivables:

	For the year ended 31 December			For the ten months ended 31 October
	2017	**2018**	**2019**	**2020**
Trade and bills receivables turnover days *(Note)*	123	123	201	154

Note: Trade and bills receivables turnover days for a period equals the average of the opening and closing trade and bills receivables divided by revenue for the same period and multiplied by the number of days in the relevant period.

We generally grant a credit period of 30 to 120 days to our customers during the Track Record Period. Our trade and bills receivables turnover days for the years ended 31 December 2017, 2018 and 2019 and 10M2020 were 123 days, 123 days, 201 days and 154 days, respectively. Such higher turnover days was mainly due to the higher sales revenue in the last quarter of each year. Our Directors believe that such seasonality is attributable to the market effect of our participation in the industry exhibition in Zhuhai that usually takes place in October of each year and the higher demand for our products during the last quarter of each year due to the need of our customers and their downstream customers to stock up in light of possible disruption of supply during the Chinese New Year holiday in the PRC. The higher turnover days in 2019 was mainly attributable to our successful development of certain models of chips for desktop inkjet printers in 2019, a significant amount of which were sold to cartridge manufacturers of Listed Group A during the last quarter of 2019 and such receivables were not overdue as at 31 December 2019. The turnover days decreased to 154 days for 10M2020 mainly due to the decrease in trade and bills receivables attributed from tightening of our collection policies.

Subsequent settlement of trade and bills receivables

During the Track Record Period, we had not experienced material difficulties in collecting payments from our customers. We recorded bad debt expenses of approximately RMB0.8 million for 10M2020 as our management expected that the related trade receivables were not recoverable. Our trade and bills receivables as of 31 October 2020 amounted to approximately RMB48.5 million, of which approximately RMB36.1 million, or 74.4%, had been settled as at the Latest Practicable Date.

Deposits, prepayments and other receivables

Our deposits, prepayments and other receivables increased from approximately RMB3.3 million as at 31 December 2017 to approximately RMB5.4 million as at 31 December 2018 and further increased to approximately RMB8.6 million as at 31 December 2019 and approximately RMB11.1 million as at 31 October 2020. Following sets forth our deposits, prepayments and other receivables during the Track Record Period:

	As at 31 December			As at 31 October
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments	697	4,699	7,524	9,131
– Prepayment to our suppliers	697	2,670	4,718	1,715
– Prepayment for the cost incurred in connection with the Listing	–	2,030	2,806	7,416
Deposits and other receivables	600	638	847	1,508
Other taxes recoverable	1,980	69	187	509
	3,277	5,406	8,558	11,148

As shown, our deposits, prepayments and other receivables increased from approximately RMB3.3 million as at 31 December 2017 to approximately RMB5.4 million as at 31 December 2018, and further increased to approximately RMB8.6 million as at 31 December 2019 and approximately RMB11.1 million as at 31 October 2020 mainly due to the increase in the prepayment to our suppliers and/or our prepayment for the cost incurred in connection with the Listing. Prepayment to our suppliers increased from approximately RMB0.7 million as at 31 December 2017 to approximately RMB2.7 million as at 31 December 2018 mainly due to the increase in prepayment for purchase of toners to meet our customers' demand in our trading business from Supplier F, which required prepayment from us for our purchases, resulting in prepayment to such supplier of approximately RMB2.2 million as at 31 December 2018. Prepayment to our suppliers further increased to approximately RMB4.7 million as at 31 December 2019 mainly due to our effort to undertake our own substantive design work of PCBAs during the year ended 31 December 2019, which resulted in the increase in prepayments for the purchase of ICs to approximately RMB1.0 million and the prepayment for technical services in relation to research and development and the purchase of equipment for the development of the hardware component of our products to approximately RMB2.3 million as at 31 December 2019. Our deposit, prepayments and other receivables increased to approximately RMB11.1 million as at 31 October 2020 mainly due to the increase in prepayment for the cost incurred in connection with the Listing.

Our prepayment to suppliers as at 31 October 2020 amounted to approximately RMB1.7 million, of which approximately RMB1.7 million, or 97.6% had been utilized as at the Latest Practicable Date.

Trade payables

During the Track Record Period, our trade payables mainly represented trade payables to our suppliers. The following sets forth our trade payables as at 31 December 2017, 2018 and 2019 and 31 October 2020 respectively:

	As at 31 December			As at 31 October
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	25,261	26,871	14,065	8,465

Our trade payables remained relatively stable as at 31 December 2017 and 2018, representing approximately RMB25.3 million and RMB26.9 million, respectively. Our trade payables decreased from approximately RMB26.9 million as at 31 December 2018 to approximately RMB14.1 million as at 31 December 2019 and RMB8.5 million as at 31 October 2020 due to the increase of purchase of ICs from Supplier C, who offered relatively shorter credit period (i.e. 30 days after month end), as a result of our effort to undertake our own substantive design work of PCBAs and source ICs independently to reduce our reliance on the suppliers of PCBAs.

Ageing analysis of trade payables

We were normally offered credit periods ranging from 30 days to 60 days. The following table sets forth a summary of ageing of our trade payables based on invoice date at the end of each reporting period:

	As at 31 December			As at 31 October
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 months	24,873	14,570	7,888	3,955
1 – 3 months	94	12,092	2,739	1,343
Over 3 months	294	209	3,438	3,167
Total	25,261	26,871	14,065	8,465

The trade payables are short-term and hence the carrying values of the trade payables are considered to be a reasonable approximation of fair value.

Trade payables turnover days

The following table sets out for the periods presented the turnover of our average trade payables:

	Year ended 31 December			Ten months ended 31 October
	2017	**2018**	**2019**	**2020**
Trade payables turnover days *(Note)*	77	73	107	57

Note: Trade payables turnover days for a period equals the average of the opening and closing trade payables balance divided by cost of sales for the same period and multiplied by the number of days in the relevant period.

Our trade payables turnover days amounted to 77 days and 73 days for the years ended 31 December 2017 and 2018 respectively, which were relatively stable. The trade payables turnover days increased to 107 days for the year ended 31 December 2019 due to the decrease in cost of sales in 2019. The trade payables turnover days decreased to 57 days for 10M2020 due to the decrease in trade payables attributable to the increase in purchase of IC from Supplier C, who offered relatively shorter credit period (i.e. 30 days after month end).

Subsequent settlement of trade payables

Our trade payables as of 31 October 2020 amounted to approximately RMB8.5 million, of which approximately RMB5.5 million, or 65%, had been settled as at the Latest Practicable Date.

Accruals and other payables

The following table sets forth a breakdown of our accruals and other payables as at the dates indicated:

	As at 31 December			As at 31 October
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accruals	3,418	7,776	3,422	9,360
Other payables	3,000	304	169	184
Refund liabilities	464	3,871	4,657	2,560
Other taxes payables	1,053	1,679	3,556	–
Total	7,935	13,630	11,804	12,104

Accruals and other payables primarily represented wages payables for our directors and staff, audit fee payables and other payables for research and development purpose. Refund liabilities represent the estimated amount to be returned to customers for the sales made in the corresponding year due to probable product return from customers. Other taxes payables mainly included value added taxes payables, urban maintenance and construction tax payables and stamp duty payables.

Our accruals and other payables increased from approximately RMB7.9 million as at 31 December 2017 to approximately RMB13.6 million as at 31 December 2018 mainly due to the increase in refund liabilities due to the probable product return in the forthcoming year. Our accruals and other payables decreased from approximately RMB13.6 million as at 31 December 2018 to approximately RMB11.8 million as at 31 December 2019 mainly due to the decrease in accruals of staff cost, in particular the bonus of our staff. Our accruals and other payables increased to approximately RMB12.1 million as at 31 October 2020 mainly due to the increase in accruals partly offset by the decrease in other taxes payables due to the deduction of VAT arising from the increase in payment of professional fees.

The following table sets forth our provision for assurance-type warranties relates to sales of compatible cartridge chips during the Track Record Period:

				Ten months ended
	Year ended 31 December			**31 October**
Assurance-type warranties	**2017**	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Opening balance	–	1,261	2,888	2,105
Provisions made during the year/period	3,129	6,412	6,644	361
Provision used in respect of preceding year	–	(582)	(2,610)	(94)
Provision used in respect of current year/period	(1,868)	(4,203)	(4,817)	(797)
Closing balance	1,261	2,888	2,105	1,576

The provision has been estimated based on historical data associated with similar products. We expect to settle the liability within next year. Please refer to the section headed "Business — Quality Control — Product Returns, Exchanges and Warranty" in this prospectus for further details.

INDEBTEDNESS

As at the close of business on 31 January 2021, being the latest practicable date for the purpose of ascertaining the indebtedness of our Group prior to the printing of this prospectus, apart from normal trade and other payables and lease liabilities stated below, our Group did not have any debt securities issued and outstanding or agreed to be issued, any outstanding bank overdrafts or loans, or other similar indebtedness, loan capital, debentures, liabilities under acceptances, acceptance credits, hire purchase or finance lease commitments, mortgages, charges, or guarantees or other material contingent liabilities.

As at the close of business on 31 January 2021, being the latest practicable date for the purpose of ascertaining the indebtedness of our Group prior to the printing of this prospectus, our Group had no unutilized banking facilities.

The table below sets out the breakdown of the indebtedness of our Group as at the respective dates indicated:

	As at 31 December			As at 31 October	As at 31 January
	2017	**2018**	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Current liabilities					
Lease liabilities	730	1,198	1,209	1,502	1,744
Non-current liabilities					
Lease liabilities	2,045	2,517	1,309	345	714
	2,775	3,715	2,518	1,847	2,458

Lease liabilities

As at 31 January 2021, our Group, as a lessee, had outstanding contractual lease payments amounting to approximately RMB2.5 million in aggregate in relation to the remaining lease terms of certain lease contracts, which is unsecured and unguaranteed. Our lease liabilities represented the related liabilities arisen when obtaining the right to use certain properties through tenancy agreements. For further details of our lease liabilities, please refer to Note 25 of the Accountants' Report set out in Appendix I to this prospectus.

Our Directors confirm that there has not been any material change in indebtedness and contingent liabilities of our Group since the Latest Practicable Date up to the date of this prospectus.

MATERIAL RELATED PARTY TRANSACTIONS

During the Track Record Period, our related party transactions included sales of goods, purchases of goods, rental expense and guarantee provided by Mr. Cheng. Our directors considered that the related party transactions were based on prices determined between our Group and the relevant parties. For the details of the related parties, please refer to Note 32 to the Accountants' Report as set out in Appendix I to this prospectus.

For the years ended 31 December 2017, 2018 and 2019 and 10M2020, related party transactions from sales of goods to related parties (namely, Zhongshan Mingqi and Zhuhai Mingqi) amounted to approximately RMB1.8 million, nil, nil and nil, respectively. For the years ended 31 December 2017, 2018 and 2019 and 10M2020, related party transactions from purchase of goods from a related party (namely, Zhongshan Mingqi) amounted to approximately RMB1.9 million, nil, nil and nil, respectively. In November 2017, as Mr. Cheng disposed his interest in each of Zhongshan Mingqi and Zhuhai Mingqi to Independent Third Parties, the transactions with Zhongshan Mingqi and Zhuhai Mingqi were not accounted as related party transactions since then. For details on Zhongshan Mingqi and Zhuhai Mingqi, please refer to the section headed "Relationship with Controlling Shareholders — Independence from our controlling shareholders" in this prospectus. We paid rent to a company controlled by Mr. Lee of approximately RMB0.3 million, nil, nil and nil for the years ended 31 December 2017, 2018 and 2019 and 10M2020, respectively. Our Directors confirm our related party transactions were conducted on arm's length basis, on normal commercial terms and in the ordinary course of business.

As at the years end of 31 December 2017 and 31 December 2018, there was a personal guarantee of USD100,000 made by Mr. Cheng to one of our suppliers, with a guarantee period of three years. Such personal guarantee had been released during the year ended 31 December 2019. Such guarantee was made at the request of the supplier for us to obtain a credit line to the extent of USD100,000 for the purchase of raw materials.

AMOUNTS DUE FROM SHAREHOLDERS

Amounts due from immediate shareholders

	As at 1 January 2017	Maximum amount outstanding during the year	As at 31 December 2017
	RMB'000	*RMB'000*	*RMB'000*
Amounts due from immediate shareholders:			
Arista Global Limited	13,539	13,539	9,715
Global Megain Technology Pte. Limited	14,598	14,598	8,605
	28,137		18,320

	As at 1 January 2018	Maximum amount outstanding during the year	As at 31 December 2018
	RMB'000	*RMB'000*	*RMB'000*
Amounts due from immediate shareholders:			
Arista Global Limited	9,715	9,715	–
Global Megain Technology Pte. Limited	8,605	8,605	–
	18,320		–

As of 31 December 2017, 2018 and 2019 and 31 October 2020, the amounts due from immediate shareholders were approximately RMB18.3 million, nil, nil and nil, respectively.

The amounts due from shareholders were not trade related, and the balances were unsecured, interest-free and repayable on demand. Arista Global Limited and Global Megain Technology Pte. Limited are controlled by the directors of our Company. Please refer to Note 26 of Accountants' Report as set out in Appendix I to this prospectus for further details.

CONTINGENT LIABILITIES

As at the close of business on the Latest Practicable Date, we did not have any material contingent liabilities.

LISTING EXPENSES

Assuming that the Over-allotment Option is not exercised, the listing expenses in connection with the Listing, which include professional fees, underwriting commission and fees, assuming an Offer Price of HK$1.25 per Share, being the mid-point of the proposed Offer Price range, are estimated to be RMB40.7 million, which are estimated to be approximately 31.3% of the gross proceeds from the Global Offering. During the Track Record Period, we incurred listing expenses of approximately RMB31.8 million, of which approximately RMB7.3 million, RMB2.6 million and RMB14.5 million was recognised in the consolidated statements of profit and loss and other comprehensive income for the years ended 31 December 2018 and 2019 and 10M2020, respectively, and approximately RMB7.4 million was recognised as prepayments in the consolidated statement of financial position as at 31 October 2020, which will be accounted for as a deduction from equity upon Listing. Subsequent to the Track Record Period, we expect to further incur listing expenses of RMB8.9 million prior to and upon completion of the Listing, of which (i) RMB0.7 million is expected to be recognised as expenses in our consolidated statement of profit and loss and other comprehensive income for the year ended 31 December 2020 and for the year ending 31 December 2021; and (ii) RMB8.2 million is expected to be accounted for as a deduction from equity upon Listing under the relevant accounting standard.

Our Directors would like to emphasise that the listing expenses stated above are the current estimation for reference purpose and the actual amount to be recognised is subject to adjustments based on audit and the then changes in variables and assumptions. Prospective investors should note that the financial performance of our Group for the year ended 31 December 2020 would be materially and adversely affected by the listing expenses mentioned above.

OFF-BALANCE SHEET ARRANGEMENT

As at the Latest Practicable Date, we had not entered into any off-balance sheet arrangement.

DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 22 June 2016. Please refer to Note 30 to the Accountants' Report as set out in Appendix I to this prospectus for details of our Company's reserves.

DIVIDENDS AND DIVIDEND POLICY

On 1 June 2017, 27 April 2018, 12 April 2019 and 6 April 2020, our Company paid a final dividend of RMB29,237,000, RMB31,762,000, RMB20,907,000 and RMB29,677,000 in aggregate to its then Shareholders in respect of the years ended 31 December 2016, 2017, 2018 and 2019 respectively.

Following completion of the Global Offering, we may distribute dividends by way of cash or by other means that our Directors consider appropriate. We currently target to distribute to our Shareholders dividends not less than 40% of our Group's net profit for the year attributable to equity shareholders of our Company in each financial year, commencing from the financial year ending 31 December 2021. A decision to distribute any interim dividend or recommend any final dividend would require the approval of our Board and will be at its discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. Our Board will review our Company's dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid:

– our financial results

– our Shareholders' interests

– general business conditions, strategies and future expansion needs

– our Group's capital requirements

– the payment by its subsidiaries of cash dividends to our Company

– possible effects on liquidity and financial position of our Group

– other factors our Board may deem relevant

Our historical declarations of dividends may not reflect our future declarations of dividends.

KEY FINANCIAL RATIOS

The following table sets forth the key financial ratios of our Group during the Track Record Period:

	Notes	Year ended/As at 31 December 2017	2018	2019	Ten months ended/As at 31 October 2020
Current ratio	*1*	4.0	3.9	5.6	7.2
Quick ratio	*2*	3.5	3.4	4.9	6.7
Return on equity	*3*	51.7%	40.4%	23.5%	N/A*(Note 7)*
Return on total assets	*4*	37.7%	29.6%	19.0%	N/A*(Note 7)*
Gross profit margin	*5*	44.3%	47.1%	55.9%	54.7%
Net profit margin	*6*	29.7%	25.4%	26.2%	19.2%

Notes:

1. Current ratio is calculated by dividing total current assets by total current liabilities as at the respective dates.

2. Quick ratio is calculated by dividing current assets (net of inventories) by total current liabilities as at the respective dates.

3. Return on equity is calculated by dividing profit for the year/period by closing balance of total equity and multiplying the resulting value by 100%.

4. Return on total assets is calculated by dividing profit for the year/period by closing balance of total assets and multiplying the resulting value by 100%.

5. Gross profit margin is calculated by dividing gross profit for the year/period by revenue and multiplying the resulting value by 100%. Gross profit equals revenue minus cost of sales.

6. Net profit margin is calculated by dividing profit for the year/period by revenue and multiplying the resulting value by 100%.

7. The figure for the ten months ended 31 October 2020 is not meaningful as it is not comparable to the annual figures.

Current ratio and quick ratio

Our current ratio was 4.0, 3.9, 5.6 and 7.2 as of 31 December 2017, 2018 and 2019 and 31 October 2020, respectively. Our quick ratio was 3.5, 3.4, 4.9 and 6.7 as of 31 December 2017, 2018 and 2019 and 31 October 2020, respectively. The current ratio and the quick ratio as of 31 December 2017 and 2018 was relatively stable. The increase in both the current ratio and quick ratio as at 31 December 2019 and the further increase as at 31 October 2020 was mainly due to the decrease in trade payables and/or accruals and other payables as discussed above.

Return on equity

Return on equity decreased from approximately 51.7% for the year ended 31 December 2017 to approximately 40.4% for the year ended 31 December 2018 and further decreased to approximately 23.5% for the year ended 31 December 2019. Such decrease was primarily attributable to the increase in our equity along the Track Record Period as a result of the accumulation of our profit and the decrease in our profit for the year ended 31 December 2019 as discussed above.

Return on total assets

Return on assets decreased from approximately 37.7% for the year ended 31 December 2017 to approximately 29.6% for the year ended 31 December 2018 and further decreased to approximately 19.0% for the year ended 31 December 2019. Such decrease was primarily attributable to the increase in our equity along the Track Record Period as a result of the accumulation of our profit and the decrease in our profit for the year ended 31 December 2019 as discussed above.

Gross profit margin

Our gross profit margin amounted to 44.3%, 47.1%, 55.9% and 54.7% for each of the years ended 31 December 2017, 2018 and 2019 and 10M2020, respectively. For a discussion of the factors affecting our gross profit margin, please refer to the paragraph headed "Period to period comparison of results of operations" in this section.

Net profit margin

Our net profit margin amounted to 29.7%, 25.4%, 26.2% and 19.2% for each of the years ended 31 December 2017, 2018 and 2019 and 10M2020, respectively. For a discussion of the factors affecting our net profit margin, please refer to the paragraph headed "Period to period comparison of results of operations" in this section.

QUANTITATIVE AND QUALITATIVE ANALYSIS ABOUT FINANCIAL RISKS

Our Group's activities expose it to a variety of financial risks which comprise market risk (including interest rate risk and foreign currency risk), credit risk and liquidity risk. For further details of our financial risk management, please refer to Note 35 to the Accountants' Report set out in Appendix I to this prospectus.

Our Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on our Group's financial performance. Risk management is carried out by key management under the policies approved by the Board. Our Directors meet regularly to identify and evaluate risks and to formulate strategies to manage financial risks.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

See the section headed "Unaudited pro forma financial information" in Appendix II of this prospectus for details.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors confirm that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

An outbreak of the COVID-19 coronavirus has been spreading globally. The outbreak was declared a Global Pandemic by the World Health Organisation on 11 March 2020. Measures had been taken to contain the pandemic by various countries and territories, including but not limited to the lockdown of cities, closing of public venues, restrictions on public activities and travel bans for foreign visitors.

Since over 70% of the demand for compatible cartridges comes from oversea market, the COVID-19 negatively impacted the demand in the cartridges market as more countries and regions chose to lockdown certain cities, close school, require people to stay at home and more companies adopted remote work from home policy. The market size of compatible cartridge chips in China in terms of external sales is also expected to decrease from RMB1,360.1 million in 2019 to RMB1,316.6 million in 2020 mainly resulted from the negative impact of the outbreak of COVID-19. Under such circumstance, the demand for desktop home printers and cartridges may be impacted to a lesser extent as people would have to print documents at home. Furthermore, with the economic recession, more people would seek for budget-saving compatible products with much lower price comparing to original-brand cartridges. However, the long term impact is still subject to further development of the outbreak of COVID-19 and government advice, bans, lockdown and/or restrictions. Prolonged outbreak of COVID-19 may pose significant impacts on the business operation and financial performance of our Group as discussed below.

Our unaudited net profit for the year ended 31 December 2020 amounted to approximately RMB28.8 million. In addition, our gross profit margin remained relatively stable for the year ended 31 December 2020, as compared with that for the year ended 31 December 2019. Our unaudited net profit for the year ended 31 December 2020 decreased by approximately 30.4% to approximately RMB28.8 million for the year ended 31 December 2020, as compared to our profit for the year ended 31 December 2019 of approximately RMB41.3 million, mainly due to the increase in listing expenses. Our unaudited net profit without taking into account our listing expenses for the two months ended 31 December 2020 decreased to approximately RMB3.2 million, mainly due to (1) the decrease in revenue attributable to (i) the temporary disruption to global transportation, in particular sea freight logistics, as a result of the new wave of COVID-19 outbreak in Europe and the United States during October to December 2020, as a result of which some of our customers were unable to deliver or had to delay the delivery of their products to the overseas end customers, which resulted in the decrease the demand for our chips; and (ii) the decrease in the sales of our chips for desktop inkjet printers to our customers mainly since Listed Group A had significantly reduced its purchases of certain of the Ink Cartridge Chip Models given that the relevant original-brand printer company had initiated certain substantial upgrades of its corresponding printer models which were expected to affect the compatibility of all existing relevant chip models in the market; and (2) the increase in our research and development expenses mainly due to the increase in our staff cost and the increase in administrative expenses mainly due to (i) the increase in our staff cost attributable to the increase of headcount and provision of bonus in December 2020, (ii) the increase in impairment loss on receivables as at 31 December 2020; (iii) the increase in taxation of other surcharge due to VAT adjustment made in December 2020 and (iv) the overall increase in other expenses, such as exchange loss, for the two months ended 31 December 2020.

Impact of the COVID-19 Outbreak on Our Business Operations

(i) Our Business Operation and Financial Performance

According to the CIC Report, due to the various policies implemented globally to tackle COVID-19, such as closure of school, temporary suspension of business and remote work from home policy, the demand for cartridge has been adversely affected. As the majority of compatible cartridge produced in the PRC are exported to US and Europe, the ongoing outbreak and the impact to local delivery in overseas countries might have a negative impact on the demand and delivery of the compatible cartridges. According to the CIC Report, the total retail value of compatible ink and toner cartridge markets in 2020 is expected to decrease due to the outbreak of COVID-19. In the event that the COVID-19 outbreak shall not come to an end in the near future, since our chip is one of the major components of a cartridge, our business operations and results of operations including revenue and profitability may be adversely affected. For further details of the potential impact of the COVID-19 outbreak on our Group, please see the section headed "Risk factors — The outbreak of any severe communicable disease, in particular COVID-19, if uncontrolled, could adversely affect our Group's results of operations." in this prospectus.

Based on the information currently available to us, our Directors are of the view that, our business operation and financial performance were not materially affected by COVID-19. As of the Latest Practicable Date, we understood from our customers that due to the temporary disruption in logistics which has caused delay in delivery, there was a temporary delay in overseas orders for compatible cartridge. Our Directors are of the view that such delay is temporary and the demand for compatible cartridges and chips, as a daily necessity, is sustainable, as the COVID-19 vaccine has been released and the number of order will gradually recover when the pandemic is gradually controlled.

We will closely communicate with our customers in order to carefully assess the demand for our products. Please refer to the paragraph "(ii) Our Business Relationships with Customers and Suppliers" in this section for further details.

Our Directors will continue to assess the impact of the COVID-19 on our Group's operation and financial performance and closely monitor our Group's exposure to the risks and uncertainties in connection with the epidemic. We will take appropriate measures as necessary and inform our Shareholders and potential investors as and when necessary.

However, hypothetically and in the worst scenario, should our operation and sale be fully suspended due to unexpected situation arising from or in connection with the prolonged outbreak of COVID-19, and assuming that (i) in the absence of net proceeds from the Global Offering; (ii) no revenue is generated from sales of our products; (iii) the historical settlement pattern of payment for trade and bill receivables; and (iv) payments for accounts and other payables, administrative and other operating expenses and taxation remain the same, we will continue to maintain prudent treasury management and implement the following contingency plans: (a) regarding our plan to accelerate the development of our hardware design capabilities and to increase our presence in the compatible cartridge industry through acquisitions of IC design company based in the PRC or Taiwan and compatible cartridge manufacturers in the PRC, the acquisitions will be postponed so as to minimise our capital expenditure in this regard during the suspended period; (b) regarding our plan to step up our sales and marketing efforts and to improve the functionality of our back office through recruitment, we will postpone the proposed recruitment of sales and marketing staff and legal and compliance staff to 2021 so as to minimise our staff cost in 2020; (c) we will strengthen our business relationships with suppliers and subcontractors in nearby Zhujiang Delta region to mitigate the risk of cancellation or unfulfillment of order due to logistic delay of raw materials; (d) we will shift our focus to domestic market to mitigate the risk of cancellation or unfulfillment of order due to disruption of global transportation or export restriction; and (e) we will review and adjust the operational cost and staff cost structure from time to time. It is expected that the prolonged outbreak of COVID-19 would not affect the implementation of our business strategy to strength our product development capacity and diversify our product portfolio through research and development, as it takes time for developing new products. In particular, although the number of launches of new models of printers in 2020 has decreased as compared with that in 2019 due to the outbreak of COVID-19, as there are still numbers of models of original-brand cartridges that do not have the corresponding compatible cartridges in the market yet. Hence, our Directors consider that any delay in the launch of new models of printers that may result from the prolonged outbreak of COVID-19 would not have significant adverse impact on our product development plan. In light of the above contingency plans, our Directors believe that we will continue to be able to sustain and maintain our customer relationships, our business operation and meeting our financial obligations. In view of the cash and cash equivalents of RMB120.5 million as of 31 January 2021, based on the assumptions stated above and estimated average monthly expenses of no more than approximately RMB4.5 million per month which is estimated with reference to the historical operating expenses of our Group, including staff costs, administrative and other operating expenses, and the expected level of increment during the period of prolonged suspension, our Directors are of the view that the Company can remain financial viable for at least two years after the Listing taking into account 10% of the net proceeds from the Global Offering (approximately HK$9.5 million) which will be used for general working capital (assuming the Offer Price is set at the low-end of the Offer Price range).

As such, our Directors believe that we can maintain sufficient working capital even in the unlikely hypothetical worst case scenario as above. Based on the latest information currently available to our Directors as at the Latest Practicable Date, our Directors believe that COVID-19 does not have significant impact on our business. After considering our continuous risk management measures as mentioned above, including (1) deferring the acquisition of IC design company and compatible cartridge manufacturers; (2) deferring the recruitment of marketing staff and legal and compliance staff; (3) strengthening business relationship with suppliers and subcontractors in Zhujiang Delta region; (4) shifting focus to domestic market; and (5) reviewing and adjusting operational cost and staff cost from time to time, our Directors believe that it is unlikely for our Group to change the usage and purpose of the net proceeds from the Global Offering for other purposes. Our Directors will closely monitor the impact of COVID-19 on our operating business to ensure our cash flow sufficiency and use of net proceeds from the Global Offering as disclosed in this prospectus.

(ii) Our Business Relationships with Customers and Suppliers

After the Track Record Period and up to the Latest Practicable Date, there was no cancellation of orders from end-customers of compatible cartridge as a result of COVID-19 outbreak. However, due to the disruption in global transportation, the delivery of our products to overseas customers has been delayed by approximately one to two weeks. Other than that, our business relationship with customers and suppliers were not materially affected by the outbreak of COVID-19. Our Directors believe we have not encountered any significant supply chain disruption caused by the outbreaks of COVID-19. As of the Latest Practicable Date, according to our major suppliers and major subcontractors, their operation was not materially affected.

To the best of the knowledge of our Directors, the operation and production of our major customers and suppliers were not materially affected, although the delivery of products from our customers to the end-customers was temporarily delayed due to logistics disruption and their respective operations will be subject to the development of the situations and further government notices and measures. Our Directors believe that the outbreak of COVID-19 would not have any material adverse effect on our business relationships with our customers and suppliers.

(iii) Prevention and Control Measures Adopted

We have implemented prevention and control measures at our offices, industrial workshops and warehouses in the PRC and Taiwan, including, among others, daily disinfection of the common areas, requiring our staff to report their travel history, providing face masks, disinfectant and other sanitising equipment to our staff and temperature scanning of our staff on a daily basis. As at the Latest Practicable Date, there is no confirmed case of COVID-19 among the staff of our Company. Please refer to the section headed "Business — Health, Work Safety, Social and Environmental Matters" in this prospectus for details of prevention and control measures adopted by us.

With the information currently available to our Directors, our Directors believe that the outbreak of COVID-19 shall not have a permanent impact on our Group. Our analysis above regarding the impacts of COVID-19 on our Group's operations as discussed above is based on the latest information currently available to our Directors as at the Latest Practicable Date, subject to the development of the outbreak of COVID-19 globally. There is no assurance that the outbreak of COVID-19 and any negative impact thereof will not continue. There is no assurance that the demand for our products and compatible cartridge from overseas end-customers will not decrease due to continuous lockdown of cities, closing of schools and remote work from home policy in the future. If such outbreak continues, we may be required to take out additional measures to minimise its potential impacts on our business and operations.

Save for the listing expenses and the potential impact of the unforeseeable future development of the COVID-19 outbreak, our Directors confirm that since 31 October 2020 and up to the date of this prospectus, there has been no material adverse change in our financial or operations, and no event has occurred that would materially affect the information shown in the consolidated financial statements of our Group set out in the Accountants' Report in Appendix I to this prospectus.

PRELIMINARY RESULTS OF 2020

Pursuant to the note to Rule 13.49(1) of the Listing Rules, a newly listed issuer will be required to prepare and publish the relevant annual results (irrespective of whether the period in question ends on a date before or after the date on which dealings in the securities of the listed issuer commenced) where the three-month deadline for publishing the results falls after the date on which dealings in the securities of the listed issuer commenced.

Given that (a) our Company has included in this prospectus the unaudited financial information and a commentary on the results of our Group for the year ended 31 December 2020 (being the reporting period to which our first annual results and first annual report relate) prepared in compliance with the content requirements applicable to a preliminary results announcement under Rule 13.49 of and Appendix 16 to the Listing Rules; and (b) we will not be in breach of our constitutional documents or laws and regulations of the Cayman Islands or other regulatory requirements relating to our obligation to publish preliminary results announcements, we are not required to publish our annual results for the year ended 31 December 2020 pursuant to the note to Rule 13.49(1) of the Listing Rules. Our Company will publish an announcement no later than the time prescribed in Rule 13.49(1) of the Listing Rules that the relevant financial information has been included in this prospectus.

FUTURE PLANS

For a detailed description of our future plans, please refer to the section headed "Business — Business Strategies" in this prospectus.

USE OF PROCEEDS

Assuming an Offer Price of HK$1.25 per Offer Share, being the mid-point of the Offer Price range between HK$1.15 and HK$1.35 and assuming the Over-allotment Option is not exercised, we estimate to receive net proceeds from the Global Offering of approximately HK$107.4 million, after deducting the underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering.

We intend to use the net proceeds from the Global Offering as follows:

Strengthen Our Product Development Capacity and Diversify Our Product Portfolio

- approximately HK$55.3 million (or approximately 51.4% of the total net proceeds) will be used for strengthening our product development capacity and diversifying our product portfolio:

    - approximately HK$8.2 million (or approximately 7.6% of the total net proceeds) will be used to support development of the software component of compatible cartridge chips with increased research and development capacity and enhanced efficiency:

        – approximately HK$4.5 million (or approximately 4.2% of the total net proceeds) will be used for expanding our team of talents in research and development through external recruitment and enhancing the remuneration package of our existing research and development staff;

– approximately HK$3.7 million (or approximately 3.4% of the total net proceeds) will be used for acquisition of use rights of software tools as follows:

Software type	Acquisition costs to be paid out of the net proceeds *HK$ million*	Reason for acquisition
Software tool for early-stage software design	2.9	To facilitate our IC development work – We have been exploring the possibility of developing our own ICs, and intend to engage subcontractors to produce ICs according to our own designs after completion of necessary testing and modifications. The software tools, which is not currently in use by us, will provide us with necessary support in creating specific software models that are required in the course of IC design and development.
Software tools for later-stage development of firmware	0.8	To accommodate our increase in headcount
Total	3.7	

• approximately HK$44.4 million (or approximately 41.3% of the total net proceeds) will be used to support the intended expansion of the research and development work in respect of the hardware component of compatible cartridge chips:

– approximately HK$13.3 million (or approximately 12.3% of the total net proceeds) will be used for purchasing additional materials required, including photomasks for use in IC fabrication;

– approximately HK$12.6 million (or approximately 11.7% of the total net proceeds) will be used for increasing the headcount of our research and development department through external recruitment and enhancing the remuneration package of our existing research and development staff;

– approximately HK$6.7 million (or approximately 6.3% of the total net proceeds) will be used for engaging third-party consultant(s) to provide technical services in relation to research and development. The research and development process of ICs involves a number of tasks, and we consider it more cost-effective to delegate some of these tasks to the third-party consultant(s) such that we can devote our manpower and resources primarily to the core product design, development and production steps. The technical services will be provided by the third-party consultant on a project or order basis as and when needed and include (1) identification of the electrical circuits in chips and formulation of circuit diagrams, which will lay the foundation for the comprehensive analysis to be conducted by our research and development department in our new product development process and assist us in understanding the functions of the original-brand printers and cartridges and conceptualising their principles and logics of operation; and (2) testing and validation of ICs and chips on top of internal testing conducted by us in the new product development process. The above steps in the IC research and development process are auxiliary in nature and typically performed by external service providers since they involve abundant manpower and the use of sophisticated equipment and/or specialised graphic identification software that may need to be updated from time to time. We do not expect there to be any overlap between the scope of work of the third-party consultant(s) and that of our research and development department;

– approximately HK$4.5 million (or approximately 4.2% of the total net proceeds) will be used for design testing of ICs developed by our Group;

– approximately HK$4.4 million (or approximately 4.1% of the total net proceeds) will be used for acquiring licences for patents in relation to certain developed IC structure(s) to effectively speed up our design process and promote our success rate in IC development; and

– approximately HK$2.9 million (or approximately 2.7% of the total net proceeds) will be used for purchasing use rights of software tools that we will need to use at the design stage during the development process of the hardware component of compatible cartridge chips. Zhuhai Megain is currently entitled to use the software tools on an annual license basis at a discounted price, which has been offered by a non-profit organisation set up by the local government to support the growth of local chip companies. While the estimated acquisition cost of the use rights of approximately RMB3.6 million is significant relative to the annual license fee currently payable by our Group, our Directors believe that the acquisition of the use rights directly from the software developers is conducive our Group's future development in that it mitigates any risk of termination or non-renewal of such license for whatever reason, and secures our uninterrupted rights to use the software tools.

- approximately HK$2.7 million (or approximately 2.5% of the total net proceeds) will be allocated for acquisition from the market of new models of original-brand printers that have been launched from time to time for use at the comprehensive analysis stage in our new product development process. The printers will be purchased from the market at the then prevailing prices. The acquisition costs of such printers may vary from those acquired by the Group previously due to the difference in models and as a result of unforeseeable future market developments and fluctuations in market prices of printers.

Accelerate the Development of Our Hardware Design Capabilities through Acquisition of IC Design Company

- approximately HK$18.0 million (or approximately 16.8% of the total net proceeds) will be used for accelerating the development of our hardware design capabilities through acquisition of an IC design company based in the PRC or Taiwan. We expect that the acquisition target shall have (1) a team of technical staff of eight members or above (including research and development engineers for both hardware and software) with professional qualifications and experience in respect of development of ICs and chips; (2) an asset value of RMB8 million or above, with comprehensive and well-maintained machineries and equipment for research and development uses; (3) a turnover of RMB20 million or above for the most recent financial year; (4) positive net profits for the most recent financial year; (5) an estimated payback period of five to seven years, taking into account the estimated cost savings and synergy; (6) no previous involvement in any actual or alleged infringement of third-party intellectual property rights; and (7) demonstrated good legal compliance records in all areas of operations. We will identify acquisition target by (i) reviewing our supplier list and selecting IC design companies with good business relationship with our Group and strong business growth; (ii) obtaining market information through the personal network of our Directors in the PRC and Taiwan; and (iii) actively looking for IC design companies with growth potential. We target to acquire the acquisition target at the target price to earnings ratio of not more than 20 times. Please refer to the section headed "Business — Business Strategies — Accelerate the Development of Our Hardware Design Capabilities through Acquisition of IC Design Company" for further details.

Increase Our Presence in the Compatible Cartridge Industry through Forward Vertical Expansion

- Approximately HK$18.0 million (or approximately 16.8% of the total net proceeds) will be used for increasing our presence in the compatible cartridge industry through forward vertical expansion, i.e. acquiring equity interests in certain downstream compatible cartridge manufacturers in the PRC. We expect that the acquisition targets shall each have an established presence and market position with the capacity to produce at least 200,000 toner cartridges and/or 1.5 million ink cartridges per month. In addition, each of the acquisition targets shall have (1) an asset value of RMB8 million or above; (2) a turnover of RMB70 million or above for the most recent financial year; (3) net profits of RMB5 million or above for the most recent financial year; and (4) an estimated payback period of five to seven years. We will identify acquisition target by (i) reviewing our customer list and selecting compatible cartridge manufacturers with good business relationship with our Group and strong business growth; (ii) obtaining market information through participation in industry fairs and exhibitions; and (iii) actively looking for compatible cartridge manufacturers with growth potential. We target to acquire the acquisition targets at the target price to earnings ratio of not more than 15 times. Please refer to the section headed "Business — Business Strategies — Increase Our Presence in the Compatible Cartridge Industry through Forward Vertical Expansion" for further details.

Step Up Our Sales and Marketing Efforts to Cater for the Expansion of Our Product Offerings

- approximately HK$2.7 million (or approximately 2.5% of the total net proceeds) will be used for stepping up our sales and marketing efforts to cater for the expansion of our product offerings:

  – approximately HK$1.8 million (or approximately 1.7% of the total net proceeds) will be used for increasing budget of marketing activities, in particular participating in industry fairs and exhibitions in the PRC and at international level;

  – approximately HK$0.9 million (or approximately 0.8% of the total net proceeds) will be used for employment of additional members of sales and marketing staff.

Improve the Functionality of Our Back Office to Support Our Business Growth

- approximately HK$2.7 million (or approximately 2.5% of the total net proceeds) will be used for improving functionality of our back office to support our business growth:

  – approximately HK$1.4 million (or approximately 1.3% of the total net proceeds) will be used for employment of additional members of legal and compliance staff;

  – approximately HK$1.3 million (or approximately 1.3% of the total net proceeds) will be used for upgrading and maintaining our enterprise resource planning (ERP) system to facilitate the implementation of our expansion strategy and to optimise our operational efficiency.

General Working Capital

- approximately HK$10.7 million (or approximately 10.0% of the total net proceeds) will be used for general working capital.

Set forth below is the expected time frame for the use of the net proceeds from the Global Offering in accordance with the above allocation:

	For the year ending 31 December 2021	For the year ending 31 December 2022	For the year ending 31 December 2023	Total
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
Strengthen Our Product Development Capacity and Diversify Our Product Portfolio				
Development of the Software Component				
– Expanding our team of talents in research and development through external recruitment and enhancing the remuneration package of our existing research and development staff	1.6	1.5	1.4	4.5
– Acquiring use rights of software tools	1.3	1.3	1.1	3.7
	2.9	**2.8**	**2.5**	**8.2**
Development of the Hardware Component				
– Purchasing additional materials required	5.0	4.3	4.0	13.3
– Increasing the headcount of our research and development department through external recruitment and enhancing the remuneration package of our existing research and development staff	4.6	4.4	3.6	12.6
– Engaging third-party consultant to provide technical services in relation to research and development	2.6	2.3	1.8	6.7
– Design-testing of ICs developed by our Group	1.9	1.3	1.3	4.5
– Acquiring licences for patents in relation to certain developed IC structure(s)	1.8	1.5	1.1	4.4
– Purchasing use rights of a software tool	1.2	1.1	0.6	2.9
	17.1	**14.9**	**12.4**	**44.4**
Acquisition of original-brand printers	**0.9**	**0.9**	**0.9**	**2.7**
Total	**20.9**	**18.6**	**15.8**	**55.3**

	For the year ending 31 December 2021	For the year ending 31 December 2022	For the year ending 31 December 2023	Total
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
Accelerate the Development of Our Hardware Design Capabilities through Acquisition of IC Design Company *(Note)*	**–**	**18.0**	**–**	**18.0**
Increase Our Presence in the Compatible Cartridge Industry through Forward Vertical Expansion *(Note)*	**–**	**18.0**	**–**	**18.0**
Step Up Our Sales and Marketing Efforts to Cater for the Expansion of Our Product Offerings				
Increasing budget of marketing activities	0.6	0.6	0.6	1.8
Employing additional members of sales and marketing staff	0.3	0.3	0.3	0.9
Total	**0.9**	**0.9**	**0.9**	**2.7**
Improve the Functionality of our Back Office to Support Our Business Growth				
Employing additional members of legal and compliance staff	0.5	0.5	0.4	1.4
Upgrading and maintaining our ERP system	0.5	0.5	0.3	0.3
Total	**1.0**	**1.0**	**0.7**	**2.7**
General Working Capital	**3.6**	**3.6**	**3.5**	**10.7**
Total net proceeds from the Global Offering	**26.4**	**60.1**	**20.9**	**107.4**

Note: As at the Latest Practicable Date, we had not entered into any letter of intent or agreement for such acquisitions nor identified any definite acquisition target. The expected timeframe for the intended use of the net proceeds from the Global Offering may be subject to change as and when we identify a definite acquisition target.

BASES AND ASSUMPTIONS

The business objectives and strategies set out by our Directors are based on the following general assumptions:

- there will be no significant economic change in respect of inflation, interest rate, tax rate and currency exchange rate in the geographic locations which we operate in, including Hong Kong, the PRC and Taiwan, which will adversely affect our business;

- we will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate;

- there will be no material adverse changes in the existing laws and regulations, policies or industry or regulatory treatment relating to our Group, or in the political, social, economical, fiscal or market conditions in which our Group operates;

- the Global Offering will be completed in accordance with the terms as described in "Structure of the Global Offering" in this prospectus;

- there will be no disasters, natural, political, social or otherwise, which would materially disrupt the business or operations of our Group;

- we will not be adversely affected by the risk factors as set out in "Risk Factors" in this prospectus; and

- we will continue our existing operations in substantially the same manner as they were carried out during the Track Record Period and we will also be able to carry out our development plans without material disruptions.

If the Offer Price is fixed at HK$1.35 per Offer Share, being the high-end of the Offer Price range and assuming the Over-allotment Option is not exercised, the net proceeds from the Global Offering will increase to approximately HK$119.1 million. If the Offer Price is fixed at HK$1.15 per Offer Share, being the low-end of the Offer Price range, the net proceeds will decrease to approximately HK$95.6 million. In the event that we make a Downward Offer Price Adjustment and the Offer Price is set at HK$1.04 per Offer Share, the net proceeds will decrease to approximately HK$82.7 million. Under such circumstances, we will adjust the allocation of the intended use of the net proceeds for the above purposes on a pro rata basis.

If the Over-allotment Option is exercised in full and assuming an Offer Price of HK$1.25 per Offer Share, being the mid-point of the Offer Price range, we estimate that the net proceeds from the Global Offering will be approximately HK$129.4 million, after deducting the underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering. If the Offer Price is set at the high-end or low-end of the Offer Price range, the net proceeds of the Global Offering, including the proceeds from the exercise of the Over-allotment Option, will increase to approximately HK$142.9 million or decrease to HK$115.9 million, respectively. In the event that we make a Downward Offer Price Adjustment and the Offer Price is set at HK$1.04 per Offer Share, the net proceeds will decrease to approximately HK$101.0 million. Under such circumstances, we will adjust the allocation of the intended use of the net proceeds for the above purposes on a pro rata basis.

To the extent that the net proceeds from the Global Offering are not immediately used for the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into interest-bearing bank accounts with licensed banks and/or financial institutions. We will make an appropriate announcement if there is any change to the above proposed use of proceeds or if any amount of the proceeds will be used for general corporate purpose.

HONG KONG UNDERWRITERS

CMBC Securities Company Limited
Yuan Tong Global Securities Limited
CCB International Capital Limited
Haitong International Securities Company Limited
BOCOM International Securities Limited
Dongxing Securities (Hong Kong) Company Limited
Vision Finance International Company Limited
Glory Sun Securities Limited
China Sky Securities Limited
Fulbright Securities Limited
Grand View Securities Limited
Ever-Long Securities Company Limited
Venture Smart Asia Limited
Lego Securities Limited
Livermore Holdings Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

The Hong Kong Underwriting Agreement was entered into on 17 March 2021. As described in the Hong Kong Underwriting Agreement, we are offering initially 12,500,000 Hong Kong Offer Shares (subject to adjustment) for subscription by the public in Hong Kong on the terms and subject to the conditions of this prospectus and the Application Forms at the Offer Price. Subject to the Listing Committee granting the listing of, and permission to deal in, our Shares in issue and to be issued under the Global Offering, and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally to subscribe and/or procure subscriber(s) to subscribe for in cash the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering.

The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the due execution of the International Underwriting Agreement by the parties thereto on or before the Price Determination Date and the obligations of the International Underwriters thereunder having become and remaining unconditional in accordance with its terms and the International Agreement not having been subsequently terminated in accordance with its terms, prior to 8:00 a.m. on the Listing Date.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscriber(s) to subscribe for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement will be subject to termination with immediate effect by notice in writing from the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) to our Company prior to 8:00 a.m. (Hong Kong time) on the Listing Date if prior to such time:

(a) there comes to the notice of any of the Sole Sponsor, the Sole Global Coordinator or the Hong Kong Underwriters:

(i) that any statement contained in any of this prospectus, the Application Forms, the formal notice required to be published in connection with the Hong Kong Public Offering in accordance with the Listing Rules and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) (collectively, the "**Hong Kong Public Offering Documents**") was, when it was issued, or has become or been discovered to be untrue, incorrect or misleading in any material respect, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of the Hong Kong Public Offering Documents is not fair, honest or based on reasonable assumptions, when takens as a whole; or

(ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute, in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), a material omission in any of the Hong Kong Public Offering Documents in the context of the Global Offering; or

(iii) any material breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement (other than those undertaken by the Sole Sponsor or any of the Hong Kong Underwriters) which, in any such case, is considered, in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), to be material and adverse in the context of the Global Offering; or

(iv) any event, act or omission which gives or is likely to give rise to any material liability of any of the indemnifying parties arising out of or in connection with any representations, warranties or undertakings contained in the Hong Kong Underwriting Agreement; or

(v) any contravention by any member of our Group of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the the Companies Ordinance, the Companies Act or any of the Listing Rules which has resulted in or would result in a Material Adverse Effect (as defined below); or

(vi) a material contravention by any member of our Group of, or non-compliance of any of the Hong Kong Public Offering Documents or any aspect of the Global Offering with, the Listing Rules or applicable laws; or

(vii) any material adverse change, or any development involving a prospective material adverse change, in the assets, liabilities, business, management, prospects, shareholders' equity, results of operation, or financial or trading position or condition of our Group (the "**Material Adverse Effect**"); or

(viii) any material breach of, or any event or circumstance rendering untrue or incorrect in any material respect, any of the representations, warranties, agreements and undertakings of our Company or any of the other indemnifying parties set out in the Hong Kong Underwriting Agreement; or

(ix) a significant portion of the orders in the bookbuilding process at the time of the International Underwriting Agreement is entered into have been withdrawn, terminated or cancelled and as a result of which it is therefore inadvisable, inexpedient or impracticable to proceed with the Global Offering; or

(x) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares to be issued (including any additional Shares that may be issued pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(xi) our Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or

(xii) any person (other than the Sole Sponsor) has withdrawn or is subject to withdrawal of its consent to being named in this prospectus or to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be); or

(b) there shall develop, occur, exist or come into effect:

(i) any local, national, regional or international event or circumstance in the nature of force majeure (including any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting the Cayman Islands, Hong Kong, the United States, the PRC, or any member of the European Union or any other jurisdiction relevant to any member of the Group (collectively, the "**Relevant Jurisdictions**" and each, a "**Relevant Jurisdiction**"); or

(ii) any change, or any development involving a prospective change, or any event or circumstance likely to result in any change or development involving a prospective change, in any local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting any of the Relevant Jurisdictions; or

(iii) any moratorium, suspension or restriction (including any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities of our Company or generally on the Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market or the London Stock Exchange; or

(iv) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), the PRC, the Cayman Islands, New York (imposed at Federal or New York State level or by any other competent authority), London, or the European Union (or any member thereof), or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any of those places or jurisdictions; or

(v) any new law, or any change or any development involving a prospective change or any event or circumstance likely to result in a change or a development involving a prospective change in (or in the interpretation or application by any court or other competent authority of) existing laws, in each case, in or affecting any of the Relevant Jurisdictions; or

(vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, the United States, United Nations or the European Union on Hong Kong or the PRC; or

(vii) a change or development involving a prospective change in or affecting taxation or exchange control, currency exchange rates or foreign investment regulations (including a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions; or

(viii) any litigation or claim of any third party being threatened or instigated against any member of our Group; or

(ix) any executive Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or

(x) the chairman of the Board and/or chief executive officer of our Company vacating their offices; or

(xi) an authority in any relevant jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any executive Director; or

(xii) a contravention by any member of our Group of the Listing Rules or applicable laws; or

(xiii) a prohibition on our Company for whatever reason from offering, allotting, issuing or selling any of the Shares (including any additional Shares that may be issued pursuant to the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or

(xiv) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws; or

(xv) any materialisation of any of the risks set out in the section headed "Risk Factors" in this prospectus or the occurrence of any such events therein; or

(xvi) an order or petition for the winding-up of any member of our Group or any composition or arrangement made by any member of our Group with our creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group,

which, individually or in the aggregate, in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), (1) has or will have or is likely to have a Material Adverse Effect on our Group as a whole; or (2) has or will have or may have a material adverse effect on the success of the Global Offering as a whole, or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or (3) makes or will make or is likely to make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or (4) has or will have or is likely to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by us

Pursuant to Rule 10.08 of the Listing Rules, except pursuant to the Global Offering (including pursuant to the Over-allotment Option) or any issue of shares or securities in circumstances permitted under Rule 10.08 of the Listing Rules, we will not, at any time within six months from the Listing Date, issue any shares or other securities convertible into our equity securities (whether or not of a class already listed) or enter into any agreement or arrangement to issue such shares or securities (whether or not such issue of shares or securities will be completed within six months from the Listing Date).

Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange, except pursuant to the Global Offering (including pursuant to the Over-allotment Option), that he or it will not, and shall procure that any other relevant registered holder(s) will not, without the prior written consent of the Stock Exchange or unless otherwise in compliance with applicable requirements of the Listing Rules:

(a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares in respect of which he or it is shown by this prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules) (the "**Parent Shares**"); or

(b) during the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Parent Shares to such an extent that immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or it would cease to be our controlling shareholder (as defined in the Listing Rules).

Further, pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange that, during the period commencing on the date of this prospectus and ending on the date which is 12 months from the Listing Date, he or it will:

(a) if he or it pledges or charges any of our securities beneficially owned by him or it in favour of an authorised institution (as defined in the Banking Ordinance) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of securities so pledged or charged; and

(b) if he or it receives indications, either verbal or written, from the pledgee or chargee that any of our pledged or charged securities will be disposed of, immediately inform us of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the above matters, if any, by any of our Controlling Shareholders and disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertakings by us

Pursuant to the Hong Kong Underwriting Agreement, we have undertaken to and covenanted with the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that except for the offer and sale of the Offer Shares, the Capitalisation Issue, the grant of the Over-allotment Option, the Over-allotment Shares upon the exercise of the Over-allotment Option, any Shares which may fall to be issued by way of scrip dividend schemes or similar arrangements in accordance with the memorandum and articles of association of the Company or any consolidation, sub-division or capital reduction of the Shares, we will not, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and subject always to the requirements of the Stock Exchange:

(a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any securities of our Company or any shares or other securities of such other Group company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any other warrants or other rights to purchase, any Shares or any shares of such other Group company, as applicable), or deposit any Shares or other securities of our Company or any shares or other securities of such other Group company, as applicable, with a depositary in connection with the issue of depositary receipts, or repurchase any Shares or other securities of our Company or any shares or other securities of such other Group company, as applicable; or

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any shares or other securities of such other Group company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company or any shares or other securities of such other Group company, as applicable); or

(c) enter into any transaction with the same economic effect as any transactions specified in (a) or (b) above; or

(d) offer to or agree to or announce any intention to effect any transaction specified in (a) or (b) above, in each case, whether any of the transactions specified in (a) or (b) or (c) above is to be settled by delivery of Shares or other securities of our Company or shares or other securities of such other Group company, as applicable, or in cash or otherwise, (i) at any time during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date which is six months from the Listing Date (the "**First Six-Month Period**"); or (ii) at any time during the period of six months commencing on the date on which the First Six-Month Period expires (the "**Second Six-Month Period**") so as to result in any of the Controlling Shareholders ceasing to be a controlling shareholder (as defined in the Listing Rules) of our Company (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-month Period or the Second Six-Month Period, as applicable).

In the event that during the Second Six-Month Period, our Company enters into any of the transactions specified in paragraph (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the Shares or any other securities of our Company.

Each Controlling Shareholder and executive Director jointly and severally undertakes and covenants with the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters to procure (so for as he or it is able to do so) our Company to comply with the above undertakings and covenants.

Undertakings by our Controlling Shareholders

Pursuant to the Hong Kong Underwriting Agreement, each of our Controlling Shareholders has jointly and severally undertaken to each of our Company, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that, save as (i) pursuant to the Global Offering (including the Over-allotment Option) or the Stock Borrowing Agreement; (ii) pursuant to the exercise of any options granted or to be granted under the Share Option Scheme; or (iii) permitted under the Listing Rules:

(i) at any time during the First Six-month Period, he/it shall not, and shall procure that none of his/its associates or any company controlled by him/it or any of his/its associates, nominees or trustees holding any Shares on trust for him/it (collectively, the "**Controlled Entities**") will, (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over (other than by way of a security for a bona fide commercial loan in favour of an authorised institution (as defined in the Banking Ordinance)), either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible or exchangeable into or exercisable for, or that represent the right to receive, or any warrants or other rights to purchase, any such Shares or other securities of the Company or any interest therein) beneficially owned by him/it directly or indirectly through his/its Controlled Entities (the "**Relevant Securities**"), or deposit any Relevant Securities with a depositary in connection with the issue of depositary receipts; or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Securities; or (c) enter into or effect any transaction with the same economic effect as any of the transactions referred to in sub-paragraph (a) or (b) above; or (d) offer to or agree to or announce any intention to enter into or effect any of the transactions referred to in sub-paragraph (a), (b) or (c) above, whether any of the foregoing transactions referred to in sub-paragraph (a), (b), (c) or (d) is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities of the Company will be completed within the First Six-month Period), provided that the foregoing restriction shall not apply to any Shares which any of them may acquire or become interested in following the Listing Date (other than any Shares returned under the Stock Borrowing Agreement) and provided further that any such acquisition would not result in any breach of Rule 8.08 of the Listing Rules;

(ii) at any time during the Second Six-month Period, he/it will not, and will procure that none of his/its associates or Controlled Entities will, enter into any of the transactions referred to in sub-paragraph (i)(a), (b) or (c) above, or offer to or agree to or announce any intention to enter into or effect any such transaction, if, immediately following any such transaction, he/it would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company or would, together with the other Controlling Shareholders, cease to be a group of controlling shareholders (as defined in the Listing Rules) of our Company;

(iii) in the event that he/it enters into any of the transactions specified in sub-paragraph (i)(a), (b) or (c) above or offers to or agrees to or announces any intention to enter into or effect any such transaction within the Second Six-month Period, he/it will take all reasonable steps to ensure that such a transaction will not create a disorderly or false market in the Shares or any other securities of our Company; and

(iv) he/it shall, and shall procure that the relevant registered holder(s) and other Controlled Entities to, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by he/it or by the registered holder(s) and/or other Controlled Entities of the Shares or any other securities of our Company.

Each of the Controlling Shareholders further jointly and severally undertakes to each of our Company, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that, save as (i) pursuant to the Global Offering (including the Over-allotment Option) or the Stock Borrowing Agreement; (ii) pursuant to the exercise of any options granted or to be granted under the Share Option Scheme; or (iii) permitted under the Listing Rules within the period from the date of this prospectus and ending on the date which is 12 months from the Listing Date, he/it will:

(a) when he/it pledges or charges or otherwise create any rights or encumbrances over any Relevant Securities in favour of an authorised institution (as defined in the Banking Ordinance) pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform us, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in writing of such pledges or charges or creation of the rights or encumbrances together with the number of the securities so pledged or charged and all other information as requested by our Company, the Sole Sponsor and/or the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters); and

(b) subsequent to the pledge or charge or creation of rights or encumbrances over the Relevant Securities as mentioned in sub-paragraph (a) above, when he/it receives indications, either verbal or written, from any pledgee or charge that any of the pledged or charged or encumbered securities as referred to in sub-paragraph (a) above will be sold, transferred or disposed of, immediately inform us, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in writing of such indications.

Indemnity

We, our Controlling Shareholders and our executive Directors have jointly and severally agreed and undertaken to indemnify the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters for certain losses which they may suffer, including, among other things, losses incurred arising from their performance of their respective obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement, subject to the terms of the Hong Kong Underwriting Agreement.

The International Offering

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with, among others, the Sole Sponsor, the Sole Global Coordinator and the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set out therein, severally agree to subscribe or procure subscriber(s) to subscribe for the International Offer Shares being offered pursuant to the International Offering.

We expect to grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator at its sole and absolute discretion for itself and on behalf of the International Underwriters at any time within the period commencing on the Listing Date and ending on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering, to require us to allot and issue up to an aggregate of 18,750,000 additional Shares, representing 15% of the number of Offer Shares initially available under the Global Offering, at the Offer Price for the purpose of covering over-allocations, if any, in the International Offering and/or to satisfy the obligations of the Sole Global Coordinator to return the borrowed securities under the Stock Borrowing Agreement.

Under the International Underwriting Agreement, we, our executive Directors and our Controlling Shareholders will jointly and severally agree and undertake to indemnify the Sole Sponsor, the Sole Global Coordinator and the International Underwriters against certain losses which they may suffer including, among other things, losses as a result of certain actions or claims which might be incurred by the International Underwriters, subject to the terms of the International Underwriting Agreement.

Underwriting Commission and Expenses

Under the terms and conditions of the Underwriting Agreements, the Sole Global Coordinator (for itself and on behalf of the Underwriters) will receive an underwriting commission, in Hong Kong dollars, at the rate of 6.0% of the aggregate final Offer Price in respect of all of the Offer Shares (including both the Hong Kong Offer Shares and the International Offer Shares). In addition, our Company may, at our sole discretion, pay to the Sole Global Coordinator (for itself and on behalf of the Underwriters) an incentive fee, in Hong Kong dollars, of up to 2.0% of the aggregate final Offer Price in respect of all of the Offer Shares (including both the Hong Kong Offer Shares and the International Offer Shares).

Assuming the Over-allotment Option is not exercised at all and based on an Offer Price of HK$1.25 per Share (being the mid-point of the indicative Offer Price range of HK$1.15 to HK$1.35 per Share), the aggregate commissions and fees (exclusive of any discretionary incentive fee), together with the Stock Exchange listing fees, the SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Global Offering to be borne by our Company are estimated to amount to approximately RMB40.7 million in aggregate.

Underwriters' Interests in our Company

Save for their respective obligations under the Underwriting Agreements or as otherwise disclosed in this prospectus, none of the Underwriters is interested legally or beneficially in any shares of any of the members of our Group or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any of the members of our Group in the Global Offering.

Following completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Underwriting Agreements.

Independence of the Sole Sponsor

The Sole Sponsor satisfies the independence criteria applicable to sponsor as set out in Rule 3A.07 of the Listing Rules.

ACTIVITIES BY SYNDICATE MEMBERS

The Underwriters (together, the "**Syndicate Members**") and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilising process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities on their own account and on the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares, and entering into over-the-counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilising period described in the section headed "Structure of the Global Offering" in this prospectus. Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

(a) the Syndicate Members (other than the Stabilising Manager or its affiliates or any person acting for them) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

(b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, such as the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering which forms part of the Global Offering.

The Global Offering comprises:

- the Hong Kong Public Offering of 12,500,000 Shares (subject to reallocation as mentioned below) in Hong Kong as described in the paragraphs headed "Hong Kong Public Offering" in this section; and

- the International Offering of 112,500,000 Shares (subject to reallocation and the Over-allotment Option as mentioned below) outside the United States in reliance on Regulation S.

Investors may apply for the Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the International Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to the public in Hong Kong. The International Offering will involve selective marketing of the International Offer Shares to professional, institutional and other investors expected to have a sizeable demand for such International Offer Shares in Hong Kong and other jurisdictions outside of the United States in offshore transactions in reliance on Regulation S.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to reallocation as described in the paragraphs "Pricing and Allocation" below in this section.

References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate only to the Hong Kong Public Offering.

PRICING AND ALLOCATION

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring the International Offer Shares. Prospective professional, institutional and other investors will be required to specify the number of International Offer Shares they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to the Price Determination Date.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Tuesday, 23 March 2021 and in any event, not later than Wednesday, 24 March 2021.

The Offer Price will not be more than HK$1.35 per Offer Share and is expected to be not less than HK$1.15 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering as set out below. Prospective investors should be aware that the Offer Price as determined on the Price Determination Date may be, but is not expected to be, lower than the bottom end of the indicative Offer Price range stated in the prospectus (subject to a Downward Offer Price Adjustment).

If, based on the level of interest expressed by prospective institutional and professional investors and other investors during the book-building process, the Sole Global Coordinator (on behalf of the Underwriters and with the consent of our Company) considers the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range to be inappropriate, the Sole Global Coordinator (on behalf of the Underwriters) may reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in the prospectus at any time on or before the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering on Tuesday, 23 March 2021, cause to be published on the Stock Exchange's website at **www.hkexnews.hk** and our Company's website at **www.megaincayman.com** an announcement of the reduction. Such notice will also include confirmation or revision, as appropriate, of the Global Offering statistics as currently set out in the section headed "Summary" in this prospectus and any other financial information which may change as a result of such reduction. Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Upon issue of such a notice, the revised number of Offer Shares being offered under the Global Offering and Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company, will be fixed within such revised Offer Price range. In the absence of any notice being published of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range stated in the prospectus on or before the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed upon by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company, will under no circumstances be set outside the Offer Price range as stated in the prospectus.

The Shares to be offered in the Global Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator. Allocation of the International Offer Shares under the International Offering will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell his/her/its Shares after the Listing. Such allocation may be made to professional, institutional or other investors and is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by the applicants. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

Irrespective of whether a Downward Offer Price Adjustment is made, the final Offer Price, the level of applications in the Hong Kong Public Offering, the indication of the level of interest in the International Offering, the basis of allocation of the Hong Kong Offer Shares and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering are expected to be made available in a variety of channels in the manner described in the section headed "How to apply for Hong Kong Offer Shares — 11. Publication of results" in this prospectus.

Announcement of Offer Price Reduction

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective investors during the book-building process, and with the prior consent of our Company, determine the final Offer Price to be not more than 10% below the bottom end of the indicative Offer Price range, at any time on or prior to the Price Determination Date.

In such situation, our Company will, as soon as practicable following the decision to set the Offer Price below the bottom end of the indicative Offer Price range, publish on the Stock Exchange's website **www.hkexnews.hk** and our Company's website at **www.megaincayman.com** an announcement of the final Offer Price after making a Downward Offer Price Adjustment. Such announcement will be issued before and separate from the announcement of the results of allocations and is expected to be announced on Friday, 26 March 2021. The Offer Price announced following the making of a Downward Offer Price Adjustment shall be the final Offer Price and shall not be subsequently changed.

In the absence of an announcement that a Downward Offer Price Adjustment has been made, the final Offer Price will not be outside the indicative Offer Price range as disclosed in this prospectus unless the Withdrawal Mechanism is utilised.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares will be conditional on, among others:

(a) the granting of approval by the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be issued under the exercise of the Over-allotment Option), and such listing and permission not having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;

(b) the Offer Price having been determined on or around the Price Determination Date;

(c) the execution and delivery of the International Underwriting Agreement and the Stock Borrowing Agreement on or around the Price Determination Date; and

(d) the obligations of the Underwriters under the Underwriting Agreements having become unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on or before Wednesday, 24 March 2021, or such later date or time as agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company, the Global Offering will not proceed and will lapse.

If the above conditions are not fulfilled or waived before the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published on the Stock Exchange's website at **www.hkexnews.hk** and our Company's website at **www.megaincayman.com** on the next Business Day following such lapse. In such event, all application monies will be returned, without interest, on the terms set out in the section headed "How to apply for Hong Kong Offer Shares" in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving bank(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance.

Share certificates for the Offer Shares are expected to be issued on or before Tuesday, 30 March 2021 but will only become valid certificates if (a) the Global Offering has become unconditional in all respects; and (b) neither of the Underwriting Agreements has been terminated in accordance with its terms, which is expected to be at 8:00 a.m. (Hong Kong time) on the Listing Date.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

HONG KONG PUBLIC OFFERING

Number of Shares initially offered

We are initially offering 12,500,000 Hong Kong Offer Shares at the Offer Price, representing 10% of the 125,000,000 Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the number of Offer Shares offered under the Hong Kong Public Offering will represent 2.5% of our enlarged issued share capital immediately after completion of the Capitalisation Issue and the Global Offering, assuming that the Over-allotment Option is not exercised at all.

Allocation

For allocation purposes only, the Hong Kong Offer Shares initially being offered for subscription under the Hong Kong Public Offering will be divided equally into two pools: pool A comprises 6,250,000 Hong Kong Offer Shares and pool B comprises 6,250,000 Hong Kong Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for Hong Kong Offer Shares with an aggregate subscription price (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee) of HK$5 million or less will fall into pool A and all valid applications that have been received for Hong Kong Offer Shares with an aggregate subscription price (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) of more than HK$5 million and up to the total value of pool B will fall into pool B. For the purpose of this paragraph only, the "subscription price" for the Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined).

Investors should be aware that applications in pool A and pool B may receive different allocation ratios. If Hong Kong Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants may only apply for Hong Kong Offer Shares from either pool A or pool B but not from both pools and can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B. In addition, multiple or suspected multiple applications within either pool or in both pools and applications for more than 6,250,000 Hong Kong Offer Shares will be rejected.

Reallocation and Clawback

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. In the event that the International Offer Shares are fully subscribed or oversubscribed under the International Offering:

(i) if the Hong Kong Offer Shares are undersubscribed, the Sole Global Coordinator has the authority to reallocate all or any of the unsubscribed Hong Kong Offer Shares from the Hong Kong Public Offering to the International Offering, in such proportion as the Sole Global Coordinator deems appropriate;

(ii) if the Hong Kong Public Offering is fully subscribed or over-subscribed with the number of Offer Shares validly applied for under the Hong Kong Public Offering representing less than 15 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the Sole Global Coordinator has the authority to reallocate Offer Shares to the Hong Kong Public Offering from the International Offering, and make available such reallocated Offer Shares as additional Hong Kong Offer Shares, provided that such reallocation shall comply with guidance letter HKEX-GL91-18 issued by the Stock Exchange;

(iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then 25,000,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, such that the total number of Offer Shares available for subscription under the Hong Kong Public Offering will be increased to 37,500,000 Offer Shares, representing 30% of the number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option);

(iv) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then 37,500,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, such that the total number of Offer Shares available for subscription under the Hong Kong Public Offering will be increased to 50,000,000 Offer Shares, representing 40% of the number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option); and

(v) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more of the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then 50,000,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, such that the total number of Offer Shares available for subscription under the Hong Kong Public Offering will be increased to 62,500,000 Offer Shares, representing 50% of the number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option).

In the event that the International Offer Shares are undersubscribed under the International Offering:

(i) if the Hong Kong Offer Shares are also undersubscribed, the Global Offering will not proceed unless the Underwriters would subscribe or procure subscriber(s) to subscribe for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements; and

(ii) if the Hong Kong Offer Shares are fully subscribed or oversubscribed, then the Sole Global Coordinator has the authority to re-allocate Offer Shares to the Hong Kong Public Offering from the International Offering and make available such reallocated Offer Shares as additional Hong Kong Offer Shares, provided that such re-allocation shall comply with guidance letter HKEX-GL91-18 issued by the Stock Exchange.

In particular, if (i) the International Offering is not fully subscribed and the Hong Kong Public Offering is fully subscribed or oversubscribed; or (ii) the International Offering is fully subscribed or oversubscribed and the Hong Kong Public Offering is fully subscribed or oversubscribed with the number of Offer Shares validly applied for under the Hong Kong Public Offering representing less than 15 times of the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, the Sole Global Coordinator has the authority to re-allocate Offer Shares originally included in the International Offering to the Hong Kong Public Offering in such number as it deems appropriate, provided that, in accordance with guidance letter HKEX-GL91-18 issued by the Stock Exchange, (i) the number of International Offer Shares re-allocated to the Hong Kong Public Offering should not exceed 12,500,000 Shares, representing 10% of the Offer Shares initially available under the Global Offering, increasing the total number of Offer Shares available under the Hong Kong Public Offering to 25,000,000 Shares, representing 20% of the Offer Shares initially available under the Global Offering; and (ii) the final Offer Price should be fixed at the bottom end of the indicative Offer Price range stated in this prospectus (i.e. HK$1.15 per Offer Share) or (if a Downward Offer Price Adjustment is made) the final Offer Price after making a Downward Offer Price Adjustment.

Applications

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant application(s) under the Hong Kong Public Offering and to ensure that he/she/it is excluded from any application for Hong Kong Offer Shares under the Hong Kong Public Offering.

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him/her/it that he/she/it and any person(s) for whose benefit he/she/it is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering, and such applicant's applications are liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated (including conditionally and/or provisionally) International Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK$1.35 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%. If the Offer Price, as finally determined on the Price Determination Date, is lower than HK$1.35, being the maximum Offer Price, we will refund the respective difference (including brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in the section headed "How to apply for Hong Kong Offer Shares" in this prospectus.

INTERNATIONAL OFFERING

Number of Shares initially offered

The number of Shares to be initially offered for subscription under the International Offering will be 112,500,000 Shares (subject to reallocation and the Over-allotment Option), representing 90% of the number of Offer Shares under the Global Offering and 22.5% of our enlarged issued share capital immediately upon completion of the Capitalisation Issue and the Global Offering assuming that the Over-allotment Option is not exercised at all.

Allocation

The International Offering will include selective marketing of the International Offer Shares to professional, institutional and other investors anticipated to have a sizable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Under the International Offering, the International Underwriters will conditionally place the International Offer Shares with professional, institutional and other investors expected to have a sizeable demand for such International Offer Shares in Hong Kong and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S. Allocation of International Offer Shares under the International Offering will be effected in accordance with the "book-building" process described in the paragraphs headed "Pricing and Allocation" in this section and based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell his/her/its Shares, after the Listing. Such allocation is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Offer Shares being offered under the Global Offering (including the additional Offer Shares which may be made available under the exercise of the Over-allotment Option).

No part of our Share is listed or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

OVER-ALLOTMENT OPTION

We expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Stabilising Manager at its sole and absolute discretion for itself and on behalf of the International Underwriters at any time within the period commencing on the Listing Date and ending on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. Under the Over-allotment Option, the Sole Global Coordinator will have the right to require us to allot and issue up to an aggregate of 18,750,000 additional Shares, representing 15% of the number of Offer Shares initially available under the Global Offering, at the Offer Price, for the purpose of covering over-allocations, if any, in the International Offering and/or to satisfy the obligations of the Sole Global Coordinator to return the borrowed securities under the Stock Borrowing Agreement. If the Over-allotment Option is exercised in full, the additional Shares will represent approximately 3.61% of our enlarged issued share capital following completion of the Capitalisation Issue and the Global Offering and exercise of the Over-allotment Option. These Shares will be issued at the Offer Price. An announcement will be made if the Over-allotment Option is exercised.

STOCK BORROWING AGREEMENT

For the purpose of facilitating settlements of over-allocations in connection with the International Offering, the Stabilising Manager may borrow up to 18,750,000 Shares from GMTL, equivalent to the maximum number of Shares to be issued on a full exercise of the Over-allotment Option, under the Stock Borrowing Agreement. Such stock borrowing arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that it complies with the requirements as set out in Rule 10.07(3) of the Listing Rules.

Stabilisation

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time, to minimise and, if possible, prevent any decline in the market price of the securities below the offer price. Such transactions may be carried out in all jurisdictions where it is permissible to do so, in each case, in compliance with all applicable laws, rules and regulations, including those of Hong Kong (such as the Securities and Futures (Price Stabilizing) Rules). In Hong Kong and certain other jurisdictions, activities aimed at reducing the market price are prohibited and the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilising Manager or any person acting for it may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to supporting the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period commencing on the Listing Date and ending on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. Any relevant market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilising Manager or any person acting for it, and may be discontinued at any time. Any such stabilising activity is required to be brought to an end on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering in any event. The number of Shares that may be over-allocated will not exceed the number of Shares that may be subscribed for under the Over-allotment Option, namely 18,750,000 Shares, which is 15% of the Offer Shares initially available under the Global Offering.

Stabilising actions permitted in Hong Kong under the Securities and Futures (Price Stabilizing) Rules include: (a) over-allocation for the purpose of preventing or minimising any reduction in the market price of the Shares; (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares; (c) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above; (d) purchasing, or agreeing to purchase, any of the Shares, or offering or attempting to do the same, for the sole purpose of preventing or minimising any reduction in the market price of the Shares; (e) selling or agreeing to sell any Shares acquired by the Stabilising Manager in the course of any action as described in (d) above in order to liquidate any position that has been established by such action held as a result; and (f) offering or attempting to do anything described in (b), (c), or (e) above.

The Stabilising Manager, or any person acting for it, may take all or any of the above stabilising actions in Hong Kong. Specifically, prospective applicants for and investors in the Shares should note that:

- the Stabilising Manager, or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares;

- there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, or any person acting for it, will maintain such a position;

- liquidation of any such long position by the Stabilising Manager, or any person acting for it, may have an adverse impact on the market price of the Shares;

- no stabilising action can be taken to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date, and end on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilising period is expected to expire on Thursday, 22 April 2021, and after this date, when no further stabilising action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;

- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by the taking of any stabilising action; and

- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares for the same.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilisation period.

In connection with the Global Offering, the Sole Global Coordinator may over-allocate up to and not more than an aggregate of 18,750,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option, which will be exercisable by the Sole Global Coordinator at its sole and absolute discretion for itself and on behalf of the International Underwriters, or by making purchases in the secondary market at prices that do not exceed the Offer Price or a combination of these means.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, 31 March 2021, it is expected that dealings in Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, 31 March 2021. The Shares will be traded in board lots of 2,000 Shares each. The stock code of our Company is 6939.

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on the Price Determination Date.

We expect that we will, on or about Tuesday, 23 March 2021, shortly after determination of the Offer Price, enter into the International Underwriting Agreement relating to the International Offering.

The terms of the Underwriting Agreements are summarised in the section headed "Underwriting" in this prospectus.

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for the Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** at **www.hkeipo.hk** or the IPO App; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address; and
- are outside the United States, and are not a US Person (as defined in Regulation S under the U.S. Securities Act).

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at its discretion and on any conditions it think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **HK eIPO White Form** for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering;
- an associate (as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.hkeipo.hk** or the IPO App.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 18 March 2021 until 12:00 noon on Tuesday, 23 March 2021 from:

(i) the following office of the Sole Global Coordinator:

Sole Global Coordinator	Address
CMBC Securities Company Limited	45/F, One Exchange Square 8 Connaught Place Central Hong Kong

(ii) any of the following branches of DBS Bank (Hong Kong) Limited:

District	Branch Name	Address
Hong Kong Island	Head Office	G/F, The Center 99 Queen's Road Central Central
	North Point Branch	G/F, 391 King's Road North Point
Kowloon	SME Centre – Mongkok	2/F, Wofoo Commercial Building 574-576 Nathan Road Mongkok
New Territories	Yuen Long Branch	G/F, 1-5 Tai Tong Road Yuen Long

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 18 March 2021 until 12:00 noon on Tuesday, 23 March 2021 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "TING HONG NOMINEES LIMITED — MEGAIN HOLDING (CAYMAN) COMPANY LTD PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Thursday, 18 March 2021 — 9:00 a.m. to 4:00 p.m.
Friday, 19 March 2021 — 9:00 a.m. to 4:00 p.m
Saturday, 20 March 2021 — 9:00 a.m. to 12:00 noon
Monday, 22 March 2021 — 9:00 a.m. to 4:00 p.m.
Tuesday, 23 March 2021 — 9:00 a.m. to 12:00 noon

To safeguard the health and safety of its employees and customers in light of the rapidly changing novel coronavirus situation in Hong Kong, the receiving bank referred to above may adjust its branch services (including branch operation hours) from time to time. For the latest arrangement on branch services, please refer to the DBS website at https://www.dbs.com.hk/personal/default.page.

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, 23 March 2021, the last application day or such later time as described in the paragraph "10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form**, among other things, you:

(i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (or its agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by our Articles of Association;

(ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance, the Companies Act and our Articles of Association;

(iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;

(vi) agree that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;

(viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number of such Shares allocated to you under the application;

(xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or our agents to send any Share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the Share certificate(s) and/or refund cheque(s) in person;

(xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) understand that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in "2. Who can apply" in this section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.hkeipo.hk** or the IPO App.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** service provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the HK eIPO White Form

You may submit your application to the **HK eIPO White Form** service at **www.hkeipo.hk** or the IPO App (24 hours daily, except on the last application day) from 9:00 a.m. on Thursday, 18 March 2021 until 11:30 a.m. on Tuesday, 23 March 2021 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, 23 March 2021 or such later time under the "10. Effect of bad weather and/or Extreme Conditions on the opening of the applications lists" in this section.

No Multiple Applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instructions** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **HK eIPO White Form** service more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (**https://ip.ccass.com**) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place
Central
Hong Kong

and complete an input request form.

You can also collect a copy of this prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our Hong Kong Branch Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Hong Kong Offer Shares applied for or any lesser number of such Shares allocated;

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

- (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;

- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as an agent;

- confirm that you understand that our Company, our Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;

- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- agree that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Global Coordinator, the Underwriters and/or their respective advisers and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for Hong Kong Offer Shares;

- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and our Articles of Association;

- agree with our Company, for itself and for the benefit of each shareholder of our Company and each director, manager and other senior officer of our Company (and so that our Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each shareholder of our Company and each director, manager and other senior officer of our Company, with each CCASS Participant giving **electronic application instructions**):

  (a) to refer all differences and claims arising from the Articles of Association of our Company or any rights or obligations conferred or imposed by the Companies Ordinance or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association of our Company;

  (b) that any award made in such arbitration shall be final and conclusive; and

  (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;

- agree with our Company (for our Company itself and for the benefit of each shareholder of our Company) that Shares in our Company are freely transferable by their holders;

- authorise our Company to enter into a contract on its behalf with each director and officer of our Company whereby each such director and officer undertakers to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 2,000 Hong Kong Offer Shares. Instructions for more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:[(1)]

Thursday, 18 March 2021	**—**	**9:00 a.m. to 8:30 p.m**
Friday, 19 March 2021	**—**	**8:00 a.m. to 8:30 p.m**
Monday, 22 March 2021	**—**	**8:00 a.m. to 8:30 p.m.**
Tuesday, 23 March 2021	**—**	**8:00 a.m. to 12:00 noon**

(1) These times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, 18 March 2021 until 12:00 noon on Tuesday, 23 March 2021 (24 hours daily, except on Tuesday, 23 March 2021, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Tuesday, 23 March 2021 the last application day or such later time as described in the paragraph headed "10. Effect of bad weather and/or Extreme Conditions on the opening of the application lists" in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section in the Application Form headed "Personal Data" applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application**

instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Tuesday, 23 March 2021.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form**, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Hong Kong Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee in full upon application for the Hong Kong Offer Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** in respect of a minimum of 2,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.hkeipo.hk** or the IPO App.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee will be paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please refer to the section headed "Structure of the Global Offering — Pricing and allocation" in this prospectus.

10. EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above;
- a "black" rainstorm warning signal; or
- Extreme Conditions

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 23 March 2021. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings and/or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Tuesday, 23 March 2021 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning and/or Extreme Conditions signal in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable", an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Irrespective of whether a Downward Offer Price Adjustment is made, our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Tuesday, 30 March 2021 on the Stock Exchange's website at **www.hkexnews.hk** and our Company's website at **www.megaincayman.com**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Stock Exchange's website at **www.hkexnews.hk** and our Company's website at **www.megaincayman.com** by no later than 9:00 a.m. on Tuesday, 30 March 2021;

- from the designated results of allocations website at **www.tricor.com.hk/ipo/result** (Alternatively **www.hkeipo.hk/IPOResult**) or "Allotment Result" function in the IPO App with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Tuesday, 30 March 2021 to 12:00 midnight on Monday, 5 April 2021;

- by telephone enquiry line by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Tuesday, 30 March 2021 to Wednesday, 7 April 2021 on a business day (excluding Saturday, Sunday and public holidays);

- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 30 March 2021 to Thursday, 1 April 2021 at all the receiving bank branches and sub-branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedures to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or our agents exercise our discretion to reject your application:

Our Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Hong Kong Offer Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;

- your **electronic application instructions** through the **HK eIPO White Form** are not completed in accordance with the instructions, terms and conditions on the designated website;

- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;

- the Underwriting Agreements do not become unconditional or are terminated;

- our Company, the Sole Sponsor or the Sole Global Coordinator believe that by accepting your application, we or they would violate applicable securities or other laws, rules or regulations; or

- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK$1.35 per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering — Hong Kong Public Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Tuesday, 30 March 2021.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and

- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Tuesday, 30 March 2021. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, 31 March 2021 provided that the Global Offering has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Branch Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 30 March 2021 or such other date as notified by us on the Stock Exchange's website at **www.hkexnews.hk** and our Company's website at **www.megaincayman.com**.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form Tuesday, 30 March 2021 by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above for collection of refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Tuesday, 30 March 2021, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, 30 March 2021, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- **If you apply through a designated CCASS participant (other than a CCASS investor participant)**

For Hong Kong Public Offering shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering shares allotted to you with that CCASS participant.

- **If you are applying as a CCASS investor participant**

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 30 March 2021 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the HK eIPO White Form

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Branch Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 30 March 2021 or such other date as notified by our Company as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Tuesday, 30 March 2021 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, 30 March 2021, or, on any other date determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Tuesday, 30 March 2021. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 30 March 2021 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 30 March 2021. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 30 March 2021.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION

TO THE DIRECTORS OF MEGAIN HOLDING (CAYMAN) CO., LTD. AND CMBC INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial information of MEGAIN Holding (Cayman) Co., Ltd. (the "Company") and its subsidiaries (together the "Group") set out on pages I-4 to I-56, which comprises the consolidated statements of financial position as at 31 December 2017, 2018 and 2019 and 31 October 2020 and the statements of financial position of the Company as at 31 December 2017, 2018 and 2019 and 31 October 2020, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the three years ended 31 December 2017, 2018 and 2019 and the ten months ended 31 October 2020 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-56 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated 18 March 2021 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 2 and 3.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 2 and 3.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Company's financial position as at 31 December 2017, 2018 and 2019 and 31 October 2020, the Group's financial position as at 31 December 2017, 2018 and 2019 and 31 October 2020 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 2 and 3.1 to the Historical Financial Information.

Review of stub period comparative historical financial information

We have reviewed the stub period comparative historical financial information of the Group which comprises 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 ten months ended 31 October 2019 and other explanatory information (together the "Stub Period Comparative Historical Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Historical Financial Information in accordance with the basis of preparation and presentation set out in Notes 2 and 3.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Historical Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Historical Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Notes 2 and 3.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 14 to the Historical Financial Information which states that dividends have been paid by the Company in respect of the Track Record Period.

BDO Limited
Certified Public Accountants

Amy, Yau Shuk Yuen
Practising Certificate Number P06095
Hong Kong, 18 March 2021

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Track Record Period (also referred to as the "Relevant Periods"), on which the Historical Financial Information is based, were audited by BDO Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the ''Underlying Financial Statements'').

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Consolidated Statements of Profit or Loss and Other Comprehensive Income

	Notes	Year ended 31 December			Ten months ended 31 October	
		2017	2018	2019	2019	2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Revenue	7	212,775	246,083	157,625	86,290	133,570
Cost of sales		(118,432)	(130,080)	(69,515)	(49,134)	(60,524)
Gross profit		94,343	116,003	88,110	37,156	73,046
Other net income	8	8,259	3,923	3,803	2,590	3,604
Research and development expenses		(7,181)	(7,476)	(9,276)	(7,134)	(11,040)
Selling and distribution expenses		(4,777)	(8,397)	(7,771)	(6,905)	(4,766)
Administrative expenses		(11,966)	(18,469)	(18,850)	(14,745)	(14,760)
Listing expenses		–	(7,261)	(2,636)	(2,508)	(14,519)
Finance costs	9	(133)	(185)	(151)	(130)	(99)
Profit before income tax expense	10	78,545	78,138	53,229	8,324	31,466
Income tax expense	12	(15,410)	(15,518)	(11,916)	(1,302)	(5,830)
Profit for the year/period		63,135	62,620	41,313	7,022	25,636
Other comprehensive income, net of tax						
Item that may be reclassified subsequently to profit or loss:						
Exchange difference on translation of operation outside the People's Republic of China ("PRC")		(1,644)	1,851	462	1,114	(1,188)
Other comprehensive income for the year/period	13	(1,644)	1,851	462	1,114	(1,188)
Total comprehensive income for the year/period		61,491	64,471	41,775	8,136	24,448
Profit for the year/period attributable to:						
Owners of the Company		63,448	62,681	41,313	7,022	25,636
Non-controlling interests		(313)	(61)	–	–	–
		63,135	62,620	41,313	7,022	25,636
Total comprehensive income for the year/period attributable to:						
Owners of the Company		61,804	64,532	41,775	8,136	24,448
Non-controlling interests		(313)	(61)	–	–	–
		61,491	64,471	41,775	8,136	24,448

Consolidated Statements of Financial Position

	Notes	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000	As at 31 December 2019 RMB'000	As at 31 October 2020 RMB'000
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	*16*	5,499	8,309	7,145	6,057
Intangible assets	*17*	638	1,379	4,520	5,647
Deferred tax assets	*28*	341	887	932	737
		6,478	10,575	12,597	12,441
Current assets					
Inventories	*18*	22,360	25,222	26,556	12,001
Trade and bills receivables	*19*	78,378	87,364	86,146	48,513
Deposits, prepayments and other receivables	*20*	3,277	5,406	8,558	11,148
Amounts due from immediate shareholders	*26*	18,320	–	–	–
Income tax recoverable		–	74	–	–
Cash and cash equivalents	*21*	38,832	82,800	84,088	112,795
		161,167	200,866	205,348	184,457
Current liabilities					
Trade payables	*22*	25,261	26,871	14,065	8,465
Accruals and other payables	*24*	7,935	13,630	11,804	12,104
Lease liabilities	*25*	730	1,198	1,209	1,502
Contract liabilities	*23*	91	491	521	250
Provisions	*27*	1,261	2,888	2,105	1,576
Income tax payable		4,659	6,448	6,746	1,737
		39,937	51,526	36,450	25,634
Net current assets		121,230	149,340	168,898	158,823
Total assets less current liabilities		127,708	159,915	181,495	171,264
Non-current liabilities					
Lease liabilities	*25*	2,045	2,517	1,309	345
Deferred tax liabilities	*28*	3,555	2,581	4,038	–
		5,600	5,098	5,347	345
Net assets		122,108	154,817	176,148	170,919

	Notes	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000	As at 31 December 2019 RMB'000	As at 31 October 2020 RMB'000
EQUITY					
Capital and reserves					
Capital	*29*	66	66	66	66
Reserves	*30*	122,444	155,214	176,082	170,853
Total equity attributable to owners of the Company		122,510	155,280	176,148	170,919
Non-controlling interests		(402)	(463)	–	–
Total equity		122,108	154,817	176,148	170,919

Statements of Financial Position of the Company

	Notes	As at 31 December 2017	2018	2019	As at 31 October 2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES					
Non-current assets					
Investment in a subsidiary		36,008	36,008	36,008	36,008
Current assets					
Amount due from a shareholder		65	–	–	–
Current liabilities					
Amount due to a subsidiary*		–	4,897	12,127	14,548
Net current assets/(liabilities)		65	(4,897)	(12,127)	(14,548)
Net assets		36,073	31,111	23,881	21,460
EQUITY					
Capital and reserves					
Capital	*29*	66	66	66	66
Reserves	*30*	36,007	31,045	23,815	21,394
Total equity		36,073	31,111	23,881	21,460

* The amount due to a subsidiary is non-trade related, and the balance as at each year/period end are unsecured, interest free and repayable on demand .

Consolidated Statements of Changes in Equity

		Reserves							
	Capital	Share premium*	Other reserves*	Statutory reserves*	Exchange reserves*	Retained profits*	Total reserves	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Note 30(a))	*(Note 30(b))*	*(Note 30(c))*	*(Note 30(d))*				
At 1 January 2017	66	34,287	(1,540)	5,706	1,750	49,674	89,877	(89)	89,854
Profit for the year	–	–	–	–	–	63,448	63,448	(313)	63,135
Other comprehensive income for the year	–	–	–	–	(1,644)	–	(1,644)	–	(1,644)
Total comprehensive income for the year	–	–	–	–	(1,644)	63,448	61,804	(313)	61,491
Appropriation to statutory reserves	–	–	–	6,683	–	(6,683)	–	–	–
Dividend approved in respect of the previous year	–	–	–	–	–	(29,237)	(29,237)	–	(29,237)
At 31 December 2017 and 1 January 2018	**66**	**34,287**	**(1,540)**	**12,389**	**106**	**77,202**	**122,444**	**(402)**	**122,108**
Profit for the year	–	–	–	–	–	62,681	62,681	(61)	62,620
Other comprehensive income for the year	–	–	–	–	1,851	–	1,851	–	1,851
Total comprehensive income for the year	–	–	–	–	1,851	62,681	64,532	(61)	64,471
Appropriation to statutory reserves	–	–	–	8,298	–	(8,298)	–	–	–
Dividend approved in respect of the previous year	–	–	–	–	–	(31,762)	(31,762)	–	(31,762)
At 31 December 2018	**66**	**34,287**	**(1,540)**	**20,687**	**1,957**	**99,823**	**155,214**	**(463)**	**154,817**

		Reserves							
	Capital	Share premium*	Other reserves*	Statutory reserves*	Exchange reserves*	Retained profits*	Total reserves	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Note 30(a))	*(Note 30(b))*	*(Note 30(c))*	*(Note 30(d))*				
At 1 January 2019	66	34,287	(1,540)	20,687	1,957	99,823	155,214	(463)	154,817
Profit for the year	–	–	–	–	–	41,313	41,313	–	41,313
Other comprehensive income for the year	–	–	–	–	462	–	462	–	462
Total comprehensive income for the year	–	–	–	–	462	41,313	41,775	–	41,775
Appropriation to statutory reserves	–	–	–	4,944	–	(4,944)	–	–	–
Impact on deregistration of a subsidiary	–	–	–	–	–	–	–	463	463
Transferred from statutory reserves	–	–	10,000	(10,000)	–	–	–	–	–
Dividend approved in respect of the previous year	–	–	–	–	–	(20,907)	(20,907)	–	(20,907)
At 31 December 2019 and 1 January 2020	**66**	**34,287**	**8,460**	**15,631**	**2,419**	**115,285**	**176,082**	**–**	**176,148**
Profit for the period	–	–	–	–	–	25,636	25,636	–	25,636
Other comprehensive income for the period	–	–	–	–	(1,188)	–	(1,188)	–	(1,188)
Total comprehensive income for the period	–	–	–	–	(1,188)	25,636	24,448	–	24,448
Appropriation to statutory reserves	–	–	–	3,201	–	(3,201)	–	–	–
Dividend approved in respect of the previous year	–	–	–	–	–	(29,677)	(29,677)	–	(29,677)
At 31 October 2020	**66**	**34,287**	**8,460**	**18,832**	**1,231**	**108,043**	**170,853**	**–**	**170,919**

	Capital	Share premium*	Other reserves*	Statutory reserves*	Exchange reserves*	Retained profits*	Total reserves	Non-controlling interests	Total equity
		Reserves							
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Note 30(a))	*(Note 30(b))*	*(Note 30(c))*	*(Note 30(d))*				
At 1 January 2019	66	34,287	(1,540)	20,687	1,957	99,823	155,214	(463)	154,817
Profit for the period	–	–	–	–	–	7,022	7,022	–	7,022
Other comprehensive income for the period	–	–	–	–	1,114	–	1,114	–	1,114
Total comprehensive income for the period	–	–	–	–	1,114	7,022	8,136	–	8,136
Impact on deregistration of a subsidiary	–	–	–	–	–	–	–	463	463
Transferred from statutory reserves	–	–	10,000	(10,000)	–	–	–	–	–
Appropriation to statutory reserves	–	–	–	1,269	–	(1,269)	–	–	–
Dividend approved in respect of the previous year	–	–	–	–	–	(20,907)	(20,907)	–	(20,907)
At 31 October 2019 (Unaudited)	**66**	**34,287**	**8,460**	**11,956**	**3,071**	**84,669**	**142,443**	**–**	**142,509**

* The total of these equity accounts as at the end of each of the Track Record Period represents "Reserves" in the respective consolidated statements of financial position.

Consolidated Statements of Cash Flows

	Year ended 31 December			Ten months ended 31 October	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Cash flows from operating activities					
Profit before income tax expense	78,545	78,138	53,229	8,324	31,466
Adjustments for:					
Amortisation of intangible assets	127	188	484	361	673
Bank interest income	(66)	(44)	(409)	(109)	(1,463)
Bad debt expenses	–	–	–	–	764
Depreciation of property, plant and equipment	433	1,193	1,876	1,506	1,835
Depreciation of right-of-use assets	691	1,175	1,262	1,077	1,180
Interest expenses	133	185	151	130	99
Impairment of inventories	–	–	421	–	(37)
Loss on deregistration of a subsidiary	–	–	463	463	–
(Reversal of)/provision for impairment of trade receivables	(2,282)	192	–	–	440
Loss on disposal of property, plant and equipment	–	–	–	–	91
Operating profit before working capital changes	77,581	81,027	57,477	11,752	35,048
(Increase)/decrease in inventories	(7,298)	(2,862)	(1,755)	(3,793)	14,592
(Increase)/decrease in trade and bills receivables	(11,085)	(9,178)	1,218	39,411	36,429
Increase in deposits, prepayments and other receivables	(2,444)	(2,129)	(3,152)	(8,569)	(4,005)
Decrease in amount due from a related company	377	–	–	–	–
(Decrease)/increase in trade payables	(645)	1,610	(12,806)	(21,044)	(5,600)
(Decrease)/increase in accruals and other payables	(128)	5,695	(1,826)	(453)	300
(Decrease)/increase in contract liabilities	(1,069)	400	30	(491)	(271)
Decrease in amounts due from immediate shareholders	9,817	18,320	–	–	–
Decrease in amount due to a related company	(787)	–	–	–	–
Increase/(decrease) in provisions	1,261	1,627	(783)	(783)	(529)
Cash generated from operations	65,580	94,510	38,403	16,030	75,964
Income tax paid	(16,055)	(11,857)	(7,587)	(7,180)	(10,644)
Withholding tax paid	(3,319)	(3,621)	(2,591)	(2,581)	(4,038)
Net cash generated from operating activities	46,206	79,032	28,225	6,269	61,282
Cash flows from investing activities					
Purchase of property, plant and equipment	(2,027)	(2,932)	(1,964)	(1,526)	(1,518)
Purchase of intangible assets	(292)	(919)	(3,616)	(3,317)	(417)
Interest received	66	44	409	109	1,462
Net cash used in investing activities	(2,253)	(3,807)	(5,171)	(4,734)	(473)

	Year ended 31 December			Ten months ended 31 October	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Cash flows from financing activities					
Decrease in amount due to an immediate shareholder	(17,055)	–	–	–	–
Dividend paid	(29,237)	(31,762)	(20,907)	(20,907)	(29,677)
Payments of lease liabilities	(534)	(1,466)	(1,348)	(1,132)	(1,294)
Net cash used in financing activities	(46,826)	(33,228)	(22,255)	(22,039)	(30,971)
Net (decrease)/increase in cash and cash equivalents	(2,873)	41,997	799	(20,504)	29,838
Cash and cash equivalents at beginning of the year/period	43,613	38,832	82,800	82,800	84,088
Effect of foreign exchange rate changes	(1,908)	1,971	489	1,107	(1,131)
Cash and cash equivalents at end of the year/period	38,832	82,800	84,088	63,403	112,795

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 22 June 2016 as an exempted company with limited liability. The address of its registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of its subsidiaries is the People's Republic of China (the "PRC").

The Company is an investment holding company and the Group is principally engaged in the provision of research, design, development and sales of compatible cartridge chips (the "Listing Business").

Particulars of the Company's subsidiaries at the date of this report are as follows:

Name of subsidiary	Date and place of incorporation/ establishment	Attributable equity interests of the Group					Issued and fully paid share capital/ registered capital	Principal activities and place of business
		At 31 December			At 31 October	At date of this report		
		2017	2018	2019	2020			
Megain Group (HK) Limited ("Megain Group (HK)") *(Notes (c) & (e))*	Incorporated on 22 July 2015 in Hong Kong	100%	100%	100%	100%	100%	Hong Kong dollars ("HKD") 40,425,000	Trading of compatible cartridge chips outside of the PRC and investment holding
Megain Holding (BVI) Pte, Limited ("Megain BVI") *(Notes (d) & (f))*	Incorporated on 30 July 2015 in the British Virgin Islands ("BVI")	100%	100%	100%	100%	100%	United States dollars ("USD") 50,000	Research, design, development and sales of compatible cartridge chips in Taiwan
Megain International (HK) Limited ("Megain Int'l") *(Notes (d) & (e))*	Incorporated on 14 July 2016 in Hong Kong	100%	100%	100%	100%	100%	HKD1,000,000	Investment holding
珠海美佳音科技有限公司 (Zhuhai Megain Technology Co., Ltd.) ("Zhuhai Megain") *(Notes (a), (d), (g) & (h))*	Established on 13 September 2010 in the PRC	100%	100%	100%	100%	100%	RMB20,000,000	Research, design, development, and sale of compatible cartridge chips
上海曜咸信息科技有限公司 (Shanghai Yaoxian Information Technology Company Limited) ("Shanghai Yaoxian") *(Notes (a), (d), (g), (i) & (j))*	Established on 23 November 2015 in the PRC	70%	70%	N/A	N/A	N/A	RMB1,000,000	Research and development of compatible cartridge chips

Notes:

(a) The English names of all subsidiaries established in the PRC are translated for identification purpose only.

(b) All companies now comprising the Group have adopted 31 December as their financial year end date.

(c) The equity interest is directly held by the Company at the date of this report.

(d) The equity interests are indirectly held by the Company at the date of this report.

(e) The statutory financial statements of Megain Group (HK) and Megain Int'l for the years ended 31 December 2017, 2018 and 2019 were prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") and audited by BDO Limited.

(f) The statutory financial statements of Megain BVI for the years ended 31 December 2017, 2018 and 2019 were prepared in accordance with the International Financial Reporting Standards ("IFRSs") and audited by Deloitte & Touche, Taiwan (勤業眾信聯合會計師事務所).

(g) The statutory financial statements of Zhuhai Megain and Shanghai Yaoxian for the years ended 31 December 2017, 2018 and 2019 were prepared in accordance with the Accounting Standards for Business Enterprises applicable to the Enterprises in the PRC and audited by BDO Shu Lun Pan Certificate Public Accountants LLP (立信會計師事務所), certified public accountants registered in the PRC.

(h) The entity was established in the PRC in the form of wholly foreign-owned enterprise.

(i) The entity was established in the PRC in the form of domestic limited liability company.

(j) The entity was deregistered on 6 March 2019.

For the purpose of the Historical Financial Information of this report, the directors of the Company have prepared the consolidated financial statements of the Group for the Track Record Period (the "Underlying Financial Statements") in accordance with the basis of presentation set out in Note 2 below and accounting policies set out in Note 3 below which conform with HKFRSs issued by the HKICPA.

The Historical Financial Information has been prepared from the Underlying Financial Statements, with no adjustments made thereon.

2. BASIS OF PRESENTATION

During the Track Record Period, the Listing Business was conducted through Megain Group (HK), Megain Int'l, Megain BVI, Zhuhai Megain and Shanghai Yaoxian. Megain Group (HK), Megain Int'l, Megain BVI, Zhuhai Megain and Shanghai Yaoxian were controlled by Mr. Cheng Hsien-Wei and Mr. Lee Kuo-Chang (collectively the "Shareholders").

The Company was incorporated in the Cayman Islands on 22 June 2016 as an exempted company with limited liability. The formalisation of the structure of the Group was substantially completed in 2016 ("Reorganisation"), as detailed in the section headed "History, Development and Corporate Structure" in the Prospectus, the Company became the holding company of the companies now comprising the Group then throughout the Track Record Period. Immediately prior to the Reorganisation, the Listing Business was owned and controlled by the Shareholders. The Company incorporated during the Reorganisation has not carried out any business since its incorporation. The Company is inserted as holding company of Megain Group (HK), Megain Int'l, Megain BVI, Zhuhai Megain and Shanghai Yaoxian, has no substance, has not been involved in any business and does not meet the definition of a business. The Reorganisation is merely a reorganisation of the Listing Business with no change in economic substance in terms of ownership and control of the Group. Accordingly, for the purpose of this report, the Historical Financial Information for the years ended 31 December 2017, 2018 and 2019 and the ten months ended 31 October 2020 has been prepared based on a consolidated basis as a continuing of the business of the Group by using the principles of merger accounting.

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the Track Record Period include the results and cash flows of all companies now comprising the Group as if the current structure had been in existence throughout the Track Record Period, or since their respective dates of acquisition or incorporation/establishment, whichever is the shorter period. The consolidated statements of financial position of the Group as at 31 December 2017, 2018 and 2019 and 31 October 2020 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values, as if the current structure had been in existence at these dates or since their respective dates of acquisition or incorporation/establishment, whichever is the shorter period. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in consolidation. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with the basis of presentation set out in Note 2 and the accounting policies set out below, which conform the HKFRSs (which collective term includes HKFRSs, Hong Kong Accounting Standards and Interpretations) issued by the HKICPA. The Historical Financial Information also complies with the applicable disclosure requirement of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

The HKICPA has issued a number of new or revised HKFRSs which are relevant to the Group and became effective during the Track Record Period. For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has adopted all relevant new or revised HKFRSs effective for annual period beginning on 1 January 2020 consistently throughout the Track Record Period.

Amendments to HKFRS 16: COVID-19 – Related Rent Concessions came to effective for the accounting period beginning on 1 June 2020 and earlier application is permitted. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for the rent concession granted by the lessor as a result of the COVID-19 pandemic during the Track Record Period.

At the date of this report, certain new or revised HKFRSs have been issued by the HKICPA but are not yet effective and have not been early adopted by the Group. Details of which are set out in Note 4.

3.2 Basis of measurement and going concern assumption

The Historical Financial Information has been prepared on the historical cost basis.

It should be noted that accounting estimates and assumptions are used in the preparation of the Historical Financial Information. Although these estimates are based on management's best knowledge and judgement of current events and other factors, actual results may ultimately different from those estimates. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 5.

3.3 Functional and presentation currency

The functional currency of the Company is USD, while the Historical Financial Information is presented in RMB. All values are rounded to the nearest thousand (RMB'000) except when otherwise indicated. The Historical Financial Information is presented in RMB as in the opinion of the directors of the Company, it presents more relevant information to the management who monitors the performance and financial position of the Group based on RMB.

3.4 Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests.

Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3.5 Business combination under common control

The Historical Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or business first came under common control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing carrying values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets and liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

3.6 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.

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.

3.7 Property, plant and equipment

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

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 costs, such as 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 costs net of expected residual values over their estimated useful lives on straight-line method. The expected residual value, useful lives and depreciation method are reviewed, and adjusted if appropriate, at the end of each of the Track Record Period. The useful lives are as follows:

Leasehold improvements	1 to 5 years
Machineries and equipment	2 to 5 years
Motor vehicles	5 to 7 years

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.

Right-of-use assets included the rights to use certain properties under leases which are measured at cost. The initial costs of right-of-use assets include the following:

– the amount of the initial measurement of lease liability;

– any lease payments made at or before the commencement date;

– any initial direct costs, and

– restoration costs.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

3.8 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.

Software and patents	5 to 10 years

3.9 Financial instruments

(a) 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 or loss, 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.

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. The Group's financial assets are classified as financial assets at amortised cost, including trade receivables, deposits and other receivables, amounts due from immediate shareholders and cash and cash equivalents.

They 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 rate 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.

(b) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss ("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.

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 has elected to measure loss allowances for trade and bills receivables using HKFRS 9 simplified approach and has calculated ECLs based on 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 financial assets at amortised cost, 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 financial asset to be credit-impaired 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.

(c) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss 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 amortised cost

Financial liabilities at amortised cost including trade payables and accruals and other payables 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.

(d) 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 Track Record 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.

(e) 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.

3.10 Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand as well as short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

3.11 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 weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

3.12 Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or services may be transferred over time or at a point in time. Control of the goods or services is transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced; and

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or services.

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

(i) Sale of compatible cartridge chips

Revenue from sales of compatible cartridge chips is recognised at a point in time upon delivery of the goods to the customer.

The Group permit the customer to return an item. Returned goods are exchanged only for new goods – i.e. no cash refunds are offered. The revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

Therefore, the amount of revenue recognised is adjusted for expected returns, which are estimated based on the historical data of products. In these circumstances, a refund liability and a right to recover returned goods asset are recognised. The right to recover returned goods asset is measured at the former carrying amount of the inventory less any expected costs to recover goods. The refund liability is included in other payables and the right to recover returned goods is included in inventory. The Group reviews its estimate of expected returns at each reporting date and updates the amounts of the asset and liability accordingly.

Contract assets and liabilities

A contract asset represents the Group's right to consideration in exchange for services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

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.

(ii) Services income

The Group provides technical and testing services based on contracts entered with customers. Under the terms of the contracts, the customers simultaneously receive and consume the benefits as and when the Group provided these services. Accordingly, the Group recognises revenue from technical and testing services overtime by using output method. The Group recognises the technical and testing services income as other income in the consolidated statements of profit or loss and other comprehensive income.

(iii) Interest income

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

3.13 Leases

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 short-term leases with a lease term of twelve months or less. 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 should be 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. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, 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. For right-of-use asset that meets the definition of an investment property, they are carried at fair value and for right-of-use asset that meets the definition of a leasehold land and buildings held for own use, they are carried at fair value.

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.

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 modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

3.14 Research and development costs

All research costs are charged to profit or loss as incurred.

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

3.15 Foreign currency translation

Transactions entered into by the 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 the Track Record 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.

The functional currencies of the Company and certain subsidiaries are currencies other than RMB. The assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the end of each of the Track Record Period, and their income and expense items are translated into RMB at the weighted average exchange rates for the period. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of an operation with functional currency other than RMB, the cumulative exchange differences recognised in "exchange reserves" relating to that particular operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

3.16 Income tax

Income tax comprises 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 the Track Record 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 recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all 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 expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of the Track Record Period.

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.

3.17 Employee benefits

(a) Defined contribution retirement plan

Pursuant to the relevant regulations of the PRC government, the Group participates in a central pension scheme operated by the local municipal government (the "Scheme"), whereby the subsidiaries of the Company in the PRC is required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries of the Company. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme. Contributions under the Scheme are charged to profit or loss as incurred.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") for Hong Kong subsidiaries, under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the company in an independently administered fund. The Hong Kong subsidiaries' employer contributions vest fully with the employees when contributed into the MPF Scheme.

(b) 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 period when the employees render the related service.

3.18 Impairment of non-financial assets

At the end of each of the Track Record 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;
- investment in a subsidiary; and
- intangible assets

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognised as an expense immediately for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's or cash-generating unit's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised. A reversal of such impairment is credited to profit or loss in the period in which it arises.

3.19 Government grant

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are deducted in reporting the related expense or recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted the grant in calculating the carrying amount of the asset that is recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense. An unconditional government grant is recognised in profit or loss as other revenue when the grant becomes receivable.

3.20 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product lines.

For the purposes of assessing segment performance and allocating resources between segments, the directors assess segment profit or loss by gross profit or loss as measured in HKFRS financial statements.

For the purpose of presenting geographical location of the Group's revenue from external customers and the Group's non-current assets, country of domicile is determined by reference to the country where the majority of the Company's subsidiaries operate.

3.21 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, which will probably result in an outflow of economic benefits that can be reasonably estimated.

A provision for assurance-type warranties is recognised when the underlying products are sold, based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

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 benefit 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.

3.22 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 applies:

(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 Company'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.

4. **NEW OR REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE**

The following new standards, interpretations and amendments, which are not yet effective and have not been adopted early in these financial statements, will or may have an effect on the Group's future financial statements:

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[2]
Amendments to HKFRS Standards	Annual Improvements to HKFRSs 2018-2020 Cycle[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[4]

1 Effective for annual periods beginning on or after 1 January 2021

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

3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred / removed. Early application of the amendments of the amendments continue to be permitted.

4 Effective for annual periods beginning on or after 1 January 2023

The directors do not anticipate that the application of the new and revised HKFRSs will have material impact on the Group's financial statements and/or the disclosures to the Group's financial statements.

5. **CRITICAL ACCOUNTING ESTIMATES 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. The key sources of estimation uncertainty that have a significant risk of resulting a material judgement to the carrying amounts of assets and liabilities within next financial year are as follows:

(i) Revenue recognition – Estimating variable consideration for returns

The Group estimates variable considerations to be included in the transaction price for the sale of compatible cartridge chips with rights of return.

The Group has developed a statistical model for forecasting sales returns. The model uses the historical return data of product to come up with expected return percentages. During the years ended 31 December 2017, 2018 and 2019 and the ten months ended 31 October 2020, the expected return rates are 0.2%, 1.8%, 3.1% and 1.3% respectively. These percentages are applied to determine the expected value of the variable consideration. The provisions of the expected return as at 31 December 2017, 2018 and 2019 and 31 October 2020 are RMB464,000, RMB3,871,000, RMB4,657,000 and RMB2,560,000 respectively. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by the Group.

The Group updates its assessment of expected returns annually and the refund liabilities are adjusted accordingly. Estimates of expected returns are sensitive to changes in circumstances and the Group's past experience regarding returns entitlements may not be representative of customers' actual returns entitlements in the future.

(ii) Depreciation and amortisation

The Group depreciates the property, plant and equipment and amortises intangible assets in accordance with the accounting policies stated in Notes 3.7 and 3.8 respectively. The estimated useful lives reflect the directors' estimates of the periods that the Group intends to derive future economic benefits from the use of these assets. The management reassesses the estimated useful lives at the end of each of the Track Record Period.

(iii) Impairment of receivables

The impairment of trade and other receivables are based on assumptions about risk of default and expected credit loss rates. The Group adopts judgement in making these assumption and selecting inputs for computing such impairment loss, broadly based on the available customers' historical data, existing market conditions including forward looking estimates at end of the Track Record Period.

(iv) Estimates of current tax and deferred tax

Significant judgement is required in determining the amount of the provision for tax and the timing of payment of the related tax. Where the final tax outcomes are different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination is made.

(v) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. Management reassesses these estimate at the end of each of the Track Record Period.

(vi) Estimated incremental borrowing rate in the lease

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

6. SEGMENT INFORMATION

The executive directors of the Company have been identified as the chief operating decision-makers of the Group who review the Group's internal reporting in order to assess performance of the Group on a regular basis and allocate resources.

The Group is principally engaged in the provision of research, design, development and sales of compatible cartridge chips. The chief operating decision-maker assesses performance of the Listing Business based on a measure of operating results and consider the Listing Business in a single operating segment. Information reported to the chief operating decision-makers for the purposes of resources allocation and performance assessment focuses on the operation results of the Group as a whole as the Group's resources are integrated. Accordingly, the Group has identified one operating segment and no segment information is presented.

(i) Disaggregation of revenue from contracts with customers

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Products					
Sales of chips	194,175	220,621	150,610	81,403	122,804
Trading of integrated circuits and other cartridge components	18,600	25,462	7,015	4,887	10,766
	212,775	246,083	157,625	86,290	133,570
Timing of revenue recognition					
At a point in time	212,775	246,083	157,625	86,290	133,570

(ii) Geographic information

The Company is an investment holding company and the principal place of the Group's operation is in the PRC. The following table provides an analysis of the Group's revenue from external customers and non-current assets other than deferred tax assets ("Specified non-current assets"):

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Revenue from external customers (by customers location):					
PRC	180,446	209,396	132,854	67,430	109,533
Overseas	32,329	36,687	24,771	18,860	24,037
	212,775	246,083	157,625	86,290	133,570

	As at 31 December			As at 31 October
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Specific non-current assets:				
PRC	4,861	8,746	11,003	10,900
Overseas	1,276	942	662	804
	6,137	9,688	11,665	11,704

(iii) Information about major customers

Revenue from customers contributing over 10% or more of the Group's revenue is as follow:

	Year ended 31 December			Ten months ended 31 October	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Customer A	30,879	N/A	N/A	N/A	N/A
Customer B	23,756	N/A	N/A	N/A	N/A
Customer C	N/A	33,355	N/A	N/A	N/A
Customer D	N/A	N/A	60,377	N/A	45,735
Customer E	N/A	N/A	N/A	12,399	N/A

N/A – Not applicable as revenue generated from these customers were individually accounted for less than 10% of the Group's revenue for the respective period.

7. REVENUE

All the Group's revenue is derived from contracts with customers.

The Group is principally engaged in the provision of research, design, development and sales of compatible cartridge chips. An analysis of the Group's revenue by category for the years ended 31 December 2017, 2018 and 2019 and the ten months ended 31 October 2020 are disclosed in Note 6.

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

	As at 31 December			As at 31 October
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills receivables *(Note 19)*	78,378	87,364	86,146	48,513
Contract liabilities *(Note 23)*	91	491	521	250

Contract liabilities represent receipts in advance from customers for goods that have not yet been transferred to the customers. As at 31 December 2017, 2018 and 2019 and 31 October 2020, the contract liabilities represented the receipts in advance received from sales of compatible cartridge chips.

During the years ended 31 December 2017, 2018, and 2019, all brought-forward contract liabilities at the beginning of the financial period were fully recognised as revenue.

8. OTHER NET INCOME

	Year ended 31 December			Ten months ended 31 October	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Bank interest income	66	44	409	109	1,463
Exchange (loss)/gain, net	(718)	1,196	663	134	561
Government grants *(note (i))*	1,195	1,869	1,413	1,126	1,553
Services income *(note (ii))*	7,449	–	1,132	1,132	–
Sundry income	267	814	186	89	27
	8,259	3,923	3,803	2,590	3,604

Notes:

(i) Government grants mainly comprised of subsidy related to the Group's innovation projects and refunds of value-added tax. There are no unfulfilled conditions or contingencies attaching to these grants.

(ii) The Group recognises revenue from technical and testing services overtime by using output method, based on progress reports certified by customers upon each milestone set in the contracts.

9. FINANCE COSTS

	Year ended 31 December			Ten months ended 31 October	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Interests on lease liabilities	133	185	151	130	99

10. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging/(crediting):

	Year ended 31 December			Ten months ended 31 October	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Carrying amount of inventories sold	111,961	122,368	62,200	44,668	54,174
Write-down/(reversal of impairment) of inventories	–	–	421	–	(37)
Cost of inventories recognised as expense	111,961	122,368	62,621	44,668	54,137
Amortisation of intangible assets	127	188	484	361	673
Auditor's remuneration	700	758	925	415	587
Bad debt expenses	–	–	–	–	764
Depreciation of property, plant and equipment					
– Owned property, plant and equipment	433	1,193	1,876	1,506	1,835
– Right-of-use assets	691	1,175	1,262	1,077	1,180
(Reversal of)/provision for impairment of trade receivables	(2,282)	192	–	–	440
Short-term leases expenses	468	204	320	260	187
Research and development expenses (other than staff costs)	4,243	3,747	3,688	2,874	6,545
Interests on lease liabilities	133	185	151	130	99
Staff costs (including directors' emoluments) *(Note 11)*:					
– Salaries, wages and other benefits	9,619	16,890	18,271	14,623	13,258
– Retirement scheme contributions	564	1,226	2,451	2,148	1,184
	10,183	18,116	20,722	16,771	14,442

11. DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

Details of directors' emoluments during the Track Record Period are as follows:

	Fees	Salaries and other benefits	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2017					
Executive directors					
Mr. Cheng Hsien-Wei	166	539	47	–	752
Mr. Lee Kuo-Chang	166	94	47	–	307
Mr. Chan Yin Tsung	221	–	138	9	368
Non-executive director					
Ms. Yu Erhao	–	–	–	–	–
	553	633	232	9	1,427

	Fees	Salaries and other benefits	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2018					
Executive directors					
Mr. Cheng Hsien-Wei	497	1,109	606	22	2,234
Mr. Lee Kuo-Chang	398	–	99	–	497
Mr. Chan Yin Tsung	494	30	243	16	783
Non-executive director					
Ms. Yu Erhao	–	–	–	–	–
	1,389	1,139	948	38	3,514

	Fees	Salaries and other benefits	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2019					
Executive directors					
Mr. Cheng Hsien-Wei	483	1,323	226	22	2,054
Mr. Lee Kuo-Chang	414	–	69	–	483
Mr. Chan Yin Tsung	414	69	40	26	549
Non-executive director					
Ms. Yu Erhao	–	–	–	–	–
	1,311	1,392	335	48	3,086

	Fees	Salaries and other benefits	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Ten months ended 31 October 2020					
Executive directors					
Mr. Cheng Hsien-Wei	348	454	–	20	822
Mr. Lee Kuo-Chang	348	–	–	–	348
Non-executive directors					
Ms. Yu Erhao	–	–	–	–	–
Mr. Lam Tsz Leung	–	–	–	–	–
	696	454	–	20	1,170

	Fees	Salaries and other benefits	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Ten months ended 31 October 2019 (Unaudited)					
Executive directors					
Mr. Cheng Hsien-Wei	413	1,228	147	18	1,806
Mr. Lee Kuo-Chang	344	–	34	–	378
Mr. Chan Yin Tsung	413	69	40	26	548
Non-executive director					
Ms. Yu Erhao	–	–	–	–	–
	1,170	1,297	221	44	2,732

Notes:

(i) Mr. Cheng Hsien-Wei and Mr. Lee Kuo-Chang were appointed as executive directors of the Company on 22 June 2016.

(ii) Mr. Chan Yin Tsung was appointed as executive director of the Company on 21 October 2016 and resigned on 23 September 2019.

(iii) Ms. Yu Erhao was appointed as non-executive director of the Company on 4 June 2018.

(iv) Mr. Lam Tsz Leung was appointed as non-executive director of the Company on 27 February 2020.

(v) No emoluments were paid or payable to the independent non-executive directors during the Track Record Period.

(vi) No directors received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the Track Record Period. No directors waived or agreed to waive any emoluments during the Track Record Period.

(b) The five highest paid individuals

The five highest paid individuals of the Group during the Track Record Period are analysed as follows:

	Year ended 31 December			Ten months ended 31 October	
	2017	**2018**	**2019**	**2019**	**2020**
	Number of individuals	*Number of individuals*	*Number of individuals*	*Number of individuals* (Unaudited)	*Number of individuals*
Directors	1	2	3	2	1
Non-directors, the highest paid individuals	4	3	2	3	4
	5	5	5	5	5

Details of the emoluments of the above non-directors highest paid individuals during the Track Record Period are as follows:

	Year ended 31 December			Ten months ended 31 October	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Salaries and other benefits	424	602	341	392	1,305
Discretionary bonuses	1,388	1,698	1,165	1,270	539
Retirement scheme contributions	34	58	111	139	86
	1,846	2,358	1,617	1,801	1,930

The emoluments of the non-director highest paid individuals were within the following bands:

	Year ended 31 December			Ten months ended 31 October	
	2017	**2018**	**2019**	**2019**	**2020**
	Number of individuals	*Number of individuals*	*Number of individuals*	*Number of individuals* (Unaudited)	*Number of individuals*
Nil to RMB1,000,000	4	3	2	3	4

During the Track Record Period, no emoluments were paid by the Group to any directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. There were no arrangements under which a director waived or agreed to waive any emolument during the Track Record Period.

(c) Senior management's emoluments

Emoluments paid or payable to members of senior management who are not directors were within the following band:

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	Number of individuals	*Number of individuals*	*Number of individuals*	*Number of individuals*	*Number of individuals*
				(Unaudited)	
Nil to RMB1,000,000	9	10	11	11	12

12. INCOME TAX EXPENSE

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Current tax					
– Hong Kong Profits Tax	171	–	–	–	–
– PRC Corporate Income Tax	11,222	13,574	7,961	1,283	5,635
– Overseas Tax	145	–	–	–	–
	11,538	13,574	7,961	1,283	5,635
Deferred tax *(Note 28)*					
Charged/(credited) to profit or loss for the year/period	553	(1,677)	1,364	(2,562)	(3,843)
Withholding tax	3,319	3,621	2,591	2,581	4,038
	15,410	15,518	11,916	1,302	5,830

Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax in the Cayman Islands and BVI.

Subsidiaries operating in Hong Kong are subject to Hong Kong profits tax. The provision for Hong Kong Profits Tax for year ended 31 December 2017 is calculated at 16.5% of estimated assessable profits.

For the years ended 31 December 2018 and 2019 and the ten months ended 31 October 2020, under two-tiered profits tax rates regime, if the entity has one or more connected entity, the two-tiered profits tax rates would only apply to the one which is nominated to be chargeable at the two-tiered rates. Hong Kong profits tax of the nominated entity is calculated at 8.25% on assessable profits up to HK$2 million and 16.5% on any part of assessable profits over HK$2 million.

For those entities which do not qualify for two-tiered profits tax rates, a profits tax rate of 16.5% on assessable profit shall remain in calculating Hong Kong profits tax.

Under the PRC Corporate Income Tax Law (the "CIT Law"), which became effective on 1 January 2008, the Group's PRC entities are subject to income tax at a rate of 25%, unless otherwise specified. One of the Group's subsidiaries, Zhuhai Megain is eligible to a preferential income tax rate of 15% as a High New Technology Enterprise since 2016 and was thus entitled to a preferential tax rate of 15% during the Track Record Period.

The income tax expense for the Track Record Period can be reconciled to the profit before income tax expense in the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit before income tax expense	78,545	78,138	53,229	8,324	31,466
Tax thereon at domestic rates applicable to profit or loss in the jurisdictions concerned	12,608	12,467	8,434	1,722	5,653
Tax effect of revenue not taxable for tax purposes	(955)	(1,041)	(906)	(140)	(794)
Additional reduction in research and development expenses	(526)	(854)	(1,063)	(863)	(1,252)
Tax effect of expenses not deductible for tax purposes	613	1,341	1,180	583	2,223
Tax effect of tax losses not recognised	–	1,120	275	–	–
Tax effect of undistributed earnings of a PRC subsidiary *(Note 28)*	433	(1,131)	1,409	(2,581)	(4,038)
Tax effect of deductible temporary differences not recognised	(56)	(5)	(4)	–	–
Withholding tax on dividend declared by a PRC subsidiary	3,319	3,621	2,591	2,581	4,038
Tax relief	(26)	–	–	–	–
Income tax expense	15,410	15,518	11,916	1,302	5,830

13. OTHER COMPREHENSIVE INCOME

	Before-tax amount	Tax effect	Net-of-tax amount
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2017			
Exchange difference on translation of operation outside the PRC	(1,644)	–	(1,644)
Other comprehensive income	(1,644)	–	(1,644)

	Before-tax amount	Tax effect	Net-of-tax amount
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2018			
Exchange difference on translation of operation outside the PRC	1,851	–	1,851
Other comprehensive income	1,851	–	1,851

	Before-tax amount	Tax effect	Net-of-tax amount
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2019			
Exchange difference on translation of operation outside the PRC	462	–	462
Other comprehensive income	462	–	462

	Before-tax amount	Tax effect	Net-of-tax amount
	RMB'000	*RMB'000*	*RMB'000*
Ten months ended 31 October 2020			
Exchange difference on translation of operation outside the PRC	(1,188)	–	(1,188)
Other comprehensive income	(1,188)	–	(1,188)

	Before-tax amount	Tax effect	Net-of-tax amount
	RMB'000	*RMB'000*	*RMB'000*
Ten months ended 31 October 2019 (Unaudited)			
Exchange difference on translation of operation outside the PRC	1,114	–	1,114
Other comprehensive income	1,114	–	1,114

14. DIVIDENDS

On 1 June 2017, 27 April 2018, 12 April 2019 and 6 April 2020, the Company paid a final dividend of RMB29,237,000, RMB31,762,000, RMB20,907,000 and RMB29,677,000 in aggregate to its owners of the Company in respect of the years ended 31 December 2016, 2017, 2018 and 2019 respectively.

15. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion for the purpose of the Historical Financial Information is not considered meaningful having regard to the Reorganisation and the preparation of the results of the Group for the Track Record Period on a consolidated basis as set out in Notes 2 and 3.1.

16. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets RMB'000	Motor vehicles RMB'000	Machineries and equipment RMB'000	Leasehold improvements RMB'000	Total RMB'000
COST					
At 1 January 2017	3,168	208	478	760	4,614
Exchange adjustment	–	(16)	–	1	(15)
Additions	274	446	954	627	2,301
Disposal	(38)	–	–	–	(38)
At 31 December 2017 and 1 January 2018	3,404	638	1,432	1,388	6,862
Exchange adjustment	–	24	5	2	31
Additions	2,221	592	1,571	769	5,153
At 31 December 2018 and 1 January 2019	5,625	1,254	3,008	2,159	12,046
Exchange adjustment	–	6	4	4	14
Additions	–	–	1,473	491	1,964
Disposal	(274)	(50)	–	–	(324)
At 31 December 2019 and 1 January 2020	5,351	1,210	4,485	2,654	13,700
Exchange adjustment	–	(17)	2	1	(14)
Additions	524	–	998	520	2,042
Disposal	–	–	(151)	–	(151)
At 31 October 2020	5,875	1,193	5,334	3,175	15,577
ACCUMULATED DEPRECIATION					
At 1 January 2017	158	32	42	44	276
Exchange adjustment	–	–	–	1	1
Charge for the year	691	58	190	185	1,124
Write off	(38)	–	–	–	(38)
At 31 December 2017 and 1 January 2018	811	90	232	230	1,363
Exchange adjustment	–	3	2	1	6
Charge for the year	1,175	198	590	405	2,368
At 31 December 2018 and 1 January 2019	1,986	291	824	636	3,737
Exchange adjustment	(1)	2	3	–	4
Charge for the year	1,262	211	1,005	660	3,138
Write off	(274)	(50)	–	–	(324)
At 31 December 2019 and 1 January 2020	2,973	454	1,832	1,296	6,555
Exchange adjustment	1	(6)	7	8	10
Charge for the period	1,180	158	975	702	3,015
Write off	–	–	(60)	–	(60)
At 31 October 2020	4,154	606	2,754	2,006	9,520
NET BOOK VALUE					
At 31 December 2017	2,593	548	1,200	1,158	5,499
At 31 December 2018	3,639	963	2,184	1,523	8,309
At 31 December 2019	2,378	756	2,653	1,358	7,145
At 31 October 2020	1,721	587	2,580	1,169	6,057

17. INTANGIBLE ASSETS

	Software and patents *RMB'000*
COST	
At 1 January 2017	516
Addition	292
Exchange adjustment	10
At 31 December 2017 and 1 January 2018	818
Addition	919
Exchange adjustment	16
At 31 December 2018 and 1 January 2019	1,753
Addition	3,616
Exchange adjustment	23
At 31 December 2019 and 1 January 2020	5,392
Addition	1,832
Exchange adjustment	(14)
At 31 October 2020	7,210
ACCUMULATED AMORTISATION	
At 1 January 2017	52
Charge for the year	127
Exchange adjustment	1
At 31 December 2017 and 1 January 2018	180
Charge for the year	188
Exchange adjustment	6
At 31 December 2018 and 1 January 2019	374
Charge for the year	484
Exchange adjustment	14
At 31 December 2019 and 1 January 2020	872
Charge for the period	673
Exchange adjustment	18
At 31 October 2020	1,563
NET BOOK VALUE	
At 31 December 2017	638
At 31 December 2018	1,379
At 31 December 2019	4,520
At 31 October 2020	5,647

18. INVENTORIES

	As at 31 December			As at 31 October
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	18,202	19,209	21,098	9,621
Finished goods	3,561	4,070	3,351	1,094
Goods-in-transit	360	112	147	253
Right to recover returned goods	237	1,831	1,960	1,033
	22,360	25,222	26,556	12,001

During the Track Record Period, no provision had been made against the carrying value of inventories except for a provision of RMB421,000 and a reversal of provision of RMB37,000 made for the year ended 31 December 2019 and the ten months ended 31 October 2020, respectively, against the carrying value of inventories. The provision is included in "cost of sales".

19. TRADE AND BILLS RECEIVABLES

	As at 31 December			As at 31 October
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills receivables	79,168	88,346	87,128	49,935
Less: allowances for doubtful debts	(790)	(982)	(982)	(1,422)
	78,378	87,364	86,146	48,513

All of the trade and bills receivables are expected to be recovered within one year.

During the Track Record Period, the Group allows credit periods ranging from 30 to 120 days to its customers. Before accepting any new customer, the Group assesses the potential customer's credit quality. Credit term granted to customers is reviewed regularly.

The ageing analysis of trade and bills receivables at the end of each of the Track Record Period, based on the invoice date and net of allowance for doubtful debts, is as follows:

	As at 31 December			As at 31 October
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 90 days	59,238	71,572	79,563	29,044
91 – 180 days	14,721	13,195	5,197	15,811
Over 180 days	4,419	2,597	1,386	3,658
	78,378	87,364	86,146	48,513

The Group recognised impairment of trade and bills receivables for the years ended 31 December 2017, 2018 and 2019 and the ten months ended 31 October 2020 based on the accounting policies stated in Note 3.9(b). Further details are set out in Note 35(c).

20. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December			As at 31 October
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments	697	4,699	7,524	9,131
Deposits and other receivables	600	638	847	1,508
Other taxes recoverable	1,980	69	187	509
	3,277	5,406	8,558	11,148

The Group recognised impairment of deposits and other receivables for the years ended 31 December 2017, 2018 and 2019 and the ten months ended 31 October 2020 based on the accounting policies stated in Note 3.9(b). Further details are set out in Note 35(c).

21. NOTES SUPPORTING CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Cash and Cash equivalents comprise:

	As at 31 December			As at 31 October
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash on hand	47	94	15	49
Cash at banks	38,785	82,706	84,073	112,746
	38,832	82,800	84,088	112,795

Certain of the cash and bank balances denominated in RMB were placed with banks in the PRC. RMB is not freely convertible to other currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

(b) Major non-cash transactions

During the years ended 31 December 2017 and 2018 and the ten months ended 31 October 2020, the Group had non-cash additions to the right-of-use assets of RMB274,000, RMB2,221,000 and RMB524,000 and lease liabilities of RMB274,000, RMB2,221,000 and RMB524,000 respectively in respect of arrangements for properties leased for own use.

(c) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Group's liabilities arising from financing activities. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows from financing activities.

	Lease liabilities *RMB'000*	**Amount due to an immediate shareholder** *RMB'000*
At 1 January 2017	2,902	17,055
Changes from financing cash flows:		
Decrease in amount due to an immediate shareholder	–	(17,055)
Lease payments	(534)	–
Total changes from financing cash flows	(534)	(17,055)
Other Changes:		
Additions to new leases	274	–
Finance costs	133	–
At 31 December 2017 and 1 January 2018	2,775	–
Change from financing cash flows:		
Lease payments	(1,466)	–
Other Changes:		
Additions to new leases	2,221	–
Finance costs	185	–
At 31 December 2018 and 1 January 2019	3,715	–
Change from financing cash flows:		
Lease payments	(1,348)	–
Other Change:		
Finance costs	151	–
At 31 December 2019 and 1 January 2020	2,518	–
Change from financing cash flows:		
Lease payments	(1,294)	–
Other Changes:		
Additions to new leases	524	–
Finance costs	99	–
At 31 October 2020	1,847	–

22. TRADE PAYABLES

	As at 31 December			As at 31 October
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	25,261	26,871	14,065	8,465

The ageing analysis of trade payables at the end of each of the Track Record Period, based on the invoice date, is as follows:

	As at 31 December			As at 31 October
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	24,873	14,570	7,888	3,955
1 – 3 months	94	12,092	2,739	1,343
Over 3 months	294	209	3,438	3,167
	25,261	26,871	14,065	8,465

Credit period granted by suppliers is normally 30 days to 60 days. Due to short maturity periods, the carrying values of the Group's trade payables are considered to be a reasonable approximation of their fair values.

23. CONTRACT LIABILITIES

	As at 31 December			As at 31 October
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contract liabilities arising from sales of compatible cartridge chips	91	491	521	250

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

When the Group receives a deposit before the commencement of production activity, this gives rise to contract liabilities at the start of a contract, until the revenue recognised exceeds the amount of the deposit. The amount of the sales deposit, if any, is negotiated on a case by case basis with customers.

Movement in contract liabilities

	As at 31 December			As at 31 October
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January	1,160	91	491	521
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year/period	(1,160)	(91)	(491)	(434)
Increase in contract liabilities as a result of billing in advance of sales of compatible cartridge chips	91	491	521	163
As at 31 December/31 October	91	491	521	250

24. ACCRUALS AND OTHER PAYABLES

	As at 31 December			As at 31 October
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accruals	3,418	7,776	3,422	9,360
Other payables	3,000	304	169	184
Refund liabilities	464	3,871	4,657	2,560
Other taxes payables	1,053	1,679	3,556	–
	7,935	13,630	11,804	12,104

25. LEASES

Nature of leasing activities

The Group leases a number of properties in the PRC and Hong Kong.

(a) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	As at 31 December			As at 31 October
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Properties leased for own use, carried at depreciated cost	2,593	3,639	2,378	1,721

(b) Lease liabilities

31 December 2017	**Properties leased for own use** *RMB'000*
Additions	274
Interest expense	133
Lease payments	(534)

31 December 2018	**Properties leased for own use** *RMB'000*
Additions	2,221
Interest expense	185
Lease payments	(1,466)

31 December 2019	**Properties leased for own use** *RMB'000*
Interest expense	151
Lease payments	(1,348)

31 October 2020	Properties leased for own use *RMB'000*
Additions	524
Interest expense	99
Lease payments	(1,294)

The weighted average lessee's IBR applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2017 is 4.75%.

Future lease payments are due as follows:

	As at 31 December			As at 31 October
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Minimum lease payment due				
– Within 1 year	847	1,347	1,317	1,561
– Between 1 to 2 years	818	1,317	1,174	344
– Between 2 to 5 years	1,366	1,344	174	–
	3,031	4,008	2,665	1,905
Less: future finance charges	(256)	(293)	(147)	(58)
Present value of lease liabilities	2,775	3,715	2,518	1,847
– Current	730	1,198	1,209	1,502
– Non-current	2,045	2,517	1,309	345

The Group leases various buildings mainly as its office and these lease liabilities were measured at net present value of the lease payments during the lease terms that are not yet paid.

26. AMOUNTS DUE FROM IMMEDIATE SHAREHOLDERS

	As at 1 January 2017	**Maximum amount outstanding during the year**	**As at 31 December 2017**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due from immediate shareholders:			
Arista Global Limited	13,539	13,539	9,715
Global Megain Technology Pte. Limited	14,598	14,598	8,605
	28,137		18,320

	As at 1 January 2018	Maximum amount outstanding during the year	As at 31 December 2018
	RMB'000	*RMB'000*	*RMB'000*
Amounts due from immediate shareholders:			
Arista Global Limited	9,715	9,715	–
Global Megain Technology Pte. Limited	8,605	8,605	–
	18,320		–

The amounts due from immediate shareholders were not trade related, and the balances were unsecured, interest-free and repayable on demand. Arista Global Limited and Global Megain Technology Pte. Limited are controlled by the directors of the Company.

The Group recognised impairment of amounts due from immediate shareholders for the year ended 31 December 2017 based on the accounting policies stated in Note 3.9(b). Further details are set out in Note 35(c).

27. PROVISIONS

	Assurance-type warranties
	RMB'000
As at 1 January 2017	–
Provisions made during the year	3,129
Provisions used during the year	(1,868)
As at 31 December 2017 and 1 January 2018	1,261
Provisions made during the year	6,412
Provisions used during the year	(4,785)
As at 31 December 2018 and 1 January 2019	2,888
Provisions made during the year	6,644
Provisions used during the year	(7,427)
As at 31 December 2019 and 1 January 2020	2,105
Provisions made during the period	361
Provisions used during the period	(890)
As at 31 October 2020	1,576

The provision for assurance-type warranties relates to sales of compatible cartridge chips during the Track Record Period. The provision has been estimated based on historical data associated with similar products. The Group expects to settle the liability within next year.

28. DEFERRED TAX (ASSETS)/LIABILITIES

Details of the deferred tax (assets)/liabilities recognised and movements during the Track Record Period:

	Right to recover returned goods assets	Undistributed profits of foreign operation *(Note)*	Refund liabilities	Provision for impairment of trade receivables	Provision for assurance-type warranties	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	–	3,394	–	(461)	–	–	2,933
Charged to profit or loss for the year	36	433	(70)	343	(189)	–	553
Exchange adjustment	–	(272)	–	–	–	–	(272)
At 31 December 2017 and 1 January 2018	36	3,555	(70)	(118)	(189)	–	3,214
Charged to profit or loss for the year	238	(1,131)	(511)	(29)	(244)	–	(1,677)
Exchange adjustment	–	157	–	–	–	–	157
At 31 December 2018 and 1 January 2019	274	2,581	(581)	(147)	(433)	–	1,694
Charged to profit or loss for the year	20	1,409	(118)	–	117	(64)	1,364
Exchange adjustment	–	48	–	–	–	–	48
At 31 December 2019 and 1 January 2020	294	4,038	(699)	(147)	(316)	(64)	3,106
Charged to profit or loss for the period	(139)	(4,038)	315	(66)	79	6	(3,843)
At 31 October 2020	155	–	(384)	(213)	(237)	(58)	(737)

The following is the analysis of deferred tax balances for financial reporting purposes:

	As at 31 December			As at 31 October
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets	(341)	(887)	(932)	(737)
Deferred tax liabilities	3,555	2,581	4,038	–

Note: According to the PRC Corporate Income Tax Law and its related regulations, the Group is subject to a withholding tax at 10%, unless reduced by tax treaties or arrangements, for dividends distributed by a PRC enterprise to its immediate holding company outside the PRC or earnings generated beginning on 1 January 2008 and undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. Since, the Group controls the dividend policy of the Group's PRC subsidiaries, deferred tax liability arising from the undistributed profits of the Group's PRC subsidiaries is only provided to the extent that such profits are expected to be distributed in the foreseeable future.

As at 31 December 2017, 2018 and 2019 and 31 October 2020, the aggregate amount of temporary differences associated with deferred tax liability has not been recognised for the remaining undistributed profits of the Group's PRC subsidiary, namely Zhuhai Megain, was RMB45,531,000, RMB97,747,000, RMB105,116,000 and RMB133,926,000 respectively. No deferred tax liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of temporary differences and it is probable that such differences will not be reversed in the foreseeable future under the Group's current dividend policy.

29. CAPITAL

THE COMPANY

	As at 31 December 2017, 2018 and 2019 and 31 October 2020	
	Number of shares	**Nominal value** *RMB'000*
Authorised share of USD1 each	50,000	330
Issued and fully paid share of USD1 each	10,000	66

The Company was incorporated in the Cayman Islands on 22 June 2016 with an initial authorised share capital of USD50,000 divided into 50,000 ordinary shares with par value of USD1 each. Upon incorporation, 10,000 ordinary shares of USD1 each were allotted and issued by the Company.

30. RESERVES

The Group

Details of the movements of the Group's reserves for the Track Record Period are presented in the consolidated statements of changes in equity.

The nature and purposes of reserves within equity as follows:

(a) Share premium is arising from the issuance of new shares at price in excess of the par value of the shares.

(b) Other reserves represented the aggregate of the paid up capital and capital reserve of the subsidiaries now comprising the Group attributable to the shareholders prior to the Reorganisation as detailed in the section headed "History, Development and Corporate Structure" in the Prospectus.

(c) Statutory reserves represented the amount transferred from net profit for the year of the subsidiaries established in the PRC (based on the subsidiaries PRC statutory financial statements) in accordance with the relevant PRC laws until the statutory reserves reach 50% of the registered capital of the subsidiaries. The statutory reserves cannot be reduced except either in setting off the accumulated losses or increasing capital, provided the remaining balance of this reserve is not less than 25% registered capital of the subsidiaries.

Pursuant to a shareholders' meeting of Zhuhai Megain, dated 18 May 2018, Zhuhai Megain approved to increase its share capital from RMB3,000,000 to RMB20,000,000, by way of (i) a cash settlement of RMB7,000,000 payable by Megain Group (HK) and (ii) capitalisation of Zhuhai Megain's statutory reserves by RMB10,000,000, Zhuhai Megain received RMB7,000,000 on 28 December 2018 and the remaining of RMB10,000,000 were transferred from Zhuhai Megain's statutory reserves to the Company's other reserves on 31 May 2019.

(d) Exchange reserves comprise all relevant translation differences arising from the translation of the financial statements of operations with functional currency other than RMB. The reserve is dealt with in accordance with the accounting policy set out in Note 3.15.

The Company

The movements of the Company's reserves during the Track Record Period are as follows:

	Share premium *RMB'000*	Exchange reserves *RMB'000*	Accumulated losses *RMB'000*	Total reserves *RMB'000*
At 1 January 2017	34,287	1,723	(30)	35,980
Profit for the year	–	–	29,267	29,267
Exchange differences arising on translation of the Company	–	(3)	–	(3)
Dividend paid in respect of the previous year	–	–	(29,237)	(29,237)
At 31 December 2017 and 1 January 2018	34,287	1,720	–	36,007
Profit for the year	–	–	25,837	25,837
Exchange differences arising on translation of the Company	–	963	–	963
Dividend paid in respect of the previous year	–	–	(31,762)	(31,762)
At 31 December 2018 and 1 January 2019	34,287	2,683	(5,925)	31,045
Profit for the year	–	–	13,614	13,614
Exchange differences arising on translation of the Company	–	63	–	63
Dividend paid in respect of the previous year	–	–	(20,907)	(20,907)
At 31 December 2019 and 1 January 2020	34,287	2,746	(13,218)	23,815
Profit for the period	–	–	26,400	26,400
Exchange differences arising on translation of the Company	–	856	–	856
Dividend paid in respect of the previous year	–	–	(29,677)	(29,677)
At 31 October 2020	34,287	3,602	(16,495)	21,394

31. DEREGISTRATION OF A SUBSIDIARY

The Group deregistered a subsidiary, Shanghai Yaoxian on 6 March 2019. The net liabilities of Shanghai Yaoxian at the date of deregistration were as follow:

	RMB'000
Cash and cash equivalents	38
Amount due to immediate holding company	(38)
	–
Non-controlling interests	(463)
Loss on deregistration of a subsidiary	(463)

The deregistered subsidiary had no significant impact on the results and cash flows of the Group during the Track Record Period.

32. MATERIAL RELATED PARTY TRANSACTIONS

The Group had the following significant related party transactions during the Track Record Period:

(a) Name and relationship

Name of related parties	Relationship with the Group
FuKiXing Enterprise Co., Ltd. ("FuKiXing") (富基興企業有限公司)	FuKiXing is controlled by Lee Kuo-Chang, a director of the Company.
Zhongshan Mingqi Electronic Technology Company Limited ("Zhongshan Mingqi") (中山銘祺電子科技有限公司)	Cheng Hsien-Wei, a director of the Company, was a beneficial owner of 35% of the equity interest in Zhongshan Mingqi. The relationship ceased on 27 November 2017.
Zhuhai Mingqi Electronic Technology Co., Ltd. ("Zhuhai Mingqi") (珠海銘祺電子科技有限公司)	Cheng Hsien-Wei, a director of the Company, was a beneficial owner of 55% of the equity interest in Zhuhai Mingqi. The relationship ceased on 16 November 2017.

(b) Related parties transactions

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Sales of goods					
– Zhongshan Mingqi	463	–	–	–	–
– Zhuhai Mingqi	1,372	–	–	–	–
Purchases of goods					
– Zhongshan Mingqi	1,916	–	–	–	–
Rental expense					
– FuKiXing	297	–	–	–	–

The directors considered that the above transactions were based on prices determined between the Group and the relevant parties.

(c) Compensation of key management personnel

Remuneration of key management personnel, who are directors of the Company, during the Track Record Period were disclosed in Note 11.

(d) Personal guarantee provided by a director

As at the years end of 31 December 2017 and 31 December 2018, a personal guarantee of USD100,000 made by Mr. Cheng Hsien-Wei, a director of the Company, to a supplier of Megain Group (HK), with a guarantee period of which will be expired by 3 years. The personal guarantee has been released during the year end of 31 December 2019.

33. CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividends payment to shareholders, return capital to shareholders or obtain new bank borrowings. No changes were made in the objectives, policies or processes for managing capital during the year.

As part of this review, the directors of the Group consider the cost of capital and the risk associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through issuance of new shares as well as the addition of new borrowings.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as trade and other payables, lease liabilities less cash and cash equivalents. Total capital is calculated as "equity", as shown in the statement of financial position, plus net debt.

The gearing ratios at 31 December 2017, 2018 and 2019 and 31 October 2020 were as follows:

	As at 31 December			As at 31 October
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	25,261	26,871	14,065	8,465
Accruals and other payables	7,935	13,630	11,804	12,104
Lease liabilities	2,775	3,715	2,518	1,847
Less: Cash and cash equivalents	(38,832)	(82,800)	(84,088)	(112,795)
Net cash	(2,861)	(38,584)	(55,701)	(90,379)
Total equity	122,108	154,817	176,148	170,919
Gearing ratios	N/A	N/A	N/A	N/A

34. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The following table shows the carrying amounts of financial assets and financial liabilities:

	As at 31 December			As at 31 October
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Financial assets at amortised cost:				
– Trade and bills receivables	78,378	87,364	86,146	48,513
– Deposits and other receivables	600	638	847	1,508
– Amounts due from immediate shareholders	18,320	–	–	–
– Cash and cash equivalents	38,832	82,800	84,088	112,795
	136,130	170,802	171,081	162,816

	As at 31 December			As at 31 October
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial liabilities				
Financial liabilities at amortised cost:				
– Trade payables	25,261	26,871	14,605	8,465
– Accruals and other payables	6,418	8,080	3,591	9,544
Lease liabilities	2,775	3,715	2,518	1,847
	34,454	38,666	20,714	19,856

Financial instruments not measured at fair value

Above financial instruments which are measured at amortised cost are not measured at fair value. Due to their short term nature, the carrying values of the above financial instruments approximate their fair values.

35. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks which result from the use of financial instruments in its ordinary course of operations. The financial risks include market risks (mainly foreign currency risk and interest rate risk), credit risk and liquidity risk. Details of these financial instruments are disclosed in the notes below. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The directors meet regularly to identify and evaluate risks and to formulate strategies to manage financial risks on timely and effective manner. The risks associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below.

(a) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group has no significant interest bearing financial assets and liabilities. The Group's results and operating cash flows are substantially independent of changes in market interest rates.

(b) Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is exposed to foreign currency risk primarily through sales and purchases which give rise to trade and other receivables, amounts due from immediate shareholders and cash and cash equivalents that are denominated in a currency other than the functional currency of the operations to which they relate.

The currencies giving rise to this risk are primarily USD. The Group does not use derivative financial instruments to hedge its foreign currency risk. The Group reviews its foreign currency exposures regularly and considers no significant exposure on its foreign exchange risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of each of the Track Record Period are as follows:

	As at 31 December			As at 31 October
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets	22,230	38,686	5,717	5,425
Liabilities	(2,436)	(752)	–	–
	19,794	37,934	5,717	5,425

The following table indicates the approximate change in the Group's profit for the year/period and retained profits 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 each of the Track Record Period. The sensitivity analysis includes balances between Group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the USD strengthens against the relevant currency. For a weakening of the USD against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	Increase/ (Decrease) in foreign exchange rate	**Effect on profit for the year/ period and retained profits**	**Effect on other components of equity**
	%	*RMB'000*	*RMB'000*
For the year ended 31 December			
2017			
USD	5%	826	–
	(5%)	(826)	–
2018			
USD	5%	1,584	–
	(5%)	(1,584)	–
2019			
USD	5%	239	–
	(5%)	(239)	–
For the ten months ended 31 October 2020	5%	226	–
USD	(5%)	(226)	–
For the ten months ended 31 October 2019			
(Unaudited)	5%	145	–
USD	(5%)	(145)	–

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the group entities; exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting date. In this respect, it is assumed that the pegged rate between HKD and USD would be materially unaffected by any changes in movement in value of USD against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit for the year and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of reporting period for presentation purposes. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency.

(c) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group.

The Group's credit risk is primarily attributable to its trade and other receivables, amounts due from immediate shareholders and bank balances. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group does not obtain collateral from the counterparties. As at 31 December 2017, 2018 and 2019 and 31 October 2020, the Group has a certain concentration of credit risk as 15%, 27%, 75%, 16% and 40%, 46%, 81% and 49% of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

Trade and bills receivables

The Group measures the loss allowance for trade and bills receivables at an amount equal to lifetime ECLs. To measure the ECLs, the trade and bills receivables have been grouped based on shared credit risk characteristics (i.e. usually by locations) and the days past due. The ECLs on trade and bills receivables are estimated using a provision matrix by reference to past default experience of the debtor, current market condition in relation to each debtor's exposure. The ECLs also incorporated forward-looking information with reference to general macroeconomic conditions that may affect the ability of the debtors to settle receivables.

As at 31 December 2017, 2018 and 2019 and 31 October 2020, the provision made against the gross amount of trade and bills receivables are as follows:

31 December 2017	**ECL rate**	**Gross carrying amount**	**Loss allowance**
	%	*RMB'000*	*RMB'000*
Current (not past due)	0.2	54,403	121
Less than 90 days past due	0.2	19,417	45
91 days to 180 days past due	0.3	2,339	7
Over 180 days past due	20.5	3,009	617
		79,168	790

31 December 2018	**ECL rate**	**Gross carrying amount**	**Loss allowance**
	%	*RMB'000*	*RMB'000*
Current (not past due)	0.2	72,886	182
Less than 90 days past due	0.3	10,900	32
91 days to 180 days past due	1.2	1,488	18
Over 180 days past due	24.4	3,072	750
		88,346	982

31 December 2019	**ECL rate**	**Gross carrying amount**	**Loss allowance**
	%	*RMB'000*	*RMB'000*
Current (not past due)	0.3	77,832	262
Less than 90 days past due	0.5	7,040	33
91 days to 180 days past due	6.4	829	53
Over 180 days past due	44.4	1,427	634
		87,128	982

31 October 2020	**ECL rate**	**Gross carrying amount**	**Loss allowance**
	%	*RMB'000*	*RMB'000*
Current (not past due)	0.3	30,147	102
Less than 90 days past due	0.4	14,666	62
91 days to 180 days past due	11.3	3,714	418
Over 180 days past due	59.7	1,408	840
		49,935	1,422

The management of the Group has also assessed all available forward-looking information, including but not limited to expected growth rate of the industry and expected subsequent settlement, and concluded that there no significant increase in credit risk.

Movement in the loss allowance account in respect of trade and bills receivables during the Track Record Period is as follows:

	RMB'000
As at 1 January 2017	3,072
Reversal of impairment loss during the year	(2,282)
As at 31 December 2017 and 1 January 2018	790
Impairment loss recognised during the year	192
As at 31 December 2018, 31 December 2019 and 1 January 2020	982
Impairment loss recognised during the period	440
As at 31 October 2020	1,422

Other receivables and amounts due from immediate shareholders

ECLs model for other receivables and amounts due from immediate shareholders are summarised below:

Other receivables and amounts due from immediate shareholders that are not credit-impaired on initial recognition are classified in "Stage 1" and have their credit risk continuously monitored by the Group. The ECLs are measured on a 12-month basis.

– If a significant increase in credit risk (as define below) since initial recognition is identified, the financial instrument is moved to "Stage 2" but it not yet deemed to be credit-impaired. The ECLs are measured on lifetime basis.

– If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3". The ECLs are measured on lifetime basis.

– At Stages 1 and 2, interest income is calculated on the gross carrying amount (without deducting the loss allowance). If a financial instrument subsequently becomes credit-impaired (Stage 3), the Group is required to calculate the interest income by applying the effective interest method in subsequent reporting periods to the amortised cost of the financial asset (the gross carrying amount net of loss allowance) rather than the gross carrying amount.

As at 31 December 2017, 2018 and 2019 and 31 October 2020, no provision was made against the gross amount of other receivables because the Group considered the impact of the impairment of other receivables to be insignificant based on past credit history and the nature of the other receivables.

In respect of amounts due from immediate shareholders, the directors will closely monitor the repayment progress to minimise the risk of default. The management considers the credit risk to be insignificant.

In respect of bank balances, the credit risk is limited because majority of the deposits are placed with reputable financial institutions.

The credit policies have been consistently applied and are considered to be effective in managing the Group's exposure.

(d) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade and other payables and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

The liquidity policy has been followed by the Group during the years and is considered by the directors to have been effective in managing liquidity risks.

The following table summarises the Group's remaining contractual maturity for its financial liabilities based on the undiscounted cash flows of financial liabilities and the earliest date the Group can be required to pay.

	Carrying amount	Total contractual undiscounted cash flows	Within one year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2017					
Trade payables	25,261	25,261	25,261	–	–
Accruals and other payables	6,418	6,418	6,418	–	–
Lease liabilities	2,775	3,031	847	818	1,366
	34,454	34,710	32,526	818	1,366
As at 31 December 2018					
Trade payables	26,871	26,871	26,871	–	–
Accruals and other payables	8,080	8,080	8,080	–	–
Lease liabilities	3,715	4,008	1,347	1,317	1,344
	38,666	38,959	36,298	1,317	1,344
As at 31 December 2019					
Trade payables	14,605	14,605	14,605	–	–
Accruals and other payables	3,591	3,591	3,591	–	–
Lease liabilities	2,518	2,665	1,317	1,174	174
	20,714	20,861	19,513	1,174	174
As at 31 October 2020					
Trade payables	8,465	8,465	8,465	–	–
Accruals and other payables	9,544	9,544	9,544	–	–
Lease liabilities	1,847	1,905	1,561	344	–
	19,856	19,914	19,570	344	–

36. EVENTS AFTER THE END OF TRACK RECORD PERIOD

(a) Implication of COVID-19

Following the outbreak of COVID-19 in early 2020, a series of precautionary and control measures have been and continued to be implemented by the PRC government including except for certain exempted persons, restrictions on entering into provinces and compulsory quarantine measures of all inbound travelers, and various social distancing measures. As at the date on which this set of historical financial information were authorised for issue, the Group was not aware of material adverse effects on the historical financial information as a result of the COVID-19 pandemic. The Group will pay close attention to the development of the COVID-19 pandemic, perform further assessment of its impact and take relevant measures.

(b) The Group has no other significant event, subsequent to the end of the Track Record Period.

The information set forth in this appendix does not form part of the Accountants' Report prepared by the reporting accountants of the Company, BDO Limited, Certified Public Accountants, Hong Kong, set forth in Appendix I to this prospectus, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial information" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

I. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma financial information prepared in accordance with paragraph 4.29 of the Main Board Listing Rules and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants is for illustrative purpose only, and is set out herein to provide the prospective investors with further illustrative financial information about the effect of the Global Offering on the consolidated net tangible assets of the Group as at 31 October 2020 as if the Global Offering had taken place on 31 October 2020. Because of its hypothetical nature, the unaudited pro forma financial information may not give a true picture of the financial position of our Group had the Global Offering been completed on 31 October 2020 or at any future dates.

	Consolidated net tangible assets of the Group attributable to owners of the Company as at 31 October 2020	Estimated net proceeds from the Global Offering	Unaudited pro forma consolidated net tangible assets of the Group attributable to owners of the Company	Unaudited pro forma consolidated net tangible assets per Share	Unaudited pro forma consolidated net tangible assets per Share
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HKD*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
Based on the minimum Offer Price of HK$1.04 per Offer Share, after a Downward Offer Price Adjustment of up to 10%	165,272	93,332	258,604	0.52	0.62
Based on Offer Price of HK$1.15 per Offer Share	165,272	104,100	269,372	0.54	0.65
Based on Offer Price of HK$1.35 per Offer Share	165,272	123,678	288,950	0.58	0.70

Notes to the Unaudited Pro Forma Financial Information:

1. The consolidated net tangible assets of the Group attributable to owners of the Company as at 31 October 2020, after deduction of intangible assets as shown in the Accountants' Report of the Group set out in Appendix I to this prospectus.

2. The estimated net proceeds from the Global Offering are based on 125,000,000 Shares and minimum indicative Offer Price and maximum indicative Offer Price of HK$1.15 and HK$1.35 per Offer Share respectively, and also based on the minimum Offer Price of HK$1.04 per Offer Share after making a Downward Offer Price Adjustment of up to 10%, after deduction of the underwriting fees and related expenses payable and borne by the Company which have not been reflected in consolidated net tangible assets of the Group attributable to owners of the Company as at 31 October 2020. The estimated net proceeds are converted into RMB at an exchange rate of HK$1.00 to RMB0.8332, the exchange rate set by the People's Bank of China for foreign exchange transactions prevailing on the Latest Practicable Date. No representation is made that the HK$ amounts have been, could have been or could be converted into RMB, or vice versa, at that rate, or at any other rate or at all. No account has been taken of any Share which may be issued pursuant to the exercise of any option that may be granted under the Share Option Scheme or any Share which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchases of Shares.

3. The unaudited pro forma consolidated net tangible assets per Share is calculated based on 500,000,000 Shares in issue immediately following the completion of the Global Offering and the Capitalisation Issue as set out in the "Share Capital" section to this prospectus, without taking into account of any Share which may be issued pursuant to the exercise of any option that may be granted under the Share Option Scheme or any Share which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchases of Shares.

4. The unaudited pro forma adjusted consolidated net tangible assets per Share are converted to Hong Kong dollars at an exchange rate of HK$1.00 to RMB0.8332, the exchange rate set by the People's Bank of China for foreign exchange transactions prevailing on the Latest Practicable Date. No representation is made that the RMB amounts have been, could have been or could be converted into HKD, or vice versa, at that rate, or at any other rate or at all.

5. No adjustment has been made to the unaudited pro forma consolidated net tangible assets of the Group attributable to owners of the Company to reflect any trading results or other transactions of the Group entered into subsequent to 31 October 2020.

The following is the text of a report, prepared for the sole purpose of inclusion in this prospectus, received from the independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong.

II. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

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INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the directors of MEGAIN Holding (Cayman) Co., Ltd.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of MEGAIN Holding (Cayman) Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of consolidated net tangible assets of the Company as at 31 October 2020 and related notes as set out on pages II-1 to II-2 of Appendix II of the Company's prospectus dated 18 March 2021 (the "Prospectus") in connection with the proposed initial public offering of the shares of the Company (the "Global Offering"). The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are set out in Section I of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Global Offering on the Group's consolidated net tangible assets as at 31 October 2020 as if the Global Offering had taken place at 31 October 2020. As part of this process, information about the Group's consolidated net tangible assets has been extracted by the directors of the Company from the Group's financial information for the ten months ended 31 October 2020, on which an accountants' report set out in Appendix I to the Prospectus has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Global Offering at 31 October 2020 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and

- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the entity, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

BDO Limited
Certified Public Accountants
Hong Kong

18 March 2021

*The following is the preliminary financial information of our Group as of and for the year ended 31 December 2020 (the "**2020 Preliminary Financial Information**"), together with a management's discussion and analysis of our Group's financial condition and results of operations. The preliminary financial information has been prepared based on the consolidated financial statements of the Group prepared in accordance with HKFRS. The 2020 Preliminary Financial Information was not audited. Investors should bear in mind that the 2020 Preliminary Financial Information in this appendix may be subject to adjustments.*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	**2019** *RMB'000*	**2020** *RMB'000* (unaudited)
Revenue	5	157,625	156,783
Cost of sales		(69,515)	(69,711)
Gross profit		88,110	87,072
Other net income		3,803	4,012
Research and development expenses		(9,276)	(14,646)
Selling and distribution expenses		(7,771)	(5,638)
Administrative expenses		(18,850)	(20,186)
Listing expenses		(2,636)	(14,563)
Finance costs		(151)	(113)
Profit before income tax expense	6	53,229	35,938
Income tax expense	7	(11,916)	(7,188)
Profit for the year		41,313	28,750
Other comprehensive income, net of tax			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		462	(1,350)
Total comprehensive income for the year		41,775	27,400
Earnings per share – Basic and Diluted	9	0.110	0.077

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**2019** *RMB'000*	**2020** *RMB'000* (unaudited)
Non-current assets			
Property, plant and equipment		7,145	5,839
Intangible assets		4,520	5,839
Deferred tax assets		932	497
Total non-current assets		12,597	12,175
Current assets			
Inventories		26,556	11,583
Trade receivables	*10*	86,146	39,057
Deposits, prepayments and other receivables		8,558	10,954
Cash and cash equivalents		84,088	123,468
Total current assets		205,348	185,062
Current liabilities			
Trade payables	*11*	14,065	6,454
Accruals and other payables		11,804	11,908
Leases liabilities		1,209	1,403
Contract liabilities		521	249
Provisions		2,105	473
Income tax payable		6,746	1,350
Total current liabilities		36,450	21,837
Net current assets		168,898	163,225
Total assets less current liabilities		181,495	175,400
Non-current liabilities			
Leases liabilities		1,309	191
Deferred tax liabilities		4,038	1,338
Total non-current liabilities		5,347	1,529
NET ASSETS		176,148	173,871
Capital and reserves			
Share capital		66	66
Reserves		176,082	173,805
TOTAL EQUITY		176,148	173,871

NOTES TO THE 2020 PRELIMINARY FINANCIAL INFORMATION

1. GENERAL INFORMATION

MEGAIN Holding (Cayman) Co., Ltd. (the "Company") was incorporated in the Cayman Islands on 22 June 2016 as an exempted company with limited liability. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of its subsidiaries is the People's Republic of China (the "PRC").

The principal activity of the Company is investment holding. The Company and its subsidiaries (together "the Group") are engaged in the provisions of research, design, development and sales of compatible cartridge chips.

Details of the subsidiaries are as follows:

Name of subsidiary	Place of incorporation	Paid up capital/ registered capital	Proportion of equity interest attributable to the Company		Principal activities and place of business
			Direct	*Indirect*	
Megain Group (HK) Limited ("Megain Group (HK)")	Hong Kong	Hong Kong dollars ("HKD") 40,425,000	100%	–	Trading of compatible cartridge chips outside of the PRC and investment holding
Megain Holding (BVI) Pte, Ltd. ("Megain BVI")	British Virgin Islands ("BVI")	United States dollars ("USD") 50,000	–	100%	Research, design, development and sales of compatible cartridge chips in Taiwan
Megain International (HK) Limited ("Megain Int'l")	Hong Kong	HKD1,000,000	–	100%	Investment holding
珠海美佳音科技有限公司 Zhuhai Megain Technology Co., Ltd ("Zhuhai Megain")	PRC	Renminbi ("RMB") 20,000,000	–	100%	Research, design, development, and sale of compatible cartridge chips

2. BASIS OF PREPARATION

The 2020 Preliminary Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and the disclosure requirements of the Hong Kong Companies Ordinance.

The 2020 Preliminary Financial Information and comparative financial information as of and for the years ended 31 December 2019 and 2020 have been prepared under the historical cost basis.

These financial statements are presented in RMB and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new or amended HKFRSs

The adoption of HKFRSs and HKASs which are effective for the financial year beginning on 1 January 2020 and 1 June 2020 has been consistently applied in the consolidated financial statements throughout the years ended 31 December 2020 and 2019.

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Interest Rate Benchmark Reform
Amendments to HKFRS 16	Covid-19-Related Rent Concessions

The impact of the adoption of Amendments to HKFRS 16 Covid-19-Related Rent Concessions has been summarised below. The other new or amended HKFRSs and HKASs that are effective from 1 January 2020 did not have any significant impact on the Group's accounting policies.

Amendments to HKFRS 16, Covid-19-Related Rent Concessions

HKFRS 16 was amended to provide a practical expedient to lessees in accounting for rent concessions arising as a result of the Covid-19 pandemic, by including an additional practical expedient in HKFRS 16 that permits entities to elect not to account for rent concessions as modifications. The practical expedient 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.

Rent concessions that satisfy these criteria may be accounted for in accordance with this practical expedient, which means the lessee does not need to assess whether the rent concession meets the definition of lease modification. Lessees shall apply other requirements of HKFRS 16 in accounting for the rent concession.

Accounting for rent concessions as lease modifications would have resulted in the Group remeasuring the lease liability to reflect the revised consideration using a revised discount rate, with the effect of the change in the lease liability recorded against the right-of-use asset. By applying the practical expedient, the Group is not required to determine a revised discount rate and the effect of the change in the lease liability is reflected in profit or loss in the period in which the event or condition that triggers the rent concession occurs.

The Group has elected to utilise the practical expedient for all rent concessions that meet the criteria.

In accordance with the transitional provisions, the Group has applied the amendments retrospectively, and has not restated prior periods figure. As the rent concessions have arisen during the current financial period, there is no retrospective adjustment to opening balance of retained earnings at 1 January 2020 on initial application of the amendment.

(b) New or amended HKFRSs that have been issued but are not yet effective

The following new or amended 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 HKAS 1	Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[4]
Amendments to HKAS 16	Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
HKFRS 17	Insurance Contracts[4]
Amendments to HKFRS 3	Reference to the Conceptual Framework[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2[1]
Annual Improvements to HKFRSs 2018-2020[2]	

[1] Effective for annual periods beginning on or after 1 January 2021.

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

[3] Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.

[4] Effective for annual periods beginning on or after 1 January 2023.

[5] The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

Amendments to HKAS 1, Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

HK Int 5 (2020) was revised as a consequence of the Amendments to HKAS 1 issued in August 2020. The revision to HK Int 5 (2020) updates the wordings in the interpretation to align with the Amendments to HKAS 1 with no change in conclusion and do not change the existing requirements.

The directors of the Company do not anticipate that the application of the amendments and revision in the future will have an impact on the financial statements.

Amendments to HKAS 16, Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

The directors of the Company do not anticipate that the application of the amendments and revision in the future will have an impact on the financial statements.

Amendments to HKAS 37, Onerous Contracts – Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The directors of the Company do not anticipate that the application of the amendments and revision in the future will have an impact on the financial statements.

HKFRS 17, Insurance Contracts

The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes HKFRS 4, Insurance Contracts. The standard outlines a 'General Model', which is modified for insurance contracts with direct participation features, described as the 'Variable Fee Approach'. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The directors of the Company do not anticipate that the application of the amendments and revision in the future will have an impact on the financial statements.

Amendments to HKFRS 3, Reference to the Conceptual Framework

The amendments update HKFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to HKFRS 3 a requirement that, for obligations within the scope of HKAS 37, an acquirer applies HKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of HK(IFRIC)-Int 21 Levies, the acquirer applies HK(IFRIC)-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The directors of the Company do not anticipate that the application of the amendments and revision in the future will have an impact on the financial statements.

Amendments to HKFRS 10 and HKAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. When the transaction with an associate or joint venture that is accounted for using the equity method, any gains or losses resulting from the loss of control of a subsidiary that does not contain a business are recognised in the profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, any gains or losses resulting from the remeasurement of retained interest in any former subsidiary (that has become an associate or a joint venture) to fair value are recognised in the profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The directors of the Company do not anticipate that the application of the amendments and revision in the future will have an impact on the financial statements.

Annual Improvements to HKFRSs 2018-2020

The annual improvements amends a number of standards, including:

- HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, which permit a subsidiary that applies paragraph D16(a) of HKFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to HKFRSs.

- HKFRS 9, Financial Instruments, which clarify the fees included in the '10 per cent' test in paragraph B3.3.6 of HKFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other's behalf are included.

- HKFRS 16, Leases, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

- HKAS 41, Agriculture, which remove the requirement to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The directors of the Company do not anticipate that the application of the amendments and revision in the future will have an impact on the financial statements.

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16, Interest Rate Benchmark Reform – Phase 2

The amendments address issues that might affect financial reporting when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform (the "Reform"). The amendments complement those issued in November 2019 and relate to (a) changes to contractual cash flows in which an entity will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the Reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate; (b) hedge accounting in which an entity will not have to discontinue its hedge accounting solely because it makes changes required by the Reform, if the hedge meets other hedge accounting criteria; and (c) disclosures in which an entity will be required to disclose information about new risks arising from the Reform and how it manages the transition to alternative benchmark rates.

The directors of the Company do not anticipate that the application of the amendments and revision in the future will have an impact on the financial statements.

4. SEGMENT INFORMATION

The executive directors of the Company have been identified as the chief operating decision-makers of the Group who review the Group's internal reporting in order to assess performance of the Group on a regular basis and allocate resources.

The Group is principally engaged in the provision of research, design, development and sales of compatible cartridge chips. The chief operating decision-maker assesses performance of the business based on a measure of operating results and consider the business in a single operating segment. Information reported to the chief operating decision-makers for the purposes of resources allocation and performance assessment focuses on the operation results of the Group as a whole as the Group's resources are integrated. Accordingly, the Group has identified one operating segment and no segment information is presented.

(i) Disaggregation of the Group's revenue from contracts with customers:

	Year ended 31 December	
	2019	**2020**
	RMB'000	*RMB'000*
		(unaudited)
Products		
Sales of chips	150,610	144,370
Trading of integrated circuits and other cartridge components	7,015	12,413
	157,625	156,783
Timing of revenue recognition		
At a point in time	157,625	156,783

(ii) Geographic information

The Company is an investment holding company and the principal place of the Group's operation is in the PRC. The following table provides an analysis of the Group's revenue from external customers and non-current assets other than deferred tax assets ("Specified non-current assets"):

	Year ended 31 December	
	2019	**2020**
	RMB'000	*RMB'000*
		(unaudited)
Revenue from external customers (by customers location):		
PRC	132,854	128,988
Overseas	24,771	27,795
	157,625	156,783

	As at 31 December	
	2019	**2020**
	RMB'000	*RMB'000*
		(unaudited)
Specific non-current assets		
PRC	11,003	10,960
Overseas	662	718
	11,665	11,678

(iii) Information about major customers

Revenue from customers contributing over 10% or more of the Group's revenue is as follow:

	Year ended 31 December	
	2019	**2020**
	RMB'000	*RMB'000*
		(unaudited)
Customer A	60,377	51,568

5. REVENUE

All the Group's revenue is derived from contracts with customers.

The Group is principally engaged in the provision of research, design, development and sales of compatible cartridge chips. An analysis of the Group's revenue by category for the years ended 31 December 2019 and 2020 is disclosed in Note 4.

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

	As at 31 December	
	2019	**2020**
	RMB'000	*RMB'000*
		(unaudited)
Trade receivables *(Note 10)*	86,146	39,057
Contract liabilities	521	249

Contract liabilities represent receipts in advance from customers for goods that have not yet been transferred to the customers. As at 31 December 2019 and 2020, the contract liabilities represented the receipts in advance received from sales of compatible cartridge chips.

During the years ended 31 December 2019 and 2020, all brought-forward contract liabilities at the beginning of the financial period were fully recognised as revenue.

6. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging/(crediting):

	Year ended 31 December	
	2019	**2020**
	RMB'000	*RMB'000*
		(unaudited)
Carrying amount of inventories sold	62,200	63,006
Write-down of inventories	421	117
Cost of inventories recognised as expense	62,621	63,123
Amortisation of intangible assets	484	895
Auditor's remuneration	925	783
Bad debt expenses	–	764
Depreciation of property, plant and equipment		
– Owned property, plant and equipment	1,876	2,320
– Right-of-use assets	1,262	1,421
Provision for impairment of trade receivables	–	1,037
Short-term leases expenses	320	226
Research and developments expenses (other than staff costs)	3,688	8,499
Interests on lease liabilities	151	113
Staff costs (including directors' emoluments)		
– Salaries, wages and other benefits	18,271	17,596
– Retirement scheme contributions	2,451	1,394
	20,722	18,990

7. INCOME TAX EXPENSE

The amount of taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	Year ended 31 December	
	2019	**2020**
	RMB'000	*RMB'000*
		(unaudited)
Current tax		
– PRC Corporate Income Tax	7,961	5,773
Over-provision for prior years	–	(438)
Deferred tax		
– Charged/(credited) to profit or loss for the year	1,364	(2,144)
Withholding tax	2,591	3,997
Income tax expense	11,916	7,188

Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax in the Cayman Islands and BVI.

Subsidiaries operating in Hong Kong are subject to Hong Kong profits tax. Hong Kong profits tax is calculated at two-tiered tax rates on the estimated assessable profits arising in Hong Kong at 8.25% on assessable profits up to HK$2 million and 16.5% on any part of assessable profits over HK$2 million. For the years ended 31 December 2019 and 2020, under two-tiered tax rates, if the entity has one or more connected entity, the two-tiered tax rates would only apply to the one which is nominated to be chargeable at the two-tiered tax rates.

For those entities which do not qualify for two-tiered profits tax rates, a profits tax rate of 16.5% on assessable profit shall remain in calculating Hong Kong profits tax.

Under the PRC Corporate Income Tax Law (the "CIT Law"), which became effective on 1 January 2008, the Group's PRC entities are subject to income tax at a rate of 25%, unless otherwise specified. One of the Group's subsidiaries, Zhuhai Megain is eligible to a preferential income tax rate of 15% as a High New Technology Enterprise during the year. For the years ended 31 December 2019 and 2020, income tax provision is calculated at 15% of the assessable income of Zhuhai Megain.

8. DIVIDENDS

	Year ended 31 December	
	2019	**2020**
	RMB'000	*RMB'000*
		(unaudited)
Final dividends	20,907	29,677

On 12 April 2019 and 6 April 2020, the Company paid a final dividend of RMB20,907,000 and RMB29,677,000, in aggregate to its owners of the Company in respect of the years ended 31 December 2018 and 2019 respectively. The final dividend proposed by the board of directors for the year ended 31 December 2020 which is to be approved at the forthcoming annual general meeting. The proposed dividend is not reflect payable in the consolidated financial statements.

9. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following data.

	2019	2020
	RMB'000	*RMB'000*
		(unaudited)
Earnings		
Profit for the year	41,313	28,750

	2019	2020
	Number'000	*Number'000*
		(unaudited)
Number of shares		
Weighted average number of ordinary shares	375,000	375,000

Note:

Weighted average of 375,000,000 ordinary shares for the years ended 31 December 2019 and 2020, being the number of ordinary shares in issue immediately after the completion of capitalisation issue in March 2021, deemed to have been issued throughout the years ended 31 December 2019 and 2020, immediately before the completion of the placing of the Company's new ordinary shares.

Diluted earnings per share were the same as the basic earnings per share as the Group had no potential dilutive ordinary shares during the years ended 31 December 2019 and 2020.

10. TRADE RECEIVABLES

	As at 31 December	
	2019	**2020**
	RMB'000	*RMB'000*
		(unaudited)
Trade receivables	87,128	41,076
Less: Loss allowance	(982)	(2,019)
	86,146	39,057

Note:

All of the trade receivables are expected to be recovered within one year.

During the years ended 31 December 2019 and 2020, the Group allows credit periods ranging from 30 to 120 days to its customers. Before accepting any new customer, the Group assesses the potential customer's credit quality. Credit term granted to customers is reviewed regularly.

Included in trade receivables are trade debtors (net of impairment losses) with the following ageing analysis, based on invoice dates, as of the end of each of the reporting period:

	As at 31 December	
	2019	**2020**
	RMB'000	*RMB'000*
		(unaudited)
Within 90 days	79,563	26,881
91 – 180 days	5,197	7,727
Over 180 days	1,386	4,449
	86,146	39,057

11. TRADE PAYABLES

	As at 31 December	
	2019	**2020**
	RMB'000	*RMB'000*
		(unaudited)
Trade payables	14,065	6,454

Note:

Credit period granted by suppliers is normally 30 days to 60 days. Due to short maturity periods, the carrying values of the Group's trade payables are considered to be a reasonable approximation of their fair values.

Included in trade payables are trade creditors with the following ageing analysis, based on invoice dates, as of the end of each of the reporting period:

	As at 31 December	
	2019	**2020**
	RMB'000	*RMB'000*
		(unaudited)
Within 1 month	7,888	1,898
1 – 3 months	2,739	1,103
Over 3 months	3,438	3,453
	14,065	6,454

12. EVENTS AFTER THE REPORTING PERIOD

Following the outbreak of COVID-19 in early 2020, a series of precautionary and control measures have been and continued to be implemented by the PRC government including except for certain exempted persons, restrictions on entering into provinces and compulsory quarantine measures of all inbound travelers, and various social distancing measures. As at the date on which this set of consolidated financial statements were authorised for issue, the Group was not aware of material adverse effects on the consolidated financial statements as a result of the Covid-19 pandemic. The Group will pay close attention to the development of the Covid-19 pandemic, perform further assessment of its impact and take relevant measures.

BUSINESS REVIEW AND OUTLOOK

We are one of the leading providers of compatible cartridge chips based in the PRC. According to the CIC Report, we ranked second with a market share of approximately 11.1% in 2019 in terms of external sales (being the sales of compatible cartridge chips made by the providers other than to members of the same group, with sales to other members of the same group excluded in 2019). In terms of production volume (being the total volume of compatible cartridge chips produced by the providers), we ranked third with a market share of approximately 4.3% in the PRC compatible cartridge chip market in 2019. In 2019, the compatible cartridge chips market accounted for approximately 24.3% of the cartridge chips market by volume in the PRC. Our products are one of the core components of compatible cartridges, which are printer consumables designed and manufactured by third-party cartridge manufacturers and include ink cartridges for use in inkjet printers and toner cartridges for use in laser printers. The principal functions of a compatible cartridge chip include facilitating communication between a compatible cartridge and the original-brand printer in which such a cartridge is installed, and monitoring cartridge usage. We take pride in our ability to introduce new models of compatible cartridge chip to the market in a timely manner. We have been devoted to design and development of the software component of our products, i.e. the firmware; as for the hardware component, i.e. the PCBAs, we may either directly source them from external suppliers, or engage subcontractors to produce them based on our own designs.

Our principal goal is to maintain and strengthen our position as a leading compatible cartridge chips providers in the PRC. To meet our goal, we intend to implement the following key business strategies:

(i) to strengthen our product development capacity and diversify our product portfolio;

(ii) to accelerate the development of our hardware design capabilities through acquisition of IC design company;

(iii) to increase our presence in the compatible cartridge industry through forward vertical expansion;

(iv) to step up our sales and marketing efforts to cater for the expansion of our product offerings; and

(v) to improve the functionality of our back office to support our business growth.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND OPERATION RESULTS

Analysis of Key Items of Results of Operations

Revenue

Our overall revenue remained relatively stable at approximately RMB157.6 million for the year 31 December 2019 and approximately RMB156.8 million for the year ended 31 December 2020 respectively. The following table summarises the revenue for each of the product categories by application during the years indicated:

	Year ended 31 December							
	2019				2020 (unaudited)			
	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price
	RMB'000	*%*	*000' pieces of chips*	*RMB*	*RMB'000*	*%*	*000' pieces of chips*	*RMB*
Sales of chips								
Product category-application								
– Desktop laser printers	66,944	42.5	10,363	6.5	67,056	42.8	12,022	5.6
– Desktop inkjet printers	77,037	48.9	6,293	12.2	69,885	44.6	7,981	8.8
– Commercial printers[1]	6,629	4.2	407	16.3	7,429	4.7	312	23.8
Sub-total	**150,610**	**95.6**	**17,063**	**8.8**	**144,370**	**92.1**	**20,315**	**7.1**
Trading of ICs and other cartridge components[2]	7,015	4.4	N/A	N/A	12,413	7.9	N/A	N/A
Total	**157,625**	**100**			**156,783**	**100**		

Notes:

1. Includes mainly commercial laser printers.

2. In addition to provision of chips, we also engaged in trading of ICs and other cartridge components, including plastic parts and toner, as ancillary services to our customers.

(i) Sales of compatible cartridge chips

Our revenue from the sales of compatible cartridge chips decreased by approximately 4.1% from approximately RMB150.6 million for the year ended 31 December 2019 to approximately RMB144.4 million for the year ended 31 December 2020.

The decrease in revenue was mainly due to decrease in revenue from the sales of our chips for desktop inkjet printers to our customers (in particular, the cartridge manufacturers in Listed Group A) from approximately RMB77.0 million for the year ended 31 December 2019 to approximately RMB69.9 million for the year ended 31 December 2020 mainly because (1) Listed Group A had already established an inventory of some size of the Ink Cartridge Chip Models through the bulk purchases made in 4Q2019; (2) Listed Group A's business operations had been temporarily suspended during the Chinese New Year holiday in the PRC and as a result of the outbreak of COVID-19 in the PRC during the first quarter of 2020; (3) Listed Group A had scaled down its purchases of the Ink Cartridge Chip Models in the second quarter of 2020 in the light of the outbreak of COVID-19 in other countries which created uncertainty over the demand for its products in overseas markets, and the expected lower demand for its products during the third quarter of each year; (4) our sales of the Ink Cartridge Chip Models to Listed Group A were particularly significant in 4Q2019; and (5) Listed Group A had significantly reduced its purchases of certain of the Ink Cartridge Chip Models in September 2020 and October 2020, as the relevant original-brand printer company had initiated certain substantial upgrades of its corresponding printer models which were expected to affect the compatibility of all existing relevant chip models in the market, and our Group had been developing new versions of such Ink Cartridge Chip Models to tackle such upgrades.

(ii) Trading of ICs and other cartridge components

Our revenue generated from trading of ICs and other cartridge components increased from approximately RMB7.0 million for the year ended 31 December 2019 to approximately RMB12.4 million for the year ended 31 December 2020 mainly due to increase in the sales of toner.

Cost of sales

Our cost of sales remained relatively stable at approximately RMB69.5 million for the year ended 31 December 2019 and approximately RMB69.7 million for the year ended 31 December 2020 respectively. The proportional increase of purchase of ICs and other parts of PCBAs (as opposed to PCBAs sourced from external suppliers) as a result of the increase of our independent research and development had also increased our subcontracting charges.

Gross profit and gross profit margin

Our overall gross profit slightly decreased by approximately 1.2% from approximately RMB88.1 million for the year ended 31 December 2019 to approximately RMB87.1 million for the year ended 31 December 2020. Our overall gross profit margin slightly decreased from approximately 55.9% for the year ended 31 December 2019 to approximately 55.5% for the year ended 31 December 2020. The following table sets forth a breakdown of our gross profit and gross profit margin for each of the product categories by application during the years indicated:

	Year ended 31 December			
	2019		2020 (unaudited)	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	*RMB'000*	%
Sales of chips				
Product category-application				
– Desktop laser printers	28,062	41.9	40,886	61.0
– Desktop inkjet printers	55,003	71.4	40,870	58.5
– Commercial printers	4,170	62.9	4,376	58.9
Sub-total	**87,235**	**57.9**	**86,133**	**59.7**
Trading of ICs and other cartridge components	875	12.5	939	7.6
Total	**88,110**	**55.9**	**87,072**	**55.5**

(i) Sales of compatible cartridge chips

The gross profit from the sales of compatible cartridge chips decreased from approximately RMB87.2 million for the year ended 31 December 2019 to approximately RMB86.1 million for the year ended 31 December 2020, mainly due to the decrease in gross profit from the sales of our chips for desktop inkjet printers from approximately RMB55.0 million for the year ended 31 December 2019 to approximately RMB40.9 million for the year ended 31 December 2020, which was mainly due to the decrease in average selling price along product life cycle.

Our gross profit margin of compatible cartridge chips increased from approximately 57.9% for the year ended 31 December 2019 to approximately 59.7% for the year ended 31 December 2020, mainly due to (i) the increase in gross profit margin of our chips for desktop laser printers from approximately 41.9% for the year ended 31 December 2019 to approximately 61.0% for the year ended 31 December 2020 due to the higher profit margin of certain models of chips for desktop laser printers we launched in 2020 with relatively limited competing products; and (ii) the decrease in average unit cost attributable to the increase in purchase of ICs and other parts of PCBAs as a result of the increase of our independent research and development.

(ii) Trading of ICs and other cartridge components

Our gross profit from trading of ICs and other cartridge components remained relatively stable at approximately RMB0.9 million for the year ended 31 December 2019 and approximately RMB0.9 million for the year ended 31 December 2020 respectively. The decrease in gross profit margin from approximately 12.5% to approximately 7.6% was mainly due to the increase in sales of toner with lower profit margin.

Other net income

Our other net income increased by approximately 5.5% from approximately RMB3.8 million for the year ended 31 December 2019 to approximately RMB4.0 million for the year ended 31 December 2020, which was mainly due to the increase in government grants in relation to social insurance contribution for our employees and the increase in bank interest income.

Research and development expenses

Our research and development expenses increased by approximately 57.9% from approximately RMB9.3 million for the year ended 31 December 2019 to approximately RMB14.6 million for the year ended 31 December 2020. Such increase was mainly due to (i) the increase in staff costs attributable to the increase in headcount for our research and development team; (ii) the increase in testing fee and raw material cost attributable to the increase in subcontracting fee for research and development on the hardware component of our chips; (iii) the increase in depreciation and amortisation; and (iv) the increase in other expenses due to the increase in the initial fee for research and development for the IoT market.

Selling and distribution expenses

Our selling and distribution expenses decreased by approximately 27.4% from approximately RMB7.8 million for the year ended 31 December 2019 to approximately RMB5.6 million for the year ended 31 December 2020. Such decrease was mainly attributable to (i) the decrease in staff costs and the decrease in expenses on social insurance contribution for our employees due to government's waiver; and (ii) the decrease in travelling and exhibition expenses due to the outbreak of COVID-19.

Administrative expenses

Our administrative expenses increased by approximately 7.1% from approximately RMB18.9 million for the year ended 31 December 2019 to approximately RMB20.2 million for the year ended 31 December 2020 mainly due to the recognition of bad debt expenses of approximately RMB0.8 million and the increase in impairment of trade receivables of approximately RMB1.0 million.

Income tax expenses

Our income tax expenses decreased by approximately 39.7% from approximately RMB11.9 million for the year ended 31 December 2019 to approximately RMB7.2 million for the year ended 31 December 2020 in line with the decrease in the profit before income tax expense for the year ended 31 December 2020 due to the reasons discussed above.

Net profit and net profit margin

Our profit for the year decreased by approximately 30.4% from approximately RMB41.3 million for the year ended 31 December 2019 to approximately RMB28.8 million for the year ended 31 December 2020 mainly due to the increase in listing expenses. Our net profit margin decreased from 26.2% for the year ended 31 December 2019 to 18.3% for the year ended 31 December 2020 mainly due to the reasons discussed above.

Analysis of Key Items of Financial Position

Net Current Assets

We recorded net current assets of approximately RMB168.9 million and RMB163.2 million as at 31 December 2019 and 2020 respectively. Our current assets decreased from approximately RMB205.3 million as at 31 December 2019 to approximately RMB185.1 million as at 31 December 2020, mainly due to the declaration of final dividend in respect of the year ended 31 December 2019 of RMB29,677,000 during the year ended 31 December 2020. Our current liabilities decreased from approximately RMB36.5 million as at 31 December 2019 to approximately RMB21.8 million as at 31 December 2020 primarily due to the decrease in trade payables and income tax payable.

Property, plant and equipment

The net book value of our property, plant and equipment decreased from approximately RMB7.1 million as at 31 December 2019 to approximately RMB5.8 million as at 31 December 2020 mainly due to the depreciation charge of approximately RMB3.8 million partly offset by the addition of machinery and equipment of approximately RMB2.0 million and the addition of property for own use of approximately RMB0.5 million.

Intangible assets

Our intangible assets consisted mainly of software and patent. The net book value of our intangible assets increased from approximately RMB4.5 million as at 31 December 2019 to approximately RMB5.8 million as at 31 December 2020 mainly due to the addition of software and patent for the design of new products.

Inventories

Inventories primarily comprised raw materials, finished goods, goods-in-transit and right to recover returned goods. Inventories decreased from approximately RMB26.6 million as at 31 December 2019 to approximately RMB11.6 million as at 31 December 2020 mainly due to the decrease in inventory level including raw materials and finished goods attributable to the tightening of our inventory control.

Trade receivables

The following sets forth our trade receivables as at 31 December 2019 and 31 December 2020 respectively:

	As at 31 December	
	2019	**2020**
	RMB'000	*RMB'000*
		(unaudited)
Trade receivables	87,128	41,076
Less: Loss allowance	(982)	(2,019)
	86,146	39,057

Deposits, prepayments and other receivables

Our deposit, prepayments and other receivables increased from approximately RMB8.6 million as at 31 December 2019 to approximately RMB11.0 million as at 31 December 2020 mainly due to the increase in prepayment for the cost incurred in connection with the Listing.

Trade payables

Our trade payables decreased from RMB14.1 million as at 31 December 2019 to RMB6.5 million as at 31 December 2020 mainly due to the increase of purchase of ICs from Supplier C, who offered relatively shorter credit period (i.e. 30 days after month end), as a result of our effort to undertake our own substantive design work of PCBAs and source ICs independently to reduce our reliance on the suppliers of PCBAs.

Indebtedness

The table below sets out the breakdown of the indebtedness of our Group as at the respective dates indicated:

	As at 31 December	
	2019	**2020**
	RMB'000	*RMB'000*
		(unaudited)
Current liabilities		
Lease liabilities	1,209	1,403
Non-current liabilities		
Lease liabilities	1,309	191
	2,518	1,594

As at 31 December 2020, our Group, as a lessee, had outstanding contractual lease payments amounting to approximately RMB1.6 million in aggregate in relation to the remaining lease terms of certain lease contracts, which is unsecured and unguaranteed. Our lease liabilities represented the related liabilities arisen when obtaining the right to use certain properties through tenancy agreements.

Contingent liabilities

As at 31 December 2020, we did not have any material contingent liabilities.

Key financial ratios

The following table sets forth key financial ratios as of and for the years indicated:

		Year ended/As at 31 December	
	Notes	**2019**	**2020**
			(unaudited)
Current ratio	*1*	5.6	8.5
Quick ratio	*2*	4.9	7.9
Return on equity	*3*	23.5%	16.5%
Return on total assets	*4*	19.0%	14.6%
Gross profit margin	*5*	55.9%	55.5%
Net profit margin	*6*	26.2%	18.3%

Notes:

1. Current ratio is calculated by dividing total current assets by total current liabilities as at the respective dates.

2. Quick ratio is calculated by dividing current assets (net of inventories) by total current liabilities as at the the respective dates.

3. Return on equity is calculated by dividing profit for the year by closing balance of total equity and multiplying the resulting value by 100%.

4. Return on total assets is calculated by dividing profit for the year by closing balance of total assets and multiplying the resulting value by 100%.

5. Gross profit margin is calculated by dividing gross profit for the year by revenue and multiplying the resulting value by 100%. Gross profit equals revenue minus cost of sales.

6. Net profit margin is calculated by dividing profit for the year by revenue and multiplying the resulting value by 100%.

DISCLOSURE ABOUT MARKET RISK

See "Financial Information — Quantitative and qualitative analysis about financial risks" in this prospectus for further information.

CODE ON CORPORATE GOVERNANCE PRACTICES

Since we were not yet listed on the Stock Exchange during the year ended 31 December 2020, the Corporate Governance Code as set out in Appendix 14 to the Listing Rules was not applicable to us during such period under review. After the Listing, we will comply with all the code provisions set forth in the Corporate Governance Code.

REVIEW OF OUR PRELIMINARY FINANCIAL INFORMATION

The members of the Audit Committee have discussed with our management, and reviewed, the 2020 Preliminary Financial Information as set out in this appendix. The figures in respect of our Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in the 2020 Preliminary Financial Information above have been agreed to by the Reporting Accountants following their work in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Performed Agreed-upon Procedures Regarding Financial Information" and with reference to Practice Note 730 (Revised) "Guidance for Auditors Regarding Preliminary Announcement of Annual Results" issued by the Hong Kong Institute of Certified Public Accountants, to the amounts set out in our Group's draft consolidated financial statements for the year. The work performed by the Reporting Accountants in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Reporting Accountants on the 2020 Preliminary Financial Information.

PURCHASE, SALE OR REDEMPTION OF OUR COMPANY'S SHARES

Since we were not yet listed on the Stock Exchange during the year ended 31 December 2020, this disclosure requirement is not applicable to us.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 22 June 2016 under the Companies Act, Cap 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands (the "**Companies Act**"). The Company's constitutional documents consist of its Memorandum of Association (the "**Memorandum**") and its Articles of Association (the "**Articles**").

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Act and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 26 February 2021 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may by ordinary resolution of its members:

(i) increase its share capital by the creation of new shares;

(ii) consolidate all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock

Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Act in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

(v) Power of the Company to purchase its own shares

The Company is empowered by the Companies Act and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

The board may accept the surrender for no consideration of any fully paid share.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent (20%) per annum as the board determines.

(b) Directors

(i) Appointment, retirement and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

(aa) he resigns by notice in writing delivered to the Company;

(bb) he becomes of unsound mind or dies;

(cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) he is prohibited from being a director by law; or

(ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Act and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Act and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Act to be exercised or done by the Company in general meeting.

(iv) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or past Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or

(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members

(i) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Act, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings and extraordinary general meetings

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers; and

(ee) the fixing of the remuneration of the directors and of the auditors.

(v) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditor at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Act.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Act or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and

(ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Act and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Act provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act); (d) writing off the preliminary expenses of the company; and (e) writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "**Court**"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Act expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not to be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Act.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Act of the Cayman Islands, the Company has obtained an undertaking:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 1 March 2019.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Act prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) is made available by the Registrar of Companies for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members.

Members of the Company have no general right under the Companies Act to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. The register of members shall contain such particulars as required by Section 40 of the Companies Act. A branch register must be kept in the same manner in which a principal register is by the Companies Act required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, 25% or more of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

(u) Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Act, 2018 of the Cayman Islands ("**ES Act**") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Act. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Act.

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the section headed "Appendix VI — Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection — Documents Available for Inspection" in this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Cayman Islands Companies Act as an exempted company with limited liability on 22 June 2016. Our registered office is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. We have established a principal place of business in Hong Kong at Room 09, 11/F, Wayson Commercial Building, 28 Connaught Road West, Sheung Wan, Hong Kong and have been registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 25 March 2020. Mr. Wong Cheuk Lam (黃焯琳) has been appointed as the authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As a company incorporated in the Cayman Islands, our operations are subject to the Memorandum of Association and the Articles of Association as well as the Cayman Islands Companies Act. A summary of certain provisions of the Memorandum of Association and the Articles of Association and certain aspects of the Cayman Islands Companies Act is set out in Appendix IV in this prospectus.

2. Changes in the Share Capital of our Company

As at the date of incorporation of our Company on 22 June 2016, our Company had an authorised share capital of US$50,000, divided into 50,000 Shares of US$1.00 each.

The following changes in the share capital of our Company had taken place since the date of incorporation of our Company up to the date of this prospectus:

(a) on 22 June 2016, one subscriber's share was allotted and issued to the initial subscriber at par, and was transferred to AGL at a consideration of US$1.00 on the same day;

(b) on 22 June 2016, 4,774 Shares and 5,225 Shares, credited as fully paid, were allotted and issued to AGL and GMTL at a consideration of US$4,774 and US$5,225, respectively;

(c) on 21 October 2016, AGL and GMTL transferred their respective 2,340 and 2,560 Shares to CBCL at a consideration of RMB70,916,327 and RMB77,583,673, respectively;

(d) on 29 December 2017, CBCL transferred its 2,600 Shares to GLC at a consideration of RMB232,390,000;

(e) on 23 August 2019, CBCL transferred its 2,300 Shares to Mr. Lam Tsz Leung at a consideration of RMB115,000,000; and

(f) on 26 February 2021, the currency denomination of the authorised and issued share capital of our Company was changed from USD to HKD by (i) increasing the authorised share capital of our Company in HKD through the creation of 750,000,000 new shares with a par value of HK$0.01 each such that our Company will have an authorised share capital of US$50,000 and HK$7,500,000; (ii) issuing 10,000 shares with a par value of HK$0.01 each to the then existing Shareholders on a pro rata basis; (iii) repurchasing all the 10,000 shares with a par value of US$1.00 each in issue; and (iv) cancelling all the 50,000 unissued shares with a par value of US$1.00 each in the authorised share capital of our Company.

Immediately following completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares which may be issued upon exercise of any options granted or to be granted under the Share Option Scheme), the issued share capital of our Company will be HK$5,000,000, divided into 500,000,000 Shares, all fully paid or credited as fully paid.

Save as disclosed hereinabove and in "3. Written Resolutions of our Shareholders Passed on 26 February 2021" in this appendix, there has been no alteration in the share capital of our Company since its incorporation.

3. Written Resolutions of our Shareholders Passed on 26 February 2021

Written resolutions of our Shareholders were passed on 26 February 2021 pursuant to which, among other matters:

(a) conditional upon (i) the Listing Division granting the approval of the listing of, and the permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Shares which may be issued upon exercise of any options granted or to be granted under the Share Option Scheme; (ii) the Offer Price having been duly agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company; (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and (iv) the obligations of the Underwriters under the Underwriting Agreements having become unconditional and the Underwriting Agreements not having been terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in such agreements:

   (i) the Global Offering was approved and our Directors were authorised to approve the allotment and issue of the Shares pursuant to the Global Offering on and subject to the terms and conditions thereof as set out in this prospectus and the Application Forms;

   (ii) the Over-allotment Option was approved and our Directors were authorised to effect the same and to allot and issue such number of Shares upon exercise of the Over-allotment Option;

(iii) conditional upon the share premium account of our Company being credited as a result of the issue of the Offer Shares, our Directors were authorised to issue a total of 374,990,000 Shares, credited as fully paid, at par to the Shareholders whose names appear on our share register at close of business on 30 March 2021 in proportion to their then respective shareholding by way of capitalisation of the sum of HK$3,749,900 standing to the credit of the share premium account of our Company, and the Shares to be issued shall carry the same rights in all respects as the existing Shares;

(iv) the Issuing Mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of a rights issue, any scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles of Association, or pursuant to the exercise of any options granted or to be granted under the Share Option Scheme, or pursuant to a specific authority granted by the Shareholders in a general meeting, or under the Capitalisation Issue or the Global Offering, or upon the exercise of the Over-allotment Option, such number of Shares representing up to 20% of the total number of the Shares in issue immediately following completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares which may be issued upon exercise of any options granted or to be granted under the Share Option Scheme), and such mandate to remain in effect until the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required to be held by the Articles of Association or any applicable laws of the Cayman Islands, or the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying such authority, which occurs first;

(v) the Repurchase Mandate was given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange, or on any other approved stock exchange on which our securities may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, subject to and in accordance with the Listing Rules and all other applicable laws and rules, such number of Shares representing up to 10% of the total number of Shares in issue immediately following completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares which may be issued upon exercise of any options granted or to be granted under the Share Option Scheme), and such mandate to remain in effect until the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required to be held by the Articles of Association or any applicable laws of the Cayman Islands, or the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying such authority, whichever occurs first;

(vi) the extension of the Issuing Mandate to include the number of Shares which may be repurchased pursuant to the Repurchase Mandate;

(vii) the adoption of the Share Option Scheme was approved;

(b) the Memorandum of Association was approved and adopted with immediate effect; and

(c) the Articles of Association were adopted in substitution of and to the exclusion of the existing articles of association of our Company with effect from the Listing Date.

4. Our Subsidiaries

Certain details of our subsidiaries are set out in Appendix I in this prospectus. Save as set out in Appendix I in this prospectus, we do not have any other subsidiaries.

For further information of our subsidiaries (including details relating to the alteration in the share capital of our subsidiaries within the two years immediately preceding the date of this prospectus) please refer to the section headed "History, Development and Corporate Structure — Corporate History and Shareholding Changes of our Group Companies" in this prospectus.

5. Corporate Reorganisation

We did not undergo any reorganisation for the purpose of the Listing.

6. Repurchase of Shares

This paragraph sets out information required by the Stock Exchange to be included in this prospectus relating to the repurchase by our Company of our own securities.

(a) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution in writing passed by our Shareholders on 26 February 2021, the Repurchase Mandate was given to our Directors authorising any repurchase by our Company of Shares on the Stock Exchange, or any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the total number of Shares in issue immediately following completion of the Capitalisation Issue and the Global Offering but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options granted or to be granted under the Share Option Scheme, such mandate to expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of

Association, the Cayman Islands Companies Act or other applicable laws of the Cayman Islands to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first.

(b) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum of Association, the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, any repurchase by our Company may be made out of our funds which would otherwise be available for dividend or distribution or out of the proceeds of a new issue of Shares made for the purpose of the repurchase. Any amount of premium payable on a purchase over the par value of the Shares to be repurchased must be made out of the funds which would otherwise be available for dividend or distribution or from sums standing to the credit of our share premium account. Subject to satisfaction of the solvency test prescribed by the Cayman Islands Companies Act, a repurchase may also be paid out of the capital of the Company.

(c) Reasons for repurchases

Our Directors believe that it is in the best interest of our Company and the Shareholders for our Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if our Directors believe that such repurchases will benefit our Company and the Shareholders.

(d) Funding of repurchases

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Memorandum of Association, the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of our current financial position as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or our gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(e) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to us or our subsidiaries. Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Memorandum of Association, the Articles of Association, the Cayman Islands Companies Act and other applicable laws of the Cayman Islands.

If, as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequence which would arise under the Takeovers Code as a consequence of any repurchase pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No connected person of our Company has notified us that he/she/it has a present intention to sell any Share to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

FURTHER INFORMATION ABOUT OUR BUSINESS

7. Material Contract

The following contract (not being contract entered into in the ordinary course of business) was entered into by our Company or its subsidiaries within the two years preceding the date of this prospectus and is or may be material:

(a) the Hong Kong Underwriting Agreement.

8. Material Intellectual Property Rights

(a) Trademarks

As at the Latest Practicable Date, we had registered the following trademarks which are material to our business:

No.	Trademark	Class	Registered owner	Place of registration	Registration number	Validity period
1.	MEGAIN technology	2	Zhuhai Megain	PRC	29305719	7 January 2019 to 6 January 2029
2.	MEGAIN technology	9	Zhuhai Megain	PRC	26495190	7 October 2018 to 6 October 2028
3.	美佳音	9	Zhuhai Megain	PRC	26490172	21 December 2018 to 20 December 2028
4.	MEGAIN	2	Zhuhai Megain	PRC	22854382	28 January 2019 to 27 January 2029
5.	MEGAIN	9	Zhuhai Megain	PRC	26482565	7 October 2018 to 6 October 2028
6.	MEGAIN	9	Zhuhai Megain	PRC	22854609	21 February 2018 to 20 February 2028
7.	MEGAIN	16	Zhuhai Megain	PRC	22854654	21 February 2018 to 20 February 2028
8.	MEGAIN technology	2	Zhuhai Megain	PRC	12974430	14 January 2016 to 13 January 2026
9.	MEGAIN technology	9	Zhuhai Megain	PRC	12974495	14 November 2015 to 13 November 2025
10.	MEGAIN technology	16	Zhuhai Megain	PRC	12974523	21 January 2015 to 20 January 2025
11.	TAIXU	11	Zhuhai Megain	PRC	8806923	21 November 2011 to 20 November 2021
12.	美佳音	2	Zhuhai Megain	PRC	13959727	14 April 2015 to 13 April 2025

No.	Trademark	Class	Registered owner	Place of registration	Registration number	Validity period
13.	美佳音	9	Zhuhai Megain	PRC	13959774	14 March 2015 to 13 March 2025
14.	美佳音	16	Zhuhai Megain	PRC	13959842	14 April 2015 to 13 April 2025
15.	MEGAIN	34	Zhuhai Megain	PRC	39008713	14 February 2020 to 13 February 2030
16.	MEGAIN	27	Zhuhai Megain	PRC	38744272	7 February 2020 to 6 February 2030
17.	MEGAIN	28	Zhuhai Megain	PRC	38743791	7 February 2020 to 6 February 2030
18.	MEGAIN	22	Zhuhai Megain	PRC	38742912	7 February 2020 to 6 February 2030
19.	MEGAIN	23	Zhuhai Megain	PRC	38742581	7 February 2020 to 6 February 2030
20.	MEGAIN	24	Zhuhai Megain	PRC	38742345	7 February 2020 to 6 February 2030
21.	MEGAIN	13	Zhuhai Megain	PRC	38578267	7 February 2020 to 6 February 2030
22.	MEGAIN	40	Zhuhai Megain	PRC	38995539	28 February 2020 to 27 February 2030
23.	MEGAIN	18	Zhuhai Megain	PRC	38597957	28 February 2020 to 27 February 2030
24.	MEGAIN technology	2, 9, 16	Zhuhai Megain	European Union	015174154	2 March 2016 to 2 March 2026
25.	MEGAIN	2, 9, 16	Zhuhai Megain	European Union	017906301	25 May 2018 to 25 May 2028
26.	MEGAIN technology	9	Zhuhai Megain	United States	5112573	3 January 2017 to 2 January 2027
27.	MEGAIN	16	Zhuhai Megain	United States	5627904	11 December 2018 to 10 December 2028

No.	Trademark	Class	Registered owner	Place of registration	Registration number	Validity period
28.		2	Zhuhai Megain	United States	5627903	11 December 2018 to 10 December 2028
29.		9	Zhuhai Megain	United States	5627232	11 December 2018 to 10 December 2028
30.		2	Zhuhai Megain	Taiwan	01672402	1 November 2014 to 31 October 2024
31.		2, 9, 35	Zhuhai Megain	Hong Kong	302644353	19 June 2013 to 18 June 2023
32.		43	Zhuhai Megain	PRC	39345408	28 May 2020 to 27 May 2030
33.		37	Zhuhai Megain	PRC	39012485	7 May 2020 to 6 May 2030
34.		32	Zhuhai Megain	PRC	39005468	21 May 2020 to 20 May 2030
35.		35	Zhuhai Megain	PRC	38999841	7 May 2020 to 6 May 2030
36.		31	Zhuhai Megain	PRC	38992691	7 May 2020 to 6 May 2030
37.		25	Zhuhai Megain	PRC	38744019	28 April 2020 to 27 April 2030
38.		30	Zhuhai Megain	PRC	38743225	7 May 2020 to 6 May 2030
39.		26	Zhuhai Megain	PRC	38743221	28 April 2020 to 27 April 2030
40.		29	Zhuhai Megain	PRC	38742588	7 May 2020 to 6 May 2030
41.		21	Zhuhai Megain	PRC	38741772	28 April 2020 to 27 April 2030
42.		15	Zhuhai Megain	PRC	38593899	28 April 2020 to 27 April 2030

No.	Trademark	Class	Registered owner	Place of registration	Registration number	Validity period
43.		20	Zhuhai Megain	PRC	38578446	21 May 2020 to 20 May 2030
44.		14	Zhuhai Megain	PRC	38578311	21 April 2020 to 20 April 2030
45.		7	Zhuhai Megain	PRC	38275014	28 April 2020 to 27 April 2030
46.		1	Zhuhai Megain	PRC	38270218	28 April 2020 to 27 April 2030
47.		8	Zhuhai Megain	PRC	38263253	28 April 2020 to 27 April 2030
48.		5	Zhuhai Megain	PRC	38257567	28 April 2020 to 27 April 2030
49.		6	Zhuhai Megain	PRC	38255128	28 April 2020 to 27 April 2030
50.		4	Zhuhai Megain	PRC	38250278	21 April 2020 to 20 April 2030
51.		36	Zhuhai Megain	PRC	39005521	7 June 2020 to 6 June 2030
52.		42	Zhuhai Megain	PRC	39345398	7 June 2020 to 6 June 2030
53.		44	Zhuhai Megain	PRC	39323226	7 June 2020 to 6 June 2030
54.		11	Zhuhai Megain	PRC	38585826	28 June 2020 to 27 June 2030
55.		17	Zhuhai Megain	PRC	38583810	28 June 2020 to 27 June 2030
56.		41	Zhuhai Megain	PRC	39335596	7 July 2020 to 6 July 2030
57.		2, 9, 35	Zhuhai Megain	Hong Kong	305238973	3 April 2020 to 2 April 2030

No.	Trademark	Class	Registered owner	Place of registration	Registration number	Validity period
58.		2, 9, 16	Zhuhai Megain	World Intellectual Property Organization	1499422	9 July 2019 to 8 July 2029
59.		39	Zhuhai Megain	PRC	38992803	21 September 2020 to 20 September 2030

As at the Latest Practicable Date, we had applied for the registration of the following trademarks which are material to our business:

No.	Trademark	Class	Applicant	Place of application	Application number	Date of application
1.		9	Zhuhai Megain	PRC	46533993	21 May 2020
2.		9	Zhuhai Megain	PRC	53392901	29 January 2021
3.		19	Zhuhai Megain	PRC	53393291	29 January 2021
4.		3	Zhuhai Megain	PRC	53397343	29 January 2021
5.		33	Zhuhai Megain	PRC	53399172	29 January 2021
6.		38	Zhuhai Megain	PRC	53411664	29 January 2021
7.		45	Zhuhai Megain	PRC	53423515	29 January 2021
8.		35	Zhuhai Megain	PRC	53424061	29 January 2021
9.	美佳音	9	Zhuhai Megain	PRC	53424230	29 January 2021
10.		10	Zhuhai Megain	PRC	53425475	29 January 2021
11.		16	Zhuhai Megain	PRC	53430927	30 January 2021
12.		2	Zhuhai Megain	PRC	53433248	30 January 2021

No.	Trademark	Class	Applicant	Place of application	Application number	Date of application
13.		12	Zhuhai Megain	PRC	54311257	29 January 2021

(b) Patents

As at the Latest Practicable Date, we had registered the following patents which are material to our business:

No.	Type	Description	Registered owner	Place of registration	Patent number	Expiry date
1.	Utility model	Chip, processing cartridge and imaging device (芯片、處理盒及成像設備)	Zhuhai Megain	PRC	201520936836.2	15 November 2025
2.	Utility model	Chip, processing cartridge and imaging device (芯片、處理盒及成像設備)	Zhuhai Megain	PRC	201520936837.7	15 November 2025
3.	Utility model	Chip, processing cartridge and imaging device (芯片、處理盒及成像設備)	Zhuhai Megain	PRC	201520934822.7	15 November 2025
4.	Utility model	Chip and processing cartridge (芯片及處理盒)	Zhuhai Megain	PRC	201520933228.6	18 November 2025
5.	Utility model	A processing cartridge and chip (一種處理盒及芯片)	Zhuhai Megain	PRC	201521015871.7	8 December 2025
6.	Utility model	A chip data write-in device and system (一種芯片數據寫入設備和系統)	Zhuhai Megain	PRC	201620411355.4	5 May 2026
7.	Utility model	A chip data write-in device and system (一種芯片數據寫入設備和系統)	Zhuhai Megain	PRC	201620408594.4	5 May 2026

No.	Type	Description	Registered owner	Place of registration	Patent number	Expiry date
8.	Utility model	A chip data write-in device and system (一種芯片數據寫入設備和系統)	Zhuhai Megain	PRC	201620408593.X	5 May 2026
9.	Utility model	A chip data write-in device and system (一種芯片數據寫入設備和系統)	Zhuhai Megain	PRC	201620408592.5	5 May 2026
10.	Industrial design	Ink cartridge chip (墨盒芯片)	Zhuhai Megain	PRC	201630398562.6	17 August 2026
11.	Utility model	Synchronous transmission circuit for compatible cartridge chip (打印機兼容芯片的同步傳輸電路)	Zhuhai Megain	PRC	201721356792.1	19 October 2027
12.	Industrial design	Temperature and humidity logger (NFC) (溫濕度記錄儀 (NFC))	Zhuhai Megain	PRC	201730563945.9	14 November 2027
13.	Utility model	An NFC monitoring logger (一種NFC監測記錄儀)	Zhuhai Megain	PRC	201721523684.9	14 November 2027
14.	Utility model	Imaging drum-driven component and processing cartridge (感光鼓驅動組件和處理盒)	Zhuhai Megain	PRC	201620023153.2	8 January 2026
15.	Industrial design	Bluetooth temperature and humidity recorder (藍牙溫濕度記錄器)	Zhuhai Megain	PRC	201830228732.5	16 May 2028
16.	Industrial design	Bluetooth temperature and humidity recorder (藍牙溫濕度記錄器)	Zhuhai Megain	PRC	201830276793.9	4 June 2028

No.	Type	Description	Registered owner	Place of registration	Patent number	Expiry date
17.	Utility model	Cartridge fuse simulation chip (打印機耗材保險絲仿真芯片)	Zhuhai Megain	PRC	201820968174.0	21 June 2028
18.	Utility model	Chip and its processing cartridge (芯片及含其的處理盒)	Zhuhai Megain	Taiwan	M520658	24 November 2025
19.	Utility model	An equipment inspection system (一種設備點檢系統)	Zhuhai Megain	PRC	201921770233.4	19 October 2029
20.	Design	Learning machine (學習機)	Zhuhai Megain	PRC	202030492132.7	24 August 2030

As at the Latest Practicable Date, we had applied for the registration of the following patents which are material to our business:

No.	Type	Description	Applicant	Place of application	Application number	Date of filing
1.	Invention	Cartridge fuse simulation chip (打印機耗材保險絲仿真芯片)	Zhuhai Megain	PRC	201810653160.4	22 June 2018
2.	Invention	Chip, processing cartridge, chip using method and chip resetting method (芯片、處理盒、芯片使用方法及芯片復位法)	Zhuhai Megain	Taiwan	104139113	25 November 2015
3.	Invention	Imaging drum-driven component and processing cartridge (感光鼓驅動組件和處理盒)	Zhuhai Megain	PRC	201610016326.2	9 January 2016
4.	Invention	Cartridge chip, processing cartridge, imaging device and method (耗材芯片、處理盒、成像設備和方法)	Zhuhai Megain	PRC	201610237757.1	15 April 2016

No.	Type	Description	Applicant	Place of application	Application number	Date of filing
5.	Invention	A method for reducing the number of flash erasing of low power consumption device (一種減少低功耗設備Flash的擦寫次數的方法)	Zhuhai Megain	PRC	201811194353.4	15 October 2018
6.	Invention	A temperature and humidity monitoring system based on Bluetooth ad hoc network and WIFI (一種基於藍牙自組網和WIFI的溫濕度監控系統)	Zhuhai Megain	PRC	201811208065.X	17 October 2018
7.	Invention	A chip data write-in device and system (一種芯片數據寫入設備和系統)	Zhuhai Megain	PRC	201610298873.4	6 May 2016
8.	Invention	Synchronous transmission circuit and synchronous method for compatible cartridge chip (打印機兼容芯片的同步傳輸電路及同步方法)	Zhuhai Megain	PRC	201710984894.6	20 October 2017
9.	Invention	Cartridge chip real-time recording circuit and method (打印機芯片的實時側錄電路及方法)	Zhuhai Megain	PRC	201711426964.2	26 December 2017
10.	PCT	Chip, processing cartridge and imaging device (芯片、處理盒及成像設備)	Zhuhai Megain	International application under the Patent Cooperation Treaty	PCT/CN2016/079028	12 April 2016

No.	Type	Description	Applicant	Place of application	Application number	Date of filing
11.	Invention	A method, equipment, and Bluetooth device for Bluetooth broadcast frequency (一種藍牙廣播頻率控制方法、裝置及藍牙設備)	Zhuhai Megain	PRC	201910311176.1	17 April 2019
12.	Invention	Data write-in method, NFC label, NFC device and storage medium (數據寫入方法、NFC標籤、NFC設備及存儲介質)	Zhuhai Megain	PRC	201910316732.4	18 April 2019
13.	Invention	A Bluetooth electronic device and Bluetooth connecting system (一種藍牙電子設備和藍牙連接系統)	Zhuhai Megain	PRC	202010543955.7	15 June 2020
14.	Invention	Environmental data compression method and related device (環境數據的壓縮方法及相關裝置)	Zhuhai Megain	PRC	202010803816.3	11 August 2020
15.	Utility model	A learning machine with rotating camera (一種帶有旋轉攝像頭的學習機)	Zhuhai Megain	PRC	202021800904.X	25 August 2020
16.	Invention	A data storage method, data gathering recorder and electronic equipment (一種數據存儲方法、數據採集記錄儀及電子設備)	Zhuhai Megain	PRC	202010947446.0	10 September 2020
17.	Industrial design	TWS Bluetooth headset and headset container (TWS藍牙耳機及耳機盒)	Zhuhai Megain	PRC	202030661035.6	3 November 2020
18.	Utility model	A type of computer (一種計算器)	Zhuhai Megain	PRC	202022614681.4	12 November 2020

No.	Type	Description	Applicant	Place of application	Application number	Date of filing
19.	Invention	Report production method, temperature and humidity logger and storage medium (報告生成方法、溫濕度記錄儀及存儲介質)	Zhuhai Megain	PRC	202110141746.4	2 February 2021
20.	Invention	Date marking method, temperature and humidity logger and storage medium (數據標記方法、溫濕度記錄儀及存儲介質)	Zhuhai Megain	PRC	202110141895.0	2 February 2021
21.	Invention	Storage controller and storage control method for an environmental parameter record device (一種環境參數記錄設備的存儲控制器及存儲控制方法)	Zhuhai Megain	PRC	202110194613.3	21 February 2021
22.	Utility model	A NFC reading and writing device with lightning connector (一種有Lightning接口的NFC讀寫裝置)	Zhuhai Megain	PRC	202023119344.4	22 December 2020
23.	Utility model	Learning machine (學習機)	Zhuhai Megain	PRC	202120018039.1	4 January 2021
24.	Utility model	Learning machine (學習機)	Zhuhai Megain	PRC	202120020634.9	4 January 2021
25.	Utility model	Learning machine (學習機)	Zhuhai Megain	PRC	202120020593.3	4 January 2021
26.	Utility model	Shell of learning machine and learning machine (學習機的殼體及學習機)	Zhuhai Megain	PRC	202120019849.9	4 January 2021
27.	Utility model	Learning machine (學習機)	Zhuhai Megain	PRC	202120018038.7	4 January 2021

No.	Type	Description	Applicant	Place of application	Application number	Date of filing
28.	Utility model	Learning machine with supervising function (具有監督作用的學習機)	Zhuhai Megain	PRC	202120020591.4	4 January 2021
29.	Utility model	Learning machine (學習機)	Zhuhai Megain	PRC	202120020540.1	4 January 2021
30.	Utility model	A corridor lighting controlling system (一種樓道照明控制系統)	Zhuhai Megain	PRC	202120359532.X	9 February 2021
31.	Utility model	An exercise tablet and exercise system (一種習題平板及習題系統)	Zhuhai Megain	PRC	202120397573.8	23 February 2021

(c) Domain Names

As at the Latest Practicable Date, we had registered the following domain names which are material to our business:

Domain name	Registered owner	Expiry date
megain.com	Zhuhai Megain	14 April 2021
megaintech.com.cn	Zhuhai Megain	1 June 2021
megaintech.cn	Zhuhai Megain	1 June 2021
megain.com.cn	Zhuhai Megain	1 June 2021
megaintech.tech	Zhuhai Megain	1 June 2021
megaintech.vip	Zhuhai Megain	1 June 2021
megaintech.net	Zhuhai Megain	1 June 2021
megaintech.cc	Zhuhai Megain	1 June 2021
megaintech.xin	Zhuhai Megain	1 June 2021
megain.vip	Zhuhai Megain	1 June 2021
megain.tech	Zhuhai Megain	1 June 2021
megain.net	Zhuhai Megain	1 June 2021
megain.cc	Zhuhai Megain	1 June 2021
megain.xin	Zhuhai Megain	1 June 2021
megain.cn	Zhuhai Megain	18 December 2021
megaincayman.com	Zhuhai Megain	5 February 2022
megain-iot.cn	Zhuhai Megain	12 December 2024
megain-iot.com	Zhuhai Megain	12 December 2024

(d) IC Layout Designs

As at the Latest Practicable Date, we had registered the following IC layout designs which are material to our business:

No.	Name of design	Registered owner	Place of registration	Registration number	Expiry date
1.	CPU chip layout (CPU芯片版圖)	Zhuhai Megain	PRC	BS.175536635	6 November 2027
2.	MJYH002	Zhuhai Megain	PRC	BS.195017870	18 November 2029
3.	Hall sensor chip layout (霍爾傳感器芯片版圖)	Zhuhai Megain	PRC	BS.195583914	19 March 2029
4.	Modulation and demodulation circuit for industrial control bus HART protocol (面向工業控制總綫Hart協議的調制調電路)	Zhuhai Megain	PRC	BS.195595696	13 June 2029
5.	8-bit microprocessor for small appliances control (面向小家電控制的8位元微處理器)	Zhuhai Megain	PRC	BS.195595688	13 June 2029
6.	1131 chip (1131芯片)	Zhuhai Megain	PRC	BS.205521371	13 April 2030
7.	M1010 chip (M1010芯片)	Zhuhai Megain	PRC	BS.205005551	7 May 2030

(e) Software copyright

As at the Latest Practicable Date, we had registered the following software copyrights which are material to our business:

No.	Software name	Copyright owner	First publication date	Registration number	Registration date
1.	Megain O-type chip reading and writing control software V1.0 (美佳音O類芯片讀寫控制軟件V1.0)	Zhuhai Megain	10 October 2013	2016SR202141	2 August 2016

No.	Software name	Copyright owner	First publication date	Registration number	Registration date
2.	Megain S-type chip reading and writing control software V1.0 (美佳音S類芯片讀寫控制軟件V1.0)	Zhuhai Megain	6 January 2014	2016SR208693	8 August 2016
3.	Megain card-type chip reading and writing control software V1.0 (美佳音卡式芯片讀寫控制軟件V1.0)	Zhuhai Megain	11 September 2013	2016SR201565	2 August 2016
4.	Megain Bluetooth temperature and humidity recorder control software V1.0 (美佳音藍牙溫濕度記錄儀控制軟件V1.0)	Zhuhai Megain	unpublished	2018SR1031704	18 December 2018
5.	Megain NFC temperature and humidity label control software V1.0 (美佳音NFC溫濕度標籤控制軟件V1.0)	Zhuhai Megain	unpublished	2019SR0034250	10 January 2019
6.	Megain temperature and humidity label reading and writing control Android software V1.0 (美佳音溫濕度標籤讀寫控制Android版軟件V1.0)	Zhuhai Megain	19 July 2018	2019SR0034262	10 January 2019
7.	Megain Parallel modulation and demodulation control software V1.0 (美佳音並行調製解調控制軟件V1.0)	Zhuhai Megain	18 September 2017	2018SR932604	21 November 2018

No.	Software name	Copyright owner	First publication date	Registration number	Registration date
8.	Megain Certificate of Computer Software Copyright for recoding chip reading and writing control software V1.0 (美佳音改碼芯片讀寫控制軟件軟著證書 V1.0)	Zhuhai Megain	unpublished	2019SR0728780	15 July 2019
9.	Megain Certificate of Computer Software Copyright for chip automation test software V1.0 (美佳音芯片自動化測試軟件軟著證書 V1.0)	Zhuhai Megain	29 January 2019	2019SR0595411	11 June 2019
10.	Megain temperature and humidity recorder manufacture testing software V1.0 (美佳音溫濕度記錄儀生產測試軟件 V1.0)	Zhuhai Megain	Unpublished	2019SR0375090	23 April 2019
11.	Megain temperature and humidity recorder data management software V1.0 (美佳音溫濕度記錄儀數據管理軟件V1.0)	Zhuhai Megain	Unpublished	2019SR0375100	23 April 2019
12.	Megain firmware automation testing software V1.0 (美佳音固件自動化測試軟件 V1.0)	Zhuhai Megain	Unpublished	2019SR0997339	26 September 2019

No.	Software name	Copyright owner	First publication date	Registration number	Registration date
13.	Megain MCGP105 series compatible chip control software V1.0 (美佳音MCGP105系列打印機兼容芯片控制軟件V1.0)	Zhuhai Megain	Unpublished	2020SR0570963	4 June 2020
14.	Megain intelligent subject assignment information management software V1.0 (美佳音智能學科作業信息管理軟件V1.0)	Zhuhai Megain	Unpublished	2020SR0882216	5 August 2020
15.	Intelligent detection software of intelligent learning machine V1.0.0 (智能學習機的智能檢測軟體V1.0.0)	Zhuhai Megain	Unpublished	2020SR0882104	5 August 2020
16.	Megain environmental temperature and humidity data gathering management software V1.0 (美佳音環境溫濕度數據採集管理軟件V1.0)	Zhuhai Megain	Unpublished	2020SR1051203	7 September 2020
17.	Megain chip automation burning testing software V1.0 (美佳音芯片自動燒錄測試軟件V1.0)	Zhuhai Megain	unpublished	2020SR1067527	9 September 2020
18.	Megain cartridge chip data management software V1.0 (美佳音耗材芯片數據管理軟件V1.0)	Zhuhai Megain	unpublished	2020SR1065816	9 September 2020

No.	Software name	Copyright owner	First publication date	Registration number	Registration date
19.	Megain environmental temperature and humidity real-time monitoring software V1.0 (美佳音環境溫濕度實時監測軟件V1.0)	Zhuhai Megain	unpublished	2020SR1151858	24 September 2020
20.	Megain SPMBI001 chip burning testing control software V1.0 (美佳音SPMBI001芯片燒錄測試控制軟件V1.0)	Zhuhai Megain	unpublished	2020SR1160606	25 September 2020
21.	Megain NFC temperature tag control software V1.0 (美佳音NFC溫度標簽控制軟件V1.0)	Zhuhai Megain	unpublished	2020SR1173991	27 September 2020
22.	Megain NFC tag automation manufacture testing software V1.0 (美佳音NFC標簽自動化生產測試軟件V1.0)	Zhuhai Megain	unpublished	2020SR1254606	17 November 2020
23.	Megain 1108A series burning testing software V1.0 (美佳音1108A系列燒錄測試軟件V1.0)	Zhuhai Megain	unpublished	2020SR1257307	19 November 2020
24.	Megain BLE Bluetooth temperature and humidity tag data gathering control software V1.0 (美佳音BLE藍牙溫濕度標簽數據採集控制軟件V1.0)	Zhuhai Megain	unpublished	2020SR1259407	23 November 2020

No.	Software name	Copyright owner	First publication date	Registration number	Registration date
25.	Megain Bluetooth USB temperature recorder control software V1.0 (美佳音藍牙USB溫度記錄儀控制軟件V1.0)	Zhuhai Megain	Unpublished	2021SR0104704	20 January 2021

As at the Latest Practicable Date, we had applied for the registration of the following software copyrights which are material to our business:

No.	Software name	Applicant	Place of application	Application number	Date of application
1.	Megain MCGP105 series printer compatible chip control software (美佳音MCGP105系列印表機相容晶片控制軟件)	Zhuhai Megain	PRC	2020R11S0378049	24 April 2020
2.	Megain MP95X series chip control software (美佳音MP95X系列芯片控制軟件)	Zhuhai Megain	PRC	2020R11S0393315	27 April 2020
3.	Megain NFC temperature tag control software (美佳音NFC溫度標籤控制軟件)	Zhuhai Megain	PRC	2020R11S1000889	20 August 2020
4.	Megain warehouse temperature and humidity label reading and writing management software V1.0 (美佳音倉庫溫濕度標簽讀寫管理軟件V1.0)	Zhuhai Megain	PRC	2021R11S0014980	5 January 2021

FURTHER INFORMATION ABOUT OUR DIRECTORS AND CHIEF EXECUTIVE

9. Disclosure of Interests

(i) Interests of Directors and Chief Executive of our Company

Immediately following completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares which may be issued upon exercise of any options granted or to be granted under the Share Option Scheme), the interests and/or short positions of the Directors and chief executive of our Company in the shares, underlying shares and debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, once the Shares are listed on the Stock Exchange, will be as follows:

Name of Director	Capacity/ Nature of interest	Number of Shares(1)	Shareholding percentage
Mr. Cheng	Interest in a controlled corporation; interest held jointly with another person (2)	191,250,000(L)	38.25%
Mr. Lee	Interest in a controlled corporation; interest held jointly with another person (3)	191,250,000(L)	38.25%

Notes:

(1) The letter "L" denotes a long position in the Shares.

(2) Immediately following completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares which may be issued upon exercise of any options granted or to be granted under the Share Option Scheme), our Company will be approximately 19.99% directly owned by GMTL. As at the Latest Practicable Date, GMTL was wholly owned by Mr. Cheng. By virtue of the Concert Parties Confirmatory Deed, Mr. Cheng will be deemed to be interested in all the Shares held by GMTL and AGL.

(3) Immediately following completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares which may be issued upon exercise of any options granted or to be granted under the Share Option Scheme), our Company will be approximately 18.26% directly owned by AGL. As at the Latest Practicable Date, AGL was wholly owned by Mr. Lee. By virtue of the Concert Parties Confirmatory Deed, Mr. Lee will be deemed to be interested in all the Shares held by AGL and GMTL.

(ii) Interests of Substantial Shareholders

Save as disclosed in the section headed "Substantial Shareholders" in this prospectus, our Directors are not aware of any other person who will, immediately following completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares which may be issued upon exercise of any options granted or to be granted under the Share Option Scheme), have an interest or a short position in the Shares and the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

10. Directors' Service Contracts and Letters of Appointment

Our Company entered into a service contract with each of our Executive Directors and a letter of appointment with each of our Non-executive Directors and our Independent Non-executive Directors on 26 February 2021. Each of the service contracts and the letters of appointment is for an initial fixed term of three years commencing from the Listing Date, which may be terminated by either party by giving not less than three months' written notice.

With effect from the Listing Date, each of our Executive Directors is entitled to a basic salary under his service contract as set out below:

Name	**Annual salary** *(US$)*
Mr. Cheng	70,000
Mr. Lee	70,000

With effect from the Listing Date, each of our Non-executive Directors and our Independent Non-executive Directors is entitled to a director's fee of HK$12,000 per month. Save for the directors' fees, none of our Independent Non-executive Directors is expected to receive any other remuneration for holding their office as Independent Non-executive Directors.

Save as disclosed above, none of our Directors has entered into, or has proposed to enter into, a service contract with any member of our Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

11. Directors' Remuneration

The aggregate remuneration (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) paid to the Directors for the years ended 31 December 2017, 2018 and 2019 and 10M2020 was RMB1.4 million, RMB3.5 million, RMB3.1 million and RMB1.2 million, respectively.

No other payments have been made or are payable, in respect of the years ended 31 December 2017, 2018 and 2019 and 10M2020, by any of member of our Group to any of the Directors.

No payment was made by us to our Directors as an inducement to join or upon joining us or as a compensation for loss of office in respect of the Track Record Period.

Under the arrangements currently in force, we estimate the aggregate remuneration, excluding discretionary bonus, of the Directors for the year ending 31 December 2021 to be RMB2.5 million.

12. Directors' Competing Interests

None of our Directors are interested in any business apart from our Group's business which competes or is likely to compete, directly or indirectly, with the business of our Group.

13. Disclaimers

(a) None of the Directors has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group.

(b) None of the Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole.

OTHER INFORMATION

14. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by our Shareholders on 26 February 2021:

(a) Purpose

The purpose of the Share Option Scheme is to motivate Eligible Persons (as set out in paragraph (b) below) to (i) optimise their future contributions to our Group; (ii) reward them for their past contributions; and (iii) attract, retain or otherwise maintain on-going relationships with Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth and success of our Group.

(b) Eligible persons

Our Board may, at its sole discretion, offer the grant of any options to (i) any executive director or manager of or other employee holding an executive, managerial, supervisory or similar position in any member of our Group (an "**Employee**"), any proposed Employee, any full-time or part-time Employee, or a person for the time being seconded to work full-time or part-time for any member of our Group (an "**Executive**"); (ii) any director or proposed director (including an independent non-executive director) of any member of our Group; (iii) a consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group; (iv) a person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of our Group; or a close associate (as defined under the Listing Rules) of any of the foregoing persons (together, the "**Eligible Persons**" and each an "**Eligible Person**").

(c) Administration

The Share Option Scheme shall be subject to the administration of our Board whose decision on all matters arising in relation to the Share Option Scheme or its interpretation or effect shall (except as otherwise provided in the rules of the Share Option Scheme) be final and binding on all parties thereto. Our Board may delegate any or all of its powers in relation to the Share Option Scheme to any of its committees.

(d) Determination of eligibility

(i) On and subject to the terms of the Share Option Scheme, our Board is entitled to, at any time within the period of the Share Option Scheme, offer the grant of any option to any Eligible Person (a "**Grantee**") as our Board may in its absolute discretion select. For the avoidance of doubt, the grant of any option by our Company for the subscription of Shares to any person who falls within the definition of Eligible Persons shall not, by itself, unless our Directors otherwise determine, be construed as a grant of options under the Share Option Scheme.

(ii) An Eligible Person or a Grantee shall provide our Board such information and supporting evidence as our Board may in its absolute discretion request from time to time (including, without limitation, before the offer of a grant of option, at the time of acceptance of a grant of option and at the time of exercise of an option) for the purpose of assessing and/or determining his eligibility or continuing eligibility as an Eligible Person and/or a Grantee or for purposes in connection with the terms of an option (and the exercise thereof) or the Share Option Scheme and the administration thereof.

(e) Duration

The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the Listing Date. However, the Shareholders may by a resolution in general meeting at any time terminate the Share Option Scheme. Upon expiry or termination of the Share Option Scheme, no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect. All options granted prior to such expiry or termination (as the case may be) and not then exercised shall continue to be valid and exercisable subject to and in accordance with the terms of the Share Option Scheme.

(f) Grant of options

On and subject to the terms and conditions of the Share Option Scheme, our Board shall be entitled at any time within a period of 10 years commencing on the Listing Date to offer the grant of any option to any Eligible Person as our Board may in its absolute discretion select, and on acceptance of the offer, grant such part of the option as accepted to the Eligible Person.

Subject to the provisions of the Share Option Scheme, our Board may in its absolute discretion when offering the grant of an option impose any condition, restriction or limitation in relation thereto in addition to those set forth in the Share Option Scheme as our Board may think fit (to be stated in the letter containing the offer of the grant of the option), including (but without prejudice to the generality of the foregoing) continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by our Company and/or the Grantee, the satisfactory performance or maintenance by the Grantee of certain conditions or obligations or the time or period when the right to exercise the option in respect of all or some of the Shares to which the option relates shall vest.

An offer of the grant of an option shall be deemed to have been accepted when the duplicate letter comprising acceptance of the option duly signed by the Grantee together with a remittance in favour of our Company of HK$1.00 by way of consideration for the grant thereof is received by our Company within the period specified in the letter containing the offer of the grant of the option. Once such acceptance is made, the option shall be deemed to have been granted and to have taken effect from the offer date.

Each grant of options to a Director, chief executive or Substantial Shareholder of our Company or any of their respective associates shall be approved by the Independent Non-executive Directors (excluding an Independent Non-executive Director who is a proposed Grantee). Where a grant of options to a Substantial Shareholder or an Independent Non-executive Director or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such Eligible Person in the 12-month period up to and including the date of grant:

(i) representing in aggregate over 0.1% of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet at the date of each grant, in excess of HK$5 million,

such further grant of options shall be approved by the Shareholders. Our Company shall send a circular to the Shareholders containing the information required under Rule 17.04 of the Listing Rules. The relevant Eligible Person, his associates and all core connected persons of our Company shall abstain from voting at such general meeting.

(g) Subscription price of the Shares

The subscription price in respect of any particular option shall be such price as our Board may in its absolute discretion determine at the time of the grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the subscription price shall not be less than whichever is the highest of:

(i) the nominal value of the Shares;

(ii) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the offer date; and

(iii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the offer date.

The subscription price shall also be subject to adjustment in accordance with paragraph (l).

(h) Exercise of options

(i) An option shall be exercised in whole or in part by the Grantee according to the procedures for the exercise of options established by our Company from time to time. Every exercise of an option must be accompanied by a remittance for the full amount of the subscription price for the Shares in respect of which the option is being exercised.

(ii) An option shall be personal to the Grantee and shall not be assignable or transferable. No Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option or purport to do so. Any breach of the foregoing shall entitle our Company to cancel, revoke or terminate any outstanding option or any part thereof granted to such Grantee without any compensation.

(iii) Subject to sub-paragraph (v) below and any condition, restriction or limitation imposed in relation to the particular option pursuant to the provisions of paragraphs (f), (j) or (k) and subject as hereinafter provided, an option may be exercised at any time during the option period, provided that:

(1) if the Grantee (being an individual) dies or becomes permanently disabled before exercising an option (or exercising it in full), he (or his legal representative(s)) may exercise the option up to the Grantee's entitlement (to the extent not already exercised) within a period of 12 months following his death or permanent disability or such longer period as our Board may determine;

(2) in the event of the Grantee ceasing to be an Executive by reason of his retirement pursuant to such retirement scheme applicable to our Group at the relevant time, his option (to the extent not exercised) shall be exercisable until the expiry of the relevant option period;

(3) in the event of the Grantee ceasing to be an Executive by reason of his transfer of employment to an affiliate company, his option (to the extent not exercised) shall be exercisable until the expiry of the relevant option period unless our Board in its absolute discretion otherwise determines, in which event the option (or such remaining part thereof) shall be exercisable within such period as our Board may determine;

(4) in the event of the Grantee ceasing to be an Executive by any reason (including his employing company ceasing to be a member of our Group) other than his death, permanent disability, retirement pursuant to such retirement scheme applicable to our Group at the relevant time, transfer of employment to an affiliate company or the termination of his employment with the relevant member of our Group by resignation or culpable termination, the option (to the extent not already exercised) shall lapse on the date of cessation of such employment and not be exercisable unless our Board otherwise determines, in which event the option (or such remaining part thereof) shall be exercisable within such period as our Board may in its absolute discretion determine following the date of such cessation;

(5) in the event of the Grantee ceasing to be an Executive by reason of the termination of his employment by resignation or culpable termination, the option (to the extent not already exercised) shall lapse on the date on which the notice of termination is served (in the case of resignation) or the date on which the Grantee is notified of the termination of his employment (in the case of culpable termination) and not be exercisable unless our Board otherwise determines, in which event the option (or such remaining part thereof) shall be exercisable within such period as our Board may in its absolute discretion determine following the date of such service or notification. A resolution of our Board resolving that the Executive's option has lapsed pursuant to this sub-paragraph shall be final and conclusive;

(6) (aa) if a Grantee being an Executive Director ceases to be an Executive Director but remains as a Non-executive Director, his option (to the extent not already exercised) shall be exercisable until the expiry of the relevant option period unless our Board in its absolute discretion otherwise determines, in which event the option (or such remaining part thereof) shall be exercisable within such period as our Board may determine; or (bb) if a Grantee being a Non-executive Director ceases to be a Director (i) by reason of retirement, his option (to the extent not exercised) shall be exercisable until the expiry of the relevant option

period unless our Board in its absolute discretion otherwise determines, in which event the option (or such remaining part thereof) shall be exercisable within such period as our Board may determine; or (ii) by reasons other than retirement, the option (to the extent not already exercised) shall lapse on the date of cessation of such appointment and not be exercisable unless our Board otherwise determines, in which event the option (or such remaining part thereof) shall be exercisable within such period as our Board may in its absolute discretion determine following the date of such cessation;

(7) if (aa) the Board in its absolute discretion at any time determines that a Grantee has ceased to be an Eligible Person; or (bb) a Grantee has failed to satisfy or comply with or no longer satisfies or complies with such criteria or terms and conditions that may be attached to the grant of the option or which were the basis on which the option was granted, the option (to the extent not already exercised) shall lapse on the date on which the Grantee is notified thereof (in the case of (aa)) or on the date on which the Grantee has failed to satisfy or comply with or no longer satisfies or complies with such criteria or terms and conditions as aforesaid (in the case of (bb)) and not be exercisable unless our Board otherwise determines, in which event the option (or such remaining part thereof) shall be exercisable within such period as our Board may in its absolute discretion determine following the date of such notification or the date of such failure, non-satisfaction or non-compliance. In the case of (aa), a resolution of our Board resolving that the Grantee's option has lapsed pursuant to this sub-paragraph shall be final and conclusive;

(8) if a Grantee (being a corporation) (aa) has a liquidator, provisional liquidator, receiver or any person carrying out any similar function appointed anywhere in the world in respect of the whole or any part of the assets or undertakings of the Grantee; or (bb) has suspended, ceased or threatened to suspend or cease business; or (cc) is unable to pay its debts (within the meaning of section 178 of the Companies (WUMP) Ordinance or any similar provisions under the Cayman Islands Companies Act or any applicable law); or (dd) otherwise becomes insolvent; or (ee) suffers a change in its constitution, directors, shareholding or management which in the opinion of our Board is material; or (ff) commits a breach of any contract entered into between the Grantee or his associates and any member of our Group, the option (to the extent not already exercised) shall lapse on the date of appointment of the liquidator or receiver or other similar person or on the date of suspension or cessation of business or on the date when the Grantee is deemed to be unable to pay its debts as aforesaid or on the date of notification by our Company that the said change in constitution, directors, shareholding or management is material or on the date of the said breach of contract (as the case may be), and not be exercisable unless our Board otherwise determines, in which event the

option (or such remaining part thereof) shall be exercisable within such period as our Board may in its absolute discretion determine following the date of such occurrence. A resolution of our Board resolving that the Grantee's option has lapsed pursuant to this sub-paragraph by reason of a breach of contract as aforesaid shall be final and conclusive;

(9) if a Grantee (being an individual) (aa) is unable or has no reasonable prospects of being able to pay his debts within the meaning of the Bankruptcy Ordinance (Chapter 6 of the Laws of Hong Kong) or other applicable laws or has otherwise become insolvent; or (bb) has made any arrangements or compositions with his creditors generally; or (cc) has been convicted of any criminal offence involving his integrity or honesty; or (dd) commits a breach of any contract entered into between the Grantee or his associate and any member of our Group, the option (to the extent not already exercised) shall lapse on the date on which he is deemed unable or to have no reasonable prospects of being able to pay his debts as aforesaid or on the date on which a petition for bankruptcy has been presented in any jurisdiction or on the date on which he enters into the said arrangement or composition with his creditors, or on the date of his conviction or on the date of the said breach of contract (as the case may be), and not be exercisable unless our Board otherwise determines, in which event the option (or such remaining part thereof) shall be exercisable within such period as our Board may in its absolute discretion determine following the date of such occurrence. A resolution of our Board resolving that the Grantee's option has lapsed pursuant to this sub-paragraph by reason of a breach of contract as aforesaid shall be final and conclusive;

(10) if a general offer (whether by way of takeovers offer or scheme of arrangement or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional (in the case of a takeovers offer) or is approved by the requisite majorities at the relevant meetings of the Shareholders (in the case of a scheme of arrangement), the Grantee shall be entitled to exercise the option (to the extent not already exercised) at any time (in the case of a takeovers offer) within one month after the date on which the offer becomes or is declared unconditional or (in the case of a scheme of arrangement) prior to such time and date as shall be notified by our Company;

(11) in the event of an effective resolution being passed for the voluntary winding-up of our Company, and if the Grantee immediately prior to such event had any subsisting option which had not been fully exercised, the Grantee may by notice in writing to our Company within one month after the date of such resolution elect to be treated as if the option had been exercised immediately before the passing of such

resolution either to its full extent or to the extent specified in such notice and shall accordingly be entitled to receive out of the assets available in the liquidation, equably with the holders of Shares, such sum as would have been received in respect of the Shares the subject of such election reduced by an amount equals to the subscription price which would otherwise have been payable in respect thereof; and

(12) if a compromise or arrangement between our Company and its members or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company, our Company shall give notice thereof to the Grantees who have unexercised options at the same time as it despatches notices to all members or creditors of our Company summoning the meeting to consider such a compromise or arrangement and thereupon each Grantee (or his legal representatives or receiver) may until the expiry of the earlier of: (aa) the option period; (bb) the period of two months from the date of such notice; and (cc) the date on which such compromise or arrangement is sanctioned by the court, exercise in whole or in part his option. Except insofar as exercised in accordance with this subparagraph, all options outstanding at the expiry of the relevant period referred to in this sub-paragraph shall lapse. Our Company may thereafter require each Grantee to transfer or otherwise deal with the Shares issued on exercise of the option to place the Grantee in the same position as would have been the case had such Shares been the subject of such compromise or arrangement, provided that in determining the entitlement of any Grantee to exercise an option on any particular date, our Board may in its absolute discretion relax or waive, in whole or in part, conditionally or unconditionally, any additional condition, restriction or limitation imposed in relation to the particular option pursuant to the provisions of paragraph (f) and/or deem the right to exercise the option in respect of the Shares the subject thereof to have been exercisable notwithstanding that according to the terms of the particular option such right shall not have then vested.

(iv) The Shares to be allotted upon exercise of an option shall be subject to all the provisions of the Memorandum of Association and the Articles of Association and the laws of the Cayman Islands in force from time to time and shall carry the same rights in all respects as the then existing fully-paid Shares in issue on the allotment date, and accordingly shall entitle the holders to participate in all dividends or other distributions paid or made on or after the allotment date, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date thereof shall be before the allotment date. Subject as aforesaid, no Grantee shall enjoy any of the rights of a Shareholder by virtue of the grant of an option pursuant to the Share Option Scheme.

(v) Our Company is entitled to refuse any exercise of an option if such exercise is not in accordance with the terms and conditions of the Share Option Scheme or the procedures for exercise of options established by our Company from time to time or if such exercise may cause to contravene or breach any laws, enactments or regulations for the time being in force in Hong Kong and the Cayman Islands or other jurisdiction where applicable, the Listing Rules or any rules governing the listing of the Shares on a stock exchange.

(i) Lapse of options

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of the occurrence of any of the following events unless otherwise relaxed or waived (conditionally or unconditionally) by our Board:

(i) the expiry of the option period;

(ii) the expiry of any of the periods referred to in sub-paragraph (h)(iii) above;

(iii) subject to sub-paragraph (h)(iii)(11) above, the date of the commencement of the winding-up of our Company;

(iv) there is an unsatisfied judgement, order or award outstanding against the Grantee or our Board has reason to believe that the Grantee is unable to pay or has no reasonable prospect of being able to pay his/its debts within the meaning of the Bankruptcy Ordinance (Chapter 6 of the Laws of Hong Kong);

(v) there are circumstances entitling any person to take any action, appoint any person, commence proceedings or obtain any order of the type mentioned in sub-paragraphs (h)(iii)(8), (h)(iii)(9) or (i)(iv) above; or

(vi) a bankruptcy order has been made against any director or shareholder of the Grantee (being a corporation) in any jurisdiction.

No compensation shall be payable upon the lapse of any option, provided that our Board shall be entitled in its discretion to pay such compensation to the Grantee in such manner as it may consider appropriate in any particular case.

(j) Maximum number of Shares available for subscription

The maximum number of Shares to be issued upon exercise of all options which may be granted under the Share Option Scheme (and under any other share option scheme of our Company) shall not in aggregate exceed 50,000,000 Shares, representing 10% of the Shares in issue immediately after completion of the Global Offering and as at the Listing Date (the "**Scheme Mandate Limit**"), provided that our Company may at any time as our Board may think fit seek approval from the Shareholders to refresh the Scheme Mandate Limit, except that the maximum number of Shares to be issued upon exercise of all options which may be granted under the Share Option Scheme (and under any other share option scheme of our Company) shall not exceed 10% of the Shares in issue as at the date of approval by the Shareholders in general meeting where such limit is refreshed. Options previously granted under the Share Option Scheme and any other share option scheme (including those outstanding, cancelled and lapsed in accordance with the terms and conditions of the Share Option Scheme or any other share option scheme or exercised options under the said schemes of our Company) shall not be counted for the purpose of calculating the limit as refreshed. Our Company shall issue a circular containing the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules to the Shareholders. In addition, our Company may seek separate approval from the Shareholders in general meeting for granting options beyond the Scheme Mandate Limit, provided that the options in excess of the Scheme Mandate Limit are granted only to the Eligible Persons specified by our Company before such approval is sought and for whom specific approval is obtained. Our Company shall issue a circular to the Shareholders containing the information required under Rule 17.03(3) of the Listing Rules.

Notwithstanding the preceding paragraph, the maximum number of Shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme (and under any other share option scheme of our Company) shall not exceed 30% of the Shares in issue from time to time.

The maximum number of Shares issued and to be issued upon exercise of the options granted to any one Eligible Person (including exercised and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue from time to time. Where any further grant of options to such an Eligible Person would result in the Shares issued and to be issued upon exercise of all options granted and which may be granted to such Eligible Person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be separately approved by the Shareholders in general meeting with such Eligible Person and his close associates (or his associates if such Eligible Person is a connected person) abstaining from voting. The applicable requirements of Rule 17.03(4) of the Listing Rules shall be complied with.

The maximum numbers set out in this paragraph (j) shall be subject to adjustment in accordance with paragraph (k) but shall not in any event exceed the limits imposed by Chapter 17 of the Listing Rules.

(k) Cancellation of options

Our Board shall be entitled for the following causes to cancel any option in whole or in part by giving notice in writing to the Grantee stating that such option is thereby cancelled with effect from the date specified in such notice (the ''**Cancellation Date**''):

(i) the Grantee commits or permits or attempts to commit or permit a breach of subparagraphs (d)(ii) or (h)(ii) above or any term or condition attached to the grant of the option;

(ii) the Grantee makes a written request to our Board for, or agrees to, the option to be cancelled; or

(iii) if the Grantee has, in the opinion of our Board, conducted himself in any manner whatsoever to the detriment of or prejudicial to the interests of our Company or any member of our Group.

The option shall be deemed to have been cancelled with effect from the Cancellation Date in respect of any part of the option which has not been exercised as at the Cancellation Date. No compensation shall be payable upon any such cancellation, provided that our Board shall be entitled in its discretion to pay such compensation to the Grantee in such manner as it may consider appropriate in any particular case. Where our Company cancels an option held by a Grantee and issues new options to the same Grantee, the issue of such new options may only be made under the Share Option Scheme with available unissued options (excluding the cancelled option) within the limits set out in paragraph (j) above.

(l) Reorganisation of capital structure

In the event of any change in the capital structure of our Company while any option may become or remain exercisable, whether by way of capitalisation issue, rights issue, consolidation, subdivision or reduction of share capital of our Company, our Board may, if it considers the same to be appropriate, direct that adjustments be made to:

(i) the number of Shares subject to the outstanding options;

(ii) the subscription price per share of the outstanding options; and/or

(iii) the number of Shares subject to the Share Option Scheme.

Where our Board determines that adjustments are appropriate (other than an adjustment arising from a capitalisation issue), the auditors or the independent financial advisers (as our Board may select) shall certify in writing to our Board that any such adjustments to be in their opinion fair and reasonable and in compliance with Rule 17.03(13) of the Listing Rules and the notes thereof and the supplemental guidance attached to the letter from the Stock Exchange dated 5 September 2005 and any guidance or interpretation issued from time to time by the Stock Exchange relating to share option schemes (the "**Supplementary Guidance**"), provided that:

(i) the aggregate percentage of the issued share capital of our Company available for the grant of options shall remain as nearly as possible the same as it was before such change but shall not be greater than the maximum number prescribed by the Listing Rules from time to time;

(ii) any such adjustments shall be made on the basis that the aggregate subscription price payable by a Grantee on the full exercise of any option shall remain as nearly as possible the same as (but shall not be greater than) it was before such event;

(iii) no such adjustments shall be made the effect of which would be to enable a Share to be issued at less than its nominal value; and

(iv) any such adjustments shall, as nearly as practicable, be made on the basis that the proportion of the issued share capital of our Company for which any Grantee is entitled to subscribe pursuant to the options held by him shall remain the same as (but shall not be greater than) that to which he was previously entitled (as interpreted in accordance with the Supplementary Guidance).

For the avoidance of doubt only, the issue of securities as consideration in a transaction shall not be regarded as a circumstance requiring an adjustment.

The capacity of the auditors or the independent financial advisers (as the case may be) in this paragraph (l) is that of experts and not of arbitrators and their certification or confirmation shall, in the absence of manifest error, be final, conclusive and binding on our Company and the Grantees. The costs of the auditors or the independent financial advisers (as the case may be) shall be borne by our Company.

(m) Alteration of the Share Option Scheme

The Share Option Scheme may be altered in any respect by a resolution of our Board, except that the following shall not be carried out except with the prior approval of the Shareholders by an ordinary resolution in a general meeting:

(i) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted (except where the alterations take effect automatically under the existing terms of the Share Option Scheme);

(ii) any alteration to the provisions of the Share Option Scheme in respect of the matters set out in Rule 17.03 of the Listing Rules to the advantage of the Eligible Persons;

(iii) any change to the authority of our Directors in relation to any alteration to the terms of the Share Option Scheme; or

(iv) any alteration to this paragraph (m),

provided always that the amended terms of the Share Option Scheme shall comply with the applicable requirements of Chapter 17 of the Listing Rules.

(n) Conditions precedent of the Share Option Scheme

The Share Option Scheme shall come into effect on the Listing Date, subject to:

(i) the approval of the Shareholders, in general meeting or in writing, for the adoption of the Share Option Scheme;

(ii) the Listing Committee granting the approval of the listing of, and the permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any additional Share which may be issued pursuant to the exercise of the Over-allotment Option) and the Shares which may be issued upon exercise of any options granted or to be granted under the Share Option Scheme; and

(iii) the commencement of dealings in the Shares on Main Board.

(o) Termination

Our Company may by a resolution of the Shareholders in general meeting at any time terminate the operation of the Share Option Scheme. Upon expiry or termination of the Share Option Scheme, no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect. All options granted prior to such expiry or termination (as the case may be) and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

15. Tax, Estate Duty and Other Indemnity

GMTL, AGL, Mr. Cheng and Mr. Lee, each being a Controlling Shareholder (together the ''**Indemnifiers**''), have entered into the Deed of Indemnity with and in favour of our Company (for itself and as trustee for each of our present subsidiaries) to provide indemnities in respect of, among others:

(a) tax liabilities (including all fines, penalties, costs, charges, expenses and interests incidental or relating to taxation) which might be payable by any member of our Group in respect of any income, profits, gains, transactions or things granted, earned, accrued, received or made, entered into or occurring on or before the Listing Date, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such tax liabilities are chargeable against or attributable to any other person, firm, company or corporation;

(b) estate duty which might be payable by any member of our Group by virtue of section 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or any law of equivalent effect of any jurisdiction outside Hong Kong on or before the Listing Date; and

(c) all claims, demands, complaints, proceedings, losses, liabilities, damages, costs, expenses, penalties and fines falling on our Company or any member of our Group directly or indirectly resulting from, or relating to or in consequence of:

(i) any failure, delay or defect of corporate or regulatory compliance or error, discrepancy or missing document in the statutory records of any member of our Group under, or any breach of any provision of, the Companies (WUMP) Ordinance and the Companies Ordinance on or before the Listing Date; and

(ii) any other non-compliance with the applicable laws, rules or regulations by our Company and/or any member of our Group on or before the Listing Date.

The Indemnifiers are under no liability under the Deed of Indemnity in respect of any taxation to the extent that:

(a) provision or reserve has been made for such taxation in the audited accounts of any member of our Group for any accounting period up to 31 October 2020;

(b) such taxation or liability falling on any member of our Group in respect of any accounting period commencing on or after 1 November 2020 and ending on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily entered into by, any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers, other than any such act, omission or transaction:

(i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the Listing Date; or

(ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the Listing Date or pursuant to any statement of intention made in this prospectus;

(c) such liability arises or is incurred as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by any statutory or governmental authority (in Hong Kong, the PRC or elsewhere), including but without limitation the Hong Kong Inland Revenue Department, coming into force after the Listing Date or to the extent such claim arises or is increased by an increase in rates of taxation or claim after the Listing Date with retrospective effect; or

(d) any provision or reserve made for taxation in the audited consolidated accounts of our Group or the audited accounts of any member of our Group up to 31 October 2020 which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifiers' liability (if any) in respect of taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Dealings in Shares registered on our Hong Kong register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred. Dividends paid on Shares will not be subject to tax in Hong Kong and no tax is imposed in Hong Kong in respect of capital gains. However, profits from dealings in the Shares derived by persons carrying on a business of trading or dealings in securities in Hong Kong arising in or derived from Hong Kong may be subject to Hong Kong profits tax. We have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries and that the Cayman Islands currently have no estate duty, inheritance tax or gift tax.

16. Sponsor and Sponsor's Fees

The Sole Sponsor satisfies the criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. The Sole Sponsor will receive an aggregate fee of HK$8.0 million for acting as the sponsor for the Listing.

17. Qualification of Experts

The qualifications of the experts (as defined under the Listing Rules and the Companies (WUMP) Ordinance) who have given opinion or advice which is contained in, or referred to in, this prospectus (the "**Experts**") are set out below:

Name	Qualifications
CMBC International Capital Limited	Licenced under the SFO to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
BDO Limited	Certified Public Accountants
King & Wood Mallesons	PRC legal advisers
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Formosa Transnational Attorneys at Law	Taiwan legal advisers
China Insights Industry Consultancy Limited	Industry consultant

18. Consents of Experts

Each of the Experts has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its report and/or letter and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

19. Interests of Experts

None of the Experts has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

None of the Experts has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group.

20. Promoter

Our Company has no promoter for the purpose of the Listing Rules.

21. Preliminary Expenses

The preliminary expenses incurred by our Company amounted to US$4,500.0 and were paid by our Company.

22. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (WUMP) Ordinance insofar as applicable.

23. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

24. Miscellaneous

(a) Save as disclosed in this appendix and in the sections headed "History, Development and Corporate Structure" and "Underwriting" in this prospectus, within the two years immediately preceding the date of this prospectus:

(i) no share or loan capital of any member of our Group has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;

(ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of any member of our Group; and

(iii) no commission (except commission to sub-underwriters) has been paid or is payable to any person for subscribing, agreeing to subscribe, or procuring or agreeing to procure subscription, for any shares in or debentures of our Company.

(b) No share or loan capital of any member of our Group is under option, or agreed conditionally or unconditionally to be put under option.

(c) No founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued.

(d) Our Company has no outstanding convertible debt securities or debentures.

(e) There is no arrangement under which future dividends are waived or agreed to be waived.

(f) There has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were (i) a copy of each of the **WHITE**, **YELLOW** and **GREEN** Application Forms; (ii) written consents referred to in the section headed "Appendix V — Statutory and General Information — Other Information — 18. Consents of Experts" in this prospectus; and (iii) a copy of the material contract referred to in the section headed "Appendix V — Statutory and General Information — Further Information about our Business — 7. Material Contract" in this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of King & Wood Mallesons on 13th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(i) the Memorandum of Association and the Articles of Association;

(ii) the accountants' report prepared by BDO Limited as set out in Appendix I to this prospectus;

(iii) the audited consolidated financial statements of our Group for the Track Record Period;

(iv) the report relating to the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;

(v) the letter of advice prepared by Conyers Dill Pearman, our legal advisers as to Cayman Islands law, summarising certain aspects of the Cayman Islands company law as set out in Appendix IV to this prospectus;

(vi) the material contract referred to in the section headed "Appendix V — Statutory and General Information — Further Information about our Business — 7. Material Contract" in this prospectus;

(vii) the service contracts and letters of appointment referred to in the section headed "Appendix V — Statutory and General Information — Further Information about our Directors and Chief Executive — 10. Directors' Service Contracts and Letters of Appointment" in this prospectus;

(viii) the written consents referred to in the section headed "Appendix V — Statutory and General Information — Other Information — 18. Consents of Experts" in this prospectus;

(ix) the PRC legal opinions issued by King & Wood Mallesons, our legal advisers as to PRC laws, relating to our Group's business operations and property interests in the PRC;

(x) the Taiwan legal opinion issued by Formosa Transnational Attorneys at Law, our legal advisers as to Taiwan laws, relating to our Group's business operations in Taiwan;

(xi) the CIC Report;

(xii) the Cayman Islands Companies Act; and

(xiii) the rules of the Share Option Scheme.

MEGAIN technology

MEGAIN Holding (Cayman) Co., Ltd.
美佳音控股有限公司*