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

2021
ANNUAL REPORT

* *For identification purpose only*

CONTENTS

DEFINITIONS

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

"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
"AGM"	the annual general meeting of the Company to be held on 9 June 2022
"Articles" or "Articles of Association"	the articles of association of our Company conditionally adopted on 26 February 2021 and effective on the Listing Date, 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
"BDO Limited"	BDO Limited Certified Public Accountants
"Board"	the board of Directors
"BVI"	the British Virgin Islands
"Cayman Islands Companies Act" or "Companies Act"	the Companies Act Cap. 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands
"China" or "PRC"	the People's Republic of China and, for the sole purpose of this report, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"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
"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 Shares of which are 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
"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(s)" or "CG Code(s)"	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
"COVID-19"	the Coronavirus Disease 2019
"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 the Prospectus
"Director(s)"	the director(s) of our Company
"ESG"	environmental, social and governance
"Executive Director(s)"	the executive director(s) of our Company
"Financial Statements"	the audited consolidated financial statements of the Group for the year ended 31 December 2021, comprising the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies
"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 offer of 37,500,000 new Shares for subscription by the public in Hong Kong and the conditional placing of 87,500,000 new Shares to international investors by our Company at the offer price of HKD1.26
"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
"Group"	the Company and its subsidiaries

"HK$", "HKD" or "Hong Kong Dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IC"	integrated circuit, a set of electronic circuits where all the elements of the circuit are integrated together on a single semiconductor chipset
"Ink Cartridge Chip Models"	a number of models of compatible ink cartridge chips launched by the Group in 2019, mostly in the second or third quarter, which possess advanced quality, functionality and upward compatibility and were designed for compatible ink cartridge models having high popularity and demand in the market, with a very limited number of competitors having then launched comparable chip models
"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
"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
"Listing"	the listing of the Shares on the Main Board
"Listing Date"	31 March 2021, the date on which the Shares are listed and dealings in the Shares first commence on the Main Board
"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
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"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
"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
"Prospectus"	the prospectus of the Company dated 18 March 2021 in relation to the Global Offering and the Listing
"Relevant Period"	the year ended 31 December 2021
"Remuneration Committee"	the remuneration committee of our Board
"RMB"	Renminbi, the lawful currency of the PRC
"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$0.01 each in the share capital of our Company
"Share Option Scheme"	the share option scheme conditionally adopted by our Company on 26 February 2021
"Shareholder(s)"	holder(s) of the Share(s)
"SoC"	system on chip, a programmable IC that encompasses a processor core(s) such as micro controller unit (MCU), random-access memory and read-only memory, which is widely used across different industries and for various applications
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules, unless the context otherwise requires
"substantial shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"US"	the United States of America
"US$", "USD" or "US dollar(s)"	United States dollars, the lawful currency of the United States
"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
"%"	per cent

* *for identification purpose only*

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Cheng Hsien-Wei (鄭憲徽) *(Chairman)*
Mr. Lee Kuo-Chang (李國彰)

Non-executive Directors

Mr. Lam Tsz Leung (林子良)
Ms. Yu Erhao (佘尔好)

Independent Non-executive Directors

Mr. Chen Mark Da-jiang (陳大江)
Mr. Kao Yi-Ping (高亦平)
Mr. Li Huaxiong (李華雄)

AUDIT COMMITTEE MEMBERS

Mr. Li Huaxiong (李華雄) *(Chairman)*
Mr. Chen Mark Da-jiang (陳大江)
Mr. Kao Yi-Ping (高亦平)

REMUNERATION COMMITTEE MEMBERS

Mr. Chen Mark Da-jiang (陳大江) *(Chairman)*
Mr. Li Huaxiong (李華雄)
Ms. Yu Erhao (佘尔好)

NOMINATION COMMITTEE MEMBERS

Mr. Cheng Hsien-Wei (鄭憲徽) *(Chairman)*
Mr. Chen Mark Da-jiang (陳大江)
Mr. Li Huaxiong (李華雄)

COMPANY SECRETARY

Mr. Wong Cheuk Lam (黃焯琳), *HKICPA, CPAA*

AUTHORISED REPRESENTATIVES

Mr. Cheng Hsien-Wei (鄭憲徽)
Mr. Wong Cheuk Lam (黃焯琳)

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
The PRC

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

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

AUDITOR

BDO Limited
Certified Public Accountants
25/F, Wing On Centre
111 Connaught Road Central, Hong Kong

COMPLIANCE ADVISER

CMBC International Capital Limited
45/F, One Exchange Square
8 Connaught Place
Central
Hong Kong

LEGAL ADVISER

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

PRINCIPAL BANKERS

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
The PRC

DBS Bank (Hong Kong) Limited
11/F The Center
99 Queen's Road Central
Hong Kong

COMPANY'S WEBSITE

http://www.megaincayman.com

STOCK CODE

6939

FINANCIAL HIGHLIGHTS

SUMMARY OF AUDITED CONSOLIDATED FINANCIAL RESULTS AND FINANCIAL POSITIONS

Key Information from the Consolidated Statements of Profit or Loss

	Year ended 31 December				
	2017	2018	2019	2020	**2021**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	212,775	246,083	157,625	156,783	**167,867**
Gross profit	94,343	116,003	88,110	87,072	**86,704**
Profit before income tax expense	78,545	78,138	53,229	35,938	**38,431**
Profit for the year	63,135	62,620	41,313	28,750	**31,263**
Profit for the year attributable to:					
Owners of the Company	63,448	62,681	41,313	28,750	**31,263**
Non-controlling interests	(313)	(61)	–	–	**–**
	63,135	62,620	41,313	28,750	**31,263**

Key Information from the Consolidated Statement of Financial Position

	As at 31 December				
	2017	2018	2019	2020	**2021**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Non-current assets	6,478	10,575	12,597	12,175	**19,248**
Current assets	161,167	200,866	205,348	185,062	**340,910**
Current liabilities	39,937	51,526	36,450	21,837	**30,118**
Net current assets	121,230	149,340	168,898	163,225	**310,792**
Total assets less current liabilities	127,708	159,915	181,495	175,400	**330,040**
Net assets	122,108	154,817	176,148	173,871	**327,182**
Non-controlling interests	(402)	(463)	–	–	**–**

Note: The summary of the consolidated results of the Group for the three years ended 31 December 2017, 2018 and 2019 and the consolidated financial positions of the Group as at 31 December 2017, 2018 and 2019 have been extracted from the Prospectus.

KEY FINANCIAL RATIOS

The following table sets forth the key financial ratios of our Group for the last five years ended 31 December:

		Year ended/As at 31 December				
		2017	2018	2019	2020	**2021**
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Current ratio	*1*	4.0	3.9	5.6	8.5	**11.3**
Quick ratio	*2*	3.5	3.4	4.9	7.9	**10.7**
Return on equity	*3*	51.7%	40.4%	23.5%	16.5%	**9.6%**
Return on total assets	*4*	37.7%	29.6%	19.0%	14.6%	**8.7%**
Gross profit margin	*5*	44.3%	47.1%	55.9%	55.5%	**51.7%**
Net profit margin	*6*	29.7%	25.4%	26.2%	18.3%	**18.6%**

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 after income tax 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 after income tax 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 after income tax for the year by revenue and multiplying the resulting value by 100%.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of MEGAIN Holding (Cayman) Co., Ltd. together with its subsidiaries, I hereby take pride and pleasure in presenting the annual report of the Company for the Relevant Period to our Shareholders and potential investors.

LISTING

From the perspective of our corporate history, the year 2021 was a year of celebration. The shares of the Company were successfully listed on the Main Board of the Stock Exchange on 31 March 2021. It is a new milestone for the business development of the Group. It helps the Group consolidate its financial position, improve corporate governance and expand its business.

OPERATING RESULTS

From the angle of operation, the Relevant Period was full of challenges. For the Relevant Period, the Group recorded a revenue of RMB167.9 million and a net profit after income tax attributable to the owners of the Company of RMB31.3 million, representing a 7.1% and a 8.7% growth respectively as compared with the corresponding period in last year.

During the Relevant Period, some countries have seen the beginning of economic recovery as a result of binge spending stimulated by deficit plans of many governments and our operation environment was improved moderately when economic activities around the world resumed. However, the recovery was not comprehensive. The lingering effects of COVID-19 and its variants have still adversely affected many industries such as aviation, food and beverage, manufacturing, travelling, etc. Countries have not re-opened to each other. The document printing demand has not returned to the pre-pandemic level in such a world which lacks travelling and face-to-face commercial interaction and this indirectly weakened the demand for our compatible cartridge chips.

The rapid growth of various sectors in the technology era such as artificial intelligence, Big Data, 5G, IoT, Metaverse, power vehicles, etc. has brought about the shortage in semi-conductors such as SoC, PCBA, wafers, etc., which are the raw materials of our chips. The costs of our raw materials have been increasing during the Relevant Period. In order to reduce the negative impact of the shortage on our purchase costs, we have adopted a pro-active policy of procurement and adjust our level of inventories dynamically.

Facing an unprecedented business environment, we relied on the core competency of our Group, research and development capabilities, to maintain our competitive edge. During the Relevant Period, we continued to launch new models of compatible cartridge chips and upgrade some existing models of compatible cartridge chips in order to prolong their product life-cycles. We understand that we cannot rest on our laurels in this ever-changing business world. The Group has attempted to explore opportunities in the IoT chips industry which provides a larger market and matches our core competency.

Looking ahead, the Group will continue to consolidate its leading position in the compatible cartridge chips industry. I understand that the Group distinguishes itself with excellent research and development capabilities, control over the quality of compatible cartridge chips, and reliable after-sale services provided to customers. The business strategies of the Group shall focus on fortifying our core competencies by strengthening our research and development capabilities in relation to both the software component (i.e. the firmware), and the hardware component (i.e. PCBAs); accelerating the development of our hardware design capabilities through acquisition of IC design company; increasing the Group's presence in the compatible cartridge industry through forward vertical expansion; expanding our sales and marketing team to cater for the diversification of product portfolio; and improving the functionality of back office to support business growth such as investing in enterprise resource system.

On behalf of the Board, I would like to express my appreciation to all Shareholders, investors, business partners and other stakeholders for their continuous trust and support to the Group. Our good performance today, just like our historic successes, is of course built on the people who make up this business. We, therefore, sincerely give special thanks to our devoted management team and employees for their valuable contributions towards the development of the Group.

Cheng Hsien-Wei
Chairman
30 March 2022

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the provision of research, design, development and sales of compatible cartridge chips and other chips. Our compatible cartridge chips can be broadly applied to compatible cartridges of (i) desktop laser printers; (ii) desktop inkjet printers; and (iii) commercial printers. Other chips are mainly chips applied to the Hall sensor, a kind of magnetic field sensor which is generally used for positioning, speed detection and proximity sensing and ultimately applied to different kinds of electronic products including automobiles, 5G base stations, fans, toys, etc. In addition, the Group is also engaged in the trading of ICs and other cartridge components, including plastic parts and toner, as ancillary services to our customers, and the provision of technical and design services for chips at the request of customers.

Compatible Cartridge Chips Business

The business environment of compatible cartridge chips industry in which the Group operated during the Relevant Period was challenging. The uncertainty of the COVID-19 pandemic and its variants such as Delta and Omicron disrupted the global economy and started to have impacts on our business. Restrictive measures adopted by many countries to deal with the pandemic such as social distancing, suspension of commercial activities, travel bans, work-from-home arrangements, etc., led to the reduction in the demand for document printing and hence the demand for the compatible cartridge chips.

The public health measures adopted to deal with the COVID-19 pandemic also caused problems affecting ports and shipping such as lead time issues, port closures, reduced working hours at ports, shortage of shipping containers as well as trucks capacity constraints, and affected the export of compatible cartridges produced by our customers to the European and the US markets. The demand for compatible cartridge chips was indirectly influenced adversely by the transportation problems as well.

In addition, during the Relevant Period, similar to the year of 2020, new printer models launched by the original-brand printer companies were very limited. As a result, new models of chips that the Group could launch were limited. During the Relevant Period, the Group developed 123 new models of chips, including 79 for the desktop laser printers, 40 for the desktop inkjet printers and 4 for the commercial printers. During the year ended 31 December 2020, the Group developed 172 new models of chips, including 115 for the desktop laser printers, 16 for the desktop inkjet printers and 41 for the commercial printers.

Facing the lack of new original-brand printers, the Group exerted its strength in research and development. In addition to continuing with the launch of new models of compatible cartridge chip for both the desktop inkjet and laser printers, we upgraded some existing models of chip for desktop inkjet and laser printers so that their demands and gross profit margins could be maintained. Consequently, although the sales volume of the chips for the desktop inkjet printers for the Relevant Period decreased to approximately 3,584,000 pieces from approximately 7,980,000 pieces for the corresponding period in 2020, the gross profit margin for the sales of chips for desktop inkjet printers just decreased slightly from approximately 58.5% for the year ended 31 December 2020 to approximately 56.9% for the Relevant Period. Meanwhile, the sales volume of chips for desktop laser printers for the Relevant Period decreased to approximately 10,433,000 pieces from approximately 12,022,000 pieces for the corresponding period in 2020 and the gross profit margin for the sales of chips for desktop laser printers increased from approximately 61.0% for the year ended 31 December 2020 to approximately 67.4% for the Relevant Period due to the launch of certain new models of chip for desktop laser printers by the Group which had a higher profit margin. A breakdown of our gross profit and gross profit margin for each of the product categories by application is set out in the table under the sub-section "Gross profit and gross profit margin" in the "Financial Review" section of this report.

BUSINESS REVIEW (Continued)

Internet of Things Chips Business

The launch of new products is vital in that it has the effect of revitalising the business. In June 2021, the Group successfully developed a new IoT product, the Hall sensor chip. The Hall sensor is a kind of magnetic field sensor made based on the Hall effect, which is generally used for positioning, speed detection and proximity sensing and is ultimately applied to different kinds of electronic products including automobiles, 5G base stations, fans and toys. The market for the Hall sensor in the PRC is a high growth market with an estimated annual compound growth rate of 11.8%. We believe that the Hall sensor chip can diversify the Group's business scope with a view to broadening the Group's revenue base and offering better returns to the Shareholders. During the Relevant Period, the Hall sensor chip business of our Group was at the very early stage of development and the sales volume of chips for IoT was approximately 2,260,000 pieces. We intend to launch progressively new series of Hall sensor chips so that they can be applied to more kinds of electronic product such as cars, 5G base stations, fans, toys, etc. During the Relevant Period, the Group developed 6 kinds of Hall sensor chip which could be applied to earphones, meters, toys and wireless keyboards. We also developed several IoT solutions and products which could be applied to environment monitoring, blue-tooth earphones, and sport and health products.

Strengthening of Research and Development Capacity

In order to maintain the competitiveness and the leading position of the Group in the industry, we continue to invest in strengthening our research and development capacity. During the Relevant Period, the Group has established a new research center in Taiwan in order to enhance our capacity in IC design. The newly established research center equipped with advanced instruments and professional staff allows the Group to enter into a more specialized area of IC design and save our costs of IC purchase in the long run.

As a result of the continuous effort and investment in our research and development capability, the Group has gradually developed a strong patent portfolio. During the Relevant Period, we submitted in total 60 applications for the registration of patent in the PRC, in which 34 patents were successfully registered while 26 applications were pending. Our patents mainly involve the designs and technologies relating to compatible cartridge chips and IoT.

As a symbol of our research achievement, Zhuhai Megain has 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 order to provide sufficient resources and funds to our major operational flagship in the PRC, the Company increased its indirect investment in Zhuhai Megain, an indirect wholly-owned subsidiary of the Company, through its direct wholly-owned subsidiary, Megain Group (HK), by increasing the share capital in Zhuhai Megain by RMB49,000,000 in July 2021. Zhuhai Megain possessed a stronger research and development capacity through investment in equipment and human resources after the capital increase.

FINANCIAL REVIEW

Revenue

Our overall revenue increased by approximately 7.1% from approximately RMB156.8 million for the year ended 31 December 2020 to approximately RMB167.9 million for the Relevant Period. The following table summarises the revenue for each of the product categories by application during the periods indicated:

	Year ended 31 December								
	2021				2020				
	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price	Percentage increase/ decrease (-) in revenue
	RMB'000	%	000' pieces of chips	RMB	RMB'000	%	000' pieces of chips	RMB	%
Sales of chips									
Product category-application									
– Desktop laser printers	85,468	50.9	10,433	8.2	67,056	42.8	12,022	5.6	27.5
– Desktop inkjet printers	37,221	22.2	3,584	10.4	69,885	44.6	7,981	8.8	-46.7
– Commercial printers[1]	5,872	3.5	343	17.1	7,429	4.7	312	23.8	-21.0
Sub-total	128,561	76.6	14,360	9.0	144,370	92.1	20,315	7.1	-11.0
Sales of other chips	3,148	1.9	2,260	1.4	–	–	–	–	N/A
Trading of ICs and other cartridge components[2]	30,781	18.3	N/A	N/A	12,413	7.9	N/A	N/A	148.0
Other revenue[3]	5,377	3.2	N/A	N/A	–	–	–	–	N/A
Total	167,867	100			156,783	100			7.1

Notes:

1. Commercial printers include mainly commercial laser printers.

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

3. The Group provided technical and design services for chips at the request of our customers.

FINANCIAL REVIEW (Continued)

Revenue (Continued)

(i) Sales of compatible cartridge chips

Our revenue from the sales of compatible cartridge chips decreased by approximately 11.0% from approximately RMB144.4 million for the year ended 31 December 2020 to approximately RMB128.6 million for the Relevant Period.

The decrease in revenue was mainly due to (i) the decrease in revenue from the sales of our chips for desktop inkjet printers to our customers from approximately RMB69.9 million for the year ended 31 December 2020 to approximately RMB37.2 million for the Relevant Period mainly caused by the high sales of Ink Cartridge Chip Models during the year ended 31 December 2020; (ii) the rebound of the COVID-19 pandemic during the Relevant Period resulting in the economic and social disruption in many countries and hence the weak demand for compatible printer cartridges; and (iii) the reduction in the export of compatible printer cartridges to European and the US markets due to the transportation problems mentioned in the section "Compatible Cartridge Chips Business" in this report.

(ii) Sales of other chips

Our Hall sensor chip is mainly applied in magnetic field sensor. As it was just a newly launched product of the Group in June 2021, the sales of the Hall sensor chip for the Relevant Period just amounted to approximately RMB3.1 million. We believe that the Hall sensor chip will become a driver of our total revenue growth, taking into consideration of the large demand for the Hall sensor chips in different areas such as automobiles, 5G base stations, fans, toys, etc.

(iii) Trading of ICs and other cartridge components

Our revenue generated from trading of ICs and other cartridge components increased from approximately RMB12.4 million for the year ended 31 December 2020 to approximately RMB30.8 million for the Relevant Period mainly due to the strong demand for toner in the second half of the Relevant Period.

(iv) Other revenue

Occasionally, the Group provides technical and design services for chips at the request of our customers. The Group recorded a revenue from the provision of technical and design services for chips of approximately RMB5.4 million during the Relevant Period while we did not have such revenue for the corresponding period of last year.

FINANCIAL REVIEW (Continued)

Cost of sales and services

Our cost of sales and services increased by 16.4% from approximately RMB69.7 million for the year ended 31 December 2020 to approximately RMB81.2 million for the Relevant Period. The increase was mainly due to (i) the increase in unit direct material cost for compatible printer cartridge chip due to the shortage of raw materials such as SoC, wafers, etc., (ii) the increase in the cost of sales for the trading of ICs and other cartridge components, mainly toner, and (iii) the increase in warranty provision.

Gross profit and gross profit margin

Our overall gross profit decreased by approximately 0.4% from approximately RMB87.1 million for the year ended 31 December 2020 to approximately RMB86.7 million for the Relevant Period. Our overall gross profit margin decreased from approximately 55.5% for the year ended 31 December 2020 to approximately 51.7% for the Relevant Period. 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 periods indicated:

	Year ended 31 December			
	2021		2020	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
Sales of chips				
Product category-application				
– Desktop laser printers	57,623	67.4	40,886	61.0
– Desktop inkjet printers	21,177	56.9	40,870	58.5
– Commercial printers	3,587	61.1	4,376	58.9
Sub-total	82,387	64.1	86,133	59.7
Sales of other chips	108	3.4	–	–
Trading of ICs and other cartridge components	1,611	5.2	939	7.6
Other revenue	2,598	48.3	–	–
Total	86,704	51.7	87,072	55.5

FINANCIAL REVIEW (Continued)

Gross profit and gross profit margin (Continued)

(i) Sales of compatible cartridge chips

The gross profit from the sales of compatible cartridge chips decreased from approximately RMB86.1 million for the year ended 31 December 2020 to approximately RMB82.4 million for the Relevant Period, mainly due to the decrease in gross profit from the sales of our chips for desktop inkjet printers from approximately RMB40.9 million for the year ended 31 December 2020 to approximately RMB21.2 million for the Relevant Period, which was mainly due to the fact that the new models of compatible cartridge chips for desktop inkjet printers that the Group could launch were very limited.

Our gross profit margin of compatible cartridge chips increased from approximately 59.7% for the year ended 31 December 2020 to approximately 64.1% for the Relevant Period, mainly due to the increase in gross profit margin of our chips for desktop laser printers from approximately 61.0% for the year ended 31 December 2020 to approximately 67.4% for the Relevant Period as a result of the higher gross profit margin of certain models of chips for desktop laser printers we newly launched.

(ii) Sales of other chips

The gross profit from the sales of Hall sensor chips amounted to approximately RMB0.1 million for the Relevant Period. The gross profit margin of the sales of Hall sensor chips was approximately 3.4% for the Relevant Period. The Group just launched the Hall sensor chip business and did not go into mass production. We intend to launch progressively new series of Hall sensor chips so that they can be applied to different kinds of electronic product such as cars, 5G base stations, fans, toys, etc.

(iii) Trading of ICs and other cartridge components

Our gross profit from trading of ICs and other cartridge components increased from approximately RMB0.9 million for the year ended 31 December 2020 to approximately RMB1.6 million for the Relevant Period. The decrease in gross profit margin from approximately 7.6% for the year ended 31 December 2020 to approximately 5.2% for the Relevant Period was mainly due to the decrease in the gross margin of toner.

(iv) Other revenue

Occasionally, we provide technical and design services for chips to our customers at their request. During the Relevant Period, the gross profit from the provision of such service amounted to RMB2.6 million and the gross profit margin was 48.3%. The gross profit and gross profit margin of the technical and design services for chips can differ from project to project, depending on the size, expected time and employees involved, degree of technical difficulty of the project, etc. and are volatile.

FINANCIAL REVIEW (Continued)

Other net income

Our other net income increased by approximately 91.8% from approximately RMB4.0 million for the year ended 31 December 2020 to approximately RMB7.7 million for the Relevant Period, which was mainly due to the increase in bank interest income and government grants.

Research and development expenses

Our research and development expenses increased by approximately 34.1% from approximately RMB14.6 million for the year ended 31 December 2020 to approximately RMB19.6 million for the Relevant Period. Such increase was mainly due to the increase in the expenses in relation to the research and development projects of compatible printer cartridge and IoT chips.

Selling and distribution expenses

Our selling and distribution expenses decreased by approximately 8.0% from approximately RMB5.6 million for the year ended 31 December 2020 to approximately RMB5.2 million for the Relevant Period. Such decrease was mainly attributable to the decrease in exhibition and transportation expenses.

Administrative expenses

Our administrative expenses increased by approximately 19.4% from approximately RMB19.1 million for the year ended 31 December 2020 to approximately RMB22.9 million for the Relevant Period mainly due to the increase in donations, directors' fee, audit fee and costs for the setup of a new office.

Listing expenses

Our listing expenses decreased by approximately 53.0% from approximately RMB14.6 million for the year ended 31 December 2020 to approximately RMB6.8 million for the Relevant Period due to the completion of the Listing.

Income tax expenses

Our income tax expenses decreased slightly by approximately 0.3% from approximately RMB7.19 million for the year ended 31 December 2020 to approximately RMB7.17 million for the Relevant Period. Although the profit before income tax during the Relevant Period increased, the increase in income tax was offset by the decrease in withholding tax on dividend paid by a PRC subsidiary of the Company.

FINANCIAL REVIEW (Continued)

Net profit and net profit margin

Our net profit after income tax for the period increased by approximately 8.7% from approximately RMB28.8 million for the year ended 31 December 2020 to approximately RMB31.3 million for the Relevant Period. The movement of the net profit after income tax during the Relevant Period was mainly attributable to (i) the decrease in listing expenses, (ii) the increase in research and development expenses, and (iii) the increase in administrative expenses, due to the reasons discussed in the respective sections above.

Certain expenses incurred during the Relevant Period and the corresponding period in 2020 were listing-related. Our adjusted net profit (excluding the listing expenses and donation) for the Relevant Period amounted to approximately RMB40.6 million which was lower than that of approximately RMB43.3 million for the year ended 31 December 2020. The decrease was mainly originated from the increase in research and development expenses, reflecting our effort to develop new models of compatible cartridge chips and IoT chips.

Our net profit margin increased from 18.3% for the year ended 31 December 2020 to 18.6% for the Relevant Period mainly due to the fact that the percentage increase in the net profit after income tax was higher than the percentage increase in the revenue caused by the reasons discussed above.

Net Current Assets

We recorded net current assets of approximately RMB310.8 million as at 31 December 2021 and RMB163.2 million as at 31 December 2020 respectively. Our current assets increased from approximately RMB185.1 million as at 31 December 2020 to approximately RMB340.9 million as at 31 December 2021, mainly due to the increase in cash and cash equivalents as a result of funds raised from the Listing, and the increase in trade receivables. Our current liabilities increased from approximately RMB21.8 million as at 31 December 2020 to approximately RMB30.1 million as at 31 December 2021 primarily due to the increase in bank borrowings, income tax payable, and provisions.

Property, plant and equipment

The net carrying amount of our property, plant and equipment increased from approximately RMB5.8 million as at 31 December 2020 to approximately RMB7.7 million as at 31 December 2021 mainly due to the increase in right-of-use assets originated from certain new leases (partly offset by the depreciation charge) and the addition of office equipment.

Intangible assets

Our intangible assets consisted mainly of software and patent. The net carrying amount of our intangible assets increased from approximately RMB5.8 million as at 31 December 2020 to approximately RMB10.6 million as at 31 December 2021 mainly due to the increase in the acquisition of new IC intellectual property rights.

FINANCIAL REVIEW (Continued)

Inventories

Inventories primarily comprised raw materials, finished goods, goods-in-transit and right to recover returned goods. Inventories increased from approximately RMB11.6 million as at 31 December 2020 to approximately RMB17.6 million as at 31 December 2021 mainly due to the increase in goods-in-transit including IoT chips and items relating to trading of ICs and other cartridge components, and the increase in raw materials.

Trade receivables

Our trade receivables increased from approximately RMB39.1 million as at 31 December 2020 to approximately RMB72.8 million as at 31 December 2021 mainly due to the increase in the sales of certain new models of compatible printer cartridge chip during the fourth quarter of 2021.

Deposits, prepayments and other receivables

Our deposit, prepayments and other receivables increased from approximately RMB11.0 million as at 31 December 2020 to approximately RMB12.1 million as at 31 December 2021 mainly due to the increase in prepayments for the purchase of raw materials such as wafers as a result of the shortage of semi-conductors.

Trade payables

Our trade payables increased from RMB6.5 million as at 31 December 2020 to RMB8.1 million as at 31 December 2021 which was in line with the substantial growth in the trading of ICs and other cartridge components, mainly toner.

FINANCIAL REVIEW (Continued)

Indebtedness

The table below sets out the breakdown of the indebtedness of our Group as at the respective dates indicated:

	As at 31 December 2021 RMB'000 (Audited)	As at 31 December 2020 RMB'000 (Audited)
Current liabilities		
Bank borrowings due within one year	5,000	–
Lease liabilities	1,719	1,403
Non-current liabilities		
Lease liabilities	2,365	191
	9,084	1,594

As at 31 December 2021, our Group, as a lessee, had outstanding contractual lease payments amounting to approximately RMB4.1 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.

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	**2021**	2020
Current ratio	*1*	**11.3**	8.5
Quick ratio	*2*	**10.7**	7.9
Return on equity	*3*	**9.6%**	16.5%
Return on total assets	*4*	**8.7%**	14.6%
Gross profit margin	*5*	**51.7%**	55.5%
Net profit margin	*6*	**18.6%**	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 respective dates.

3. Return on equity is calculated by dividing profit after income tax 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 after income tax 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 after income tax for the year by revenue and multiplying the resulting value by 100%.

Current ratio and quick ratio

The current ratio of the Group was approximately 8.5 and 11.3 as of 31 December 2020 and 2021 respectively. The quick ratio of the Group was approximately 7.9 and 10.7 as of 31 December 2020 and 2021 respectively. The increase in both the current ratio and quick ratio of the Group was mainly due to the increase in cash and cash equivalents as a result of funds raised from the Global Offering. As both the current ratio and quick ratio of the Group as at 31 December 2021 were greater than 1, the short-term liquidity of the Group was healthy.

Return on equity

The return on equity of the Group decreased from approximately 16.5% for the year 31 December 2020 to approximately 9.6% for the Relevant Period. The decrease was mainly attributable to the increase in equity as a result of the Listing.

KEY FINANCIAL RATIOS (Continued)

Return on assets

The return on assets of the Group decreased from approximately 14.6% for the year 31 December 2020 to approximately 8.7% for the Relevant Period. Such decrease was primarily attributable to the increase in cash and cash equivalents as a result of the Global Offering.

Gross profit margin

The gross profit margin of the Group decreased from approximately 55.5% for the year ended 31 December 2020 to approximately 51.7% for the Relevant Period. The decrease was a result of the decrease in gross profit of the Group during the Relevant Period due to the reasons discussed above.

Net profit margin

The net profit margin of the Group increased from approximately 18.3% for the year ended 31 December 2020 to approximately 18.6% for the Relevant Period. The increase was mainly attributable to the reasons discussed above.

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

During the Relevant Period, the Group financed its operations mainly by cash generated from operations, debt financing, and the proceeds of the Listing.

As at 31 December 2021, the Group had cash and cash equivalents of approximately RMB238.3 million (as at 31 December 2020: approximately RMB123.5 million).

As at 31 December 2021, the Group had net current assets of approximately RMB310.8 million (as at 31 December 2020: approximately RMB163.2 million) and net assets of approximately RMB327.2 million (as at 31 December 2020: approximately RMB173.9 million).

Taking into account the cash flow generated from operations, the loan facilities provided by banks and the net proceeds from the Listing, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the end of the Relevant Period.

OTHER FINANCIAL INFORMATION (Continued)

Capital Structure

A. Borrowing

The total bank borrowing of the Group as at 31 December 2021 was approximately RMB5.0 million (as at 31 December 2020: nil) which was originally denominated in RMB, so it did not have any foreign exchange impact on our financial statements during the Relevant Period. The bank borrowing was interest-bearing and unsecured. During the Relevant Period, the Group did not experience any difficulties in utilising its banking facilities with its lenders.

B. Gearing Ratio

As at 31 December 2021, the Group's gearing ratio was approximately 1.5% (as at 31 December 2020: nil), calculated as the total debt divided by the total equity as at the end of the Relevant Period multiplied by 100%. The increase was mainly due to an increase in debt as at the end of the Relevant Period. The Group's gearing ratio demonstrated that the financial position of the Group was healthy as the debt level of the Group was very low as at the end of the Relevant Period.

Pledge of Assets

As at 31 December 2021, the Group did not pledge any assets of the Group.

Contingent Liabilities

As at 31 December 2021 and 2020, the Group did not have any material contingent liabilities.

Capital Expenditure

The Group's capital expenditure requirements were mainly related to additions of its property, plant and equipment such as rights-of-use assets generated from property leases, the newly purchased machinery and equipment, and leasehold improvement. For the Relevant Period, the Group spent approximately RMB6.9 million on the addition of its property, plant and equipment.

Material Acquisition and Disposal by the Group

During the Relevant Period, the Group did not make any material acquisition or disposal of subsidiaries, associates and joint ventures.

OTHER FINANCIAL INFORMATION (Continued)

Significant Investments

The Group did not hold any significant investments as at 31 December 2021.

Foreign Currency Exposure

Majorities of the Group's assets, liabilities and cash flows were denominated in RMB and part of the Group's assets such as cash and cash equivalents and trade receivables, were denominated in USD or HKD. We are exposed to foreign currency risk arising from fluctuations in exchange rates between RMB against USD or HKD. During the Relevant Period, the change of RMB against USD or HKD did not have any significant effect from translation. During the Relevant Period, the Group did not engage in any hedging activities and the Group has no intention to carry out any hedging activities in near future. The management of the Group will continue to closely monitor the foreign currency market and consider carrying out hedging activities when necessary.

Human Resources

As at 31 December 2021, we had approximately 152 full-time headcounts (including Directors), of which 125 were based in the PRC and 27 were based in Taiwan and Hong Kong. The Group has adopted policies on recruitment, compensation, dismissal, equal opportunities, diversity, anti-discrimination, and other benefits and welfare. The Group provides induction to new employees on its business, culture, structure, and products. We also provide regular trainings to our employees. Our employees' remuneration comprises salaries, bonuses, employee retirement fund and social security contributions and other welfare payments. The Group also adopted the Share Option Scheme as part of the incentive package. We regularly assess the performance of our employees, the results of which would form the basis for salary increments, bonuses and promotions.

Outlook and Future Plan

In the near future, we expect that China's economy will continue to recover and provide a stable business environment for the development of our industry. However, there remains unstable and uncertain factors in the global economic recovery. The coming year will be dominated by global efforts to fight supply chain issues, inflation, shortage of semi-conductors, negative economic impacts of regional military conflicts, and the COVID-19 mutating variants. The Company expects that the operating environment of the Group will be complex and undulating. However, we believe that the worst of the pandemic to the Group has passed, the performance of the Group will improve alongside the introduction of more new models of compatible printer cartridge chip and IoT chip.

The principal goal of the Group is to maintain and strengthen our position as a leading compatible cartridge chips provider 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;

OTHER FINANCIAL INFORMATION (Continued)

Outlook and Future Plan (Continued)

(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.

The core strength of the Group is its research and development capabilities which is also one of the key success factors in our industry in the PRC. Most of the strategies of the Group aim at strengthening this core competency. Save as disclosed above, as at 31 December 2021, the Group did not have plans for material investments and capital assets in the coming year.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Cheng Hsien-Wei (鄭憲徽), aged 45, 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 12 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 and a master's degree in green technology at National Ilan University (國立宜蘭大學) in Taiwan in June 2021.

Mr. Lee Kuo-Chang (李國彰), aged 53, 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 and the representative of Taiwan branch office of Megain Holding (BVI) PTE, LTD., an indirect wholly-owned subsidiary of the Company, since January 2022. He is primarily responsible for the research and development of the hardware and firmware of IC.

Mr. Lee has over 26 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.

Non-executive Directors

Mr. Lam Tsz Leung (林子良), aged 58, 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 31, 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.

From November 2019 to September 2021, Ms. Yu was 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. Since October 2021, Ms. Yu has served as the general manager of Qianhai Shengshi Culture Holding (Shenzhen) Company Limited* (前海盛世文化控股(深圳)有限公司).

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 (陳大江), aged 54, 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 49, 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 58, 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.

SENIOR MANAGEMENT

Mr. Wang Hua (王華), aged 35, 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 11 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 48, 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(珠海保税區)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 52, 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 50, 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 GoodWay 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 36, 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 10 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 52, 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 19 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.

COMPANY SECRETARY

Mr. Wong Cheuk Lam (黃焯琳), aged 53, 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 18 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.

* *For identification purpose only*

REPORT OF DIRECTORS

The Directors are pleased to present the Directors' report together with the audited consolidated financial statements of the Company for the year ended 31 December 2021.

CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 22 June 2016. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's shares were listed on the Main Board of the Stock Exchange on 31 March 2021.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. During the Relevant Period, the Group is principally engaged in the provision of research, design, development and sales of compatible cartridge and IoT chips in the PRC.

RESULTS AND DIVIDENDS

Profit of the Group for the year ended 31 December 2021 and the state of affairs of the Company and the Group at that date are set out in the Financial Statements on pages 71 to 140.

On 6 April 2020 and 30 June 2021, the Company paid a final dividend of RMB29,677,000 and RMB5,747,000, in aggregate to its owners of the Company in respect of the years ended 31 December 2019 and 2020, respectively.

The Board has recommended the payment of a final dividend for the year ended 31 December 2021 of HK$2.96 cents per Share (equivalent to RMB2.4 cents per Share) to the Shareholders whose names appear on the register of members of the Company on Tuesday, 21 June 2022, being the record date for determining the entitlement of shareholders to the proposed final dividend, amounting to approximately RMB12.5 million in aggregate, subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company to be held on Thursday, 9 June 2022. The above-mentioned final dividend is expected to be paid on or before Thursday, 30 June 2022.

The Company is not aware of any arrangement under which a shareholder has waived or agreed to waive any dividends.

POLICY ON PAYMENT OF DIVIDENDS

The Company has adopted a policy on payment of dividends (the "Dividend Policy"), which establishes an appropriate procedure on declaring and recommending the dividend payment of the Company.

The Company may distribute dividends by way of cash or by other means that the Directors consider appropriate. The Company currently targets to distribute to the Shareholders dividends not less than 40% of the Group's net profit for the year attributable to equity shareholders of the Company in each financial year, commencing from the financial year ended 31 December 2021. A decision to distribute any interim dividend or recommend any final dividend would require the approval of the Board and will be at its discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. The Board will review the 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) the Group's capital requirements, (v) the payment by its subsidiaries of cash dividends to the Company, (vi) possible effects on liquidity and financial position of the Group and (vii) other factors the Board may deem relevant. Our historical declarations of dividends may not reflect our future declarations of dividends.

CLOSURE OF THE REGISTER OF MEMBERS

To be eligible to attend and vote in the forthcoming annual general meeting

The register of members of the Company will be closed from Thursday, 2 June 2022 to Thursday, 9 June 2022 (both days inclusive) during which period no transfer of shares will be registered. To be qualified to attend and vote at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 1 June 2022.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Thursday, 16 June 2022 to Tuesday, 21 June 2022 (both days inclusive) during which period no transfer of shares will be registered. To be qualified to receive the proposed final dividends, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 15 June 2022.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 27 to the Financial Statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Upon the listing on the Main Board of the Stock Exchange on 31 March 2021 and up to the date of this report, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

RESERVES

Details of change in reserves of the Group are set out on page 74 of the "Consolidated Statement of Changes in Equity" of this report.

DISTRIBUTABLE RESERVES

Under the Companies Act, the funds in the share premium account and contributed surplus account of the Company are distributable to the owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

The maximum amount of distributable profits of the Company as at 31 December 2021, representing the total owner's equity less share capital, and calculated in accordance with the Companies Act, was approximately RMB322.9 million. Detail of movements in reserves of the Group during the Relevant Period are set out in the "Consolidated Statement of Changes in Equity" on page 74 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group for the year ended 31 December 2021 are set out in Note 15 to the Financial Statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares to the existing Shareholders.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

SUBSIDIARY COMPANIES

Details of the major subsidiary companies of the Company as at 31 December 2021 are set out in Note 31 to the Financial Statements.

BUSINESS REVIEW

A fair business review of the Group as required under Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including a discussion and analysis of the Group's performance during the year ended 31 December 2021 using financial key performance indicators, a description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred after 31 December 2021 (if any) as well as an indication of likely future development in the business of the Group are provided in the sections "Chairman's Statement" "Management Discussion and Analysis", and "Report of Directors" on pages 11 to 12, pages 13 to 27, and pages 34 to 50 of this annual report, respectively.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to fulfilling social responsibility, promoting employee benefits and development, protecting the environment and giving back to the community and achieving sustainable growth.

In accordance with Rule 13.91 of the Listing Rules and the Environmental, Social and Governance Reporting Guide contained in Appendix 27 to the Listing Rules, the "Environmental, Social and Governance Report" of the Company will be available on our website and the website of the Stock Exchange within five months after the end of the Relevant Period.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the Relevant Period, as far as the Directors are aware, there was no material breach of or non-compliance with the applicable laws and regulations by our Group that has a significant impact on the business and operations of our Group. Reference should be made to the section headed “Regulatory Overview” in the Prospectus for details of the relevant laws and regulations that regulate the business and operations of the Group.

KEY RELATIONSHIP WITH STAKEHOLDERS

The Group recognizes that various stakeholders including customers, employees, financial institutions, Shareholders, suppliers and other business associates are key to the Group’s success.

The Group believes that it is vital to attract, recruit and retain quality employees. Thus, our Group provides competitive remuneration package and regular training to attract and motivate the employees. During the Relevant Period, the Group did not experience any significant labor disputes or any difficulty in recruiting staff for its operations.

Our Group also understands that it is important to maintain good relationship with customers, financial institutions, Shareholders and suppliers to achieve its long-term goals. Accordingly, our senior management have kept good communication, promptly exchanged ideas and shared business update with them when appropriate. During the Relevant Period, there was no material dispute between our Group and its customers, financial institutions, Shareholders and suppliers.

KEY RISKS AND UNCERTAINTIES

Our Group’s financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to our Group’s businesses. Please refer to the section headed “Risk Factors” in the Prospectus for details of the risks and uncertainties faced by the Group. The risk factors relating to our business and the industry faced by the Group are set out below:

(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, 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;

KEY RISKS AND UNCERTAINTIES (Continued)

(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;

(vii) our business, result of operations and financial conditions may be affected by the market competition in the compatible cartridge chip market; and

(viii) normal commercial risks such as inventory obsolescence, impairment of intangible assets, inadequate insurance coverage, failure to collect trade receivables in time and in full, inability to optimize production capacity, business seasonality, etc., may also affect our business performance.

Details of risks and uncertainties faced by the Group during the Relevant Period are explained in the Management Discussion and Analysis section in this annual report.

The list above is not exhaustive. There may be other risks and uncertainties in addition to those shown above which are not known to our Group or which may not be material now but could turn out to be material in the future.

PLEDGE OF ASSETS

As at 31 December 2020 and 2021, the Group did not pledge any of its assets.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2020 and 2021, the Group did not have any material contingent liabilities, on-going legal proceedings or potential proceedings threatened to be brought against the Group.

GOING CONCERN

Based on the current financial position and the available financing facilities, the Group has sufficient financial resources for ongoing operation in the foreseeable future. As such, the Financial Statements were prepared on a "going concern" basis.

SUFFICIENCY OF PUBLIC FLOAT

According to the information disclosed publicly and as far as the Directors are aware, upon the Listing on the Main Board of the Stock Exchange on 31 March 2021 and up to the date of this report, the Company maintained the amount of public float as required under the Listing Rules.

CHARITABLE DONATIONS

During the Relevant Period, charitable donations made by the Group were approximately RMB2.6 million (2020: Nil).

DIRECTORS

The Directors as at the date of this report are:

Executive Directors

Mr. Cheng Hsien-Wei (鄭憲徽) *(Chairman)*
Mr. Lee Kuo-Chang (李國彰)

Non-executive Directors

Mr. Lam Tsz Leung (林子良)
Ms. Yu Erhao (余尔好)

Independent Non-executive Directors

Mr. Chen Mark Da-jiang (陳大江)
Mr. Kao Yi-Ping (高亦平)
Mr. Li Huaxiong (李華雄)

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Company are set out in pages 28 to 33 under the section headed "Biographies of Directors' and Senior Management" in this annual report.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received the confirmation of independence pursuant to the Listing Rules from each of the Independent Non-executive Directors and the Company considers such Directors to be independent from their date of appointment and up to the date of this report.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Directors and senior management of the Company 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 emoluments of the Directors and senior management of the Group are determined by the Remuneration Committee with reference to their relevant qualifications, experience, competence, performance of the Group and the prevailing market conditions. 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 the Directors for the Relevant Period is set out in Note 11 to the Financial Statements. None of the Directors had waived any remuneration during the Relevant 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 Relevant Period is set out in Note 11 to the Financial Statements.

No payment was made by us to the 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 Relevant Period.

SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the Shareholders on 26 February 2021. All conditions, to which the Share Option Scheme was subject to, had been fulfilled on or before the Listing Date. As at the date of this report, no option has been granted under the Share Option Scheme and the Company does not have any other share option scheme.

(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

The 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 the 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) MAXIMUM NUMBER OF SHARES AVAILABLE FOR ISSUE

The maximum number of Shares to be issued upon exercise of all options which may be granted under the Share Option Scheme 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 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.

As at the date of this report, the total number of Shares available for issue upon the exercise of the options granted under the Share Option Scheme was 50,000,000, representing 10% of the total issued Shares (500,000,000 Shares) as at the date of this report.

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.

(D) MAXIMUM ENTITLEMENT OF EACH ELIGIBLE PERSON

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.

(D) MAXIMUM ENTITLEMENT OF EACH ELIGIBLE PERSON (CONTINUED)

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.

(E) EXERCISABLE PERIOD

The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

(F) MINIMUM HOLDING PERIOD

The Share Option Scheme does not specify any minimum holding period but the Board has the authority to determine the minimum period for which a share option in respect of some or all of the shares forming the subject of the share options must be held before it can be exercised.

(G) CONSIDERATION FOR ACCEPTANCE

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.

(H) BASIS OF DETERMINING THE SUBSCRIPTION PRICE

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.

(I) REMAINING LIFE OF THE SHARE OPTION SCHEME

The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date of its adoption (i.e. 26 February 2021). As at the date of this report, the Share Option Scheme had a remaining life of approximately 8 years and 10 months.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

The 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.

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 which is not determinable by the Group within one year without the payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT AND CONTRACT OF SIGNIFICANCE

Save as disclosed in this report, no Director or an entity connected with a Director was materially interested, either directly or indirectly, in any transaction, arrangement or contract which is significant in relation to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during the Relevant Period and up to the date of this report.

SHAREHOLDERS' INTERESTS IN CONTRACT OF SIGNIFICANCE

Save as disclosed in this report, there had been no contract of significance between the Company or any of its subsidiaries and a controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries subsisting during the Relevant Period and up to the date of this report.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As far as the Company is aware, as at the date of this report, 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, 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]	Approximate Percentage of Shareholding
Mr. Cheng	Interest in a controlled corporation; interest held jointly with another person [2]	191,250,000(L)	36.87%
Mr. Lee	Interest in a controlled corporation; interest held jointly with another person [3]	191,250,000(L)	36.87%
Mr. Lam	Beneficial owner	86,250,000(L)	16.63%

Notes:

(1) The letter "L" denotes a long position in the Shares.

(2) As at the date of this report, the Company is approximately 19.27% directly owned by GMTL. As at the date of this report, GMTL was wholly owned by Mr. Cheng. By virtue of the Concert Parties Confirmatory Deed, Mr. Cheng is deemed to be interested in all the Shares held by GMTL and AGL.

(3) As at the date of this report, the Company is approximately 17.6% directly owned by AGL. As at the date of this report, AGL was wholly owned by Mr. Lee. By virtue of the Concert Parties Confirmatory Deed, Mr. Lee is deemed to be interested in all the Shares held by AGL and GMTL.

Save as disclosed above, none of the Directors and the chief executive of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at the date of this report.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

So far as the Directors are aware, as at the date of this report, the following persons 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:

Name of Shareholder	Capacity/ Nature of Interest	Number of Shares(1)	Approximate Percentage of Shareholding
GMTL	Beneficial owner, interest held jointly with another person(2)	191,250,000(L)	36.87%
AGL	Beneficial owner, interest held jointly with another person(3)	191,250,000(L)	36.87%
Mr. Cheng	Interest in a controlled corporation, interest held jointly with another person(2)	191,250,000(L)	36.87%
Mr. Lee	Interest in a controlled corporation, interest held jointly with another person(3)	191,250,000(L)	36.87%
GLC	Beneficial owner(4)	97,500,000(L)	18.80%
Mr. Yu	Interest in a controlled corporation(4)	97,500,000(L)	18.80%
Mr. Lam	Beneficial owner	86,250,000(L)	16.63%

Notes:

(1) The letter "L" denotes a long position in the Shares.

(2) As at the date of this report, our Company is approximately 19.27% directly owned by GMTL. As at the date of this report, GMTL was wholly owned by Mr. Cheng. By virtue of the SFO and the Concert Parties Confirmatory Deed, GMTL and Mr. Cheng are deemed to be interested in all the Shares held by GMTL and AGL.

(3) As at the date of this report, our Company is approximately 17.6% directly owned by AGL. As at the date of this report, AGL was wholly owned by Mr. Lee. By virtue of the SFO and the Concert Parties Confirmatory Deed, AGL and Mr. Lee are deemed to be interested in all the Shares held by AGL and GMTL.

(4) As at the date of this report, our Company is approximately 18.80% directly owned by GLC. As at the date of this report, 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES (CONTINUED)

Save as disclosed herein, our Directors are not aware of any person who, as at the date of this report, 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this report, at no time during the Relevant Period was the Company or any of its subsidiaries, a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouse or children under the age of 18 had any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the Relevant Period and up to the date of this report, none of the Directors are interested in any business apart from the Group's business which competes or is likely to compete, directly or indirectly, with the business of the Group.

DEED OF NON-COMPETITION

The Company entered into the Deed of Non-Competition with Mr. Cheng, Mr. Lee, GMTL and AGL so as to better safeguard the Group from any potential competition from the Controlling Shareholders and to formalize the principles for the management of potential conflicts of interest with them. Details of the Deed of Non-Competition should be referred to the section headed "Relationship with Controlling Shareholders — Deed of Non-competition" in the Prospectus.

As at the date of this report, each of the Controlling Shareholders has provided to the Company a declaration on compliance with his/its undertakings under the Deed of Non-competition.

After reviewing the declaration on compliance provided by the Controlling Shareholders and making necessary enquiry with them, the Independent Non-executive Directors consider that the Controlling Shareholders were in compliance with the Deed of Non-Competition up to the date of this report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Relevant Period and up to the date of this report between the Company and a person other than a Director or any person engaged in the full-time employment of the Company.

PERMITTED INDEMNITY PROVISION

Article 164(1) of the Articles of Association provides that each Director or other officer of the Company shall be entitled to be indemnified out of the assets and the profits of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office. The Company has arranged appropriate directors' liability insurance coverage for the Directors.

MAJOR CUSTOMERS AND SUPPLIERS

During the Relevant Period, the respective percentage of the total purchases attributable to the Group's largest supplier and five largest suppliers in aggregate was 24% and 66% and the respective percentage of the total sales attributable to the Group's largest customer and five largest customers in aggregate was 25% and 54%, respectively.

None of the Directors or any of their close associates or any Shareholder (which to the best knowledge of the Directors owned more than 5% of the Company's issued share capital) had any interest in any of our five largest suppliers or customers.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

The related party transactions of the Group during the Relevant Period are set out in Note 32 to the Financial Statements. None of them constitute any non-exempt connected transaction or continuing connected transaction which should be disclosed pursuant to the Listing Rules. During the Relevant Period, the Group has not entered into any non-exempt connected transaction or continuing connected transaction which should be disclosed pursuant to Chapter 14A of the Listing Rules.

USE OF NET PROCEEDS FROM THE LISTING

The Shares were listed on the Main Board on the Listing Date. The Group received net proceeds (after deduction of underwriting commissions and related costs and expenses) from the Global Offering and the exercise of over-allotment option of approximately HKD118 million (equivalent to approximately RMB98.5 million). The following table illustrates the status of the use of net proceeds according to the section headed "Future Plans and Use of Proceeds" in the Prospectus dated 18 March 2021 as at 31 December 2021:

Use of Proceeds	Allocation of net proceeds as disclosed in the Prospectus (RMB million) (approximately)	Actual utilised amount as at 31 December 2021 (RMB million) (approximately)	Unutilised amount as at 31 December 2021 (RMB million) (approximately)
Strengthen our product development capacity and diversify our product portfolio	50.7	11.8	38.9
– Development of the software component	7.5	0.5	7.0
– Development of the hardware component	40.7	10.9	29.8
– Acquisition from the market of new models of original brand printers	2.5	0.3	2.1
Accelerate the development of our hardware design capabilities through acquisition of IC design company	16.6	–	16.6
Increase our presence in the compatible cartridge industry through forward vertical expansion	16.6	–	16.6
Step up our sales and marketing efforts to cater for the expansion of our product offerings	2.5	–	2.5
– Increasing budget of marketing activities, in particular participating in industry fairs and exhibitions in the PRC and at international level	1.7	–	1.7
– Employing additional members of sales and marketing staff	0.8	–	0.8

Use of Proceeds	Allocation of net proceeds as disclosed in the Prospectus (RMB million) (approximately)	Actual utilised amount as at 31 December 2021 (RMB million) (approximately)	Unutilised amount as at 31 December 2021 (RMB million) (approximately)
Improve the functionality of our back office to support our business growth	2.5	0.1	2.4
– Employing additional members of legal and compliance staff	1.3	–	1.3
– 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	0.1	1.2
General working capital	9.9	3.0	6.9
Total:	98.5	14.9	83.7

Note: The figures in the above table are subject to rounding adjustments. The discrepancy between totals and sums of separate figures listed are due to rounding.

As disclosed above, the actual application of the net proceeds was slower than expected as disclosed in the section "Future Plans and Use of Proceeds" in the Prospectus and such delay was mainly due to the impacts of the COVID-19 pandemic, which has caused the slowdown of our business development, the difficulty in recruiting suitable candidates and the delay in upgrading the Group's information technology system. The unutilised net proceeds are expected to be fully utilised by 31 December 2023 as disclosed in the section "Future Plans and Use of Proceeds" in the Prospectus and have been deposited into interest-bearing accounts with licensed banks.

INTEREST OF COMPLIANCE ADVISER

As notified by CMBC International Capital Limited, the Company's compliance adviser, neither CMBC International Capital Limited nor any of its directors or employees or close associates had any interest in the securities of the Company or any member of the Group (including options or rights to subscribe for such securities) from the Listing Date to the date of this report pursuant to the Listing Rules.

EVENTS AFTER THE RELEVANT PERIOD

As of the approval date of this report, the Group had no significant events after the Relevant Period.

AUDITOR

The Financial Statements for the Relevant Period have been audited by BDO Limited, who will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of BDO Limited as auditor of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board
MEGAIN Holding (Cayman) Co., Ltd.

Cheng Hsien-Wei
Chairman
30 March 2022

CORPORATE GOVERNANCE REPORT

The Board believes that good corporate governance standards are essential to safeguard the interests of the Shareholders, enhance corporate value, formulate our business strategies and policies, and enhance its transparency and accountability.

The Company has applied the principles of the CG Code to its corporate governance structure and practices as described in this report. The Board has taken up full corporate governance responsibilities and delegated some corporate governance functions to its three committees under defined terms of reference, namely the Audit Committee, the Nomination Committee and the Remuneration Committee. A summary of the work of the Committees since the Listing Date to the date of this report is set out in this report.

Throughout the period since the Listing Date and up to the date of this report, the corporate governance practices of the Company have complied with the applicable CG Code provisions as set out in Appendix 14 to the Listing Rules.

CORPORATE PURPOSE AND STRATEGY

The well-defined, long-term corporate purpose of the Group is to maintain and strengthen its position as a leading compatible cartridge chips provider in the PRC by implementing the business strategies of strengthening product development capacity and diversifying product portfolio. The Group has also attempted to explore opportunities in IoT chips market in order to fully exert its research and development capacity. The progress of implementing these business strategies during the Relevant Period was reported in the Management Discussion and Analysis section of this annual report and has been reviewed by the Board with the aim of making sure that the Group has generated sustainable long-term value for the Shareholders.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code governing securities transactions of the Directors. Enquiries have been made to the Directors and all Directors have confirmed that they have fully complied with the standards of dealings as set out in the Model Code since the Listing Date and up to the date of this report.

BOARD OF DIRECTORS

The Board is the core of the Company's corporate governance framework and its role is clearly separated from that of senior management. The Board is responsible for providing guidance for senior management and maintaining effective supervision over senior management.

The Board currently comprises a total of seven Directors, being two Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. Mr. Cheng Hsien-Wei (Chairman) and Mr. Lee Kuo-Chang served as Executive Directors, Mr. Lam Tsz Leung and Ms. Yu Erhao served as Non-executive Directors, Mr. Chen Mark Da-jiang, Mr. Kao Yi-Ping and Mr. Li Huaxiong served as Independent Non-executive Directors. The Non-executive Directors and Independent Non-executive Directors, who have different business and professional backgrounds, have brought valuable experience and expertise for the best interests of the Group and its Shareholders. One of the Independent Non-executive Directors, Mr. Li Huaxiong, is a qualified accountant who has appropriate professional qualifications and related financial management expertise to meet the requirements under Rule 3.10(2) of the Listing Rules.

The biographical information of the Directors is set out in the section headed "Biographies of Directors and Senior Management" on pages 28 to 33 of this annual report.

BOARD OF DIRECTORS (Continued)

To the best knowledge of the Company, there has been no financial, business, family, or other material/relevant relationships among members of the Board and senior management of the Company, except for the fact that Mr. Hung Chien-Yuan (洪健元) is the elder brother of Mr. Hung Wen-Lung (洪文隆), both being members of the senior management of the Company.

Each Independent Non-executive Director has given an annual confirmation of his independence to the Company, and the Company considers them to be independent under the Listing Rules.

Every Director is entitled to have access to Board papers and related materials and has access to the advice and services of the company secretary of the Company (the "Company Secretary"). The Board and each Director also have separate and independent access to the Company's senior management.

RESPONSIBILITIES OF THE BOARD

All the Directors (including the Independent Non-executive Directors) have acquired a proper understanding of the Company's operation and business and are fully aware of his/her functions and responsibilities under statute and common law, the Listing Rules, and other applicable legal and regulatory requirements. Every Director has given the Company the details on the number and nature of offices held in other companies and significant commitments at the time of his/her appointment.

The Board is responsible for leadership and control of the Group and be collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorizing the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system; supervising and managing management's performance of the Group; and setting the Group's values and standards. Though the Board delegates the day-to-day management, administration and operation of the Group to management, all the Directors continue to give sufficient time and attention to the Company's affairs. The delegated functions are reviewed by the Board periodically to ensure that they accommodate the needs of the Group.

The Board is also responsible for fostering an appropriate corporate culture that is aligned with the Group's purpose, values and strategies. Such corporate culture instills and continually reinforces across the Group values of acting lawfully, ethically and responsibly.

DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE

The Company has arranged appropriate directors' and officers' liability insurance in respect of possible legal actions taken against Directors and officers of the Company arising out of the corporate activities.

BOARD PROCEEDINGS AND ATTENDANCE

Regular Board meetings are held at quarterly intervals with additional meetings convened as and when necessary to discuss the overall strategic directions, the Group's operations, financial performance, and to approve interim and annual results and other significant matters. For regular meetings, Board members are given at least 14 days prior notice and agenda with supporting papers are sent to Directors not less than 3 days before the relevant meeting is held. Directors may propose to the chairman of the Board (the "Chairman") or the Company Secretary to include matters in the agenda for regular Board meetings.

Directors are requested to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at Board meetings and abstain from voting in favour of the related board resolutions as appropriate.

Minutes of meetings of the Board and board committees are kept by the company secretary in sufficient details of the matters considered and decisions reached, including dissenting views expressed, and are open for inspection on reasonable notice by any Director. Draft and final versions of minutes are sent to all Directors for their comments and records respectively within a reasonable time after the Board meeting is held.

All Directors have access to the advice and services of the Company Secretary with a view to ensuring compliance with the Board procedures.

Since the Listing Date and up to date of this report, the Board held five meetings. Details of the attendance records of Directors on Board meetings and board committee meetings from the Listing Date to the date of this report are as follows:

Name of Director	Board of Directors	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting
	Number of Meetings Attended/Held				
Executive Directors					
Cheng Hsien-Wei	4/5		1/1		1/1
Lee Kuo-Chang	5/5				1/1
Non-executive Directors					
Lam Tsz Leung	5/5				1/1
Yu Erhao	5/5			1/1	1/1
Independent Non-executive Directors					
Chen Mark Da-jiang	5/5	3/4	1/1	1/1	1/1
Kao Yi-Ping	5/5	4/4			1/1
Li Huaxiong	5/5	4/4	1/1	1/1	1/1

APPOINTMENTS AND RE-ELECTION OF DIRECTORS

The Company entered into a letter of appointment with each of our Non-executive Directors and our Independent Non-executive Directors on 26 February 2021 with specific terms. Each of 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.

The appointments of all Directors are subject to the provisions of retirement and rotation of Directors under the Articles of Association. Under the Articles of Association, at every AGM of the Company, one-third of the Directors for the time being (or if their number is not three or 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 (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. The Articles of Association also provides that 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.

Accordingly, Mr. Lee Kuo-Chang as an Executive Director, Mr. Lam Tsz Leung as a Non-executive Director, and Mr. Chen Mark Da-Jiang as an Independent Non-executive Director, shall retire at the forthcoming annual general meeting of the Company. The retiring Directors, all being eligible, shall offer themselves for re-election.

Up to the date of this report, no Independent Non-executive Director has served the Company for more than 9 years.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The role of the Chairman is separate from that of the chief executive officer of the Group (the "CEO"). They exercised separate responsibilities in the Group. Mr. Wang Hua has been appointed as the CEO since 1 January 2016, and the position of Chairman was held by Mr. Cheng Hsien-Wei since 22 June 2016. The Chairman was responsible for the overall strategic planning and business development of our Group while the CEO was responsible for formulating our corporate strategies and operation plans as well as overseeing the overall management and operations of our Group.

In addition, the Chairman also provides leadership to the Board. He monitors the Board effectiveness and fosters constructive relations among Directors. Up to the date of this report, the Chairman held meetings with the Independent Non-executive Directors without the presence of other Directors.

BOARD COMMITTEES

We have established the following three committees: the Audit Committee, the Remuneration Committee and the Nomination Committee. The committees operate in accordance with their terms of reference established by our Board. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to the Shareholders upon request. Each of the committees is provided with sufficient resources to perform its duties.

Audit Committee

We established the Audit Committee on 26 February 2021 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, Mr. Chen Mark Da-jiang and Mr. Kao Yi-Ping, all being our Independent Non-executive Directors. Mr. Li Huaxiong 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.

Since the Listing Date and up to the date of this report, the Audit Committee held four meetings. In these meetings, the Audit Committee reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2020, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2021, the audit scope for the Relevant Period, the audited consolidated financial statements for the Relevant Period, and the effectiveness of the internal control practices of the Group.

Since the Listing Date and up to the date of this report, the Audit Committee met the external auditors four times to discuss the audited results for the year ended 31 December 2020, and the audit plan and the audited results for the Relevant Period without the presence of the Executive Directors.

BOARD COMMITTEES (Continued)

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 and Mr. Li Huaxiong, both Independent Non-executive Directors, and Ms. Yu Erhao, a Non-executive Director. 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, and the establishment of a formal and transparent procedure for developing remuneration policy.

The Remuneration Committee adopted the approach under Code Provision E.1.2(c)(ii) of the CG Code to make recommendation to the Board on the remuneration packages of the individual Executive Directors and senior management of the Company.

One meeting was held by the Remuneration Committee since the Listing Date and up to the date of this report. At the meeting, the Remuneration Committee reviewed the remuneration policy of the Company and remuneration package of Executive Directors and senior management.

Remuneration policy

The Remuneration Committee makes recommendations to the Board from time to time on the remuneration of the Executive Directors and CEO. The remuneration of the Executive Directors and CEO is in the form of director's fees/salary and year-end bonus.

It is the remuneration policy of the Company to ensure that remuneration is appropriate and aligns with the Company's purpose, strategies and performance. To achieve this, the Company has taken into consideration a number of relevant factors such as salaries paid by comparable companies, job responsibilities, duties and scope, experience in the industry, market practices, financial and non-financial performance of the Group.

Details of remuneration for the Directors and the five highest paid employees are set out in Note 11 to the Financial Statements.

BOARD COMMITTEES (Continued)

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, the Chairman and Executive Director, Mr. Chen Mark Da-jiang, and Mr. Li Huaxiong, both Independent Non-executive Directors. Mr. Cheng Hsien-Wei 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 composition to complement our corporate strategies.

One meeting was held by the Nomination Committee since the Listing Date and up to the date of this report. At the meeting, the Nomination Committee reviewed the composition of the Board, including its diversity, and assessed the independence of the Independent Non-executive Directors. The Nomination Committee was satisfied that the existing composition of the Board could meet the development of the Group and aligned with the objective and strategies of the Group. It was also satisfied that each of the Independent Non-executive Directors has maintained his independence.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning board diversity as set out in the Company's board diversity policy (the "Board Diversity Policy"). The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption. In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the relevant criteria of director nomination as formulated by the Company that are necessary to complement the corporate strategy and achieve board diversity, where appropriate, before making recommendation to the Board.

BOARD COMMITTEES (Continued)

Director Nomination Criteria

The Company has formulated the selection criteria in relation to nomination and appointment of Directors and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The director nomination criteria makes clear the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Integrity
- Commitment in respect of available time and relevant interest
- Diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service

The director nomination policy of the Company also includes the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. From the Listing Date to the date of this report, there was no change in the composition of the Board.

The Nomination Committee will review the director nomination criteria and procedures, from time to time and as appropriate, to ensure its effectiveness.

Board Diversity Policy

We consider diversity at the Board level an essential element in promoting our long-term business development. We have adopted 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.

BOARD COMMITTEES (Continued)

Board Diversity Policy (Continued)

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. The Nomination Committee reviews the implementation and effectiveness of the Board Diversity Policy on an annual basis. The Nomination Committee, which can seek independent professional advice from external experts such as human resources consultants when necessary, mainly comprises Independent Non-executive Directors. The Board believes that independent views and inputs are assured in the implementation of the Board Diversity Policy.

Workforce Diversity

As at 31 December 2021, the Group employed 145 number of staff (excluding Directors), including 70 female and 75 male staff members, representing a female-to-male ratio of 0.93 which demonstrated a well gender balance in our workforce. For our Group, gender is neutral in our recruitment consideration as no position of any kind in our Group requires any capability or skill that is regarded as performed better by one gender than another.

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established by our Company and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies and practices on corporate governance and code of conduct applicable to employees and Directors, reviewing and monitoring training and continuous professional development of Directors and senior management and our Company's policies and practices on compliance with legal and regulatory requirements, as well as reviewing the Company's compliance with the CG Code and disclosure in our corporate governance reports.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Group. Every newly appointed Director receives an induction to ensure that he/she has a proper understanding of the business and operations of the Group and that he/she is fully aware of his/her duties and responsibilities as a director under applicable rules and requirements.

All Directors are provided with regularly updates on the Company's performance and financial position to enable the Board as a whole and each Director to discharge his/her duties. In addition, briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to each of the Directors to ensure compliance and enhance their awareness of good corporate governance practices.

All Directors have participated in continuous professional development by the following means to develop and refresh their knowledge.

Name of Director	Training Received
Executive Directors	
Cheng Hsien-Wei	Reading materials/attending training programmes
Lee Kuo-Chang	Reading materials/attending training programmes
Non-executive Directors	
Lam Tsz Leung	Reading materials/attending training programmes
Yu Erhao	Reading materials/attending training programmes
Independent Non-executive Directors	
Chen Mark Da-jiang	Reading materials/attending training programmes
Kao Yi-Ping	Reading materials/attending training programmes
Li Huaxiong	Reading materials/attending training programmes

COMPANY SECRETARY

The Board appointed Mr. Wong Cheuk Lam as the Company Secretary on 1 March 2020, responsible for the secretarial affairs of the Company and ensuring a good information flow within the Board and compliance with the board policy and procedures. He is an employee of the Company and has day-to-day knowledge of the Company's affairs. During the Relevant Period, he has confirmed that he has duly complied with the relevant requirement under Rule 3.29 of the Listing Rules. His biographical details are set out in the paragraph headed "Biographies of Directors and Senior Management" in this annual report.

FINANCIAL REPORTING, INTERNAL CONTROL AND RISK MANAGEMENT

Financial Reporting

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the Relevant Period.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the Financial Statements is set out in the Independent Auditor's Report from page 66 to page 70 in this annual report.

Internal Control and Risk Management

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. The Board realizes that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board reviews the effectiveness of the risk management and internal control system at least once annually.

The Company has formulated internal control measures and procedures in various aspects, including risks relating to ESG, information system, human resources, internal control and credit in order to provide reasonable assurance for our operations, reporting and compliance.

FINANCIAL REPORTING, INTERNAL CONTROL AND RISK MANAGEMENT (Continued)

Internal Control and Risk Management (Continued)

Identification of risk

The Company identifies risk at the activity level which can help to focus risk assessment on major business units or functions and also contribute to maintaining an acceptable level across the Group. We also review periodically economic and industry factors affecting our business and meet industry analysts and players to keep abreast of the new developments of the industry. Factors such as increased competition, regulatory changes, personnel changes, and developments in the markets which contribute to and increase risks are always on the watch list.

Evaluation of risk

The evaluation of risk involves procedures to assess the probability of occurrence of adverse events and the potential size of the risk. The Company will prioritize risks according to their impact and likelihood in terms of their potential effect on the Company's objectives.

Risk management

The Board will decide a suitable risk response to an identified risk and ensure that it can align with the Company's risk appetite and risk tolerance. Risk responses include accepting the risk, transferring the risk such as changing contractual terms, eliminating the risk such as adopting an exit strategy, controlling the risk such as building control measures into the operational process, and sharing the risk with another party such as insuring against the risk. The Board is also responsible for establishing and implementing the appropriate policies and procedures to ensure the risk responses are effectively carried out.

FINANCIAL REPORTING, INTERNAL CONTROL AND RISK MANAGEMENT (Continued)

Internal Control and Risk Management (Continued)

Risk management (Continued)

The risk management and internal control system of the Group has the following main features:

– it is embedded into the daily operations of the Group;

– it emphasizes a culture of risk awareness by the involvement of all staff members across the Group;

– it is a continuing process involving re-identification of risk, reappraisal of risk profile and appetite, improvement of risk control measures, etc; and

– it considers the need to engage external advisers to assess the risk management framework.

An internal audit team of the Company has been set up and assists the Board and the Audit Committee in their review of the adequacy and effectiveness of the risk management and internal control systems. The internal audit function will examine key issues in relation to the accounting practices and all material controls.

The Board had conducted a review of the effectiveness of the risk management and internal control systems of the Company in respect of the Relevant Period by reviewing the internal control report issued by the internal audit team, and considered the system effective and adequate in all material aspects in both design and operations. In the event that material internal control defects are discovered, the Board will assign the internal audit team to take follow-up actions.

The Group has established a whistleblowing policy and system for employees and other stakeholders of the Group such as customers, suppliers, contractors, creditors, debtors, etc. to raise concerns about possible improprieties related to the Group. The Group has also established an anti-corruption policy which has been incorporated into the staff manual of the Group in order to promote and support anti-corruption laws and regulations.

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

For the purpose of handling and disseminating inside information in accordance with the Listing Rules and the SFO, the Group has taken various procedures and measures, including: (i) promoting the awareness to preserve confidentiality of inside information within the Group; (ii) sending blackout period and securities dealing restrictions notification to the relevant directors and employees before the commencement of blackout or other trade restriction period; and (iii) disseminating information to specified persons on a need-to-know basis and referring closely to the "Guidelines on Disclosure of Inside Information" issued by the SFC in June 2012.

EXTERNAL AUDITOR

BDO Limited has been appointed as the external auditor of the Company for the Relevant Period and also the reporting accountants of the Company in relation to the Listing of the Company. The Audit Committee has been notified of the nature and the service charges of the services performed by BDO Limited.

For the Relevant Period, the remuneration paid or payable to BDO Limited in respect of audit and non-audit services provided is set out below:

	Remuneration paid/ payable RMB'000
Services rendered	
Audit services:	
– 2021 annual audit	772
– Acting as reporting accountants in relation to the Listing	264
Non-audit services	
– Review on the interim financial statements of the Group for the six months ended 30 June 2021	216
	1,252

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor up to the date of this report.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("EGM").

Right to convene extraordinary general meeting

According to Article 58 of the Articles of Association, any one or more members of the Company (i.e. Shareholders) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (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.

SHAREHOLDERS' RIGHTS (Continued)

Right to convene extraordinary general meeting (Continued)

The written requisition shall be deposited at the place of business of the Company in Hong Kong (Room 09, 11/F Wayson Commercial Building, 28 Connaught Road West, Sheung Wan, Hong Kong), or, in the event the Company ceases to have such place of business, the registered office of the Company (Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands). The requisition must state clearly the name of the requisitionist(s), his/her/their shareholding in the Company at the date of deposit of the requisition, the reason(s) to convene the EGM, the agenda proposed to be included and the details of the business(es) proposed to be transacted in the EGM, the contact details of the requisitionist(s), the number of the identity document of the requisitionist(s), and signed by all requisitionist(s).

Putting Forward Proposals at General Meetings

There are no provisions under the Articles of Association or the Companies Act regarding procedures for Shareholders to put forward proposals at general meetings. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

Putting Forward Enquiries to the Board

For putting forward any enquiry to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries. Shareholders may also make enquiries with the Board at the general meetings of the Company.

INVESTOR RELATIONS

The Articles of Association has been amended and restated with effect from the Listing Date, and are available on the respective website of the Stock Exchange and the Company. There has not been any change in the Company's constitutional documents during the period commencing from the Listing Date to the date of this report.

The Company has established its shareholders' communication policy, which includes channels for Shareholders to communicate their views on matters affecting the Company, as well as steps taken to solicit and understand the views of Shareholders and stakeholders of the Company. The Board reviewed the implementation and effectiveness of the shareholders' communication policy and considered that the policy has been effective since the Listing Date and up to the date of this annual report after taking into consideration factors such as the timeliness of information disclosure, number of information and meeting requests received and responsiveness to enquiries from the Shareholders and investment community.

By order of the Board
MEGAIN Holding (Cayman) Co., Ltd

Cheng Hsien-Wei
Chairman
30 March 2022

INDEPENDENT AUDITOR'S REPORT

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

TO THE SHAREHOLDERS OF MEGAIN HOLDING (CAYMAN) CO., LTD.
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of MEGAIN Holding (Cayman) Co., Ltd. (the "Company") and its subsidiaries (together the "Group") set out on pages 71 to 140, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

Revenue recognition relating to sales of compatible cartridge chips

Refer to Notes 6 and 7 to the consolidated financial statements and the significant accounting policies in Note 4(h) to the consolidated financial statements.

The Group is principally engaged in the provision of research, design, development and sales of compatible cartridge chips.

Revenue represents income from sales of compatible cartridge chips amounted to RMB162,490,000.

For sales of compatible cartridge chips, the amount of revenue recognised during the year is dependent on the point in time the transfer of the control of goods from the Group to the customers.

We identified the recognition of revenue relating to sales of goods as key audit matter because revenue is one of the key performance indicators of the Group and there is a significant inherent risk over the recognition of revenue by the management to meet specific targets or expectations.

Our response:

Our procedures on the revenue recognition relating to sales of goods included:

- assessing, on a sample basis, whether sales transactions recorded during the financial year had been recognised properly by inspecting the transactions selected with relevant underlying documentations;
- assessing, on a sample basis, whether sales transactions before and after the financial year end had been recognised in the appropriate period by comparing the transactions selected with relevant underlying documentations;
- assessing the reasonableness of the estimated rates of sales returns by reviewing historical sales returns data used in a statistical model for forecasting the sales returns; recalculating the estimate rate of sales returns by using the model; and checking, on a sample basis, to supporting documents of sales returns; and
- reviewing if there are any significant adjustments to revenue during the reporting period, understanding the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentations.

Other Information in the Annual Report

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

Directors' Responsibilities for the Consolidated Financial Statements

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

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

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

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

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

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

BDO Limited
Certified Public Accountants

Amy Yau Shuk Yuen
Practising Certificate Number P06095

Hong Kong, 30 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	**2021** **RMB'000**	2020 RMB'000
Revenue	*7*	**167,867**	156,783
Cost of sales and services		**(81,163)**	(69,711)
Gross profit		**86,704**	87,072
Other net income	*8*	**7,696**	4,012
Impairment losses of trade receivables		**(1,207)**	(1,037)
Research and development expenses		**(19,634)**	(14,646)
Selling and distribution expenses		**(5,185)**	(5,638)
Administrative expenses		**(22,864)**	(19,149)
Listing expenses		**(6,841)**	(14,563)
Finance costs	*9*	**(238)**	(113)
Profit before income tax expense	*10*	**38,431**	35,938
Income tax expense	*12*	**(7,168)**	(7,188)
Profit for the year		**31,263**	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		**(2,049)**	(1,350)
Total comprehensive income for the year		**29,214**	27,400
Earnings per share – Basic and diluted	*14*	**0.065**	0.077

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

	Notes	2021 RMB'000	2020 RMB'000
Non-current assets			
Property, plant and equipment	*15*	7,717	5,839
Intangible assets	*16*	10,614	5,839
Deferred tax assets	*26*	917	497
Total non-current assets		19,248	12,175
Current assets			
Inventories	*17*	17,602	11,583
Trade receivables	*18*	72,823	39,057
Deposits, prepayments and other receivables	*19*	12,138	10,954
Cash and cash equivalents	*32*	238,347	123,468
Total current assets		340,910	185,062
Current liabilities			
Trade payables	*20*	8,132	6,454
Accruals and other payables	*21*	9,742	11,908
Bank borrowings	*22*	5,000	–
Leases liabilities	*25*	1,719	1,403
Contract liabilities	*23*	164	249
Provisions	*24*	2,379	473
Income tax payable		2,982	1,350
Total current liabilities		30,118	21,837
Net current assets		310,792	163,225
Total assets less current liabilities		330,040	175,400

	Notes	**2021 RMB'000**	2020 RMB'000
Non-current liabilities			
Leases liabilities	*25*	**2,365**	191
Deferred tax liabilities	*26*	**493**	1,338
Total non-current liabilities		**2,858**	1,529
NET ASSETS		**327,182**	173,871
Capital and reserves			
Share capital	*27*	**4,325**	66
Reserves	*29*	**322,857**	173,805
TOTAL EQUITY		**327,182**	173,871

On behalf of the board of directors

Cheng Hsien-Wei
Director

Lee Kuo-Chang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

		Reserves						
	Share capital RMB'000	Share premium RMB'000 *(Note 29(a))*	Other reserves RMB'000 *(Note 29(b))*	Statutory reserve RMB'000 *(Note 29(c))*	Foreign exchange reserve RMB'000 *(Note 29(d))*	Retained earnings RMB'000	Total reserves RMB'000	Total equity RMB'000
Balance at 1 January 2020	66	34,287	8,460	15,631	2,419	115,285	176,082	176,148
Profit for the year	–	–	–	–	–	28,750	28,750	28,750
Other comprehensive income								
Exchange differences arising on translation of foreign operations	–	–	–	–	(1,350)	–	(1,350)	(1,350)
Total comprehensive income	–	–	–	–	(1,350)	28,750	27,400	27,400
Appropriation to statutory reserves	–	–	–	3,613	–	(3,613)	–	–
Transactions with owners								
Dividend paid in respect of the previous year	–	–	–	–	–	(29,677)	(29,677)	(29,677)
Total transactions with owners	–	–	–	–	–	(29,677)	(29,677)	(29,677)
Balance at 31 December 2020	66	34,287	8,460	19,244	1,069	110,745	173,805	173,871

		Reserves						
	Share capital RMB'000	Share premium RMB'000 *(Note 29(a))*	Other reserves RMB'000 *(Note 29(b))*	Statutory reserve RMB'000 *(Note 29(c))*	Foreign exchange reserve RMB'000 *(Note 29(d))*	Retained earnings RMB'000	Total reserves RMB'000	Total equity RMB'000
Balance at 1 January 2021	66	34,287	8,460	19,244	1,069	110,745	173,805	173,871
Profit for the year	–	–	–	–	–	31,263	31,263	31,263
Other comprehensive income								
Exchange differences arising on translation of foreign operations	–	–	–	–	(2,049)	–	(2,049)	(2,049)
Total comprehensive income	–	–	–	–	(2,049)	31,263	29,214	29,214
Appropriation to statutory reserves	–	–	–	5,684	–	(5,684)	–	–
Transactions with owners								
Dividend paid in respect of the previous year	–	–	–	–	–	(5,747)	(5,747)	(5,747)
Repurchase of ordinary shares *(Note 27(a))*	(66)	66	–	–	–	–	66	–
Capitalisation of ordinary shares *(Note 27(b))*	3,128	(3,128)	–	–	–	–	(3,128)	–
Issue of ordinary shares upon listing of the Company's shares *(Note 27(c))*	1,041	130,141	–	–	–	–	130,141	131,182
Issue of additional ordinary shares upon exercise of over-allotment option *(Note 27(d))*	156	19,519	–	–	–	–	19,519	19,675
Expenses incurred in connection with the issue of new ordinary shares *(Note 27(c))*	–	(21,013)	–	–	–	–	(21,013)	(21,013)
Total transactions with owners	4,259	125,585	-	-	-	(5,747)	119,838	124,097
Balance at 31 December 2021	4,325	159,872	8,460	24,928	(980)	130,577	322,857	327,182

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 RMB'000	2020 RMB'000
Cash flows from operating activities		
Profit before income tax expenses	38,431	35,938
Adjustments for:		
Amortisation of intangible assets	1,460	895
Bank interest income	(2,919)	(1,926)
Bad debt expenses	21	764
Depreciation of property, plant and equipment	2,731	2,320
Depreciation of right-of-use assets	2,018	1,421
Financial costs	238	113
Impairment of inventories	448	117
Impairment losses of trade receivables	1,207	1,037
Effect of lease modifications	(12)	–
Loss on disposal of property, plant and equipment	–	93
Operating profit before working capital changes	43,623	40,772
(Increase)/decrease in inventories	(6,467)	14,856
(Increase)/decrease in trade receivables	(34,994)	45,288
Increase in deposits, prepayments and other receivables	(1,184)	(3,811)
Increase/(decrease) in trade payables	1,678	(7,611)
(Decrease)/increase in accruals and other payables	(2,166)	104
Decrease in contract liabilities	(85)	(272)
Increase/(decrease) in provisions	1,906	(1,632)
Cash generated from operations	2,311	87,694
Income tax paid	(5,456)	(10,853)
Withholding tax paid	(1,328)	(3,997)
Net cash (used in)/generated from operating activities	(4,473)	72,844
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,027)	(2,023)
Purchase of intangible assets	(6,233)	(782)
Interest received	2,919	1,926
Net cash used in investing activities	(5,341)	(879)

	2021 RMB'000	2020 RMB'000
Cash flows from financing activities		
Proceeds from new shares issued	129,844	–
Proceeds from bank borrowings	5,000	–
Interest paid on bank borrowings	(130)	–
Repayment of principal portion of the lease liabilities	(2,127)	(1,448)
Interest paid on lease liabilities	(108)	(113)
Dividends paid	(5,747)	(29,677)
Net cash generated from/(used in) financing activities	126,732	(31,238)
Net increase in cash and cash equivalents	116,918	40,727
Cash and cash equivalents at beginning of year	123,468	84,088
Effect of foreign exchange rate changes	(2,039)	(1,347)
Cash and cash equivalents at end of year	238,347	123,468

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 and its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 31 March 2021 (the "Listing"). 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 provision of research, design, development and sales of compatible cartridge chips.

The formalisation of the structure of the Group was substantially completed in 2016 (the "Reorganisation") as detailed in the section headed "History, Development and Corporate Structure" in the Company's prospectus dated 18 March 2021. The Company has become the holding company of the other companies now comprising the Group since then.

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

(a) Adoption of amended HKFRSs

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of amended HKFRSs that are first effective for the current accounting period of the Group:

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

The amended HKFRSs and HKASs that are effective from 1 January 2021 did not have any significant impact on the Group's accounting policies. The Group has not early applied any amended HKFRSs that is not yet effective for the current accounting period.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) Amended HKFRSs that have been issued but are not yet effective

The following 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 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[4]
Amendments to HKAS 8	Definition of Accounting Estimates[4]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[4]
Amendments to HKAS 16	Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to HKFRS 3	Reference to the Conceptual Framework[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 HKFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021[1]
Annual Improvements to HKFRSs 2018–2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[2]

1 Effective for annual periods beginning on or after 1 April 2021.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for 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.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) Amended HKFRSs that have been issued but are not yet effective (Continued)

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 1 and HKFRS Practice Statement 2, Disclosure of Accounting Policies

The key amendments to HKAS 1 include:

- Requiring companies to disclose their material accounting policies rather than their significant accounting policies;
- Clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
- Clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

Amended HKFRS Practice Statement 2 includes guidance and two additional examples on the application of materiality to accounting policy disclosures.

The directors of the Company are currently assessing the impact that the application of the amendments will have on the consolidated financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) Amended HKFRSs that have been issued but are not yet effective (Continued)

Amendments to HKAS 8, Definition of Accounting Estimates

The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty.

The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

The directors of the Company are currently assessing the impact that the application of the amendments will have on the consolidated financial statements.

Amendments to HKAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

The directors of the Company are currently assessing the impact and have yet to conclude whether or not the application of the amendment will have any impact on the consolidated 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 the management. Instead, the proceeds from selling such items, and the cost of producing those items, are 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.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) Amended HKFRSs that have been issued but are not yet effective (Continued)

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.

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.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) Amended HKFRSs that have been issued but are not yet effective (Continued)

Amendments to HKFRS 16, COVID-19-Related Rent Concessions beyond 30 June 2021

The amendment extends the practical expedient available to lessees in accounting for COVID-19-Related Rent Concession by one year. The reduction in lease payments could only affect payments originally due on or before 30 June 2021 is extended to 30 June 2022. The amendments is effective for annual reporting periods beginning on or after 1 April 2021, with earlier application permitted.

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.

3. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred as the "HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

The functional currency of the Company is United States dollars ("USD"), while the consolidated financial statements are presented in Renminbi ("RMB"). All values are rounded to the nearest thousand (RMB'000) except when otherwise indicated. The consolidated financial statements are presented in RMB as in the opinion of the directors of the Group, it presents more relevant information to the management who monitors the performance and financial position of the Group based on RMB.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

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

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

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive processes and whether the acquired set has the ability to produce outputs.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Business combination and basis of consolidation (Continued)

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

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

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to owners of the Company. 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 is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

Changes in the Group's interests in a subsidiary that do not result in a loss of control of the subsidiary are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Subsidiaries

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

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.

(c) 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. 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 cost over their estimated useful lives on a straight-line basis. The useful lives and depreciation method are reviewed, and adjusted if appropriate, at the end of each of the reporting periods. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Leases

The Group as a lessee

All leases are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term of 12 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 is initially recognised at cost and would comprise:

(i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability);

(ii) any lease payments made at or before the commencement date, less any lease incentives received;

(iii) any initial direct costs incurred by the lessee; and

(iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Lease liability

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Leases (Continued)

The Group as a lessee (Continued)

Lease liability (Continued)

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments:

(i) fixed lease 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) exercise price of a purchase option, if the lessee is reasonably certain to exercise that option; and

(v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by:

(i) increasing the carrying amount to reflect interest on the lease liability;

(ii) reducing the carrying amount to reflect the lease payments made; and

(iii) remeasuring the carrying amount to reflect any reassessment or lease modification, or to reflect revised in-substance fixed lease payments.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Leases (Continued)

The Group as a lessee (Continued)

Lease liability (Continued)

When the Group renegotiates the contractual terms of a lease with the lessor, if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease, in all other cases, where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount. With the exception to which the practical expedient in accordance with the amendments to HKFRS 16 COVID-19-Related Rent Concessions applies, if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date and the right-of-use asset is adjusted by the same amount.

(e) Intangible assets

(i) Intangible assets acquired separately

Intangible assets acquired separately are initially recognised at cost. Subsequently, intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. Intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

The useful lives and amortisation method are reviewed, and adjusted if appropriate, at the end of each of the reporting periods. Amortisation is provided on a straight-line basis over their useful lives as follows. The amortisation expense is recognised in profit or loss and included in administrative expenses.

Software and patents	5 to 10 years

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Intangible assets (Continued)

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(iii) Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognized.

(iv) Impairment of intangible assets

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit 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 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

(ii) 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:

- 12-month ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and

- 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 measures loss allowances for trade 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-month ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

(ii) Impairment loss on financial assets (Continued)

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.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status of the debtor.

The Group considers a financial asset to be credit-impaired when:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

(ii) Impairment loss on financial assets (Continued)

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

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

(iii) Financial liabilities

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

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade 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.

(iv) 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. 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.

(v) 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 expired.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Inventories

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

(h) 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 service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group 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 service.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Revenue recognition (Continued)

Sales 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 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. 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 inventories. The Group reviews its estimate of expected returns at each reporting date and updates the amounts of the asset and liability accordingly.

Technical and design services income

The Group provides technical, design, research and development, and testing services for chips based on contracts entered into 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 design services overtime by using output method based on progress reports certified by customers upon each milestone set in the contracts.

Contract assets and liabilities

A contract asset represents the Group's right to consideration in exchange for goods or 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 goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Interest income

Interest income is recognised as it accrues using the effective interest method. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) 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.

(j) 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 reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

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 reporting periods, 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Income taxes

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

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects any uncertainty related to income tax.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill not deductible for tax purposes and initial recognition of assets and liabilities that are not part of the business combination which affect neither accounting nor taxable profits, taxable temporary differences arising on investments in subsidiaries, associates and joint ventures where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised, provided that the deductible temporary differences do not arise from the initial recognition of assets and liabilities in a transaction other than in a business combination that affects neither taxable profit nor the accounting profit. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period, and reflects any uncertainty related to income taxes.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income tax levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Employee benefits

(i) 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 Group in the PRC are 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 Group. 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. As at 31 December 2021, the Group had no forfeited contributions available to reduce the existing level of contributions.

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.

(ii) 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.

(m) Government grants

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 from 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Impairment of non-financial assets

At the end of each of the reporting periods, 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;
- intangible assets; and
- investment in a subsidiary.

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

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

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

(o) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks, and other short term highly liquid investments with original maturity of three months or less when acquired.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) 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.

(q) Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

(r) 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 reliably estimated.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) 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.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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 the expected return percentages. During the year ended 31 December 2021, the expected return rate is 0.1% (2020: 0.3%). This percentage is applied to determine the expected value of the variable consideration. The provisions of the expected return as at 31 December 2021 is RMB176,000 (2020: RMB448,000). 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.

Depreciation and amortisation

The Group depreciates the property, plant and equipment and amortises intangible assets in accordance with the accounting policies stated in Notes 4(c) and 4(e) 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 reporting periods.

Impairment of receivables

The impairment of trade, deposits 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 the end of the reporting period.

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

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.

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 estimates at the end of each of the reporting periods.

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 the 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 the 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.

6. SEGMENT INFORMATION (Continued)

(i) Disaggregation of the Group's revenue from contracts with customers:

	2021 RMB'000	2020 RMB'000
Products		
Sales of chips	128,561	144,370
Trading of integrated circuits and other cartridge components	33,929	12,413
Services		
Technical and design services for chips	5,377	–
	167,867	156,783
Timing of revenue recognition		
Point in time	162,490	156,783
Over time	5,377	–
	167,867	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:

	2021 RMB'000	2020 RMB'000
External revenue by location of customers		
PRC	134,986	128,988
Overseas	32,881	27,795
	167,867	156,783

	2021 RMB'000	2020 RMB'000
Non-current assets by location of assets		
PRC	16,911	10,960
Overseas	1,420	718
	18,331	11,678

6. SEGMENT INFORMATION (Continued)

(iii) Information about major customers

Revenue from customers contributing over 10% or more of the Group's revenue is as follow:

	2021 **RMB'000**	2020 RMB'000
Customer A	**42,647**	51,568

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 year ended 31 December 2021 is disclosed in Note 6.

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

	2021 **RMB'000**	2020 RMB'000
Trade receivables *(Note 18)*	**72,823**	39,057
Contract liabilities *(Note 23)*	**164**	249

Contract liabilities represent receipts in advance from customers for goods that have not yet been transferred to the customers. As at 31 December 2021 and 2020, the contract liabilities represented the receipts in advance received from sales of compatible cartridge chips.

Based on the information available to the Group at the end of the reporting period, the management of the Group expects that the transaction price amounting to RMB282,000 (2020: Nil) allocated to performance obligations that are unsatisfied under contracts for technical and design services for chips as at 31 December 2021 will be recognised as revenue on or before 30 November 2022.

8. OTHER NET INCOME

An analysis of other net income is as follows:

	2021 RMB'000	2020 RMB'000
Bank interest income	2,919	1,926
Exchange gains, net	–	446
Government grants *(note)*	4,667	1,605
Effect of lease modifications *(Note 25(c))*	12	–
Sundry income	98	35
	7,696	4,012

Note: Government grants were mainly comprised of subsidies related to the Group's innovation projects, listing incentives and refund of value-added tax. There are no unfulfilled conditions or contingencies attaching to these grants.

9. FINANCE COSTS

	2021 RMB'000	2020 RMB'000
Interests on bank borrowings	130	–
Interests on lease liabilities *(Note 25(c))*	108	113
	238	113

10. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging:

	2021 RMB'000	2020 RMB'000
Carrying amount of inventories sold	70,010	63,006
Provision for impairment of inventories	448	117
Cost of inventories recognised as expense	70,458	63,123
Amortisation of intangible assets	1,460	895
Auditor's remuneration	988	783
Bad debt expenses	21	764
Depreciation of property, plant and equipment		
– Owned property, plant and equipment	2,731	2,320
– Right-of-use assets	2,018	1,421
Exchange losses, net	1,698	–
Loss on disposal of property, plant and equipment	–	93
Impairment losses of trade receivables	1,207	1,037
Short-term leases expenses *(Note 25(c))*	175	226
Research and developments expenses (other than staff costs)	10,635	8,499
Interests on lease liabilities *(Note 9)*	108	113
Staff costs (including directors' emoluments) *(Note 11)*		
– Salaries, wages and other benefits	20,533	17,596
– Retirement scheme contributions	3,010	1,394
	23,543	18,990

11. DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

Details of directors' emoluments during the reporting period are as follows:

	Fees RMB'000	Salaries and other benefits RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2021					
Executive directors					
Mr. Cheng Hsien-Wei	1,097	127	107	29	1,360
Mr. Lee Kuo-Chang	387	–	32	–	419
Non-executive directors					
Mr. Lam Tsz Leung *(note (i))*	110	–	–	–	110
Ms. Yu Erhao	110	–	–	–	110
Independent non-executive directors *(note (ii))*					
Mr. Chen Mark Da-jiang	110	–	–	–	110
Mr. Kao Yi-Ping	110	–	–	–	110
Mr. Li Huaxiong	110	–	–	–	110
	2,034	127	139	29	2,329

11. DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID INDIVIDUALS (Continued)

(a) Directors' emoluments (Continued)

Details of directors' emoluments during the reporting period are as follows: (Continued)

	Fees RMB'000	Salaries and other benefits RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2020					
Executive directors					
Mr. Cheng Hsien-Wei	414	542	80	24	1,060
Mr. Lee Kuo-Chang	414	–	34	–	448
Non-executive director					
Mr. Lam Tsz Leung *(note (i))*	–	–	–	–	–
Ms. Yu Erhao	–	–	–	–	–
	828	542	114	24	1,508

Notes:

(i) Mr. Lam Tsz Leung was appointed as a non-executive director of the Company on 27 February 2020.

(ii) All independent non-executive directors of the Company were appointed on the date of the Listing.

(iii) 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 reporting period. No directors waived or agreed to waive any emoluments during the reporting period.

11. DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID INDIVIDUALS (Continued)

(b) The five highest paid individuals

The five highest paid individuals of the Group during the reporting period are analysed as follows:

	2021 Number of individuals	2020 Number of individuals
Directors	1	1
Non-directors, the highest paid individuals	4	4
	5	5

Details of the emoluments of the above non-directors highest paid individuals during the reporting period are as follows:

	2021 RMB'000	2020 RMB'000
Salaries and other benefits	1,950	1,483
Discretionary bonuses	456	972
Retirement scheme contributions	397	135
	2,803	2,590

The emoluments of the non-director highest paid individuals were within the following bands:

	2021 Number of individuals	2020 Number of individuals
Nil to RMB1,000,000	4	4

During the the reporting 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 year.

11. DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID INDIVIDUALS (Continued)

(c) Senior management's emoluments

Emoluments paid or payable to members of senior management who are not directors were within the following band:

	2021 Number of individuals	2020 Number of individuals
Nil to RMB1,000,000	7	6

12. INCOME TAX EXPENSE

The amount of taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2021 RMB'000	2020 RMB'000
Current tax		
– PRC Enterprise Income Tax	7,088	5,773
Over-provision in prior years	–	(438)
Deferred tax		
– Credited to profit or loss for the year (Note 26)	(1,248)	(2,144)
Withholding tax	1,328	3,997
Income tax expense	7,168	7,188

Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands ("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 2021 and 2020, under the two-tiered tax rates regime, if an entity has one or more connected entities, 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 the two-tiered profits tax rates, a profits tax rate of 16.5% on assessable profit shall remain in calculating Hong Kong profits tax.

12. INCOME TAX EXPENSE (Continued)

Under the PRC Enterprise Income Tax Law (the "EIT 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 Technology Co., Ltd ("Zhuhai Megain") is eligible for a preferential income tax rate of 15% as a high new technology enterprise during the year. For the year ended 31 December 2021, income tax provision is calculated at 15% (2020: 15%) of the assessable income of Zhuhai Megain.

Withholding tax arose from the payment of a withholding tax at 10%, for the dividend paid by Zhuhai Megain to its immediate holding company outside the PRC, namely Megain Group (HK) in respect of the years ended 31 December 2019 and 2020.

The income tax for the reporting period can be reconciled to the profit before income tax expense in the consolidated statement of profit or loss and other comprehensive income as follows:

	2021 RMB'000	2020 RMB'000
Profit before income tax expense	**38,431**	35,938
Tax thereon at domestic rates applicable to profit or loss in the jurisdictions concerned	**5,838**	6,281
Tax effect of revenue not taxable for tax purposes	**(1,327)**	(1,665)
Additional reduction in research and development expenses	**(2,472)**	(1,393)
Tax effect of expenses not deductible for tax purposes	**4,537**	2,790
Tax effect of tax losses not recognised	**94**	198
Tax effect of undistributed earnings of a PRC subsidiary *(Note 26)*	**(828)**	(2,579)
Tax effect of deductible temporary differences not recognised	**(2)**	(3)
Withholding tax on dividend declared by a PRC subsidiary	**1,328**	3,997
Over-provision in prior years	**–**	(438)
Income tax expense	**7,168**	7,188

13. DIVIDENDS

	2021 RMB'000	2020 RMB'000
Final dividends	**5,747**	29,677

On 6 April 2020 and 30 June 2021, the Company paid a final dividend of RMB29,677,000 and RMB5,747,000, in aggregate to the owners of the Company in respect of the years ended 31 December 2019 and 2020 respectively. The final dividend proposed by the board of directors for the year ended 31 December 2021 will be approved by the Company's shareholders at the forthcoming annual general meeting.

14. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following data.

	2021 RMB'000	2020 RMB'000
Earnings		
Profit for the year	31,263	28,750

	2021 Number'000	2020 Number'000
Number of shares		
Weighted average number of ordinary shares	482,573	375,000

Note:

The number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the capitalisation issue had been effective on 1 January 2020.

Diluted earnings per share were the same as the basic earnings per share as the Group had no potential dilutive ordinary shares for the years ended 31 December 2021 and 2020.

15. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets *(Note 25(a))* RMB'000	Motor vehicles RMB'000	Machinery and equipment RMB'000	Leasehold improvements RMB'000	Total RMB'000
Cost					
At 1 January 2020	5,351	1,210	4,485	2,654	13,700
Additions	524	–	1,089	934	2,547
Disposals	–	–	(240)	–	(240)
Exchange realignment	–	(30)	1	(1)	(30)
At 31 December 2020 and 1 January 2021	5,875	1,180	5,335	3,587	15,977
Additions	4,883	–	1,806	221	6,910
Effect of lease modifications	(2,221)	–	–	–	(2,221)
Exchange realignment	–	(9)	(26)	(2)	(37)
At 31 December 2021	**8,537**	**1,171**	**7,115**	**3,806**	**20,629**
Accumulated depreciation					
At 1 January 2020	2,973	454	1,832	1,296	6,555
Charge for the year	1,421	200	1,231	889	3,741
Write off	–	–	(147)	–	(147)
Exchange realignment	(2)	(14)	(2)	7	(11)
At 31 December 2020 and 1 January 2021	4,392	640	2,914	2,192	10,138
Charge for the year	2,018	183	1,287	1,261	4,749
Effect of lease modifications	(1,967)	–	–	–	(1,967)
Exchange realignment	–	(4)	(3)	(1)	(8)
At 31 December 2021	**4,443**	**819**	**4,198**	**3,452**	**12,912**
Net carrying amount					
At 31 December 2021	**4,094**	**352**	**2,917**	**354**	**7,717**
At 31 December 2020	1,483	540	2,421	1,395	5,839

16. INTANGIBLE ASSETS

	Software and patents RMB'000
Cost	
At 1 January 2020	5,392
Additions	2,197
Exchange realignment	4
At 31 December 2020 and 1 January 2021	7,593
Additions	6,233
Exchange realignment	(7)
At 31 December 2021	**13,819**
Accumulated amortisation	
At 1 January 2020	872
Amortisation charge for the year	895
Exchange realignment	(13)
At 31 December 2020 and 1 January 2021	1,754
Amortisation charge for the year	1,460
Exchange realignment	(9)
At 31 December 2021	**3,205**
Net carrying amount	
At 31 December 2021	**10,614**
At 31 December 2020	5,839

17. INVENTORIES

	2021 **RMB'000**	2020 RMB'000
Raw materials	**15,257**	10,900
Finished goods	**137**	405
Goods-in-transit	**2,146**	105
Right to recover returned goods	**62**	173
	17,602	11,583

During the year, a provision of RMB448,000 (2020: RMB117,000) was made against the carrying value of inventories. The provision is included in cost of sales.

18. TRADE RECEIVABLES

	2021 **RMB'000**	2020 RMB'000
Trade receivables	**75,453**	41,076
Less: Loss allowance for trade receivables	**(2,630)**	(2,019)
	72,823	39,057

Notes:

(a) All of the trade receivables are expected to be recovered within one year.

During the years ended 31 December 2021 and 2020, the Group offered 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 periods:

	2021 **RMB'000**	2020 RMB'000
Within 90 days	**59,051**	26,881
91 to 180 days	**8,687**	7,727
Over 180 days	**5,085**	4,449
	72,823	39,057

(b) The Group recognised impairment of trade receivables for the years ended 31 December 2021 and 2020 based on the accounting policies stated in Note 4(f)(ii). Further details are set out in Note 35(a).

19. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2021 RMB'000	2020 RMB'000
Prepayments	10,868	10,008
Deposits and other receivables	1,194	924
Other taxes recoverable	76	22
	12,138	10,954

The Group recognised impairment of deposits and other receivables for the years ended 31 December 2021 and 2020 based on the accounting policies stated in Note 4(f)(ii). Further details are set out in Note 35(a).

20. TRADE PAYABLES

	2021 RMB'000	2020 RMB'000
Trade payables	8,132	6,454

Notes:

(a) A credit period granted by suppliers is normally 30 days to 60 days. Due to the short maturity periods, the carrying values of the Group's trade payables are considered to be a reasonable approximation of their fair values.

(b) 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 periods:

	2021 RMB'000	2020 RMB'000
Within 30 days	7,000	1,898
31 to 90 days	1,088	1,103
Over 90 days	44	3,453
	8,132	6,454

21. ACCRUALS AND OTHER PAYABLES

	2021 RMB'000	2020 RMB'000
Accruals	5,720	10,924
Other payables	1,361	197
Refund liabilities	176	448
Other taxes payables	2,485	339
	9,742	11,908

22. BANK BORROWINGS

	2021 RMB'000	2020 RMB'000
Current – unsecured		
Bank loan due for repayment within one year	5,000	–

Note: Bank loan is denominated in RMB, unsecured and is repayable on 27 April 2022. Interest is charged at 3.95% per annum.

23. CONTRACT LIABILITIES

	2021 RMB'000	2020 RMB'000
Contract liabilities arising from:		
Sales of compatible cartridge chips		
– Billing in advance of performance	164	249

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.

23. CONTRACT LIABILITIES (Continued)

Movement in contract liabilities

	RMB'000
Balance as at 1 January 2020	521
Decrease as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(430)
Increase as a result of billing in advance of sales of compatible cartridge chips	158
Balance as at 31 December 2020 and 1 January 2021	249
Decrease as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(165)
Increase as a result of billing in advance of sales of compatible cartridge chips	80
Balance as at 31 December 2021	**164**

24. PROVISIONS

	Assurance-type warranties RMB'000
As at 1 January 2020	2,105
Utilised in the year	(1,017)
Decrease in the year	(615)
As at 31 December 2020 and 1 January 2021	473
Utilised in the year	(7,151)
Increase in the year	9,057
As at 31 December 2021	**2,379**

The provision for assurance-type warranties relates to the sales of compatible cartridge chips during the years ended 31 December 2021 and 2020. The provision has been estimated based on historical data associated with similar products. The Group expects to settle the liability within next year.

25. LEASES

The Group leases a number of properties in the PRC, Taiwan and Hong Kong.

(a) Right-of-use assets

	2021 RMB'000	2020 RMB'000
Properties leased for own use, carried at depreciated cost (Note 15)	4,094	1,483

(b) Lease liabilities

	Properties leased for own use RMB'000
As at 1 January 2020	2,518
Additions	524
Interest expenses	113
Lease payments	(1,561)
As at 31 December 2020 and 1 January 2021	1,594
Additions	4,883
Effect of lease modifications	(266)
Interest expenses	108
Lease payments	(2,235)
As at 31 December 2021	4,084

25. LEASES (Continued)

(b) Lease liabilities (Continued)

Future lease payments are due as follows:

	2021 RMB'000	2020 RMB'000
Minimum lease payment due		
– Within 1 year	1,849	1,442
– Between 1 to 2 years	1,288	195
– Between 2 to 5 years	1,140	–
– After 5 years	43	–
	4,320	1,637
Less: future finance charges	(236)	(43)
Present value of lease liabilities	4,084	1,594
– Current	1,719	1,403
– Non-current	2,365	191

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2021 RMB'000	2020 RMB'000
Interests on lease liabilities *(Note 9)*	108	113
Depreciation charge of right-of-use assets *(Note 15)*	2,018	1,421
Short-term leases expenses *(Note 10)*	175	226
Effect of lease modifications *(Note 8)*	(12)	–

26. DEFERRED TAX (ASSETS)/LIABILITIES

	Right to recover returned goods assets RMB'000	Undistributed profits of foreign operation *(Note)* RMB'000	Refund liabilities RMB'000	Provision for impairment of trade receivables RMB'000	Provision for assurance-type warranties RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2020	294	4,038	(699)	(147)	(316)	(64)	3,106
(Credited)/charged to profit or loss for the year	(268)	(2,579)	632	(156)	245	(18)	(2,144)
Exchange realignment	–	(121)	–	–	–	–	(121)
At 31 December 2020 and 1 January 2021	26	1,338	(67)	(303)	(71)	(82)	841
(Credited)/charged to profit or loss for the year (Note 12)	(17)	(828)	41	(91)	(286)	(67)	(1,248)
Exchange realignment	–	(17)	–	–	–	–	(17)
At 31 December 2021	9	493	(26)	(394)	(357)	(149)	(424)

The following is an analysis of deferred tax balances for financial reporting purposes:

	2021 RMB'000	2020 RMB'000
Deferred tax assets	(917)	(497)
Deferred tax liabilities	493	1,338

Note:

According to the PRC EIT 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 liabilities 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 2021, the aggregate amount of temporary differences associated with deferred tax liabilities which has not been recognised for the remaining undistributed profits of the Group's PRC subsidiary, namely Zhuhai Megain, was RMB183,792,000 (2020: RMB137,634,000). No deferred tax liabilities have 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.

27. SHARE CAPITAL

	Notes	Number of share '000	Amount RMB'000
Ordinary shares, issued and fully paid:			
At 31 December 2019, 2020 and 1 January 2021		10	66
Repurchase of 10,000 shares at US$1.00 each	*(a)*	(10)	(66)
Issue of 10,000 shares at HK$0.01 each	*(a)*	10	–*
Issue of shares upon capitalisation	*(b)*	374,990	3,128
Issue of shares upon the Listing	*(c)*	125,000	1,041
Issue of additional shares upon exercise of over-allotment option	*(d)*	18,750	156
At 31 December 2021		**518,750**	**4,325**

* The balance is less than RMB1,000

The movements in share capital above for the year ended 31 December 2021 arose from the completion of the Listing as detailed below:

Notes:

(a) Pursuant to a written resolution of the shareholders of the Company passed on 26 February 2021, the currency denomination of the authorised and issued share capital of the Company was changed from USD to HKD by (i) increasing the authorised share capital of the Company in HKD through the creation of 750,000,000 new shares with a par value of HK$0.01 each such that the 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 the Company.

(b) Pursuant to a written resolution of the shareholders of the Company passed on 26 February 2021, a total of 374,990,000 shares of HK$0.01 each were allotted and issued at par value to the shareholders as of the date immediately before the Listing on a pro rata basis by way of capitalisation of approximately RMB3,128,000 from the Company's share premium account.

(c) On 31 March 2021, upon the Listing, the Company issued 125,000,000 of new shares at HK$1.26 each by way of public offering, resulting in the gross proceeds of RMB131,182,000, of which the amount of RMB1,041,000 was credited to the Company's share capital and the remaining amount of RMB130,141,000, net of issuing expenses of approximately RMB21,013,000, was credited to share premium amount.

(d) On 22 April 2021, the Company has fully exercised over-allotment option and to allot and issue 18,750,000 of additional new shares at HK$1.26 each to cover the over-allocations in the international offering, resulting in the gross proceeds of RMB19,675,000, of which the amount of RMB156,000 was credited to the Company's share capital and the remaining amount of RMB19,519,000, was credited to share premium amount.

28. SHARE OPTION SCHEME

A share option scheme (the "Scheme") was approved and adopted by the Company on 26 February 2021.

The Scheme is effective for a period of 10 years commencing on the Listing Date of the Company. Under the Scheme, the board of directors may in its absolute discretion determine the subscription price at the time of grant of the relevant option but the subscription price shall not be less than whichever is the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of the grant of the option; (ii) the average closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of the grant of the option; and (iii) the nominal value of a share. An offer of grant of an option may be accepted by a participant within the period as specified in the offer letter issued by the Company. Once such acceptance is made, the option shall be deemed to have been granted and to have taken effect from the offer date. A consideration of HK$1 is payable on acceptance of the offer of grant of an option.

The period as the board of directors may in its absolute discretion determine and specify in relation to any particular option holder in his option agreement during which the option may be exercised (subject to such restriction on exercisability specified therein) shall not be greater than the period prescribed by the Listing Rules from time to time (which is, as at the date of adoption of the Scheme, a period of 10 years from the date of the grant of the option).

The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes must not exceed 30% of the shares in issue from time to time. No options may be granted under any schemes of the Company if this will result in the limit being exceeded. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of the Company must not in aggregate exceed 10% of the shares in issue. Options lapsed in accordance with the terms of the Scheme or any other schemes will not be counted for the purpose of calculating the 10% limit.

No share options were granted under the Scheme during the reporting period. Share options do not confer rights to the holders to dividends or to vote at shareholders' meetings.

29. RESERVES

The Group

Details of the movements of the Group's reserves for the years ended 31 December 2021 and 2020 are presented in the consolidated statements of changes in equity.

The nature and purposes of reserves within equity are 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.

(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.

(d) Foreign exchange reserve 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 4(j).

29. RESERVES (Continued)

The Company

The movements of the Company's reserves during the reporting period are as follows:

	Share premium RMB'000	Foreign exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2020	34,287	2,746	(13,218)	23,815
Profit for the year	–	–	15,210	15,210
Exchange differences arising on translation of the Company	–	2,166	–	2,166
Dividend paid in respect of the previous year	–	–	(29,677)	(29,677)
At 31 December 2020 and 1 January 2021	34,287	4,912	(27,685)	11,514
Profit for the year	–	–	36	36
Exchange differences arising on translation of the Company	–	(658)	–	(658)
Dividend paid in respect of the previous year	–	–	(5,747)	(5,747)
Repurchase of ordinary shares *(Note 27(a))*	66	–	–	66
Capitalisation of ordinary shares *(Note 27(b))*	(3,128)	–	–	(3,128)
Issue of ordinary shares upon the Listing of the Company's shares *(Note 27(c))*	130,141	–	–	130,141
Issue of additional ordinary shares upon exercise of over-allotment option *(Note 27(d))*	19,519	–	–	19,519
Expenses incurred in connection with the issue of new ordinary shares *(Note 27(c))*	(21,013)	–	–	(21,013)
As 31 December 2021	159,872	4,254	(33,396)	130,730

30. HOLDING COMPANY'S STATEMENT OF FINANCIAL POSITION

	Notes	**2021 RMB'000**	2020 RMB'000
Non-current asset			
Investment in a subsidiary		85,952	36,008
Current assets			
Cash and cash equivalents		59,052	–
Current liability			
Accruals and other payables		786	–
Amounts due to subsidiaries		9,163	24,428
Total current liabilities		9,949	24,428
Net current assets/(liabilities)		49,103	(24,428)
Total assets less current liabilities		135,055	11,580
NET ASSETS		135,055	11,580
Capital and reserves			
Share capital	*27*	4,325	66
Reserves	*29*	130,730	11,514
TOTAL EQUITY		135,055	11,580

On behalf of the board of directors

Cheng Hsien-Wei
Director

Lee Kuo-Chang
Director

31. INTEREST IN SUBSIDIARIES

Details of the subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ place of operations	Paid up capital/ registered capital	Proportion of equity interest attributable to the Company		Principal activities and place of business
			Direct	Indirect	
Megain Group (HK) *(Note (e))*	Hong Kong	Hong Kong dollars ("HK$") 100,425,000	100%	–	Trading of compatible cartridge chips outside of the PRC and investment holding
Megain Holding (BVI) Pte, Ltd. ("Megain BVI") *(Note (c))*	BVI	USD50,000	–	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 *(Notes (a), (c), (d) and (f))*	PRC	RMB69,000,000	–	100%	Research, design, development, and sale of compatible cartridge chips

Notes:

(a) The English name of a subsidiary established in the PRC is translated for identification purpose only.

(b) All companies now comprising the Group have adopted 31 December as their financial year end date.

(c) The financial statements of Megain BVI and Zhuhai Megain for the years ended 31 December 2021 and 2020 were not audited by BDO Limited.

(d) The entity was established in the PRC in the form of wholly foreign-owned enterprise.

(e) Pursuant to a shareholder's meeting of Megain Group (HK), dated 26 July 2021, Megain Group (HK) approved to increase its share capital from HK$40,425,000 to HK$100,425,000 by way of cash settlements paid by the Company on 30 July 2021.

(f) Pursuant to a shareholder's meeting of Zhuhai Megain, dated 27 July 2021, Zhuhai Megain approved to increase its share capital from RMB20,000,000 to RMB69,000,000 by way of cash settlements paid by Megain Group (HK) on 30 July 2021.

32. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

Remuneration of key management personnel, who are directors of the Group, during the year was disclosed in Note 11.

33. NOTES SUPPORTING CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents comprise:

	2021 RMB'000	2020 RMB'000
Cash on hand	55	47
Cash at banks	238,292	123,421
	238,347	123,468

(b) Major non-cash transactions

During the year ended 31 December 2021, the Group had non-cash additions to the right-of-use assets of RMB4,883,000 (2020: RMB524,000) and lease liabilities of RMB4,883,000 (2020: RMB524,000) respectively in respect of arrangements for properties leased for own use.

33. NOTES SUPPORTING CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(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 statement of cash flows from financing activities.

	Bank borrowings RMB'000	Lease liabilities RMB'000
At 1 January 2020	–	2,518
Change from financing cash flows:		
Repayment of principal portion of the lease liabilities	–	(1,448)
Interest paid	–	(113)
Other changes:		
Additions to new leases	–	524
Finance costs	–	113
At 31 December 2020 and 1 January 2021	–	1,594
Change from financing cash flows:		
Proceeds from bank borrowings	5,000	–
Effect of lease modifications	–	(266)
Repayment of principal portion of the lease liabilities	–	(2,127)
Interest paid	(130)	(108)
Other changes:		
Additions to new leases	–	4,883
Finance costs	130	108
At 31 December 2021	**5,000**	**4,084**

34. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The following table shows the carrying amounts of financial assets and liabilities:

	2021 RMB'000	2020 RMB'000
Financial assets		
Financial assets at amortised cost		
– Trade receivables	72,823	39,057
– Deposits and other receivables	1,194	924
– Cash and cash equivalents	238,347	123,468
Financial liabilities		
Financial liabilities at amortised cost		
– Trade payables	8,132	6,454
– Accruals and other payables	7,081	11,121
– Bank borrowings	5,000	–
Lease liabilities	4,084	1,594

Financial instruments not measured at fair value

The 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) 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 receivables, other receivables 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. At the end of the reporting period, the Group has a certain concentration of credit risk as 31.6% (2020: 19.9%) and 65.5% (2020: 51.8%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

Trade receivables

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECLs. To measure the ECLs, the trade receivables have been grouped based on shared credit risk characteristics (i.e. usually by locations) and the days past due. The ECLs on trade 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.

35. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Trade receivables (Continued)

As at 31 December 2021 and 2020, the provisions made against the gross amount of trade receivables are as follows:

31 December 2021	ECL rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Collective assessment			
Current (not past due)	1.5	61,650	911
Less than 90 days past due	1.7	7,974	134
91 days to 180 days past due	5.0	1,602	80
Over 180 days past due	17.6	2,398	423
		73,624	1,548
Individual assessment	59.2	1,829	1,082
		75,453	2,630

31 December 2020	ECL rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Collective assessment			
Current (not past due)	0.8	28,729	233
Less than 90 days past due	1.0	6,300	62
91 days to 180 days past due	7.6	184	14
		35,213	309
Individual assessment	29.2	5,863	1,710
		41,076	2,019

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 is no significant increase in credit risk.

35. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Trade receivables (Continued)

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

	RMB'000
At 1 January 2020	982
Impairment loss recognised during the year	1,037
At 31 December 2020 and 1 January 2021	2,019
Impairment loss recognised during the year	1,207
Amount written off during the year	(596)
At 31 December 2021	**2,630**

Other receivables

ECLs model for other receivables are summarised below:

Other receivables 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 defined below) since initial recognition is identified, the financial instrument is moved to "Stage 2" but is 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 2021 and 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.

35. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Other receivables (Continued)

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.

(b) 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 year 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 RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	After 5 years RMB'000
At 31 December 2021						
Trade payables	8,132	8,132	8,132	–	–	–
Accruals and other payables	7,081	7,081	7,081	–	–	–
Bank borrowings	5,000	5,060	5,060	–	–	–
Lease liabilities	4,084	4,320	1,849	1,288	1,140	43
	24,297	24,593	22,122	1,288	1,140	43

35. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	After 5 years RMB'000
At 31 December 2020						
Trade payables	6,454	6,454	6,454	–	–	–
Accruals and other payables	11,121	11,121	11,121	–	–	–
Lease liabilities	1,594	1,637	1,442	195	–	–
	19,169	19,212	19,017	195	–	–

(c) 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.

(d) 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.

35. FINANCIAL RISK MANAGEMENT (Continued)

(d) Foreign currency risk (Continued)

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

	Assets		Liabilities	
	2021 RMB'000	2020 RMB'000	**2021 RMB'000**	2020 RMB'000
USD	**57,174**	6,135	**(268)**	(284)

The following table indicates the approximate change in the Group's profit for the year 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 the reporting 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 RMB'000	Effect on profit for the year and retained earnings RMB'000
2021		
USD	**5%**	**2,376**
	(5%)	**(2,376)**
2020		
USD	5%	244
	(5%)	(244)

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.

35. FINANCIAL RISK MANAGEMENT (Continued)

(d) Foreign currency risk (Continued)

The stated changes represent the 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 HK$ 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 the 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.

(e) 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, bank borrowings, lease liabilities less cash and cash equivalents. Total capital is calculated as "equity", as shown in the statement of financial position, plus net debt.

35. FINANCIAL RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

The gearing ratios as at 31 December 2021 and 2020 were as follows:

	2021 RMB'000	2020 RMB'000
Trade payables	8,132	6,454
Accruals and other payables	9,742	11,908
Bank borrowings	5,000	–
Lease liabilities	4,084	1,594
Less: Cash and cash equivalents	(238,347)	(123,468)
Net cash	(211,389)	(103,512)
Total equity	327,182	173,871
Gearing ratio	N/A	N/A

36. EVENTS AFTER THE REPORTING PERIOD

As of the approval date of these financial statements, the Group had no significant events after the reporting period which need to be disclosed.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 30 March 2022.