You should read the following discussion and analysis in conjunction with our audited consolidated financial information as of and for the years ended December 31, 2019, 2020 and 2021 and the five months ended May 31, 2022 and our unaudited consolidated financial information for the five months ended May 31, 2021 included in the Accountant's Report set out in Appendix I to this Document, together with the accompanying notes. Our consolidated financial information has been prepared in accordance with HKFRSs.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" in this Document.

OVERVIEW

We are a well-established IoT solution and telecommunication products provider and the eighth largest player in the PRC private 5G network market in terms of revenue in 2021, according to Frost & Sullivan. During the Track Record Period, we mainly provided customized IoT solutions to customers in various industries, and researched, developed and sold telecommunication equipment. To a lesser extent, we also generated revenue from provision of other services during the Track Record Period, such as telecommunication equipment maintenance and telecommunication consulting services. As a technology-driven company, we continuously invest and are planning to invest more in R&D, in order to cater the continuously changing needs from customers in diversified industries with advanced technologies. In particular, with the promotion of 5G commercial applications in the PRC, we have strategically started providing 5G telecommunication equipment and private 5G network solutions to our customers since 2019 and 2020, respectively.

Leveraging our advanced technology and in-depth industry insights in both radio frequency hardware and IoT software markets, we offer customized IoT solutions to our customers in manufacturing, municipal services, and other industries in the PRC to assist our customers to monitor operational conditions, improve facilities utilization, increase profitability, and enhance business operation efficiency through digitalization. Catering to customers' specific needs, we provide our customers with flexible solution offerings by providing either integrated IoT solutions or IoT software solutions. In return, our customers pay us service fees and considerations for such solutions. In addition to our IoT solutions, we also sell 5G and other telecommunication equipment in the PRC and export antennas to the United States and Russia, which contribute a recurring and predictable revenue stream to us.

We have continuously improved our financial performance during the Track Record Period. Our revenue increased from RMB80.9 million in 2019 to RMB189.6 million in 2021 at a CAGR of 53.1%. Our revenue further increased by 56.2% from RMB53.1 million for the five months ended May 31, 2021 to RMB82.9 million for the same period in 2022. Our net profit increased from RMB17.4 million in 2019 to RMB34.4 million in 2021 at a CAGR of 40.8%. Our net profit further increased by 66.6% from RMB6.3 million for the five months ended May 31, 2021 to RMB10.5 million for the same period in 2022. Since the introduction of 5G technologies in our IoT solutions and telecommunication products, revenue generated from 5G technologies-related solutions, equipment and services ("**5G business**") amounted to RMB2.0 million, RMB69.5 million, RMB72.9 million, RMB22.0 million and RMB51.0 million in 2019, 2020 and 2021 and the five months ended May 31, 2021 and 2022, respectively, becoming a substantial portion of and contributing 40.6% of our overall revenue during the Track Record Period.

BASIS OF PRESENTATION

Pursuant to the Reorganization, as more fully explained in the paragraph headed "Reorganization" in the section headed "History, Reorganization and Corporate Structure" in this Document, our Company became the holding company of the companies now comprising our Group on December 16, 2021. As the Reorganization only involved inserting new holding companies at the top of an existing company and has not resulted in any change of economic substances, our consolidated financial information has been presented as a continuation of the existing company using the pooling-of-interests method as if our Group structure had been in place at the beginning of the Track Record Period.

The consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of our Group for the Track Record Period include the results and cash flows of all companies now comprising our Group from the earliest date presented or since the date when the subsidiaries and/or businesses were established or acquired, whichever is a shorter period. The consolidated statements of financial position of our Group as of December 31, 2019, 2020 and 2021 and May 31, 2022 have been prepared to present the assets and liabilities of the subsidiaries now comprising our Group as if the current Group structure had been in existence at those dates. All intra-group transactions and balances have been eliminated on consolidation.

Our consolidated financial information has been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATION

Favorable Economic Policies in the PRC and Overseas

All of our major markets, i.e. the PRC, the United States and Russia, have adopted economic policies that are favorable to our business, which has contributed and will continue to contribute to our growth in the IoT solution business in the PRC, particularly the private 5G network market, and in exports of antennas to the United States and Russia.

In the PRC, the government's increasing policy support and the growing adoption of advanced telecommunication technology and digitalization in business operations have contributed to the rapid growth of the IoT solution market. The PRC Government has also adopted policies to accelerate the development and expand investments in private 5G network, which is likely to drive the demand for our private 5G network solution services and telecommunication products (particularly 5G telecommunication devices). We also benefitted from the government grants distributed to high-technology industries during the Track Record Period. In the United States, the federal government has implemented a series of policies to support the rapid development of the IoT industry, which increased the demand for our IoT antenna products. In Russia, the growingly stringent safety standard and market trend of smart control for vehicles is likely to drive the demand for smart antenna for vehicles, the major products that we sold to the Russian market. See "Industry Overview" for more details.

We expect to continue our growth in IoT solutions, equipment sales and services domestically and overseas in light of favorable policies in all our major markets, but if any national or local government discontinues any of the favorable policies or even turns them into unfavorable policies, our business performance in that market may be hindered.

Ability to Remain Competitive

We are in a competitive industry, which is characterized by rapid technological advancement, downward pricing trends over the life cycle of a product or solution and high working capital requirements. We primarily compete on the following bases:

- research and development capability for new technologies and products;
- design capability for our solutions and products;
- relationships with suppliers and distributor;
- timing of introducing new solutions and products;
- implementation capability;
- after-sales services; and
- pricing and payment terms.

There can be no assurance that we will maintain our competitiveness in these areas. If we fail to develop new technologies and products, periodically enhance our existing products, maintain or improve relationships with our customers, or otherwise compete successfully, it will adversely affect our business and future prospects.

Provision of IoT Solutions is Generally Project-Based and of Non-Recurring Nature. As Such, Our Financial Performance of This Business Line in a Particular Period Highly Depends on the Total Number of Projects Completed and Accepted, as well as the Financial Performance of Projects with High Contract Values During the Same Period

During the Track Record Period, we derived a substantial portion of our revenues from the provision of IoT solutions, which are project-based and of non-recurring nature. Since our IoT solution projects are generally customized to our clients' particular needs, the technologies adopted, the contract value contribution of hardware components and the overall project size by contract value vary from project to project. In addition, the gross profit margin of our IoT solutions may vary depending on the proportion of contract value related to embedded hardware equipment. Generally, IoT solutions that focus on software development enjoy a relatively higher gross profit margin than IoT solutions that rely more on the hardware equipment embedded.

During the Track Record Period, we recognized revenue from an IoT solution project when our customer accepted the project that we had completed. As a result, the number of completed and accepted projects and the financial performance of IoT solution projects with high contract value in a particular period determine the financial performance of our IoT solution business during the same period.

Nevertheless, we are willing to accept certain projects of lower contract values or smaller profit margin because we believe our key competitive advantage lies in our higher flexibility to provide customized IoT solutions to accommodate customers of various needs.

Ability to Broaden our Customer Base

We provide our IoT solution services and sell a majority of our products to a small number of key customers. For example, in 2019, 2020 and 2021 and the five months ended May 31, 2022, our revenue from the sales to our five largest customers represented 70.2%, 81.9%, 65.1% and 91.5%, respectively, of our revenue for the same periods. Revenue from the largest customer represented 20.9%, 31.8%, 22.2% and 53.3%, respectively, of our revenue for the same periods.

Our future success depends on our ability to maintain relationships with our current major customers and broaden our customer base. A broader customer base can safeguard our financial condition and results of operations by rendering us less susceptible to unanticipated demand fluctuations of our customers and other risks, including:

- significant bargaining leverage of our customers who may request changes in sales terms including pricing and payment terms and product delivery schedules to their favor;

- direct competition from customers who may decide to increase its level of internal design and manufacturing of telecommunication products;

- significant loss of revenue resulted from the loss of major customers' businesses; and

- significant credit risk as a result of the significant concentration of our account receivables.

Ability to Control Our Costs and Expenses

Our cost of sales primarily comprises material costs and OEM expenses. Our ability to effectively control such costs and expenses may materially affect our profitability.

During the Track Record Period, material costs represented the largest component of our cost of sales, accounting for 50.8%, 72.4%, 67.4% and 31.8%, respectively, of our total cost of sales in 2019, 2020 and 2021 and the five months ended May 31, 2022. Material costs as a percentage of our cost of sales for each year/period comprising the Track Record Period varied because we tailored our purchase of materials to the specific requirement for our customized products and solutions offered for the corresponding year/period. Such percentage was exceptionally low for the five months ended May 31, 2022 mainly because our antenna exports to overseas markets declined while our domestic 5G IoT solution projects delivered were relatively small during this period, both of which required substantial material purchases before delivery. The following table sets forth a sensitivity analysis illustrating the impact of hypothetical fluctuations in material costs on our gross profit for the periods indicated:

	Year ended December 31,						Five month ended May 31,			
	2019		2020		2021		2021		2022	
	Change in gross profit	% change in gross profit	Change in gross profit	% change in gross profit	Change in gross profit	% change in gross profit	Change in gross profit	% change in gross profit	Change in gross profit	% change in gross profit
	(RMB'000, except percentages)									
							(Unaudited)			
15%	-3,387	-9.3%	-8,262	-16.1%	-11,201	-14.2%	-4,237	-24.5%	-2,572	-8.9%
10%	-2,258	-6.2%	-5,508	-10.7%	-7,467	-9.5%	-2,824	-16.3%	-1,715	-5.9%
5%	-1,129	-3.1%	-2,754	-5.4%	-3,734	-4.7%	-1,412	-8.2%	-857	-3.0%
-5%	1,129	3.1%	2,754	5.4%	3,734	4.7%	1,412	8.2%	857	3.0%
-10%	2,258	6.2%	5,508	10.7%	7,467	9.5%	2,824	16.3%	1,715	5.9%
-15%	3,387	9.3%	8,262	16.1%	11,201	14.2%	4,237	24.5%	2,572	8.9%

For the years ended December 31, 2019, 2020 and 2021 and the five months ended May 31, 2022, OEM expenses represented the second-largest component of our cost of sales, accounting for 19.5%, 20.0%, 28.8% and 64.7%, respectively, of our total cost of sales for the same periods. OEM expenses as a percentage of our cost of sales were relatively stable from 2019 to 2021. Such percentage increased significantly to 64.7% for the five months ended May 31, 2022 mainly because 55.0% of revenue for the same period were derived from sales of 5G telecommunication equipment, the production of which were outsourced to our OEM partners. Any change in OEM expenses, including processing fees and materials fees paid to our OEM manufacturers, could affect our results of operations. The following table sets forth a sensitivity analysis illustrating the impact of hypothetical fluctuations in OEM expenses on our gross profit for the periods indicated:

	Year ended December 31,						Five month ended May 31,			
	2019		2020		2021		2021		2022	
	Change in gross profit	% change in gross profit	Change in gross profit	% change in gross profit	Change in gross profit	% change in gross profit	Change in gross profit	% change in gross profit	Change in gross profit	% change in gross profit
	(RMB'000, except percentages)									
							(Unaudited)			
15%	-1,299	-3.6%	-2,278	-4.4%	-4,788	-6.1%	-979	-5.7%	-5,241	-18.1%
10%	-866	-2.4%	-1,518	-3.0%	-3,192	-4.1%	-652	-3.8%	-3,494	-12.1%
5%	-433	-1.2%	-759	-1.5%	-1,596	-2.0%	-326	-1.9%	-1,747	-6.0%
-5%	433	1.2%	759	1.5%	1,596	2.0%	326	1.9%	1,747	6.0%
-10%	866	2.4%	1,518	3.0%	3,192	4.1%	652	3.8%	3,494	12.1%
-15%	1,299	3.6%	2,278	4.4%	4,788	6.1%	979	5.7%	5,241	18.1%

We expect that material costs and OEM expenses will continue to be our most significant costs and expenses that can materially affect our profitability.

The Outbreak of Covid-19

The outbreak and continuous spread of COVID-19 have caused an adverse impact on the global economy. Our business operations and financial conditions had been and may continue to be affected by the COVID-19 pandemic. The negative impact of the COVID-19 pandemic on us was primarily in the first quarter of 2020, during which we incurred additional expenses in connection with the prevention of COVID-19 and the diagnosis and treatment of COVID-19. In the first quarter of 2020, we experienced postponement of customer orders, including a significant delay of orders from our major distributor in Russia. Nevertheless, the COVID-19 impacts on our business have been alleviated since the second half of 2020, and our revenue generated in 2021 was significantly higher than that in 2020. For more information, see "— Description of Key Statement of Profit or Loss Items" in this section.

In the first quarter of 2022, the outbreak of the Omicron variant of COVID-19 led to the imposition of more restrictive measures and even lock-downs in major cities in China, including Shenzhen, where we had established an assembly and a testing center. Although the lock-down in Shenzhen and other restrictive measures have not severely disrupted our business so far, we cannot accurately predict what effects the Omicron variant or other new variants of COVID-19 would have on our business operation and financial performance in the future.

Seasonality

Our business is subject to seasonal fluctuations. Revenue generated in the second half contributed to 78.3%, 89.9% and 62.0% of the total annual revenue in 2019, 2020 and 2021, respectively. This situation was mainly due to the fact that during the Track Record Period, most orders for our IoT solutions or telecommunication equipment were confirmed and completed in the second half of the year. As a result, most IoT solutions and telecommunication equipment sales were completed and delivered in the second half of the year, leading to more concentrated revenue recognition in the same period.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Our management also exercises judgment in applying the accounting policies.

The summary of significant accounting policies is set out in Note 2.4 to the Accountant's Report set out in Appendix I to this Document. These policies have been consistently applied to all the years and periods as disclosed, unless otherwise stated. Critical accounting estimates and judgments are set out in Note 3 to the Accountant's Report set out in Appendix I to this Document. We set forth below the accounting policies, estimates and judgments that we believe are the most significant to our financial information or that involve the most significant judgments and estimates used in the preparation of our financial statements.

Revenue Recognition

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which we will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with 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 amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between our Group and the customer at contract inception. When the contract contains a financing component which provides us with a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer 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.

Provision of IoT Solutions

Revenue from provision of IoT solutions is recognized at the point in time when control of the assets or services is transferred to the customers and customer acceptance is acquired.

Sales of Telecommunication Equipment

Revenue from the sales of telecommunication equipment is recognized at the point in time when control of the assets is transferred to the customers, generally on delivery of the products.

Other Services

Revenue from maintenance, consulting and other services is generally recognized at the point in time when control of the assets or services is transferred to the customers and customer acceptance is acquired, or over the scheduled period on a straight-line basis or over time using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by us.

Impairment of Financial Assets

We recognize an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. For trade receivables, notes receivable and contract assets that do not contain a significant financing component or when we apply the practical expedient of not adjusting the effect of a significant financing component, we apply the simplified approach in calculating ECLs. Under the simplified approach, we do not track changes in credit risk, but instead recognize a loss allowance based on lifetime ECLs at each reporting date. For trade receivables, notes receivable and contract assets that contain a significant financing component, we choose to adopt the simplified approach in calculating ECLs with policies as described above.

We use a provision matrix to calculate ECLs for trade receivables, notes receivable and contract assets. The provision matrix is initially based on the expected credit loss rates of industry peers. We will calibrate the matrix to adjust the expected credit loss with factors that are specific to the debtors and the economic environment. For peer group's assessment, we take into consideration the ECLs accounting policy, business nature and revenue size. The amount of expected credit loss is updated at each reporting date to reflect changes in credit risk since initial recognition.

The assessment of ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The peer group's expected credit loss may also not be representative of customers' actual default in the future.

Inventories

Inventories are stated at the lower of costs and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Contract Assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If we perform our contract obligation by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Income Tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current Tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of year/period comprising the Track Record Period, taking into consideration interpretations and practices prevailing in the countries in which we operate.

Deferred Tax

Deferred tax is provided, using the liability method, on all temporary differences at the end of each year/period comprising the Track Record Period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

DESCRIPTION OF KEY STATEMENT OF PROFIT OR LOSS ITEMS

The following table sets forth a summary of our consolidated statements of profit or loss for the periods indicated:

	Year ended December 31,			Five months ended May 31,	
	2019	**2020**	**2021**	**2021**	**2022**
			(RMB'000)		
				(Unaudited)	
Revenue	80,885	127,425	189,552	53,095	82,947
Cost of sales	(44,487)	(76,044)	(110,753)	(35,807)	(53,973)
Gross profit	**36,398**	**51,381**	**78,799**	**17,288**	**28,974**
Other income and gains	3,528	5,405	4,066	1,373	774
Selling and distribution expenses	(2,474)	(1,688)	(2,140)	(534)	(1,183)
Administrative expenses	(14,012)	(15,127)	(28,258)	(7,856)	(16,496)
Impairment losses on financial and contract assets, net	(3,019)	(4,823)	(11,478)	(2,513)	(764)
Other expenses	(98)	(1,989)	(421)	(650)	–
Finance costs	(1,688)	(366)	(500)	(231)	(127)
PROFIT BEFORE TAX	**18,635**	**32,793**	**40,068**	**6,877**	**11,178**
Income tax expense	(1,284)	(4,240)	(5,688)	(560)	(651)
PROFIT FOR THE YEAR/PERIOD	**17,351**	**28,553**	**34,380**	**6,317**	**10,527**
Attributable to:					
Owners of the parent	17,351	28,553	34,380	6,317	10,527
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD	**–**	**–**	**(486)**	**(385)**	**414**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	**17,351**	**28,553**	**33,894**	**5,932**	**10,941**

Non-HKFRS Measure

To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also present the adjusted net profits as a non-HKFRS measure, which is not required by, or presented in accordance with, HKFRS. We believe that this non-HKFRS measure facilitates comparison of operating performance from period to period by eliminating impacts of [**REDACTED**], which are relating to the [**REDACTED**]. In addition, we believe that this non-HKFRS measure provides useful information to investors and others in understanding and evaluating our results of operations in the same manner as our management and in comparing financial results across the Track Record Period. The use of this non-HKFRS measure has limitations as an analytical tool. As such, they should not be considered in isolation from, or as substitute for analysis of, our consolidated statements of profit or loss or financial condition as reported under HKFRS. In addition, the non-HKFRS financial measures may be defined differently from similar terms used by other companies and therefore, may not be comparable to similar measures presented by other companies.

The table below sets out the adjusted net profit as a non-HKFRS measure in each respective year/period during the Track Record Period:

	Year ended December 31,			Five months ended May 31,	
	2019	**2020**	**2021**	**2021**	**2022**
			(RMB'000)		
				(Unaudited)	
Profit for the year/period	17,351	28,553	34,380	6,317	10,527
Add: [**REDACTED**]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Adjusted net profit for the year/period (non-HKFRS measure)	**17,351**	**29,402**	**41,755**	**6,635**	**17,617**

Revenue

During the Track Record Period, we generated our revenue primarily from provision of IoT solutions and sales of telecommunication equipment. To a lesser extent, we also generated revenue from provision of other services, such as telecommunication equipment maintenance services. See "Business — Our Business Model" for more details.

The following table sets forth the breakdown of our revenue by business lines for the periods indicated:

	Year ended December 31,						Five months ended May 31,			
	2019		2020		2021		2021		2022	
	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
	(RMB'000, except percentages)									
							(Unaudited)			
Provision of IoT Solutions[(1)]										
5G	–	–	52,996	41.6%	59,312	31.3%	22,024	41.5%	5,401	6.5%
Non-5G	41,719	51.6%	22,522	17.7%	63,986	33.8%	7,590	14.3%	24,175	29.2%
Sub-total	**41,719**	**51.6%**	**75,518**	**59.3%**	**123,298**	**65.1%**	**29,614**	**55.8%**	**29,576**	**35.7%**
Sales of equipment										
Antennas	20,445	25.3%	23,607	18.5%	39,825	21.0%	20,334	38.3%	6,587	7.9%
5G telecommunication equipment	1,840	2.2%	16,338	12.8%	13,562	7.2%	–	–	45,617	55.0%
Other equipment[(2)]	8,967	11.1%	1,986	1.6%	6,582	3.4%	3,147	5.9%	486	0.6%
Sub-total	**31,252**	**38.6%**	**41,931**	**32.9%**	**59,969**	**31.6%**	**23,481**	**44.2%**	**52,690**	**63.5%**
Others[(3)]	**7,914**	**9.8%**	**9,976**	**7.8%**	**6,285**	**3.3%**	**-**	**-**	**681**	**0.8%**
Total	**80,885**	**100.0%**	**127,425**	**100.0%**	**189,552**	**100.0%**	**53,095**	**100.0%**	**82,947**	**100.0%**

Notes:

(1) IoT solutions include integrated IoT solutions and IoT software solutions.

(2) Other equipment mainly include 4G telecommunication equipment, communication facility equipment and network switches (交換器).

(3) Others mainly include telecommunication equipment maintenance and consulting services.

The significant increase in our revenue from RMB80.9 million in 2019 to RMB189.6 million in 2021 at a CAGR of 53.1% was primarily contributable to the increase of revenue generated from provision of IoT solutions at a CAGR of 71.9% during the same periods, which was in line with the increasing demand for IoT solutions in the PRC during the Track Record Period. In particular, the launch of our private 5G network solutions in 2020 was the main driver for the growth of revenue from provision of IoT solutions from 2019 to 2020. The revenue from provision of IoT solutions continued to increase significantly from 2020 to 2021 mainly driven by the growing revenue from our private non-5G network solutions, while the revenue from private 5G network solutions remained relatively stable during this period. Furthermore, revenue generated from sales of telecommunication equipment also increased at a CAGR of 38.5% from 2019 to 2021. The revenue from this business line increased by 34.2% from RMB31.3 million in 2019 to RMB41.9 million in 2020, primarily attributable to increased sales of 5G telecommunication equipment in 2020. The significant increase in revenue generated from sales of telecommunication equipment from 2020 to 2021 was primarily attributable to the increase in our antenna export business to overseas markets. Our revenue from sales of telecommunication equipment further increased by 124.4% from RMB23.5 million for the five months ended May 31, 2021 to RMB52.7 million for the same period in 2022, primarily attributable to the sales of 5G pRRU, a type of 5G telecommunication equipment, at the amount of RMB44.2 million to the largest customer for the five months ended May 31, 2022.

In terms of the telecommunication technology adopted in our solutions, products and services, we further divide our revenues into revenues generated from solutions, products and services adopting 5G technologies and non-5G technologies as set forth in the table below:

	Year ended December 31,						Five months ended May 31,			
	2019		2020		2021		2021		2022	
	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
	(RMB'000, except percentages)									
							(Unaudited)			
5G Business	1,972	2.4%	69,463	54.5%	72,874	38.4%	22,024	41.5%	51,018	61.5%
Non-5G Business	78,913	97.6%	57,962	45.5%	116,678	61.6%	31,071	58.5%	31,929	38.5%
Sub-total	**80,885**	**100.0%**	**127,425**	**100.0%**	**189,552**	**100.0%**	**53,095**	**100.0%**	**82,947**	**100.0%**

We started our 5G business in 2019. Since we launched our first private 5G network solution project in 2020, revenue generated from 5G business has increased significantly. Nevertheless, our non-5G business remains a major focus of our business, the revenue from which continued to grow during the Track Record Period except a setback in 2020 due to the COVID-19 pandemic.

Geographically, we derived our revenue from the PRC, Russia and the United States. Our business in the PRC covers the provision of IoT solutions, sales of telecommunication equipment and other services, while we only export vehicle-mounted antenna and IoT antenna to Russia and the United States, respectively. The following table sets out the geographical breakdown of our revenue for the periods indicated:

	Year ended December 31,						Five months ended May 31,			
	2019		2020		2021		2021		2022	
	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
	(RMB'000, except percentages)									
							(Unaudited)			
The PRC	60,435	74.8%	103,818	81.5%	149,725	79.0%	32,761	61.7%	76,357	92.1%
Russia	13,220	16.3%	13,178	10.3%	24,312	12.8%	10,669	20.1%	2,497	3.0%
The United States	7,230	8.9%	10,429	8.2%	15,515	8.2%	9,665	18.2%	4,093	4.9%
Sub-total	**80,885**	**100.0%**	**127,425**	**100.0%**	**189,552**	**100.0%**	**53,095**	**100.0%**	**82,947**	**100.0%**

During the Track Record Period, as we increased our efforts to promote IoT solutions and 5G telecommunication equipment in the PRC, revenue derived from the PRC has increased significantly.

Our revenues derived from Russia, which were mainly attributable to our export of vehicle-mounted antenna, remained relatively stable from 2019 to 2020. The revenue derived from Russia increased significantly by 84.5% from RMB13.2 million in 2020 to RMB24.3 million in 2021, primarily attributable to the increasing number of orders from our Russian distributor. Our revenue derived from Russia decreased significantly by 76.6% from RMB10.7 million for the five months ended May 31, 2021 to RMB2.5 million for the same period in 2022, to a large extent due to the Russia-Ukraine conflicts in 2022. Our revenue derived from the U.S. market increased by 44.2% from RMB7.2 million in 2019 to RMB10.4 million in 2020 and by 48.8% to RMB15.5 million in 2021 primarily attributable to the growing market demand for IoT antenna in the United States during the same year. Our revenue derived from the U.S. market decreased by 57.7% from RMB9.7 million for the five months ended May 31, 2021 to RMB4.1 million for the same period in 2022 mainly because the global chip shortage affected the business of our U.S. customer, who in turn reduced purchasing orders from us.

Cost of Sales

Cost of sales primarily includes (i) material costs, (ii) OEM expenses and (iii) labor costs.

The following table sets out the breakdown of our cost of sales by nature for the periods indicated:

	Year ended December 31,						Five months ended May 31,			
	2019		2020		2021		2021		2022	
	Cost	% of cost of sales	Cost	% of cost of sales	Cost	% of cost of sales	Cost	% of cost of sales	Cost	% of cost of sales
	(RMB'000, except percentages)									
							(Unaudited)			
Material costs	22,579	50.8%	55,081	72.4%	74,674	67.4%	28,244	78.9%	17,148	31.8%
OEM expenses	8,661	19.5%	15,184	20.0%	31,921	28.8%	6,524	18.2%	34,940	64.7%
Labor costs	12,269	27.6%	5,081	6.7%	3,069	2.8%	635	1.8%	1,358	2.5%
Others[(1)]	978	2.1%	698	0.9%	1,089	1.0%	404	1.1%	527	1.0%
Sub-total	**44,487**	**100.0%**	**76,044**	**100.0%**	**110,753**	**100.0%**	**35,807**	**100.0%**	**53,973**	**100.0%**

Note:

(1) Others mainly include amortization and depreciation in our right-of-use assets and other direct expenses.

Material costs primarily represent costs in purchasing materials and equipment, which constituted the largest portion of our cost of sales during the Track Record Period. OEM expenses mainly consist of processing fees and material fees that we paid to our OEM manufacturers. Labor costs mainly consist of salaries and employment benefit that we paid to our employees for equipment testing, software deployment and operation maintenance, as well as outsourcing service fees. Our labor costs and its contribution to the total cost of sales in 2019 were significantly higher than those in 2020 and 2021 mainly because more projects required labor outsourcing for onsite installations.

The increases in cost of sales during the Track Record Period were mainly due to the increases in both material costs and OEM expenses as a result of more purchases of equipment, other materials and OEM services driven by the increasing number of projects undertaken by us and sales of telecommunication equipment.

In addition, the following table sets out the breakdown of our cost of sales by business lines for the periods indicated:

	Year ended December 31,						Five months ended May 31,			
	2019		2020		2021		2021		2022	
	Cost	% of cost of sales	Cost	% of cost of sales	Cost	% of cost of sales	Cost	% of cost of sales	Cost	% of cost of sales
	(RMB'000, except percentages)									
							(Unaudited)			
Provision of IoT Solutions	17,555	39.5%	45,521	59.9%	66,088	59.7%	20,206	56.4%	15,216	28.2%
Sales of telecommunication equipment	23,731	53.3%	28,394	37.3%	41,508	37.5%	15,601	43.6%	38,710	71.7%
Others[(1)]	3,201	7.2%	2,129	2.8%	3,157	2.8%	–	–	47	0.1%
Sub-total	**44,487**	**100.0%**	**76,044**	**100.0%**	**110,753**	**100.0%**	**35,807**	**100.0%**	**53,973**	**100.0%**

The cost of sales for each major business line generally increased in line with the increase in revenue of each business line.

Gross Profit and Gross Profit Margin

The following table sets forth a breakdown of our gross profit and gross profit margin by business lines for the periods indicated:

	Year ended December 31,						Five months ended May 31,			
	2019		2020		2021		2021		2022	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	(RMB'000, except percentages)									
							(Unaudited)			
Provision of IoT Solutions	24,164	57.9%	29,997	39.7%	57,210	46.4%	9,408	31.8%	14,360	48.6%
Sales of telecommunication equipment	7,521	24.1%	13,537	32.3%	18,461	30.8%	7,880	33.6%	13,980	26.5%
Others	4,713	59.6%	7,847	78.7%	3,128	49.8%	–	–	634	93.1%
Sub-total	**36,398**	**45.0%**	**51,381**	**40.3%**	**78,799**	**41.6%**	**17,288**	**32.6%**	**28,974**	**34.9%**

The provision of IoT solutions was our largest business line during the Track Record Period in terms of gross profit contribution, which contributed 64.3% of our total gross profit during the same period. We generally price our IoT solutions on a "cost-plus" basis, under which we estimate costs to be incurred in the project and add a reasonable margin with reference to the market price. The price determination process is generally conducted on a project-by-project basis. In general, our IoT solutions without or with less equipment embedded have a higher gross profit margin.

The gross profit margin of our IoT solutions decreased from 57.9% in 2019 to 39.7% in 2020 despite the gross profit increase, mainly due to the launch of our private 5G network solutions in 2020, the gross profit margin of which is lower than that of non-5G network solutions, as our private 5G network solutions generally incurred higher material costs for the 5G equipment embedded in such solutions. The gross profit margin of our IoT solutions increased from 39.7% in 2020 to 46.4% in 2021, primarily attributable to the increasing proportion of gross profit derived from non-5G IoT solutions in 2021, which were more software-based and had relatively higher gross profit margin. For the same reason, the gross profit margin of our IoT solutions increased from 31.8% for the five months ended May 31, 2021 to 48.6% for the same period in 2022.

Our second-largest business line in terms of gross profit contribution was sales of telecommunication equipment, which contributed 27.4% of our total gross profit during the Track Record Period. The gross profit margin of our sales of telecommunication equipment increased from 24.1% in 2019 to 32.3% in 2020 mainly attributable to the increasing gross profit margin of our antenna products, which contributed to the largest portion of our gross profit from the sales of telecommunication equipment in 2020. The increasing gross profit margin of our antenna products was primarily attributable to the relatively higher gross profit margin of IoT antenna products that we exported to the United States in 2020. The gross profit margin of sales of telecommunication equipment remained relatively stable at 32.3% in 2020 and 30.8% in 2021, but decreased from 33.6% for the five months ended May 31, 2021 to 26.5% for the same period in 2022, as our sales of telecommunication equipment became more concentrated on 5G telecommunication equipment, which tends to have a lower profit margin but a higher contract value than antenna products that contributed most of the revenue generated from sales of telecommunication equipment for the five months ended May 31, 2021.

In addition, our gross profit can also be divided into gross profit from 5G business and non-5G business. The following table sets forth a breakdown of our gross profit and gross profit margin by 5G and non-5G business for the periods indicated:

	Year ended December 31,						Five months ended May 31,			
	2019		2020		2021		2021		2022	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	(RMB'000, except percentages)									
							(Unaudited)			
5G business	868	44.0%	22,632	32.6%	22,655	31.1%	7,270	33.0%	13,426	26.3%
Non-5G business	35,530	45.0%	28,749	49.6%	56,144	48.1%	10,018	32.2%	15,548	48.7%
Sub-total	**36,398**	**45.0%**	**51,381**	**40.3%**	**78,799**	**41.6%**	**17,288**	**32.6%**	**28,974**	**34.9%**

Gross profit attributable to our 5G business increased significantly from RMB0.9 million in 2019 to RMB22.6 million in 2020, primarily attributable to the increasing number of 5G solutions and products that we provided and sold for the same year as a result of the expansion and development of private 5G network market, and it remained relatively stable at RMB22.7 million in 2021. The gross profit margin of our 5G business decreased from 44.0% in 2019 to 32.6% in 2020 mainly because we strategically switched our 5G business focus from sales of 5G antenna products in 2019, to (i) sales of 5G base station and (ii) provision of IoT solution projects involving 5G base stations in 2020, which generally had a lower profit margin but higher contract value than 5G antenna products. The gross profit margin of our 5G business remained stable at 32.6% in 2020 and at 31.1% in 2021, respectively, but it decreased significantly from 33.0% for the five months ended May 31, 2021 to 26.3% for the same period in 2022 despite the gross profit growth during the same period. The decrease in gross profit margin during this period was mainly because the sales of 5G telecommunication equipment that contributed to 89.3% of all gross profit for the five months ended May 31, 2022 had a lower gross profit margin than the 5G IoT solution that contributed to all gross profit for the same period in 2021.

Gross profit contributed to our non-5G business decreased from RMB35.5 million in 2019 to RMB28.7 million in 2020, but significantly increased to RMB56.1 million in 2021, which generally reflected the fluctuations in our revenue from non-5G business. The gross profit margin of our non-5G business increased from 45.0% in 2019 to 49.6% in 2020 mainly attributable to the increase in the gross profit margin of our non-5G telecommunication equipment sold in 2020, which concentrated on the sales of equipment with higher gross profit margin in 2020. In 2019, in order to maintain our market share in the relatively mature and competitive non-5G equipment market in the PRC, we sold a variety of non-5G telecommunication equipment with gross profit margins ranging from less than 10.0% to over 50.0%. However, in 2020, we strategically decided to cease selling non-5G telecommunication equipment with low profit margins, such as 4G LTE module (4G LTE模塊), and communication facility equipment (計算機機房系統集成設備), and focused more on products with higher gross profit margins ranging from 25.0% to 55.0%, such as non-5G exported antennas and base station antennas. The gross profit margin of our non-5G business increased from 32.2% for the five months ended May 31, 2021 to 48.7% for the same period in 2022 mainly because more non-5G gross profit was generated from the provision of IoT solutions for the five months ended May 31, 2022, which generally had a higher gross profit margin, while antenna exports to Russia and the United States, which had a lower gross profit margin, decreased in early 2022 as a result of the Russia-Ukraine conflicts and global chip shortage, respectively.

In addition, when we just launched our 5G business mainly by selling 5G antenna products in 2019, the gross profit margin of 5G business and non-5G business are similar at 44.0% and 45.0%, respectively. However, the overall gross profit margin of 5G business was lower compared to that of our non-5G business in 2020 and 2021 mainly because our 5G IoT solutions, which contributed to the majority of all 5G business revenue in the same years, generally have a higher proportion of contract value from hardware equipment installed and deployed in a 5G solution project as compared to that in a non-5G solution project, and the gross profit margin of hardware equipment is generally lower than that of software development and affiliated services. In particular, (i) in 2020, the provision of 5G IoT solutions that contributed to 79.4% of our 5G gross profit derived 83.4% of all contract value from hardware equipment, whereas non-5G IoT solutions that contributed to 41.8% of total non-5G gross profit only derived 25.7% of total contract value from hardware equipment in the same year; and (ii) in 2021, the provision of 5G IoT solutions that contributed to 83.3% of our 5G gross profit derived 43.9% of all contract value from hardware equipment, whereas non-5G IoT solutions that contributed to 68.3% of total non-5G gross profit only derived 2.0% of total contract value from hardware equipment.

Other Income and Gains

Our other income and gains primarily consist of (i) government grants, (ii) interest income, and (iii) gains on derecognition of financial assets and liabilities measured at amortized cost. The following table sets forth a breakdown of our other income and gains by nature for the periods indicated:

	Year ended December 31,			Five months ended May 31,	
	2019	2020	2021	2021	2022
			(RMB'000)		
				(Unaudited)	
Government grants[(1)]	1,223	3,508	3,845	1,277	427
Interest income[(2)]	1,158	1,179	221	96	96
Gain on liquidation of subsidiaries[(3)]	955	14	–	–	59
Others[(4)]	192	704	–	–	192
Total	**3,528**	**5,405**	**4,066**	**1,373**	**774**

Notes:

(1) Government grants mainly include (i) VAT deductions for software products and subsidies for technology development, invention patents and R&D investment, as well as (ii) other general support from government, such as subsidies to relieve COVID-19 impacts. During the Track Record Period, we enjoyed VAT deductions for the software products integrated into our IoT solution projects. Pursuant to the relevant policy of the PRC Ministry of Finance and the PRC State Taxation Administration, the part of actual VAT burden exceeding 3% shall be refunded upon collection. As a result, we were entitled to an aggregate VAT deduction of RMB3.6 million during the Track Record Period.

(2) Interest income comprises (i) bank interest income, (ii) interest income arising from revenue contracts, (iii) other interest income from loans to related parties, and (iv) other interest income from financial assets at fair value through profit or loss.

(3) Gain on liquidation of subsidiaries refers to the waiver of other payables as a result of the deregistration of one subsidiary in 2019 and one subsidiary in 2022.

(4) Others mainly consist of (i) gain on disposal of items of inventory, (ii) fair value gains, and (iii) foreign exchange gains.

The table below sets forth a breakdown of our government grants by types for the periods indicated:

	Year ended December 31,			Five months ended May 31,	
	2019	2020	2021	2021	2022
			(RMB'000)		
				(Unaudited)	
VAT deductions for software products (ongoing)[1]	–	1,761	1,828	1,035	1
Subsidies for technology development, invention patents and R&D investments (one-off)	982	1,577	1,985	242	389
Others[2]	241	170	32	–	37
Total	**1,223**	**3,508**	**3,845**	**1,277**	**427**

Note:

(1) The government policy in relation to the VAT deductions for software product had been effective since January 2011.

(2) Others include one-off subsidies, such as subsidies to support local industrial enterprises and to relieve COVID-19 impacts, and ongoing subsidies, such as input VAT deductions and subsidies for childbirth.

The fluctuation in our other income and gains during the Track Record Period mainly reflects the fluctuation in government grants that were distributed at the discretion of local governments in Nanjing and Shenzhen.

Selling and Distribution Expenses

Our selling and distribution expenses mainly consist of (i) staff costs, (ii) travelling expenses, (iii) depreciation, and (iv) entertainment expenses. The following table sets forth a breakdown of our selling and distribution expenses for the periods indicated:

	Year ended December 31,			Five months ended May 31,	
	2019	**2020**	**2021**	**2021**	**2022**
			(RMB'000)		
				(Unaudited)	
Staff costs	1,006	996	1,322	373	848
Travelling expenses	1,187	176	664	117	169
Depreciation	93	106	100	37	51
Entertainment expenses	152	181	29	1	106
Others[(1)]	36	229	25	6	9
Total	**2,474**	**1,688**	**2,140**	**534**	**1,183**

Note:

(1) Others mainly consist of office expenses, consulting fees and services fees.

Staff costs primarily comprise salaries and social insurance and housing fund contributions for our sales staff. Travelling expenses primarily comprise expenses on transportation, meals, accommodation and other subsidies for business development purposes. Depreciation primarily comprises depreciation of right-of-use assets. Entertainment expenses primarily refer to expenses incurred for promotional and business development purposes.

Administrative Expenses

Our administrative expenses primarily consist of (i) R&D expenses, (ii) staff costs, (iii) [**REDACTED**], (iv) consulting expenses, (v) depreciation & amortization, (vi) office expenses, and (vii) tax surcharges.

The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	Year ended December 31,			Five months ended May 31,	
	2019	**2020**	**2021**	**2021**	**2022**
			(RMB'000)		
				(Unaudited)	
R&D expenses	7,672	7,042	9,791	3,902	5,284
Staff costs	2,167	3,510	5,057	1,980	2,195
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Consulting expenses	2,011	1,193	2,390	484	580
Depreciation & amortization	391	426	958	337	422
Office expenses	461	519	908	343	245
Tax surcharges	700	1,078	1,204	305	444
Others[1]	610	510	575	187	236
Total	**14,012**	**15,127**	**28,258**	**7,856**	**16,496**

Note:

(1) Others mainly include travelling expenses, entertainment expenses and rental expenses.

R&D expenses primarily consist of salaries, allowances, benefits in kind and pension scheme contributions of our R&D personnel, R&D expenses paid to external institutions and material costs and depreciation of machinery for R&D purposes. Staff costs primarily comprise salaries, allowances, benefits in kind and pension scheme contributions of our administrative staff. [**REDACTED**] were incurred in connection with the [**REDACTED**] of the Company. Consulting expenses mainly consist of consulting fees we paid to patent agencies for patent applications and consultancy, recruitment costs and audit expenses.

Impairment Losses on Financial and Contract Assets

We recognize an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that we expect to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. We use a provision matrix to calculate ECLs for trade receivables, notes receivable and contract assets based on historical expected default rates of industry peers and days past due for groupings of various customers with similar loss pattern.

Our impairment losses on financial and contract assets in 2019, 2020 and 2021 and the five months ended May 31, 2022 were RMB3.0 million, RMB4.8 million, RMB11.5 million and RMB0.8 million, respectively. For details, see "— Certain Balance Sheet Items — Trade and Notes Receivables" in this section.

Other Expenses

Our other expenses primarily consist of exchange difference loss.

	Year ended December 31,			Five months ended May 31,	
	2019	**2020**	**2021**	**2021**	**2022**
			(RMB'000)		
				(Unaudited)	
Exchange difference loss	–	1,875	353	643	–
Others[(1)]	98	114	68	7	–
Total	**98**	**1,989**	**421**	**650**	**–**

Note:

(1) Others mainly include overdue tax payments after tax return amendments, inventory loss and loss from disposal of non-current assets.

Our other expenses in 2019, 2020 and 2021 and the five months ended May 31, 2022 were RMB0.1 million, RMB2.0 million, RMB0.4 million and nil, respectively. Other expenses were exceptionally high in 2020 due to an exchange loss of RMB1.9 million as a result of depreciation of USD against RMB in 2020.

Finance Costs

Our finance costs comprise (i) interest on loans from a related party, (ii) interest on bank loans, and (iii) interest on lease liabilities. The following table sets forth a breakdown of finance costs for the periods indicated:

	Year ended December 31,			Five months ended May 31,	
	2019	**2020**	**2021**	**2021**	**2022**
			(RMB'000)		
				(Unaudited)	
Interest on loans from a related party	1,580	–	–	–	–
Interest on bank loans	6	299	368	185	68
Interest on lease liabilities	102	67	132	46	59
Total	**1,688**	**366**	**500**	**231**	**127**

Income Tax Expense

Our income tax expense consists of current income tax and deferred income tax. Current income tax comprises only PRC corporate income tax. The following table sets forth a breakdown of our income tax expense for the periods indicated:

	Year ended December 31,			Five months ended May 31,	
	2019	**2020**	**2021**	**2021**	**2022**
			(RMB'000)		
				(Unaudited)	
Current	830	4,157	7,462	1,085	823
Deferred	454	83	(1,774)	(525)	(172)
Total	**1,284**	**4,240**	**5,688**	**560**	**651**

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

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, our Company and subsidiaries are not subject to any income tax in the Cayman Islands and the British Virgin Islands.

The statutory tax rate for the subsidiary in Hong Kong is 16.5%. No Hong Kong profits tax on this subsidiary has been provided as there was no assessable profit arising in Hong Kong during the Track Record Period.

The provision for current income tax in the PRC is based on the statutory rate of 25% of the assessable profits of certain PRC subsidiaries of our Group as determined in accordance with the *PRC Corporate Income Tax Law*, which became effective on January 1, 2008, except for certain subsidiaries of our Group in the PRC which are granted tax concession and are taxed at preferential tax rates.

Nanjing Howking and Shenzhen Wulian were recognized as a High and New Technology Enterprise and entitled to a preferential income tax rate of 15% for 2019, 2020 and 2021. The preferential tax treatments were granted to both subsidiaries in December 2019 and will expire in December 2022, subject to further renewal. For further information, please see "Risk Factors — Risks Relating to Our Business and Industry — We are subject to risks associated with changes in government grants and preferential tax treatment."

Our effective income tax rate, representing income tax expense divided by profit before income tax, expressed as a percentage, was 6.9%, 12.9%, 12.4% and 5.8% for 2019, 2020, 2021 and the five months ended May 31, 2022, respectively. The effective income tax rate in 2019 was exceptionally low because the deregistration of two subsidiaries in 2019 resulted in investment loss deductibles.

During the Track Record Period and up to the Latest Practicable Date, we had paid all relevant taxes that were due and applicable to us and had no disputes or unresolved tax issues with relevant tax authorities.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Five Months Ended May 31, 2022 Compared to Five Months Ended May 31, 2021

Revenue

Our revenue increased by 56.2% from RMB53.1 million for the five months ended May 31, 2021 to RMB82.9 million for the same period in 2022 primarily attributable to the increases in sales of 5G telecommunication equipment and provision of non-5G IoT solutions.

Our revenue from provision of IoT solutions remained approximately the same at RMB29.6 million for the five months ended May 31, 2021 and 2022, respectively. Our revenue from provision of non-5G IoT solutions increased from RMB7.6 million for the five months ended May 31, 2021 to RMB24.2 million for the same period in 2022 mainly because we delivered non-5G IoT solution projects to two major customers in the first five months of 2022, each of whom brought over RMB10.0 million in revenue. On the other hand, our revenue from provision of 5G IoT solutions decreased from RMB22.0 million for the five months ended May 31, 2021 to RMB5.4 million for the same period in 2022 as 5G IoT solution projects delivered in the first five months of 2022 were smaller in size than the project delivered in the same period of 2021, despite the increase in project number.

Our revenue from sales of telecommunication equipment increased by 124.4% from RMB23.5 million for the five months ended May 31, 2021 to RMB52.7 million for the same period in 2022, primarily attributable to increasing sales of 5G telecommunication equipment in the first five months of 2022, which mainly consisted of our sales of 5G pRRU at the amount of RMB44.2 million to the largest customer for the five months ended May 31, 2022.

Costs of Sales

Our cost of sales increased by 50.7% from RMB35.8 million for the five months ended May 31, 2021 to RMB54.0 million for the same period in 2022. The increase primarily reflected increasing OEM expenses to support the increasing sales of our 5G telecommunication equipment.

Our OEM expenses increased by 435.6% from RMB6.5 million for the five months ended May 31, 2021 to RMB34.9 million for the same period in 2022 to support our sales of 5G telecommunication equipment, which grew from nil to RMB45.6 million in revenue during the same period. Our material costs decreased by 39.3% from RMB28.2 million for the five months ended May 31, 2021 to RMB17.1 million for the same period in 2022 as such costs were partially shifted to our OEM partners and recorded as our OEM expenses. Our labor costs increased by 113.9% from RMB0.6 million for the five months ended May 31, 2021 to RMB1.4 million for the same period in 2022 due to the expansion of our workforce and the overall salary raise.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased significantly by 67.6% from RMB17.3 million for the five months ended May 31, 2021 to RMB29.0 million for the same period in 2022. Our gross profit margin remained relatively stable at 32.6% and 34.9%, respectively, during the same periods.

Other Income and Gains

Our other income and gains decreased by 43.6% from RMB1.4 million for the five months ended May 31, 2021 to RMB0.8 million for the same period in 2022, primarily due to the decrease in VAT deduction as a form of government grant mainly as a result of our entitlement to delayed VAT payment in the first five months of 2022.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 121.5% from RMB0.5 million for the five months ended May 31, 2021 to RMB1.2 million for the same period in 2022 mainly due to increasing salaries paid to our sales team, which had expanded to support our business development.

Administrative Expenses

Our administrative expenses increased by 110.0% from RMB7.9 million for the five months ended May 31, 2021 to RMB16.5 million for the same period in 2022 mainly due to the increases in [**REDACTED**] in connection with the [**REDACTED**] of the Company and R&D expenses.

Impairment Losses on Financial and Contract Assets

Our impairment losses on financial and contract assets decreased by 69.6% from RMB2.5 million for the five months ended May 31, 2021 to RMB0.8 million for the same period in 2022 mainly attributable to our efforts to collect overdue trade receivables that resulted in a decrease in the impairment allowance for trade receivables aged over one year.

Other Expenses

Our other expenses for the five months ended May 31, 2021 were RMB0.7 million, mainly consisting of foreign exchange losses as a result of fluctuations in exchange rates, while we recorded no other expenses for the same period in 2022.

Finance Costs

Our finance costs decreased by 45.0% from RMB0.2 million for the five months ended May 31, 2021 to RMB0.1 million for the same period in 2022 mainly attributable to the decrease in interest on bank loans.

Income Tax Expense

Our income tax expense for the five months ended May 31, 2021 was RMB0.6 million at an effective income tax rate of 8.1%, while our income tax expense for the same period in 2022 was RMB0.7 million at an effective income tax rate of 5.8%. The growth in income tax expenses is in line with the increases in revenue and gross profit, reflecting our overall business expansion.

Profit for the Period

As a result of the foregoing, our profit for the period increased by 66.6% from RMB6.3 million for the five months ended May 31, 2021 to RMB10.5 million for the same period in 2022. Our net profit margin, which represents profit for the period as a percentage of revenue for the same period, increased slightly from 11.9% for the five months ended May 31, 2021 to 12.7% for the same period in 2022.

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Revenue

Our revenue increased by 48.8% from RMB127.4 million in 2020 to RMB189.6 million in 2021 primarily attributable to overall increase in market demand in our major business lines.

Our revenue from provision of IoT solutions increased by 63.3% from RMB75.5 million in 2020 to RMB123.3 million in 2021, primarily attributable to the increasing number of IoT solution projects from 13 in 2020 to 34 in 2021.

Our sales of telecommunication equipment comprise antennas, 5G telecommunication equipment and other telecommunication equipment. Our revenue from sales of telecommunication equipment increased by 43.0% from RMB41.9 million in 2020 to RMB60.0 million in 2021, primarily attributable to the increasing revenue generated from exporting antennas to the United States and Russia from 2020 to 2021.

Others primarily comprise telecommunication equipment maintenance services. Our revenue from other services decreased from RMB10.0 million in 2020 to RMB6.3 million in 2021, primarily because we concentrated on the development of our IoT solutions in 2021.

Costs of Sales

Our cost of sales increased by 45.6% from RMB76.0 million in 2020 to RMB110.8 million in 2021. The increase was primarily due to the overall expansion of our business and reflected our revenue growth.

Our material costs increased by 35.6% from RMB55.1 million in 2020 to RMB74.7 million in 2021 primarily due to the increasing purchases of raw materials and equipment as we received more orders for the provision of IoT solutions and telecommunication equipment sales. Our OEM expenses increased by 110.2% from RMB15.2 million in 2020 to RMB31.9 million in 2021 mainly because the growth of our antenna export business and the manufacturing of more 5G base station in 2021 required more OEM work.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit significantly increased by 53.4% from RMB51.4 million in 2020 to RMB78.8 million in 2021. Our gross profit margin remained relatively stable at 40.3% in 2020 and 41.6% in 2021.

Other Income and Gains

Our other income and gains decreased significantly by 24.8% from RMB5.4 million in 2020 to RMB4.1 million in 2021, primarily due to the decrease in interest income generated from our investment in wealth management products as a result of the redemption of such products in 2021.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 26.8% from RMB1.7 million in 2020 to RMB2.1 million in 2021 mainly due to the increase in traveling expenses for business expansion and the salary raise for our staff in 2021.

Administrative Expenses

Our administrative expenses increased significantly by 86.8% from RMB15.1 million in 2020 to RMB28.3 million in 2021, primarily due to (i) an increase in our R&D expenses as a result of the hiring of 12 additional R&D staff and the overall salary raise for our employees 2021; and (ii) an increase in [**REDACTED**] of RMB[**REDACTED**].

Impairment Losses on Financial and Contract Assets

Our net impairment losses on financial and contract assets increased by 138.0% from RMB4.8 million in 2020 to RMB11.5 million in 2021 primarily due to the enlarging amount and aging of trade receivables in line with our revenue growth from 2020 to 2021. For details, see "— Certain Balance Sheet Items — Trade and Notes Receivables" in this section.

Other Expenses

Our other expenses decreased significantly by 78.8% from RMB2.0 million in 2020 to RMB0.4 million in 2021, primarily attributable to a decrease in exchange difference loss in 2021 as the depreciation of USD against RMB was less significant in 2021 compared to that in 2020.

Finance Costs

Our finance costs increased from RMB0.4 million in 2020 to RMB0.5 million in 2021, primarily due to an increase in interests on bank loans as a result of four new bank loans with a total principal amount of RMB9.1 million.

Income Tax Expense

Our income tax expense in 2021 was RMB5.7 million, and the effective income tax rate was 12.4%. The effective income tax rate in 2021 is lower than 12.9% in 2020 because of the increase in the additional deductible allowance for research and development costs.

Profit for the Year

As a result of the foregoing, our profit for the year increased by 20.4% from RMB28.6 million in 2020 to RMB34.4 million in 2021. Our net profit margin, which represents profit for the year as a percentage of revenue for the same year, decreased from 22.4% in 2020 to 18.1% in 2021.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenue

Our revenue increased by 57.5% from RMB80.9 million in 2019 to RMB127.4 million in 2020. The increase of our revenue from 2019 to 2020 was primarily attributable to the increase in revenue generated from both provision of IoT solutions and sales of telecommunication equipment.

Our revenue generated from provision of IoT solutions increased by 81.0% from RMB41.7 million in 2019 to RMB75.5 million in 2020, primarily because favorable government policies regarding 5G development paved way for our procurement of more private 5G network solution projects in 2020, such as a 5G smart mining project in Guilin.

Our revenue generated from sales of telecommunication equipment increased by 34.2% from RMB31.3 million in 2019 to RMB41.9 million in 2020, primarily attributable to increased sales of 5G telecommunication equipment by RMB14.5 million.

Revenue generated from other services also increased by 26.1% from RMB7.9 million in 2019 to RMB10.0 million in 2020, primarily attributable to the growth of 4G telecommunication services.

Costs of Sales

Our cost of sales increased by 70.9% from RMB44.5 million in 2019 to RMB76.0 million in 2020 mainly due to the increase in both materials costs and OEM expenses, which were partially offset by the decrease in labor costs for the same period.

Our material costs increased by 143.9% from RMB22.6 million in 2019 to RMB55.1 million in 2020 primarily due to enlarging IoT project size and increasing sales of telecommunication. Our OEM expenses increased by 75.3% from RMB8.7 million in 2019 to RMB15.2 million in 2020 mainly because the manufacturing of 5G base stations incurred more OEM expenses in 2020. Our labor costs decreased by 58.6% from RMB12.3 million in 2019 to RMB5.1 million in 2020 mainly because more projects required labor outsourcing for onsite installations in 2019.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 41.2% from RMB36.4 million in 2019 to RMB51.4 million in 2020. Our gross profit margin decreased from 45.0% in 2019 to 40.3% in 2020. The decrease in our gross profit margin was primarily due to the enlarging proportion of revenue derived from IoT solution projects with a relatively lower gross profit margin due to increasing supply of hardware in these IoT solution projects in 2020.

Other Income and Gains

Our other income and gains increased by 53.2% from RMB3.5 million in 2019 to RMB5.4 million in 2020, primarily attributable to increasing amount of government grants from local governments' discretionary incentives in 2020, such as an entrepreneurship award to innovative companies and software value-added tax refunds, to promote high-tech companies like our Group in 2020.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 31.8% from RMB2.5 million in 2019 to RMB1.7 million in 2020, primarily attributable to the significant decrease in travel expenses as a result of COVID-19 travel restrictions in 2020.

Administrative Expenses

Our administrative expenses slightly increased from RMB14.0 million in 2019 to RMB15.1 million in 2020 primarily due to the increase in staff costs of RMB1.3 million as a result of business growth.

Impairment Losses on Financial and Contract Assets

Our impairment losses on financial and contract assets increased by 59.8% from RMB3.0 million in 2019 to RMB4.8 million 2020 due to the enlarging amount and aging of trade receivables in line with our revenue growth from 2019 to 2020.

Other Expenses

Our other expenses increased significantly by 1,929.6% from RMB0.1 million in 2019 to RMB2.0 million in 2020, primarily due to a significant exchange difference loss as a result of depreciation of USD, the denominated currency for our sales of IoT antennas, against RMB in 2020.

Finance Costs

Our finance costs decreased significantly by 78.3% from RMB1.7 million in 2019 to RMB0.4 million in 2020, primarily due to our full repayment of loans and interests to a related party by the end of 2020.

Income Tax Expense

Our income tax expense increased significantly by 230.2% from RMB1.3 million in 2019 to RMB4.2 million in 2020, and our effective income tax rate increased from 6.9% in 2019 to 12.9% in 2020. Our effective income tax rate in 2019 was exceptionally low primarily as a result of tax exemptions and deductibles derived from the de-registrations of two subsidiaries in 2019.

Profit for the Year

As a result of the foregoing, our profit for the year increased significantly by 64.6% from RMB17.4 million in 2019 to RMB28.6 million in 2020. Our net profit margin, which represents profit for the year as a percentage of revenue, slightly increased from 21.5% in 2019 to 22.4% in 2020, primarily attributable to the stabilization of costs combined with increasing revenue in 2020.

CERTAIN BALANCE SHEET ITEMS

	As of December 31,			As of May 31,
	2019	2020	2021	2022
	(RMB'000)			
NON-CURRENT ASSETS				
Property, plant and equipment	3,330	3,768	4,251	3,771
Right-of-use assets	1,972	496	3,162	2,536
Other intangible assets	73	58	167	170
Deferred tax assets	2,353	2,270	4,044	4,216
Trade and notes receivables	2,711	1,394	–	–
Contract assets	982	911	1,558	1,933
Deposits	166	–	170	170
Total non-current assets	**11,587**	**8,897**	**13,352**	**12,796**
CURRENT ASSETS				
Inventories	2,060	3,067	2,507	3,265
Trade and notes receivables	71,887	120,945	140,751	167,541
Contract assets	70	107	6,620	7,168
Prepayments, other receivables and other assets	610	1,435	102,897	8,235
Financial assets at fair value through profit or loss	26,060	1,344	–	5,038
Restricted deposits	233	233	233	–
Cash and cash equivalents	7,458	28,807	86,337	26,915
Total current assets	**108,378**	**155,938**	**339,345**	**218,162**
CURRENT LIABILITIES				
Trade payables	19,847	23,323	27,161	36,743
Other payables and accruals	13,738	11,328	161,847	20,956
Interest-bearing bank borrowings	2,352	7,231	3,000	5,000
Lease liabilities	1,581	534	1,450	1,503
Tax payable	394	2,989	4,422	1,647
Government grants	143	101	–	–
Total current liabilities	**38,055**	**45,506**	**197,880**	**65,849**
Non-Current Liabilities				
Lease liabilities	534	–	1,783	1,134
Government grants	134	34	–	–
Total non-current liabilities	**668**	**34**	**1,783**	**1,134**
Net Assets	**81,242**	**119,295**	**153,034**	**163,975**

Property, Plant and Equipment

Our property, plant and equipment mainly consist of (i) electronic devices for office use, (ii) machines, and (iii) antenna molds. Our property, plant and equipment increased from RMB3.3 million as of December 31, 2019 to RMB3.8 million as of December 31, 2020 as a result of purchases of new equipment for our office renovation, and further increased to RMB4.3 million as of December 31, 2021 in support of our increasing numbers of projects. As a result of depreciation over time, our property, plant and equipment decreased from RMB4.3 million as of December 31, 2021 to RMB3.8 million as of May 31, 2022.

Right-of-use Assets

Right-of-use assets represent our right to utilize leased items, which were mainly plant and office premises used for our operations. Right-of-use assets are recognized at the commencement date of relevant leases. During the Track Record Period, we had two leases that had terms between two and three years. Our right-of-use assets significantly decreased from RMB2.0 million as of December 31, 2019 to RMB0.5 million as of December 31, 2020 as a result of rental payments. Our right-of-use assets increased from RMB0.5 million as of December 31, 2020 to RMB3.2 million as December 31, 2021 as we renewed the two leases in 2021, which also had terms between two and three years. Our right-of-use assets decreased from RMB3.2 million as of December 31, 2021 to RMB2.5 million as of May 31, 2022 due to normal depreciation and amortization over time.

Inventories

Inventories comprise (i) raw materials, (ii) work in progress, and (iii) finished goods. The following table sets forth the breakdown of our inventories as of the dates indicated:

	As of December 31,			As of May 31,
	2019	2020	2021	2022
	(RMB'000)			
Raw materials[1]	574	649	1,418	1,701
Work in progress[2]	550	1,524	685	730
Finished goods[3]	936	894	404	834
Total	**2,060**	**3,067**	**2,507**	**3,265**

Notes:

(1) Raw materials include electronic components and printed circuit board, mainly used for antennae production.

(2) Work in progress mainly include project costs for IoT solution projects in progress and semi-finished equipment pending further processing, final assembly or onsite installation.

(3) Finished goods mainly include antenna products for export.

Our inventories increased by 48.9% from RMB2.1 million as of December 31, 2019 to RMB3.1 million as of December 31, 2020, primarily attributable to the increase in work in progress as a result of the increasing project costs mainly due to a smart city project uncompleted as of December 31, 2020, and decreased by 18.3% to RMB2.5 million as of December 31, 2021 primarily due to (i) the decrease in work in progress mainly due to completion of the aforementioned smart city project in 2021 and (ii) the decrease in finished goods as more antenna products were sold and delivered to customers, which was partially offset by the increase of raw materials for increasing production of antenna products. Our inventories increased from RMB2.5 million as of December 31, 2021 to RMB3.3 million as of May 31, 2022 mainly due to (i) the increases in raw materials and finished goods for our antenna products, and (ii) the increase in work in progress due to a 5G IoT project uncompleted as of May 31, 2022.

For the years ended December 31, 2019, 2020 and 2021, and the five months ended May 31, 2022, our inventory turnover days were 21 days, 12 days, nine and eight days, respectively. We calculate the inventory turnover days using the average of the opening and ending inventory balances for the period, divided by cost of sales for the relevant period, multiplied by the number of days in the relevant period (365 days for 2019, 366 days for 2020, 365 days for 2021 and 151 days for the five months ended May 31, 2022. The decrease in inventory turnover days during the Track Record Period was primarily because an increasing portion of our revenue were derived from provision of IoT solutions, which generally requires fewer inventory of physical equipment than sales of telecommunication equipment.

Pursuant to our accounting policy, provision for inventory should be made when the cost of inventory is more than its net realizable value. As of September 30, 2022, our Directors assessed that our net realizable value of inventories was not less than the cost; therefore, no provision for inventories had been made pursuant to our accounting policies from the Track Recored Period to September 30, 2022.

As of September 30, 2022, approximately RMB1.5 million, or approximately 44.6% of our inventories as of May 31, 2022, had been subsequently settled.

Trade and Notes Receivables

Trade receivables mainly represent balances due from our customers for goods sold and solutions/services rendered. During the Track Record Period, we generally granted credit terms ranging from 3 to 300 days to most of our customers, depending on the specific payment terms in each contract. The credit terms varied because we granted credit terms to customers on a case-by-case basis, taking into consideration of the project or transaction nature and the customer background in each case. For example, we granted relatively longer credit terms to certain state-owned entities for their IoT solution projects during the Track Record Period. Our notes receivable consist of two trade acceptance notes that our customer issued to us in the first five months of 2022 as payments, both of which will be due in one year from their respective issuance dates. Such notes receivable were generated from daily business activities. The following table sets forth our net trade receivables and notes receivable measured at amortized cost as of the dates indicated:

	As of December 31,			As of May 31,
	2019	**2020**	**2021**	**2022**
	(RMB'000)			
Trade receivables	80,953	133,519	163,118	189,580
Notes receivable measured at amortized cost	–	–	–	1,036
Impairment	(6,355)	(11,180)	(22,367)	(23,075)
	74,598	**122,339**	**140,751**	**167,541**

Our net trade receivables experienced a steady increase during the Track Record Period which was in line with the increase in our revenue as a result of our business development during the same period.

As our notes receivable were aged within one year and not due as of May 31, 2022, the loss allowance was assessed to be minimal, and no loss was recognized for our notes receivable for the five months ended May 31, 2022.

We apply the simplified approach using a provision matrix to measure expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. As of December 31, 2019, 2020, 2021 and May 31, 2022, we made provision for impairment of our trade receivables of RMB6.4 million, RMB11.2 million, RMB22.4 million and RMB23.1 million, respectively, which we believe were sufficient. For more information on the provision to measure expected credited losses, see "— Critical Accounting Policies — Impairment of Financial Assets" in this section.

The following table sets forth the aging analysis of net trade receivables, based on the invoice date and net of loss allowance, as of the dates indicated:

	As of December 31,			As of May 31,
	2019	2020	2021	2022
	(RMB'000)			
Within 1 year	52,205	84,019	68,857	98,703
1 to 2 years	22,278	29,557	47,387	49,705
2 to 3 years	115	8,763	19,859	14,238
3 to 4 years	–	–	4,648	2,563
4 to 5 years	–	–	–	1,296
Total	**74,598**	**122,339**	**140,751**	**166,505**

As of December 31, 2019, 2020, 2021 and May 31, 2022, trade receivables aged over one year were RMB22.4 million, RMB38.3 million, RMB71.9 million and RMB67.9 million, representing 30.0%, 31.3%, 51.1% and 40.7% of the total trade receivables as of the same dates, respectively. Trade receivables aged over one year were particularly large as of December 31, 2021 and May 31, 2022 mainly because in 2020, we delivered IoT solution projects and products of high contract value to state-owned entities, which tend to settle payments through time-consuming and prolonged internal administrative procedures.

For the years ended December 31, 2019, 2020, 2021 and for the five months ended May 31, 2022, our trade receivables turnover days were 266 days, 308 days, 286 days and 321 days, respectively. We calculate the trade receivables turnover days using the average of the opening and ending trade receivables for the period, divided by revenues for the relevant period, multiplied by the number of days in the relevant period (365 days for 2019, 366 days for 2020, 365 days for 2021 and 151 days for the five months ended May 31, 2022). Our trade receivables turnover days increased from 266 days in 2019 to 308 days in 2020, mainly because the significant increase in the average trade receivables from 2019 to 2020 outpaced the revenue growth for the same periods. The significant trade receivable increase at the end of 2020 was mainly due to three large projects for state-owned entities or their affiliates that completed in the fourth quarter of 2020 with an aggregate amount of trade receivables of RMB63.9 million as of December 31, 2020. Our trade receivables turnover days decreased from 308 days in 2020 to 286 days in 2021 was mainly attributable to the fact that the growth rate of our revenue surpassed that of our trade receivables, which partially benefitted from our increasing efforts to collect receivables from customers pursuant to our enhanced internal policies implemented in the second half of 2021. Our trade receivables turnover days increased from 286 days in 2021 to 321 days for the five months ended May 31, 2022 mainly because our revenue recognition tends to concentrate on the second half of the year, rendering the trade receivables turnover days in the first five months of a year longer than the annual turnover days.

In general, in order to minimize potential credit risks, we have established record system to monitor receivables and outstanding invoices. In particularly, we maintain a customer credit profile, continuously evaluate the credit of customers, maintain trade receivables management account and aging analysis tables, and will take appropriate follow-up actions such as active communications with our customers and legal actions, depending on the specific circumstances. We also usually check the balance of our trade receivables on a regular basis and will send payment reminders to our customers to collect trade receivables. Through the implementation of stringent credit control procedures, we are able to effectively monitor the balance and collection progress of our trade receivables.

Our net trade receivables amounted to RMB166.5 million as of May 31, 2022, among which RMB67.8 million, or 40.7%, aged over one year. Among all net trade receivables aged over one year as of May 31, 2022, 83.2% was due from four state-owned enterprises or affiliates. According to Frost & Sullivan, state-owned entities or their affiliates usually settle payments through time-consuming and prolonged internal administrative procedures, but their risks of failing to settle payments are low. Considering the background of such customers and our continuous efforts to collect such receivables pursuant to our internal policy, we believe that the default risk of our trade receivables are low.

Nevertheless, we consistently and actively communicated with relevant parties in order to collect such trade receivables. Pursuant to the relevant internal policy, we usually start our collecting process with negotiation for obtaining a promise to pay from relevant customers, the outstanding amount from whom are relatively small and aged less than one year. For trade receivables either (a) at the outstanding balance between RMB3.0 million and RMB10.0 million aged over two years with no payments post Track Record Period, or (b) at the overdue balance exceeding RMB10.0 million aged over one year, we authorized our attorney to send trade receivables collection letters to relevant customers. As of the Latest Practicable Date, we had no pending material litigation on the outstanding trade receivable balance or any disputes over the amount of outstanding balance.

As of September 30, 2022, approximately RMB62.2 million, or approximately 32.8% of our trade receivables as of May 31, 2022 were subsequently settled. Among the outstanding balances, most of the corresponding customers had started to repay or at least indicated willingness to settle as soon as possible. Based on ongoing communication with such customers and the historical progress in the subsequent settlement, we believe that except for the impairment of trade receivables, the outstanding balances of trade receivables should be settled eventually. As such, we do not believe there is any material recoverability issue for our trade receivables.

Contract Assets

Contract assets refer to our right to considerations in exchange for goods or services that we have transferred or rendered to our customers. Contract assets will be converted into trade receivables upon our satisfaction of all contract obligations upon the end of warranty period. The following table sets forth our contract assets (including current and non-current contract assets) as of the dates indicated:

	As of December 31,			As of May 31,
	2019	2020	2021	2022
		(RMB'000)		
Contract assets arising from:				
Provision of IoT solutions	947	911	8,362	9,050
Sales of telecommunication equipment	148	148	148	382
	1,095	**1,059**	**8,510**	**9,432**
Impairment	(43)	(41)	(332)	(331)
Total	**1,052**	**1,018**	**8,178**	**9,101**

The significant increase of our contract assets from RMB1.0 million as of December 31, 2020 to RMB8.2 million as of December 31, 2021 was primarily due to the increase in the contract value of projects in warranty which is in line with our overall business expansion. Our contract assets increased by 11.3% from RMB8.2 million as of December 31, 2021 to RMB9.1 million as of May 31, 2022 arising from three projects that had been completed in the first five months of 2022 but still in warranty as of May 31, 2022.

For the years ended December 31, 2019, 2020, 2021 and the five months ended May 31, 2022, our contract asset turnover days were five days, three days, nine days and 16 days, respectively. We calculate the contract asset turnover days using the average of the opening and ending contract assets for the period, divided by revenues for the relevant period and multiplied by the number of days in the relevant period (365 days for 2019, 366 days for 2020, 365 days for 2021 and 151 days for the five months ended May 31, 2022). Our contract asset turnover days increased from three days in 2020 to nine days in 2021 mainly due to new projects that were delivered and started warranty period in the second half of 2021, which increased our contract assets at the end of 2021. As such projects remained in warranty as of May 31, 2022 and we had new projects that were delivered and started warranty period in the first five months of 2022, our contract asset turnover days increased significantly from nine days in 2021 to 16 days for the five months ended May 31, 2022.

As of September 30, 2022, approximately RMB4.1 million, or approximately 43.1% of our contract assets as of May 31, 2022, had been converted into trade receivables, while the remaining balance was derived from projects that were still within warranty periods as of the same date.

Prepayments, Other Receivables and Other Assets

Prepayments, other receivables and other assets primarily comprise (i) prepayments, (ii) deferred [**REDACTED**], (iii) deductible input value-added tax, (iv) due from a director, (v) due from a related party, (vi) deposits and other receivables, and (vii) due from shareholders. The following table sets forth the breakdown of our prepayments, other receivables and other assets as of the dates indicated:

	As of December 31,			As of May 31,
	2019	2020	2021	2022
	(RMB'000)			
Prepayments[1]	410	482	2,743	3,175
Deferred [**REDACTED**][2]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Deductible input value-added tax	21	19	118	269
Due from a director[3]	–	96	–	–
Due from a related party[4]	–	–	955	–
Deposits and other receivables[5]	345	555	624	686
Due from shareholders[6]	–	–	96,400	–
Total	**776**	**1,435**	**103,067**	**8,405**

Notes:

(1) Prepayments were mainly made to suppliers for procurement of software platform, IT services and antenna accessories and equipment.

(2) The deferred [**REDACTED**] were incurred in connection with the [**REDACTED**] of the Company.

(3) Due from a director refers to the amount due from Dr. Chen Ping. Please see "— Related Party Transactions — Transactions with Related Parties."

(4) Due from a related party refers to the outstanding balance due from an entity controlled by a shareholder and director. Please see "— Related Party Transactions — Transactions with Related Parties."

(5) Deposits and other receivables were mainly for procurement of more projects.

(6) Due from shareholders was incurred from our [**REDACTED**] reorganization.

Prepayments, other receivables and other assets increased by 84.9% from RMB0.8 million as of December 31, 2019 to RMB1.4 million as of December 31, 2020 primarily due to the incurrence of [**REDACTED**] in 2020 and the increase in deposits and other receivables for project biddings as our efforts to procure more projects. Prepayments, other receivables and other assets increased significantly from RMB1.4 million as of December 31, 2020 to RMB103.1 million as of December 31, 2021, primarily due to the increase of amount due from shareholders of RMB96.4 million mainly caused by the receivables from shareholders who had not fully performed their capital injection obligations to our Company, as part of our Reorganization, by December 31, 2021. As such receivables due from shareholders were fully settled in January 2022, our prepayment, other receivables and other assets dropped significantly to RMB8.4 million as of May 31, 2022. See "History, Reorganization and Corporate Structure — Offshore Reorganization — Offshore Shareholding Restructuring."

Financial Assets at Fair Value through Profit or Loss

Our financial assets at fair value through profit or loss comprise short-term wealth management products issued by banks in the PRC. We recorded financial assets at fair value through profit or loss of RMB26.1 million, RMB1.3 million, nil and RMB5.0 million as of December 31, 2019, 2020 and 2021 and May 31, 2022, respectively. The decrease in our balance of financial assets at fair value from RMB26.1 million as of December 31, 2019 to RMB1.3 million as of December 31, 2020 was primarily due to the redemption of our wealth management products in 2020. In addition, we redeemed all of our wealth management products at hand by December 31, 2021, and then purchased new wealth management products in the first five months of 2022, resulting in financial assets at fair value through profit or loss of RMB5.0 million as of May 31, 2022.

We purchase financial assets as a supplemental means to improve utilization of our cash on hand on a short-term basis. The wealth management products we purchased were recorded as level 2 of fair value hierarchy. The valuation is reviewed and approved by the chief financial officer. See Note 2.4 to the Accountant's Report in Appendix I to this Document for further details of level 2 of fair value hierarchy. Such investment in wealth management products will be subject to compliance with the Chapter 14 requirements after [**REDACTED**].

We typically purchase short-term and low-risk wealth management products with no fixed maturity term and are redeemable on demand. We have established a set of investment policies and internal control measures to achieve reasonable returns on our investments of wealth management products while mitigating our exposure to investment risks. These policies and measures include the following:

- Investment in financial assets with our idle cash on hand is allowed, subject to the assessment of the business operation and cashflow by our finance department;

- Our finance department is responsible for the overall execution of our investments, including risk assessment, which is primarily based on the underlying assets, the terms and conditions of the investment and the expected rates of return and risk levels;

- Our finance department shall designate a person to keep record of all board resolutions, contracts, agreements, investment certificates and other investment-related documents;

- The authority of our finance department to make investment decisions shall not exceed the scope of authority approved by the Board;

- We have implemented a stringent procedure which requires our CFO and General Manager to review investment decisions made by our finance department and any subsequent re-purchases or sales of the approved investments to ensure that the transactions are all made in good faith and reasonable; and

- Investments exceeding the pre-approved annual budget must be approved by our Shareholders or the Board in accordance with the relevant laws and our Articles of Associations.

Our chief financial officer, Mr. Feng Yijing, has led our finance department and supervised the entire investment process since he joined our Group in July 2019. See "Directors and Senior Management" for a detailed description of Mr. Feng Yijing's qualifications and credentials.

During the Track Record Period and up to the Latest Practicable Date, we preserved all of our investment capital and did not encounter any default by the issuing financial institutions.

Trade Payables

Trade payables primarily represent amounts payable to our suppliers for the purchases of parts and equipment used in our antenna products and IoT solutions.

Our trade payables increased by 17.5% from RMB19.8 million as of December 31, 2019 to RMB23.3 million as of December 31, 2020, primarily due to the purchase of hardware equipment for an IoT solution close to the end of 2019 with an outstanding balance of RMB4.0 million yet to settle. Our trade payables increased by 16.5% from RMB23.3 million as of December 31, 2020 to RMB27.2 million as of December 31, 2021, primarily due to increasing purchases of equipment and devices for our business expansion. Our trade payables increased by 35.3% from RMB27.2 million as of December 31, 2021 to RMB36.7 million as of May 31, 2022, primarily due to the purchase of the private 5G system equipment from a supplier, the balance of which remained undue as of May 31, 2022.

We were generally granted credit terms of three to 60 days by most of our suppliers during the Track Record Period. The following table sets forth an aging analysis of our trade payables, based on invoice date, as of the dates indicated:

	As of December 31,			As of May 31,
	2019	**2020**	**2021**	**2022**
	(RMB'000)			
Within 60 days	14,879	11,190	9,854	23,561
60 days to 1 year	3,841	4,254	6,894	4,062
1 to 2 years	969	6,752	3,866	2,848
2 to 3 years	1	969	5,420	5,301
Over 3 years	157	158	1,127	971
Total	**19,847**	**23,323**	**27,161**	**36,743**

For the years ended December 31, 2019, 2020 and 2021 and the five months ended May 31, 2022, our trade payables turnover days were 111 days, 104 days, 83 days and 89 days, respectively. We calculate the trade payables turnover days using the average of the opening and ending trade payables balances for the period, divided by cost of sales for the relevant period, multiplied by the number of days in the relevant period (365 days for 2019, 366 days for 2020, 365 days for 2021 and 151 days for the five months ended May 31, 2022). Trade payables turnover days remain relatively stable between 2019 and 2020, but decreased from 104 days in 2020 to 83 days for 2021, primarily because the increase in our cost of sales outpaced the increase of our trade payables, in line with our business expansion for the same period. For the year ended December 31, 2021 and the five months ended May 31, 2022, our trade payables turnover days remained relatively stable at 83 days and 89 days, respectively.

As of September 30, 2022, approximately RMB25.2 million, or approximately 68.5% of our trade payables as of May 31, 2022, had been subsequently settled.

Other Payables and Accruals

Our other payables and accruals comprise (i) other payables, (ii) due to related parties, (iii) due to a director, (iv) other tax payables, (v) payroll and welfare payables, (vi) contract liabilities, and (vii) interest payables. The following table sets forth our other payables and accruals as of the dates indicated:

	As of December 31,			As of May 31,
	2019	2020	2021	2022
	(RMB'000)			
Other payables[1]	5,677	610	101,393	5,344
Due to related parties	319	–	5,086	–
Due to a director	–	–	44,949	–
Other tax payables	2,896	5,245	3,828	6,531
Payroll and welfare payables	4,843	5,163	6,588	6,494
Contract liabilities	–	298	–	2,582
Interest payables	3	12	3	5
Total	**13,738**	**11,328**	**161,847**	**20,956**

Note:

(1) During the Track Record Period, other payables mainly consisted of amounts due to shareholders, government subsidy refund, payables in relation to the [**REDACTED**], consulting fees and reimbursement expenses. Among the outstanding balance as of December 31, 2021, approximately RMB96.4 million were amounts due to shareholders as a result of the reorganization process in 2021 and had been fully settled in the first quarter of 2022 as we completed the Reorganization.

Our other payables and accruals decreased by 17.5% from RMB13.7 million as of December 31, 2019 to RMB11.3 million as of December 31, 2020 primarily due to the decrease in other payables from RMB5.7 million as of December 31, 2019 to RMB0.6 million as of December 31, 2020 as a result of our refund of subsidies of RMB5.0 million to a local government, which was partially offset by the increase in other tax payables, such as value added tax of RMB2.0 million. Subsidies that were refunded to a local government were received pursuant to an agreement between Nanjing Howking and the Jiangsu Provincial Department of Science and Technology (江蘇省科學技術廳) signed in 2015. Under the agreement, Nanjing Howking was entitled to a one-off subsidy of RMB5.0 million for the development of LTE broadband base station antenna and active integration base station antenna, subject to fulfilment of relevant innovation breakthrough indicators, technical quality indicators, and economic indicators. While Nanjing Howking fulfilled innovation breakthrough and technical quality indicators, it failed to accomplish the economic indicators mainly due to its switch of business focus to provision of IoT solutions. As a result, the relevant provincial government authorities issued a notice in 2020 that withdrew the subsidies to Nanjing Howking. During the Track Record Period, other than the above, no government grants received by us were subject to any condition, nor had we received any other notices from any government authorities that requested any refund of subsidies.

Our other payables and accruals increased by 1,328.7% from RMB11.3 million as of December 31, 2020 to RMB161.8 million as of December 31, 2021, primarily due to (i) an increase in other payables of RMB100.8 million mainly as a result of capital reduction for the reorganization purpose that increased payables due to shareholders; and (ii) an increase in amount due to a director of RMB44.9 million for the reorganization purpose, both of which had been fully settled in January, 2022.

Our other payables and accruals decreased significantly by 87.1% from RMB161.8 million as of December 31, 2021 to RMB21.0 million as of May 31, 2022 primarily because other payables of RMB96.4 million due to our shareholders and amount due to a director of RMB44.9 million as of December 31, 2021, both of which arose out of the reorganization process, had been fully settled in the first quarter of 2022 as we completed the Reorganization.

Lease Liabilities

Our lease liabilities decreased from RMB2.1 million as of December 31, 2019 to RMB0.5 million as of December 31, 2020 as a result of our rental payments. Our lease liabilities increased from RMB0.5 million as of December 31, 2020 to RMB3.2 million as of December 31, 2021 as we renewed two leases in 2021. Our lease liabilities decreased from RMB3.2 million as of December 31, 2021 to RMB2.6 million as of May 31, 2022 as a result of rental payments for the two leases renewed in 2021. The following table sets forth an analysis of our lease liabilities as of the dates indicated:

	As of December 31,			As of May 31,
	2019	2020	2021	2022
	(RMB'000)			
Current	1,581	534	1,450	1,503
Non-current	534	–	1,783	1,134
	2,115	**534**	**3,233**	**2,637**

LIQUIDITY AND CAPITAL RESOURCES

Our business operations and expansion plans require a significant amount of capital, including research and development expenses, project material costs, product selling and distribution expenses, loan repayment, and daily management and operation expenses.

Historically, we financed our capital expenditure and working capital requirements mainly through cash generated from operations, bank borrowings and capital contributions from Shareholders. As of December 31, 2019, 2020 and 2021 and May 31, 2022, we had cash and cash equivalents of RMB7.5 million, RMB28.8 million, RMB86.3 million and RMB26.9 million, respectively, consisting of our cash on hand, demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value and redeemable on demand, which collectively form an integral part of our cash management.

Cash Flows

The following table sets forth a summary of our cash flows during the Track Record Period:

	Year ended December 31,			Five months ended May 31,	
	2019	2020	2021	2021	2022
			(RMB'000)		
				(Unaudited)	
Operating cash flows before movements in working capital	23,160	40,995	53,294	11,167	13,045
Movements in working capital	(25,740)	(53,371)	(30,325)	(7,918)	(14,291)
Income tax paid	(1,166)	(1,562)	(6,029)	(3,536)	(3,598)
Net cash flows (used in)/from operating activities	(3,746)	(13,938)	16,940	(287)	(4,844)
Net cash flows (used in)/from investing activities	(11,474)	24,550	(1,407)	(16,196)	(4,248)
Net cash flows from/(used in) financing activities	13,037	12,105	42,463	(92)	(50,677)
Net (decrease)/increase in cash and cash equivalents	**(2,183)**	**22,717**	**57,996**	**(16,575)**	**(59,769)**
Cash and cash equivalents at the beginning of the period	9,581	7,458	28,807	28,807	86,337
Effect of foreign exchange rate changes, net	60	(1,368)	(466)	(162)	347
Cash and cash equivalents at the end of the period	**7,458**	**28,807**	**86,337**	**12,070**	**26,915**

Operating Activities

We derive our cash inflow from operating activities through (i) provision of IoT solutions, (ii) sales of telecommunication equipment and (iii) provision of other services. To a much lesser extent, we derive cash inflow from government grants, interest income and disposal of items of inventories. Cash outflow from operating activities primarily comprises payments for procuring raw materials, OEM expenses, research and development expenses, employee benefit expenses, and other operating expenses incurred during our daily operation.

Our net cash used in operating activities was RMB4.8 million for the five months ended May 31, 2022. This net cash outflow was primarily due to an increase in trade and notes receivables of RMB27.3 million, which was partially offset by (i) profit before tax of RMB11.2 million, (ii) an increase in trade payables of RMB9.6 million mainly due to the purchase of the private 5G network system equipment, and (iii) an increase in other payables and accruals of RMB5.5 million. We had taken the following measures, among others, to improve our net operating cash outflow position: (i) collecting more overdue trade receivables and (ii) expanding our business and revenue pool. Specifically, in the period between May 31, 2022 and September 30, 2022, all top five customers in terms of outstanding amounts of trade receivables made payment to partially settle outstanding trade receivables mainly as a result of our constant efforts to collect trade receivables due from such customers, and we had obtained 33 newly awarded contracts as our business expanded. We also plan to develop the industrial WLAN technology and apply it to more application scenarios to further diversify our revenue pool.

Our net cash from operating activities was RMB16.9 million for the year ended December 31, 2021. Our cash generated from operating activities was primarily from (i) profit before tax of RMB40.1 million, adjusted for impairment of trade receivables of RMB11.2 million, (ii) an increase in trade payables of RMB3.8 million, and (iii) an increase in other payables and accruals of RMB3.4 million, which was partially offset by (i) an increase in trade receivables of RMB29.8 million and (ii) an increase in contract assets of RMB7.5 million.

Our net cash used in operating activities was RMB14.0 million for the year ended December 31, 2020. This net cash outflow was primarily due to an increase in trade receivables of RMB53.1 million as a result of the commencement of 5G network project constructions, mainly for entities associated with SOEs, which was partially offset by profit before tax of RMB32.8 million.

Our cash used in operating activities was RMB3.7 million for the year ended December 31, 2019. This net cash outflow was primarily due to an increase in trade receivables of RMB43.6 million as a result of the commencement of more projects in 2019, which was partially offset by (i) profit before tax of RMB18.6 million, and (ii) an increase in trade payables of RMB12.7 million primarily attributable to (a) the outsourcing fees due to a recruiting company of RMB6.3 million and (b) project fees due to a project contractor based in Guizhou of over RMB5.0 million as a result of our rapid business expansion.

Investing Activities

Our cash used in investing activities mainly consists of purchases of financial assets at fair value through profit or loss, purchases of items of property, plant and equipment and loans to a director and related parties. Our cash generated from investing activities mainly consists of disposal of financial assets at fair value through profit or loss and repayments of loans to related parties.

Our net cash used in investing activities was RMB4.2 million for the five months ended May 31, 2022. This net cash outflow was primarily due to purchases of financial assets at fair value through profit or loss of RMB10.0 million, which consisted of two wealth management products. The net cash outflow was partially offset by disposal of financial assets at fair value through profit or loss of RMB5.0 million as a result of redemption of one of the two wealth management products in May 2022.

Our net cash used in investing activities was RMB1.4 million for the year ended December 31, 2021. This net cash outflow was primarily due to (i) loans to a director of RMB20.4 million and (ii) purchases of financial assets at fair value through profit or loss of RMB8.8 million. This net cash outflow was partially offset by (i) repayment of loans to Directors of RMB20.5 million and (ii) disposal of financial assets at fair value through profit or loss of RMB10.1 million.

Our net cash generated from investing activities was RMB24.6 million for the year ended December 31, 2020. This net cash inflow was primarily attributable to the disposal of financial assets at fair value through profit or loss of RMB153.7 million derived from the disposal of our wealth management products. This net cash inflow was partially offset by purchases of financial assets at fair value through profit or loss of RMB129.0 million for purchasing wealth products for the same year.

Our net cash used in investing activities was RMB11.5 million for the year ended December 31, 2019. This net cash outflow was primarily due to purchases of financial assets at fair value through profit or loss of RMB50.5 million for purchasing wealth management products. This net cash outflow was partially offset by (i) disposal of financial assets at fair value through profit or loss of RMB25.5 million and (ii) repayment of loans by related parties of RMB19.6 million primarily due to partial repayment of loans by Huizhou Wulian in 2019.

Financing Activities

Cash inflow from financing activities mainly comprises proceeds from issue of shares, new bank loans, and loans from a related party. We use cash in financing activities primarily for repayment of loans from a related party, interest, bank loans and lease payments.

Our net cash used in financing activities was RMB50.7 million for the five months ended May 31, 2022. This net cash outflow was primarily due to (i) capital reduction of RMB96.4 million for the Reorganization purpose; (ii) repayment of loans from a director of RMB40.9 million for the Reorganization purpose; (iii) payments for equity interest of the reorganization from a director and a shareholder of RMB9.2 million; and (iv) repayment of bank loans of RMB3.0 million. This net cash outflow was partially offset by (i) proceeds from issue of shares of RMB96.4 million upon the fulfillment of capital injection obligations by shareholders to our Company and (ii) new bank loans of RMB5.0 million.

Our net cash generated from financing activities was RMB42.5 million for the year ended December 31, 2021. This net cash inflow was mainly attributable to (i) loans from a director of RMB40.9 million for the Reorganization purpose and (ii) proceeds from issue of shares of RMB21.0 million. This net cash inflow was partially offset by (i) repayment of bank loans of RMB13.3 million and (ii) capital reduction of RMB12.0 million.

Our net cash generated from financing activities was RMB12.1 million for the year ended December 31, 2020. This net cash inflow was primarily attributable to (i) capital injection from shareholders of RMB9.5 million and (ii) new bank loans of RMB7.2 million to leverage the favorable policy regarding interest-bearing bank loan towards high-tech companies and for the purpose of increasing cash flow to improve profitability. This net cash outflow was partially offset by (i) repayments of bank loans of RMB2.4 million and (ii) lease payments of RMB1.6 million.

Our net cash generated from financing activities was RMB13.0 million for the year ended December 31, 2019. This net cash inflow was primarily attributable to (i) capital injection from shareholders of RMB43.5 million as a result of the premiums paid by institutional investors in 2019 and (ii) loans from a related party of RMB5.7 million for daily operation expenses, such as staff costs and equipment purchase costs. This net cash inflow was partially offset by repayment of loans due to related parties of RMB33.1 million in 2019.

CAPITAL EXPENDITURES

Our capital expenditures primarily consisted of expenditures on purchases of property, plant and equipment and renovation expenses, which amounted to RMB0.6 million, RMB1.4 million, RMB1.7 million and RMB92.6 thousand for the years ended December 31, 2019, 2020 and 2021 and the five months ended May 31, 2022, respectively.

The capital expenditure increased by 120.3% from RMB0.6 million in 2019 to RMB1.4 million in 2020 mainly as a result of renovation and decoration for our Nanjing office in 2020. The capital expenditure increased by 20.5% from RMB1.4 million in 2020 to RMB1.7 million in 2021 mainly due to the increasing purchases of electronic equipment for laboratory and office uses. The capital expenditure incurred for the five months ended May 31, 2022 amounted to RMB92.6 thousand, mainly for purchases of electronic equipment for office use and antenna mold.

For the year ending December 31, 2022, we expect to incur capital expenditure of RMB2.0 million primarily related to purchases of non-current assets, such as office equipment, electronic equipment for laboratory use and machines. We intend to fund our planned capital expenditures through a combination of the [**REDACTED**] from the [**REDACTED**] as well as cash generated from operating activities.

NET CURRENT ASSETS

The table below sets forth, as of the dates indicated, our current assets, current liabilities and net current assets:

	As of December 31,			As of May 31,	As of September 30,
	2019	2020	2021	2022	2022
			(RMB'000)		
					(unaudited)
CURRENT ASSETS					
Inventories	2,060	3,067	2,507	3,265	4,136
Trade and notes receivables	71,887	120,945	140,751	167,541	192,637
Contract assets	70	107	6,620	7,168	3,348
Prepayments, other receivables and other assets	610	1,435	102,897	8,235	9,850
Financial assets at fair value through profit or loss	26,060	1,344	–	5,038	–
Restricted deposits	233	233	233	–	–
Cash and cash equivalents	7,458	28,807	86,337	26,915	38,308
Total current assets	**108,378**	**155,938**	**339,345**	**218,162**	**248,279**
CURRENT LIABILITIES					
Trade payables	19,847	23,323	27,161	36,743	44,115
Other payables and accruals	13,738	11,328	161,847	20,956	22,162
Interest-bearing bank borrowings	2,352	7,231	3,000	5,000	–
Lease liabilities	1,581	534	1,450	1,503	1,559
Tax payables	394	2,989	4,422	1,647	3,827
Government grants	143	101	–	–	–
Total current liabilities	**38,055**	**45,506**	**197,880**	**65,849**	**71,663**
NET CURRENT ASSETS	**70,323**	**110,432**	**141,465**	**152,313**	**176,616**

As of December 31, 2019, 2020 and 2021, May 31, 2022 and September 30, 2022, our net current assets amounted to RMB70.3 million, RMB110.4 million, RMB141.5 million, RMB152.3 million and RMB176.6 million, respectively.

We had net current assets of RMB176.6 million as of September 30, 2022, consisting of current assets of RMB248.3 million and current liabilities of RMB71.7 million, which represented an increase of RMB24.3 million from RMB152.3 million as of May 31, 2022. This increase in net current assts was primarily attributable to (i) an increase in trade and notes receivables of RMB25.1 million primarily due to the completion and delivery of a 5G medical project with a contract value of RMB32.7 million in late September of 2022, and (ii) an increase in cash and cash equivalents of RMB11.4 million mainly attributable to our business expansion and collection of payments from customers. The increase in net current assets was partially offset by (i) an increase in trade payables of RMB7.4 million mainly for the 5G medical project completed and delivered in September 2022, and (ii) a decrease in financial assets at fair value through profit or loss of RMB5.0 million as we redeemed the relevant wealth management products in June 2022.

We had net current assets of RMB152.3 million as of May 31, 2022, consisting of current assets of RMB218.2 million and current liabilities of RMB65.8 million, which represented an increase of RMB10.8 million from RMB141.5 million as of December 31, 2021. This increase was mainly attributable to (i) a decrease in other payables and accruals of RMB140.9 million as we settled the payables arising from the Reorganization and the amount due to a director, and (ii) an increase in trade and notes receivables of RMB26.8 million. The increase in net current assets was partially offset by (i) a decrease in prepayments, other receivables and other assets of RMB94.7 million mainly because we settled receivables due from shareholders in January 2022, and (ii) a decrease in cash and cash equivalent of RMB59.4 million mainly as a result of loan repayment to a director of RMB40.9 million.

We had net current assets of RMB141.5 million as of December 31, 2021, consisting of current assets of RMB339.3 million and current liabilities of RMB197.9 million, which represented an increase of RMB31.0 million from our net current assets of RMB110.4 million as of December 31, 2020. This was primarily attributable to (i) an increase in prepayments, deposits and other receivables of RMB101.5 million mainly caused by the receivables from shareholders who had not fully performed their capital injection obligations to our Company, (ii) an increase in cash and cash equivalents of RMB57.5 million mainly as a result of a loan from a director for the reorganization purpose, and (iii) an increase in trade receivables of RMB19.8 million in line with our business expansion. This increase was partially offset by the elimination of financial assets at fair value through profit or loss as all our wealth management products had been fully redeemed as of December 31, 2021.

We had net current assets of RMB110.4 million as of December 31, 2020, consisting of current assets of RMB155.9 million and current liabilities of RMB45.5 million, which represented an increase of RMB40.1 million from our net current assets of RMB70.3 million as of December 31, 2019. This increase was primarily attributable to an increase in trade receivables of RMB49.1 million in line with our revenue growth.

As of December 31, 2019, we had net current assets of RMB70.3 million, comprising current assets of RMB108.4 million and current liabilities of RMB38.1 million.

Working Capital Sufficiency

During the Track Record Period, we met our working capital requirements mainly from cash generated from operations and bank borrowings.

Taking into account the financial resources available to us, including cash flow from operating activities, bank borrowings and the estimated [**REDACTED**] from the [**REDACTED**], our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this Document. We had no material defaults in payables and borrowings or any breaches of covenants during the Track Record Period and up to the Latest Practicable Date.

INDEBTEDNESS AND CONTINGENT LIABILITIES

Indebtedness

During the Track Record Period, our indebtedness consisted of interest-bearing bank borrowings, lease liabilities, loans from a related party and loans from a director.

The following table sets forth a breakdown of our indebtedness as of the dates indicated:

	As of December 31,			As of May 31,	As of September 30,
	2019	2020	2021	2022	2022
			(RMB'000)		
					(unaudited)
Interest-bearing bank borrowings	2,352	7,231	3,000	5,000	–
Lease liabilities	2,115	534	3,233	2,637	2,152
Loans from a related party	9	–	–	–	–
Loans from a director	–	–	40,880	–	–
Total	**4,476**	**7,765**	**47,113**	**7,637**	**2,152**

Interest-bearing Bank Borrowings

Our bank borrowings during the Track Record Period were denominated in Renminbi with one-year terms and were used to expand our business. All bank loans during the Track Record Period were guaranteed by our director(s) and/or shareholder(s) or with patents pledged as collaterals, but all directors' and shareholders' guarantees on our bank loans had been fully discharged by December 31, 2021. Our Directors confirm that there will be no new bank loans guaranteed by directors or shareholders prior to the [**REDACTED**]. As of December 31, 2019, 2020 and 2021 and May 31, 2022, the average interest rates of our guaranteed bank borrowings were 5.22%, 4.54%, 4.15% and 3.70%, respectively.

Our interest-bearing bank borrowings increased from RMB2.4 million as of December 31, 2019 to RMB7.2 million as of December 31, 2020, decreased to RMB3.0 million as of December 31, 2021, and then increased to RMB5.0 million as of May 31, 2022 primarily due to the demand for funding in support of our business expansion plan to capture the opportunities in private 5G network market. As of September 30, 2022, we had no outstanding bank borrowings.

Although our director(s) and shareholder(s) were the guarantors of certain bank loans obtained during the Track Record Period, we had terminated such practice by releasing guarantees by shareholders and directors and switched to new bank loans or credit facilities with alternative guaranty. For example, on November 27, 2021, we signed an IP pledge credit facility agreement with a bank in Nanjing, under which we were granted a credit limit of RMB10.0 million with three of our patents pledged as collaterals. As of May 31, 2022, all bank loans guaranteed by directors and shareholders had been released, and there had been no new bank loans guaranteed by a shareholder or a director up to the Latest Practicable Date. As of September 30, 2022, our total authorized credit facilities was RMB10.0 million, among which RMB10.0 million has not been utilized as of the same date. We do not anticipate any changes to the availability of bank financing to finance our operations in the future, although we cannot assure you that we will be able to access bank financing on favorable terms or at all.

Lease Liabilities

We are the lessee in respect of certain properties held under operating leases for our offices and a plant during the Track Record Period. Our lease liabilities mainly represent the present value of lease payments to be made over the lease term, and after the lease commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and subtracted the lease payments made. The following table sets forth the present value of our lease liabilities as of the dates indicated:

	As of December 31,			As of May 31,	As of September 30,
	2019	**2020**	**2021**	**2022**	**2022**
			(RMB'000)		*(unaudited)*
Current	1,581	534	1,450	1,503	1,559
Non-Current	534	–	1,783	1,134	593
Total	**2,115**	**534**	**3,233**	**2,637**	**2,152**

Our lease liabilities decreased from RMB2.1 million as of December 31, 2019 to RMB0.5 million as of December 31, 2020, primarily due to no new lease signed in 2020. Our lease liabilities increased from RMB0.5 million as of December 31, 2020 to RMB3.2 million as of December 31, 2021 as we renewed the leases for our Shenzhen office and plant for another three years in 2021. Our lease liabilities decreased by 18.4% from RMB3.2 million as of December 31, 2021 to RMB2.6 million as of May 31, 2022, and further decreased by 18.4% to RMB2.2 million as of September 30, 2022, as we fulfilled our obligation under the lease terms.

As of the Latest Practicable Date, there was no material restrictive covenant in our indebtedness which could significantly limit our ability to undertake additional debt or equity financing, nor was there any breach of covenant during the Track Record Period and up to the Latest Practicable Date. As of the Latest Practicable Date, we did not have plans for material external debt financing.

Contingent Liabilities

We did not have any material contingent liabilities as of December 31, 2019, 2020, and 2021, and May 31, 2022, respectively. Except as disclosed above, as of September 30, 2022, being the latest practicable date for determining our indebtedness, we did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, hire purchase commitments, guarantees or other material contingent liabilities. Our Directors have confirmed that there is no material change in our indebtedness since May 31, 2022 and up to the Latest Practicable Date.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We have not entered into, nor do we expect to enter into, any off-balance sheet arrangements. We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties. In addition, we have not entered into any derivative contracts that are indexed to our equity interest and classified as owners' equity, or that are not reflected in our consolidated financial statements. We do not have variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we had certain transactions with related parties, a summary of which is set forth below.

Transactions with Related Parties

We had the following transactions with related parties for the periods indicated:

	Year ended December 31,			Five months ended May 31,
	2019	**2020**	**2021**	**2022**
	(RMB'000)			
Fellow subsidiaries[1]				
Loans to	7,180	–	955	–
Interest income	771	–	–	–
Loans from	5,740	–	–	–
Interest expense	1,580	–	–	–
Directors				
Loans to	281	105	20,414	–
Loans from	–	–	40,880	–
Acquisition of equity interest in relation to the Reorganization from	–	–	4,069	–
An ultimate shareholder:				
Acquisition of equity interest in relation to the Reorganization from	–	–	5,086	–

Note:

(1) Fellow subsidiaries refer to entities controlled by our Controlling Shareholders.

Loans from and Payables to Related Parties

During the Track Record Period, we had loans from a fellow subsidiary and a director. For the years ended December 31, 2019, 2020 and 2021 and the five months ended May 31, 2022, we had loans from related parties of RMB5.7 million, nil, RMB40.9 million, and nil, respectively, primarily for daily operation expenses and our reorganization. The loan from our fellow subsidiary is unsecured, bearing an interest rate of 5% per annum, and repayable on demand. In 2019, 2020 and 2021 and the five months ended May 31, 2022, we paid interest expenses of RMB1.6 million, nil, nil and nil to the fellow subsidiary, respectively. The loans from two Directors are unsecured, interest-free and repayable on demand. In addition, we also had payables due to one director as part of the reorganization of RMB4.1 million, which had been fully settled in January 2022.

Our Directors believe that our liquidity and working capital would not be adversely affected after the discontinuance of such related party loans after the [**REDACTED**], taking into account (i) our cash and cash equivalents, (ii) our [**REDACTED**] investments and (iii) our credit facilities as of September 30, 2022.

Loans to Related Parties

During the Track Record Period, we had loans to related parties, including two entities controlled by a director and a shareholder, and one director, respectively. For the years ended December 31, 2019, 2020 and 2021 and the five months ended May 31, 2022, our loans to related parties amounted RMB7.5 million, RMB0.1 million, RMB21.4 million and nil, respectively.

The loan in 2019 was primarily for the acquisition of the equity interest in an upstream business by an entity controlled by a shareholder and director, which was fully repaid in 2019. In 2019, 2020 and 2021, we gave loans to one director, which had been fully repaid by the end of the Track Record Period. In addition, in 2021, we also granted a loan to an entity controlled by a director, which had been paid fully repaid by the end of the Track Record Period.

The loans granted to related parties were denominated in Renminbi, unsecured, bearing an interest rate of 5% per annum, and repayable on demand.

The above-mentioned loans may not be in compliance with the *General Lending Provisions (《貸款通則》)* promulgated by the PBOC in 1996, which stipulated that only financial institutions may legally engage in the business of extending loans, and loans between companies that are not financial institutions are prohibited. The PBOC may impose penalties on the lender equivalent to one to five times of the income generated, which is the charged interests, from loan advancing activities. According to the *Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》)* (the "**Provisions**") promulgated on August 6, 2015 and effective on September 1, 2015, borrowing agreements are valid if extended for purposes of financing production or business operations. Pursuant to *the*

Notice of the Supreme People's Court on Conscientiously Studying, Implementing and Applying the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (最高人民法院關於認真學習貫徹適用《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》的通知) published on August 25, 2015, the Provisions shall apply to loans entered into prior to the implementation of the Provisions that are invalid under the former judicial interpretations but valid under the Provisions. Pursuant to the Provisions, private lending contracts concluded between legal persons or other organizations are effective and valid under PRC law except where the contracts for the lending (i) are void under the *PRC Contract Law*, which has been replaced by the *Civil Code of the PRC* since January 1, 2021; or (ii) fall within the scope of void lending contracts as particularly provided in the Provisions. According to the amendment of the Provisions promulgated on December 29, 2020 and came into effect on January 1, 2021, with respect to newly accepted cases of private lending in the first instance after August 20, 2020, if the borrowing or lending occurs before August 20, 2020, the Court shall support the parties' request to calculate the interest from the establishment of the borrowing or lending to August 19, 2020, and if the borrowing or lending occurs after August 20, 2020, the upper limit of protected interest rate may be determined as four times of the prevailing loan prime rate as designated by the PBOC at the time when the plaintiff files the lawsuit.

Our Directors confirm that, as of the Latest Practicable Date, (i) the loan arrangements above were not for the purpose of engaging in financing business; (ii) we had not been subject to any penalties, investigation or notice from relevant competent authorities in relation to such arrangements; (iii) the abovementioned loans had been fully repaid; and (iv) such arrangements above were not expected to have any material impact on our operation. Based on the above, as advised by our PRC Legal Advisors, although we failed to comply with the General Lending Provisions, the possibility that the PBOC would impose a penalty ranging from one time to five times of illegal income on us in respect of the above-mentioned loans pursuant to the General Lending Provisions is low. Save as disclosed above, the interest-bearing loans to related parties were in compliance with the relevant mandatory laws and regulations in the PRC. Upon the completion of this [**REDACTED**], we will comply with the relevant Listing Rules and adopt a more prudent approach when reviewing and engaging related party transactions.

In addition, two directors and one shareholder of our Group have guaranteed our bank loans during the Track Record Period. For further details, see "— Indebtedness and Contingent Liabilities" in this section.

Balances with Related Parties

The following table sets forth a breakdown of our amounts due from/to related parties as of the dates indicated:

	As of December 31,			As of May 31,	Relationship with our Group
	2019	2020	2021	2022	
		(RMB'000)			
Due from a related party:					
Nanjing Yitaike[1]	–	–	955	–	Fellow subsidiary
Due from a director:					
Dr. Chen Ping[2]	–	96	–	–	A director
Total	**–**	**96**	**955**	**–**	
Due to a related party:					
Huizhou Wulian[1]	319	–	–	–	Fellow subsidiary
Ms. Jin Yan[3]	–	–	5,086	–	An ultimate shareholder
Due to a director:					
Ms. Wang Zheshi[2]	–	–	44,949	–	An ultimate shareholder and director
Total	**319**	**–**	**50,035**	**–**	

Notes:

(1) The balances from or to related parties are unsecured and repayable on demand, at an interest rate of 5% per annum.

(2) The balances are unsecured, interest-free and repayable on demand.

(3) The balance was caused by the payable due to Ms. Jin Yan as part of our reorganization.

All balances with related parties listed above were non-trade in nature.

By the end of the Track Record Period, we had settled all amounts due from/to related parties. We will discontinue all related party transactions after the [**REDACTED**], except as in compliance with the Listing Rules.

It is the view of our Directors that each of the related party transactions set out in Note 31 to the Accountant's Report in Appendix I to this Document (i) were conducted on normal commercial terms and/or on terms not less favorable than terms available from Independent Third Parties, which are considered fair, reasonable and in the interest of our Shareholders as a whole and (ii) do not distort our Track Record Period results or make our historical results not reflective of future performance.

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios as of the dates or for the periods indicated:

	As of/For the year ended December 31,			As of/For the five months ended May 31,
	2019	2020	2021	2022
Profitability ratios				
Gross profit margin(1)	45.0%	40.3%	41.6%	34.9%
Net profit margin(2)	21.5%	22.4%	18.1%	12.7%
Return on equity(3)	34.1%	28.5%	25.2%	N/A(4)
Return on assets(5)	18.0%	20.1%	13.3%	N/A(4)
Liquidity ratios				
Current ratio(6)	2.8	3.4	1.7	3.3
Quick ratio(7)	2.8	3.4	1.7	3.3
Capital adequacy ratio				
Gearing ratio(8)	5.5%	6.5%	4.1%	4.7%

Notes:

(1) Gross profit margin is calculated based on gross profit divided by revenue for the indicated period and multiplied by 100%.

(2) Net profit margin is calculated based on net profit divided by revenue for the indicated period and multiplied by 100%.

(3) Return on equity is calculated based on net profit for the indicated period divided by the arithmetic mean of the opening and closing balances of total equity for the same year and multiplied by 100%.

(4) Return on equity and return on assets ratios for the five months ended May 31, 2022 are not meaningful as they are not comparable to annual ratios.

(5) Return on assets is calculated based on net profit for the indicated period divided by the arithmetic mean of the opening and closing balances of total assets for the same period and multiplied by 100%.

(6) Current ratio is calculated based on total current assets divided by total current liabilities as of the date indicated.

(7) Quick ratio is calculated based on total current assets minus inventories divided by total current liabilities as of the date indicated.

(8) Gearing ratio is calculated based on total debt (including interest-bearing bank borrowings and lease liabilities) divided by total equity as of the date indicated multiplied by 100%.

See "— Period to Period Comparison of Results of Operations" for a discussion of the factors affecting our gross profit margin and net profit margin during the respective periods.

Return on Equity

Our return on equity decreased from 34.1% in 2019 to 28.5% in 2020 and further decreased to 25.2% in 2021, because the increase in our total equity, which was mainly due to increases in current and non-current assets, outpaced our growth in profit for the period. See "— Certain Balance Sheet Items" in this section for more information.

Return on Assets

Our return on assets increased from 18.0% in 2019 to 20.1% in 2020, primarily attributable to net profit growth that exceeded the increase in total assets. Our return on assets decreased from 20.1% as of December 31, 2020 to 13.3% as of December 31, 2021, primarily because the increase in total assets outpaced our net profit growth for the same periods. See "— Certain Balance Sheet Items" in this section for more information.

Current Ratio

Our current ratio increased from 2.8 as of December 31, 2019 to 3.4 as of December 31, 2020, primarily attributable to a further increase in our total current assets, which outpaced the increase of total current liabilities. The increase in our total assets was primarily caused by (i) the increase in trade receivables and (ii) increase in cash and cash equivalents from December 31, 2019 to December 31, 2020. See "— Certain Balance Sheet Items" and "— Liquidity and Capital Resources" in this section for more information.

Our current ratio decreased from 3.4 as of December 31, 2020 to 1.7 as of December 31, 2021, primarily because the increase in our total current liabilities outpaced the increase in our total current assets, which was mainly due to the increase in other payables and accruals as a result of our reorganization.

Our current ratio increased from 1.7 as of December 31, 2021 to 3.3 as of May 31, 2022 primarily because our current liabilities dropped significantly as the other payables and accruals as a result of our reorganization became fully settled in the first quarter of 2022, which outpaced the decrease in current liabilities.

Quick Ratio

Our quick ratio increased from 2.8 as of December 31, 2019 to 3.4 as of December 31, 2020, then decreased to 1.7 as of December 31, 2021, but bounced back to 3.3 as of May 31, 2022. Since inventories only made a small part of our total current assets during the Track Record Period, the reasons for the fluctuations in quick ratio follow those in current ratio.

Gearing Ratio

Our gearing ratio increased from 5.5% as of December 31, 2019 to 6.5% as of December 31, 2020, primarily because increase in our debt, which was primarily due to the increase in interest-bearing bank borrowings of over RMB4.8 million, outpaced the increase in our total equity.

Our gearing ratio decreased from 6.5% as of December 31, 2020 to 4.1% as of December 31, 2021, as our total debt decreased while our total equity increased.

Our gearing ratio increased from 4.1% as of December 31, 2021 to 4.7% as of May 31, 2022, because the increase in our debt mainly as a result of the increase in interest-bearing bank borrowings of RMB2.0 million outpaced the increase in our total equity.

FINANCIAL RISKS

We are exposed to a variety of financial risks, including foreign currency risk, credit risk and liquidity risk, as set out below. We manage and monitor these exposures to ensure appropriate measures are implemented in a timely and effective manner. As of the Latest Practicable Date, we did not hedge or consider necessary to hedge any of these risks. For further details, see Note 34 to the Accountant's Report set out in Appendix I to this Document.

Foreign Currency Risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between the RMB and other currencies in which we conduct business may affect our financial condition and results of operation. We seek to limit our exposure to foreign currency risk by minimizing our net foreign currency position.

Our transactions are denominated and settled in its functional currency, RMB. For our subsidiaries whose functional currency is RMB, if USD had strengthened or weakened by 5% against RMB with all other variables held constant, profit before tax for the years ended December 31, 2019, 2020 and 2021 and the five months ended May 31, 2022 would have increased or decreased by RMB0.4 million, RMB1.5 million, RMB1.8 million and RMB0.9 million, respectively, while the equity as of December 31, 2021 and May 31, 2022 would have increased or decreased by RMB2.5 million and RMB5.5 millions, respectively.

We will constantly review the economic situation and our foreign exchange risk profile, and will consider appropriate hedging measures in the future, when necessary.

Credit Risk

Credit risk mainly arises from (i) trade and notes receivables, (ii) contract assets, (iii) financial assets included in prepayment, other receivables and other assets (normal), (iv) restricted deposits (not yet past due), and (v) cash and cash equivalents (not yet past due). For the credit quality and maximum exposure to credit risk, see Note 34 to the Accountant's Report set out in Appendix I to this Document.

Liquidity Risk

In the management of liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance the operations and mitigate the effects of fluctuations in cash flows. For the maturity profile of our financial liabilities based on the contractual undiscounted payments, see Note 34 to the Accountant's Report set out in Appendix I to this Document.

DIVIDEND

As advised by our Cayman Islands Legal Advisors, under the Cayman Companies Act and the Memorandum and Articles, we may declare and pay a dividend out of either profits or share premium account, provided that under no circumstances may a dividend be declared or paid if such payment would result in our inability to pay our debts when they fall due in the ordinary course of business. The payment and amount of any future dividend will also depend on the availability of dividends received from our subsidiaries.

PRC laws require that dividends be paid only out of retained profits calculated according to PRC accounting principles. Any dividends we pay will be determined at the absolute discretion of our Board, taking into account factors including our actual and expected results of operations, cash flow and financial position, general business conditions and business strategies, expected working capital requirements and future expansion plans, legal, regulatory and other contractual restrictions, and other factors that our Board deems to be appropriate. Our Shareholders may approve, in a general meeting, any declaration of dividends, which must not exceed the amount recommended by our Board.

No dividends had been paid or declared by our Company since its incorporation, or any subsidiaries of our Group during the Track Record Period. Currently, we do not have a formal dividend policy or a fixed dividend distribution ratio.

DISTRIBUTABLE RESERVES

As of May 31, 2022, our Company did not have any distributable reserve available for distribution to Shareholders.

[**REDACTED**]

Our [**REDACTED**] mainly include [**REDACTED**], professional fees paid to legal advisor and the Reporting Accountants for their services rendered in relation to the [**REDACTED**] and the [**REDACTED**]. The estimated total [**REDACTED**] (based on the mid-point of our indicative price range for the [**REDACTED**] and assuming that the [**REDACTED**] is not exercised, excluding any discretionary incentive fee which may be payable by us) for the [**REDACTED**] are approximately RMB[**REDACTED**], which include (i) [**REDACTED**]-related expenses (including but not limited to [**REDACTED**] and fees) of approximately RMB[**REDACTED**], (ii) professional fees and expenses of legal advisors and reporting accountants of approximately RMB[**REDACTED**] and (iii) other fees and expenses, including fees to the Sole Sponsor, financial printer and other professional parties, of approximately RMB[**REDACTED**]. The estimated total [**REDACTED**] are estimated to represent [**REDACTED**]% of the gross [**REDACTED**] from the [**REDACTED**]. During the Track Record Period, we incurred [**REDACTED**] of RMB[**REDACTED**], of which RMB[**REDACTED**] was charged to the consolidated statements of profit or loss as administrative expenses and RMB[**REDACTED**] (deferred [**REDACTED**] in the consolidated statements of financial position as of May 31, 2022) will be deducted from equity upon the [**REDACTED**]. We expect to incur additional [**REDACTED**] of approximately RMB[**REDACTED**], of which approximately RMB[**REDACTED**] is expected to be recognized as administrative expenses and approximately RMB[**REDACTED**] is expected to be recognized as a deduction in equity directly upon the [**REDACTED**]. Our Directors do not expect that such expenses will have a material adverse effect on our results of operations for the year ending December 31, 2022.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 *"Preparation of Pro Forma Financial Information for inclusion in Investment Circulars"* issued by the HKICPA is to illustrate the effect of the [**REDACTED**] on the net tangible assets of our Group attributable to equity shareholders of our Company as of May 31, 2022 as if the [**REDACTED**] had taken place on that date.

The unaudited pro forma statement of adjusted consolidated net tangible assets of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not provide a true picture of the net tangible assets attributable to equity shareholders of our Company had the [**REDACTED**] been completed as of May 31, 2022 or at any future date.

	Consolidated net tangible assets attributable to owners of the parent as of May 31, 2022	Estimated [REDACTED] from the [REDACTED]	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent as of May 31, 2022	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent per Share as of May 31, 2022	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent per Share as of May 31, 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*(HK$ equivalent)*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
Based on an [**REDACTED**] of HK$[**REDACTED**] per Share	[163,805]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Based on an [**REDACTED**] of HK$[**REDACTED**] per Share	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]

Notes:

1. The consolidated net tangible assets attributable to owners of the parent as of May 31, 2022 is arrived at after deducting other intangible assets of RMB[**REDACTED**], from consolidated equity attributable to owners of the parent of RMB[**REDACTED**] as of May 31, 2022, as shown in the Accountants' Report, the text of which is set out in Appendix I to this Document.

2. The estimated [**REDACTED**] from the [**REDACTED**] are based on estimated [**REDACTED**] of HK$[**REDACTED**] or HK$[**REDACTED**] per Share, being the low-end price and high-end price, after deduction of the [**REDACTED**] fees and other related expenses payable by our Company (excluding [**REDACTED**] of HK$[**REDACTED**] which have been charged to profit or loss during the Track Record Period) and do not take into account any Shares which may be issued upon exercise of the [**REDACTED**].

3. The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that [**REDACTED**] Shares are in issue assuming that the [**REDACTED**] and the [**REDACTED**] have been completed on May 31, 2022.

4. The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent per Share are converted into Hong Kong dollars at an exchange rate of RMB[0.8487] to HK$[1.00].

5. No adjustment has been made to reflect any trading results or open transactions of our Group entered into subsequent to May 31, 2022.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that other than as disclosed under the "Recent Developments and No Material Adverse Change" in the "Summary" section in this Document, (i) there had been no material adverse change in our business, the industry in which we operate, or market or regulatory environment to which we are subject, (ii) there had been no material adverse change in our financial or trading position or prospects since May 31, 2022, being the end date of our latest audited financial statements, and up to the Latest Practicable Date and (iii) there has been no event since May 31, 2022 and up to the date of this Document that would materially affect the information shown in the "Accountants' Report" set out in Appendix I to this Document.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm that, as of the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules upon the [**REDACTED**] of the Shares on the [**REDACTED**].