
BUSINESS

OVERVIEW

Who We Are

We are a leading provider of analog IC patterned wafers in China. Unlike traditional IC design companies, our deliverable products are analog IC patterned wafers with completed built-on circuits, which can then be fabricated into individual IC chips after simple and straightforward packaging and testing steps performed by our downstream customers. As one of the few IC design companies in the world that focus on patterned wafer designs, we are dedicated to meeting the rapidly growing market demand for patterned wafers against the backdrop of the increasingly granular division of labor in the IC industry and have become a leader in the Chinese patterned wafer market. We are the largest provider of analog IC patterned wafers in China in terms of revenue in 2022, according to Frost & Sullivan. Our patterned wafers enable flexible, expeditious and cost-effective development and manufacturing of high-performance industrial grade IC chips for a range of downstream customers, including chip design companies, commercial distributors, brand-name manufacturers and ODMs.

We offer approximately 300 diversified industrial grade analog IC patterned wafer products across seven categories, namely switching regulators, multi-channel ICs and PMICs, linear regulators, battery management ICs, monitoring and modulating ICs, driver ICs, and linear products, in the power management segment and the signal chain segment as of the Latest Practicable Date. In 2020, 2021 and 2022, we successfully launched eight, 45 and 157 analog IC patterned wafer products, respectively, representing a CAGR of 343.0%, which demonstrated the fastest expansion of analog IC product offerings in China, according to Frost & Sullivan. These new products had driven most of our revenue increase during the Track Record Period. Our products have empowered numerous downstream customers, including well-known brand-name manufacturers and industry-leading chip design companies, in various application fields, such as automotive electronics, healthcare, industrial automation, industrial Internet of Things, industrial lighting, instrumentation, communications, electric power, energy storage and high-end consumer electronics. During the Track Record Period, our sales generated from downstream customers who have cooperated with us for at least three years accounted for over 50% of our total sales.

We have built China’s first and only full-stack analog IC design platform, which provides a one-stop solution of analog IC design, enabling our effective product development and standardized high-performance patterned wafer delivery. Our platform has achieved technical breakthroughs in both EDA software and IP module design, empowering efficient standardized design of analog IC products.

- ***Analog IC Design is Our Platform’s Core Capability.*** We are the only analog IC design company in China equipped with proprietary EDA software, according to Frost & Sullivan. Our platform covers all major functions relating to schematic editing, layout editing and simulation, the three most critical processes in analog IC design.
- ***Rich and Reusable IP Library Ensures Platform Scalability.*** We prioritize batch design of similar products, and we often design IP modules to have regular shapes such as compact rectangles, enhancing standardization and reusability. We conduct research on manufacture processing technologies and develop our IP modules

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adaptable to industry leading processes, improving the compatibility of our design with manufacturing. As of the Latest Practicable Date, we have amassed more than 400 IP modules covering 12 core categories of analog IC design and adaptable to nine core processing technologies, representing the most comprehensive IP coverage among all analog IC design companies in China.

- Smart Design Enables Efficient Product Development.** Our platform supports standardized, visualized, and easy-to-operate analog IC design, with the automation level close to digital IC design, which significantly reduces learning barrier for R&D personnel as well as development cost and time. In 2022, for each new product, our average R&D expenditure was about 45% lower, and our average design time was about 25% shorter, than the industry average, according to Frost & Sullivan.
- Powerful Network Effect Drives Continuous Platform Upgrades.** Our platform allows us to expand our product portfolio and cultivate a large and loyal downstream customers base in a cost-effective manner. The patterned wafers delivered by us significantly enhance the operational efficiency of downstream customers. We are committed to supporting our downstream customers throughout their entire lifecycles. Heeding their feedback on the needs of latest application scenarios, we continuously enhance our platform’s capability and enrich our product offerings. This powerful network effect enables us to scale up our patterned wafer business, and more importantly it enhances the market acceptance and market share of patterned wafer as the preferred delivery option in the IC industry, and as a result increases industry-wide patterned wafer delivery volume.



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Benefiting from our powerful platform and rich product offerings, our business scale has expanded rapidly without compromising profitability and operational efficiency, making us a leading force in terms of growth and profitability in China’s analog IC industry. During the Track Record Period, our revenue increased from RMB88.7 million in 2020 to RMB212.7 million in 2021 and further to RMB352.5 million in 2022, representing a CAGR of 99.3%. Despite the high growth of revenue, we consistently maintained high gross profit margin at 54.9%, 56.4%, and 56.5% in 2020, 2021 and 2022, respectively. Contributed by the high gross profit margin and operational efficiency, our gross profit increased from RMB48.7 million in 2020 to RMB120.0 million in 2021 and further to RMB199.3 million in 2022, representing a CAGR of 102.2%, whereas our profit for the year increased from RMB14.0 million in 2020 to RMB57.0 million in 2021 and further to RMB95.3 million in 2022, representing a CAGR of 160.9%.

Market Opportunities

China’s analog IC market is expanding rapidly due to surging domestic demand for analog IC products, and has become the largest analog IC market in the world in terms of downstream customer purchases in 2022. According to Frost & Sullivan, China’s analog IC market reached RMB348.6 billion in 2022 in terms of revenue and is expected to increase to RMB516.5 billion in 2027, representing a CAGR of 8.2%. With the increasingly granular division of labor in the semiconductor industry value chain, the market of patterned wafers in the analog IC market has been increasing faster than the analog IC market. The analog IC patterned wafer market in China was approximately RMB21.3 billion in 2022 in terms of revenue, and is expected to increase to RMB52.2 billion in 2027, representing a CAGR of 19.7%.

Currently, the Chinese analog IC market is extremely fragmented. As the vast majority of analog IC design companies in China focus on finished IC chip products, there is a shortage of providers that are capable of volume supplying analog IC patterned wafers cost-effectively. With the top five providers in aggregate accounting for just 5.0% market share in 2022, the analog IC patterned wafer market is even more fragmented. In this market landscape, the delivery of analog IC products face the following challenges.

- **Application Scenario.** Compared to digital ICs that process binary digital signals, analog ICs process continuous physical analog signals observed in the nature, bringing about widely diverse application scenarios for industrial grade products. According to Frost & Sullivan, there are currently more than 63,000 types of industrial grade analog IC products in the market, and approximately 80% of the total sales in the market are attributed to a large number of individual products each of whose sales accounts for no more than 0.02% of the total market size, indicating an immense demand from long-tail application scenarios. However, there is a lack of IC design companies that are capable of providing integrated solutions for these scattered individual products in a cost-effective manner.

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- **R&D Investment.** Analog IC design involves a great variety of integrated circuit elements, the interactions of which are complex. Without sufficient high-performance EDA software and reusable IP libraries, analog IC design often relies heavily on the experience and know-how of scarce talented design engineers, and requires costly R&D expenditure. According to Frost & Sullivan, the average R&D expenditure required to develop a new type of industrial grade analog IC in China was approximately RMB5.5 million in 2022.
- **Development Cycle.** Analog IC product development requires intensive communication and cooperation with foundries from design to tape-out and to volume production, which results in a prolonged development cycle. According to Frost & Sullivan, the average development cycle for a new type of industrial grade analog IC in China is 13-14 months in 2022.
- **Economies of Scale.** With the long-tail analog IC market, it is often difficult for IC design companies to secure foundry capacity or establish economies of scale for products with small volume requirements. On the other hand, as traditional scaling of transistors becomes increasingly difficult, advanced packaging technologies have emerged as new ways to continue improving the performance and functionality of ICs. These technologies enable the integration of multiple unpackaged dies sliced from patterned wafers with diverse functions into a single package, providing significant benefits in terms of power consumption, performance, and form factor, and have become one of the most important methods of “More-than-Moore,” where added value to devices is provided by incorporating functionalities that do not necessarily scale according to the traditional “Moore’s Law.” In such advanced packaging scenario, the traditional packaged chip delivery form of analog IC products results in wasteful repackaging cost for the downstream participants.

Our business model, based on our full-stack design platform with patterned wafers as major deliverable products, enables us to focus on the analog IC design that we excel in, which addresses the delivery challenge of analog IC products in the long-tail market and enhance the overall economies of scale of the analog IC industry.

Our Values

We aspire to become a globally leading provider of all major series of analog IC patterned wafer products accompanying our downstream customers’ full lifecycle success. The core values we provide to our downstream customers include:

- **Broader Industry Collaboration.** Leveraging our diversified product offerings and patterned wafers as deliverable products, we can integrate downstream customers’ needs for different products and applications, taking full advantage of foundry capacity and providing affordable patterned wafer products for the long-tail demand in various industries. Our patterned wafers are chiplet-ready, which means that they can be fabricated into small, modular chips that can be combined to form a more complex chip, giving our downstream customers more design flexibility and optimizing their products’ performance and power consumption.

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- **Lower R&D Expenditure.** Our patterned wafers can be manufactured into finished chip products after simple and straightforward packaging and testing. It allows various downstream customers, including chip design companies, commercial distributors, brand-name manufacturers and ODMs, to significantly reduce development costs of IC chips, helping them launch new chip products in a cost-effective manner. By adopting patterned wafers, our downstream customers can reallocate the funds saved from reduced R&D expenditure to other core products or marketing activities.
- **Shorter Time-to-Market.** Our downstream customers, especially chip design companies, can launch new products in several weeks at most after purchasing our analog IC patterned wafers, significantly mitigating uncertainty for product development and shortening their products’ time-to-market, which facilitates their penetration into broader end markets.
- **More Reliable Product Performance.** Our design platform ensures consistency in the design process, which allows us to more easily identify and address any issues or challenges that may arise during the design process, as well as minimize the risk of errors or inconsistencies that could impact the final product’s performance. This enables our patterned wafers to meet the requirements of a wide variety of industrial grade application scenarios.
- **More Versatile Packaging.** Our patterned wafers enable our downstream customers to avoid wasteful repeated packaging and improve product integration efficiency by enabling advanced packaging technologies such as SiP.

COMPETITIVE STRENGTHS

Leader and Pioneer in China’s Patterned Wafer Industry

We are a leader and pioneer in the patterned wafer industry in China, leading the commercialization of analog IC patterned wafers.

We are one of the few IC design companies globally that focus on patterned wafers. Unlike traditional IC design companies that mainly deliver finished IC chips, we strategically focus on delivering patterned wafer products. We always maintain neutrality in selecting customers and cooperating with foundries, which helps us fully integrate customer needs and foundry capacity, and effectively synergizes with upstream and downstream participants, keeping our growth sustainable.

We are among the earliest players in achieving large-scale patterned wafer delivery in the analog IC long-tail market, giving us an edge in scaling up our business operation. We have rapidly grown into the largest provider of analog IC patterned wafer products in China in terms of revenue derived from sales of analog IC pattern wafers in 2022, and we rank No. 4 among globally leading IC design companies in terms of total revenue derived from sale of patterned wafers in China in 2022, according to Frost & Sullivan.

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Focusing on industrial grade analog ICs, we have successfully become an industry-leading provider of industrial grade analog IC products. According to Frost & Sullivan, we rank top five among global fabless IC design companies of industrial grade analog IC in terms of revenue derived from China in 2022. We are also one of the most comprehensive industrial grade analog IC product providers in China in terms of product categories we offer as of December 31, 2022, according to Frost & Sullivan.

Differentiated Analog IC Design Platform

Integrating the entire analog IC design chain, including EDA, IP, and design, we have built China’s first and only full-stack analog IC design platform. Our analog IC design platform has the following differentiated advantages:

- ***Intelligent.*** Based on machine learning technology, our design platform supports automatic fitting and optimization of historical simulation data, which eliminates the need to build complex circuitry matrix. This significantly reduces the computational resources required to run a simulation, while greatly improving the efficiency and accuracy of the simulation results.
- ***Flexible.*** Our platform supports graphical code-light IC design, which replaces the text-based coding process with graphical Play-and-Plug visual process. This effectively simplifies and visualizes IC layout design and allows fast and flexible responses to downstream customers’ new application needs.
- ***Scalable.*** Our platform has accumulated a library of layout-level IP modules. Covering 12 major categories of analog IC design and adaptable to nine core processing technologies, our IP modules are almost 100% reusable, allowing block-building type of rapid products development. Our IP modules have strong inherent correlations and compatibility, allowing for deep coupling and calls for multiple IP modules simultaneously, which optimizes our design process by allowing for better coordination between different modules. In terms of layout area, approximately 80% of the circuit designs in our products can be completed using existing IP modules in the library.
- ***Reliable.*** Our platform supports separate stabilization and optimization for application scenario environments as well as automatic addition of auxiliary circuitry to the original layout, thus enabling our products to function normally in extreme temperature and electromagnetic environments. Almost 100% of our analog IC patterned wafers have achieved industrial grade standards.

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Ever-expanding High-Performance Industrial Grade Product Portfolio

Leveraging our full-stack design platform, we offer diversified high-performance industrial grade products. As of the Latest Practicable Date, we had nearly 300 patented layouts and offer approximately 300 industrial grade patterned wafers that cover a total of seven categories of analog IC products, namely switching regulators, multi-channel ICs and PMICs, linear regulators, battery management ICs, monitoring and modulating ICs, driver ICs, and linear products, in the power management segment and the signal chain segment. The vast majority of chips made from our analog IC patterned wafers have an operating temperature range of $-45\sim 85^{\circ}\text{C}$, and over 75% of these chips can achieve performance metrics comparable to those of leading international manufacturers. Our products in core categories, such as the DC-DC converters and battery management products, have achieved industry-leading performance in key parameters such as power consumption, noise level, and anti-interference capabilities.

To meet the needs of downstream customers in various application fields, we continuously innovate our products, expanding our product portfolio in an economical and standardized manner, with eight, 45 and 157 analog IC patterned wafer products launched in 2020, 2021 and 2022, respectively. Over 70% of the 100+ industrial grade analog IC patterned wafer products that we are developing are expected to be completed within one year. We are ready to capture every market opportunity as it emerges. For instance, we strategically target the new energy sector ahead of the industry. In 2019, we launched the world's first battery management analog IC patterned wafer specifically developed for e-bikes, and the chips produced therefrom have been adopted by and bulk shipped to multiple well-known e-bike brands. Furthermore, we have independently developed multiple analog IC patterned wafer products to meet the demands of the automotive industry. Certain of our products have successfully passed the AEC-Q100 certification and we are gradually preparing for volume production for leading domestic automotive brands.

Diversified and Loyal Downstream Customer Base

Our patterned wafers can be readily made into IC chips after simple and straightforward packaging and testing. This enables various downstream customers, including chip design companies, commercial distributors, brand-name manufacturers and ODMs, to flexibly and expeditiously develop high-performance chips in a cost-effective manner, building a thriving ecosystem. Our products have empowered numerous downstream customers, including well-known brand-name manufacturers and industry-leading chip design companies, in various application fields, such as automotive electronics, healthcare, industrial automation, industrial Internet of Things, industrial lighting, instrumentation, communications, electric power, energy storage and high-end consumer electronics. We cover the broadest range of industrial grade downstream applications among China's analog IC design companies in terms of application fields, according to Frost & Sullivan.

The supplier qualification process in the industrial sector is complex and lengthy, and requires a high level of product stability, which creates a high entry barrier to our advantage and strengthens the stickiness of our customers. During the Track Record Period, sales generated by downstream customers who have cooperated with us for at least three years accounted for over 50% of our total sales.

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Management and R&D Team with Pioneering Spirit and Extensive Experience

Our founder, Mr. Li Zhen, is an innovative visionary who keeps faith and persists in innovation. With a distinguished academic and industry experience record, Mr. Li Zhen uses his foresight and understanding of the industry trends and customer needs to guide the Company’s technological advancement and product positioning. He studied in the Basic Science Program at Tsinghua University and earned his master’s degree in engineering from the Massachusetts Institute of Technology. He also possesses over 12 years of experience in the IC design industry. After obtaining his master’s degree in the United States, Mr. Li Zhen returned to China in 2010 to start his own business, exploring and leading the continuous innovation of analog IC design and patterned wafer delivery business model. Led by Mr. Li Zhen, our management team on average possesses over eight years of experience in enterprise management, product development and marketing.

Based on the full-stack design platform, we have established a comprehensive R&D system and training mechanism to cultivate R&D team from scratch, which has broken through the bottleneck of experienced talents in the field of analog IC design and ensured sustainable supply of talent. Our R&D team is young, dedicated, and creative. As of December 31, 2022, our R&D team comprises 65 members, who on average are only 28 years old. Our R&D personnel efficiency is industry-leading, with annual revenue driven by each member reaching RMB5.5 million in 2022, which is about 20% higher than the industry average in the same year.

OUR STRATEGIES

Extend Our Technology Leadership

To extend our technology leadership in the analog IC design industry, we will continue to upgrade our design capabilities and invest in R&D infrastructure.

By introducing talents and reinforcing research on our critical technologies in EDA software and IP modules, we will further upgrade our full-stack design platform by improving its intelligence, flexibility, scalability, and reliability, which will all contribute to our enhanced design capabilities.

We will increase our investment in R&D infrastructure, including purchasing wafer manufacturing-related equipment, such as lithography machine and equipment for etching, vacuum sputtering, vapor deposition, glue development, glue removal and cleaning. We also plan to upgrade our R&D center for in-depth research and analysis of processing technology. These upgrades will improve our R&D efficiency and accuracy and enhance our research on the manufacturing process of patterned wafers, which will help improve the compatibility of our design with the manufacturing process and the quality and performance of our products.

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Grow and Enrich Our Product Offerings

We will continue to grow and enrich our product offerings, as well as to improve product performance. Taking into account our downstream customers’ product iteration cycles and application needs, we plan to expand our product offerings to cover more application fields and improve the performance of our existing products. We aspire to become a global leader in all major categories of analog IC solutions.

We are exploring the possibility to open limited APIs or source code of our EDA software to certain business partners, external IC designers or developers and grant non-exclusive licenses for them to use our IP library. It may create synergies among participants in the ecosystem of our full-stack design platform and generate additional revenue streams for us in the future.

Broaden Our Customer Base and Deepen the Relationships with Customers

We plan to acquire new customers to grow our customer base. We will focus on catering to evolving market trends, strengthening our advantages in design capabilities and product quality. Meanwhile, leveraging end-to-end data from our marketing and sales channels and feedback from existing partners, we will improve our capabilities to provide high-performance products in key application fields such as new energy, which will help us attract premium customers.

We will further deepen and broaden our business cooperation with existing customers. Focusing on our customers’ needs is critical for maintaining long-term relationships with them. We are dedicated to aligning the development of our products with their strategic goals and creating values for them.

Pursue Strategic Investments and Acquisitions

We may pursue strategic investments and acquisitions of teams, assets, and companies that will enhance our technology capabilities.

We primarily focus on targets with differentiated proprietary insights in processing technologies, IP, and IC design. Through strategic investments and acquisitions, we aim to expand our technology portfolio, improve our product quality, and increase our addressable market to accelerate our revenue growth.

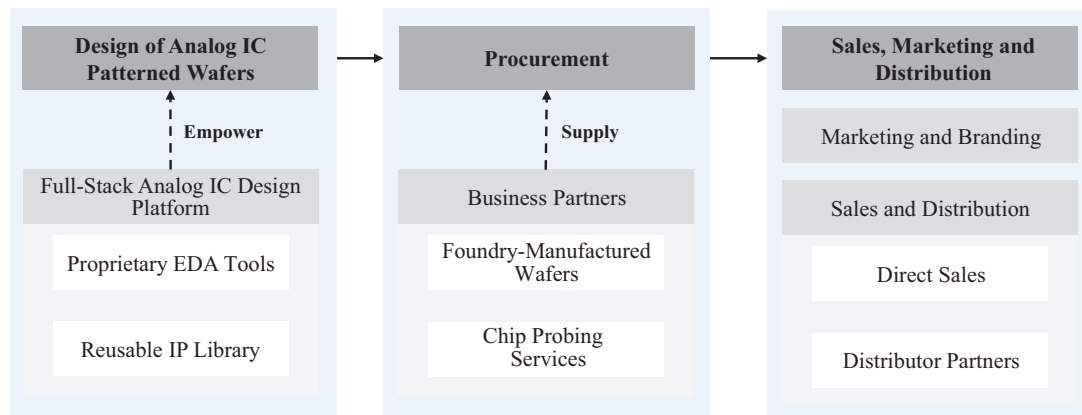
OUR BUSINESS MODEL

We are a leading provider of analog IC patterned wafers in China. Leveraging our full-stack analog IC design platform, we primarily focus on the design and provision of industrial grade analog IC patterned wafers that have achieved reliability and stability in accordance with internationally leading standards. Empowered by proprietary EDA software tools and reusable IP library, we have effectively improved the product design efficiency, and are able to supply downstream customers with quality products.

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We operate on a “fabless” model, a typical operation model adopted by many IC design companies focusing on the design process and outsource the IC manufacturing to foundries. We have established strong and long-term cooperation with a commercial patterned wafer channel partner for procurement of foundry-manufactured wafers with completed built-on circuits designed by us, which provides us with an effective way to secure foundries’ manufacturing capacity with relatively competitive prices by leveraging its foundry supplier base. We also partner with a major chip probing service provider for inspection and testing on the delivered foundry-manufactured wafers. To meet the needs of the downstream customers, capture better market opportunities in the long-tail analog IC sector and increase our market share, in addition to direct sales, we primarily partner with well-known distributors for branding, marketing and subsequent sales of our analog IC patterned wafers.

The following flowchart illustrates our business model:



OUR PRODUCT OFFERINGS

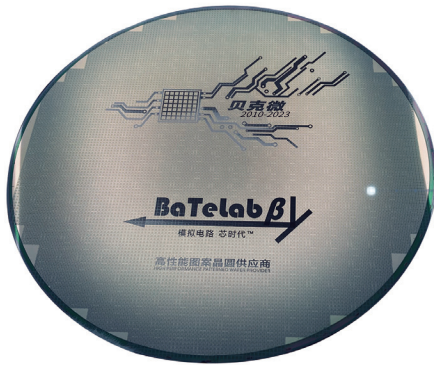
Overview

The integrated circuit, or IC, is a miniature electronic device or component that combines multiple transistors to form a complete electronic circuit. Serving as the fundamental building blocks and central components of the global information technology industry, IC products can be further divided into analog ICs and digital ICs by function. Analog ICs, as opposed to digital ICs, modulate real-world signals, such as sound, temperature, pressure or images, by conditioning them, amplifying them and often converting them into a stream of digital data that can be processed by other semiconductor devices. Analog ICs are also used to manage power usage in electronic equipment by converting, distributing, storing, discharging, isolating and measuring electrical energy.

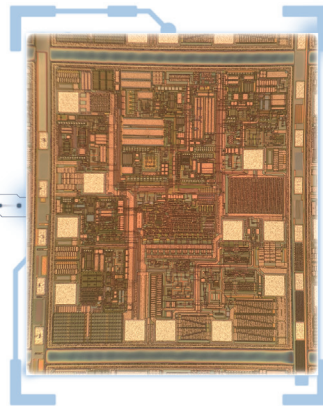
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We offer a portfolio of high-performance analog IC patterned wafers with refined built-on electronic circuits designed by us. Each piece of our patterned wafers contains a number of dies, which can be easily turned into chip products after subsequent packaging and testing by downstream customers. Our patterned wafers are adapted to commonly used IC package types, including SOT, SOP and DFN, and advanced IC packaging technologies, including SiP. Our broad and diverse product portfolio can accomplish many different tasks, including conversion, distribution and protection of power supply voltage, management, monitoring and protection of lithium batteries, and collection, comparison and amplification of signals. Our products are applied in different industry verticals, including automotive electronics, healthcare, industrial automation, industrial Internet of Things, industrial lighting, instrumentation, communications, electric power, energy storage and high-end consumer electronics.

The following pictures illustrate our patterned wafers:



An eight-inch patterned wafer⁽¹⁾



A die on the eight-inch patterned wafer

Note:

- (1) The number of dies on our eight-inch patterned wafer varies from approximately 100 to 20,000, depending on the complexity of built-on electronic circuits which determines the area of a die and the manufacturing processes of the die's edges.

We perform design of our patterned wafer products leveraging our full-stack analog IC design platform, which equips us with strong design capabilities and a semi-automatic way of design. Our analog IC design platform enables our products to encompass multiple processing technologies, providing us with significant latitude and flexibility to design and optimize a range of basic integrated analog IC building-block components. By importing detailed technical processing parameters into our EDA software tools, we are able to design, generate and verify new IP modules or improve our existing IP modules compatible with these processing technologies. Such a module and circuit design process informed by the processing technologies that will be used to manufacture the actual circuits leads to better design and high-performance final products. As of the Latest Practicable Date, we had built up a broad product portfolio covering approximately 300 analog IC patterned wafer products that are integral and critical components to a wide variety of electronic equipment, consisting of two major categories, or seven sub-categories, of industrial grade analog ICs.

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Power Management Products

Our power management products help downstream customers manage power across different voltage and/or current levels, including AC-DC and DC-DC switching regulators, multi-channel ICs and PMICs, linear regulators, battery management ICs, monitoring and modulating ICs, and driver ICs.

- *Switching regulators.* We offer a comprehensive portfolio of high-performance DC-DC and AC-DC switching regulators with a wide range of power topology options to realize functions including boosting, bucking, buck-boosting and isolation of power supply. Our switching regulators can be used in industrial, medical, automation and automotive sectors. Typical applicable scenarios include audio equipment, in-car equipment, communications equipment, new energy, special-purpose computers and portable electronic devices.
- *Multi-channel ICs and PMICs.* Our scalable multi-channel ICs and PMICs realize functions including voltage converters and regulators, battery chargers, battery meters, LED drivers, real-time clocks, power sequencers, and power controls. Our multi-channel ICs and PMICs can be used for multiple types of motherboards, medical or handheld portable instruments.
- *Linear regulators.* Our linear regulators produce a regulated output voltage that features a stable supply voltage with low self-loss, powering sensitive analog systems and extending battery life. Our linear regulators can be used on battery chargers, switching power supply regulators, microprocessor power supply devices, and personal digital devices including Bluetooth earphones and headphones, laptops and digital cameras.
- *Battery management ICs.* Our battery management ICs provide for battery monitoring and protection to ensure safe use of battery and improve battery’s service life, making it easier for downstream customers to design efficient, long-lasting and reliable battery-powered applications. Our battery management ICs are typically used on battery-powered electric equipment such as electric vehicles and e-bikes, backup battery systems and mobile radios.
- *Monitoring and modulating ICs.* Our monitoring and modulating ICs monitor the system voltage or current signals to ensure that the system voltage and current are within the specified safety range. Typical use scenarios of our monitoring and modulating ICs include hot-swap power supply, redundant power supply, laptop power supply, load protection and anti-surge lightning strike for computers, servers, and communication equipment.

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- *Driver ICs.* Our driver ICs can maximize current limit, enable thermal protection and ultra-high efficiency while minimizing power losses, and allow the circuit to perform fast turn-on and turn-off, which helps achieve good picture quality in consumer electronics, industrial and automotive applications and makes it easier for downstream customers to design efficient, reliable and power-dense systems. Our driver ICs can be used for LCD bias, OLED monitors, and high-power high-efficiency flyback power supply equipment.

Signal Chain Products

Our signal chain products include products that sense, condition and measure real-world signals to allow information or signal to be transferred or converted for further processing and control. Our signal chain products are all linear products.

- *Linear products.* We primarily offer comparators and operational amplifiers. Our comparators are used to achieve extended battery life, fast response in critical timing measurement, greater detection capability and precision in sensitive applications, providing versatility to design. Our comparators can be used in industrial testing equipment, factory and building automation equipment, and motor drives. Our operational amplifiers realize signal amplification and transmission, and can be used on signal generators and portable measurement equipment.

Our Operational Highlights

We base our pricing strategies for patterned wafer products according to a range of factors, including R&D costs, production costs, industries in which the downstream customers engage, use scenarios and market sizes. We also take into consideration prices of domestic and international competitive products.

During the Track Record Period, our revenue was primarily generated from the sales of patterned wafer products carrying power management ICs and signal chain ICs, reaching RMB88.7 million, RMB212.7 million and RMB352.5 million in 2020, 2021 and 2022, respectively, the details of which are set forth as follows:

	Year ended December 31,						
	2020		2021		2022		CAGR
	Sales		Sales		Sales		
Amount	%	Amount	%	Amount	%		
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	%
Power management products	87,075	98.1	192,899	90.7	294,797	83.6	84.0%
Switching regulators	28,453	32.1	99,445	46.8	149,500	42.4	129.2%
Multi-channel ICs and PMICs	44,362	50.0	79,832	37.5	109,794	31.1	57.3%
Others ⁽¹⁾	14,260	16.1	13,622	6.4	35,503	10.1	57.8%
Signal chain products	1,645	1.9	19,812	9.3	57,713	16.4	492.3%
Linear products	1,645	1.9	19,812	9.3	57,713	16.4	492.3%

Note:

- (1) Others mainly include linear regulators, battery management ICs, monitoring and modulating ICs and driver ICs.

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During the Track Record Period, the number of products we sold amounted to 17.1 million, 37.4 million and 87.5 million in 2020, 2021 and 2022, respectively, the details of which are set forth as follows:

	Year ended December 31,						CAGR
	2020		2021		2022		
	Sales Volume (‘000)	%	Sales Volume (‘000)	%	Sales Volume (‘000)	%	
Power management products	16,966	99.0	34,220	91.5	72,880	83.3	107.3%
Switching regulators	10,240	59.7	26,354	70.5	53,729	61.4	129.1%
Multi-channel ICs and PMICs	1,226	7.2	1,895	5.1	3,495	4.0	68.8%
Others ⁽¹⁾	5,500	32.1	5,971	16.0	15,656	17.9	68.7%
Signal chain products	177	1.0	3,183	8.5	14,596	16.7	808.1%
Linear products	177	1.0	3,183	8.5	14,596	16.7	808.1%

Note:

- (1) Others mainly include linear regulators, battery management ICs, monitoring and modulating ICs and driver ICs.

During the Track Record Period, we generally experienced constant increases in both the sales amount and the sales volume of all of our six sub-categories of power management products, which resulted from the continuous launch of new products in each of the six sub-categories and an increasing demand from our downstream customers, and was in line with our business growth. In addition, we experienced some fluctuations in the percentage of each type of power management products during the Track Record Period, which was primarily due to a shift in our product mix. During the Track Record Period, the sales amount of our linear products boosted due to the continuous launch of new products. We experienced a constant increase in the sales volume of our signal chain products, which was in line with our business growth.

OUR ANALOG IC DESIGN PLATFORM

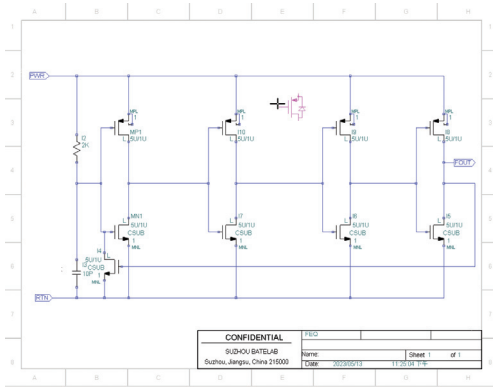
According to Frost & Sullivan, we are the first and only IC design company in China equipped with a full-stack analog IC design platform, which differentiates us from other IC design companies. Analog IC design is at the core of our platform, effectively improving our design efficiency and capability. With an extensive coverage of components, our platform comprehensively covers schematic editing, layout editing and simulation, the three most critical processes in analog IC design. Moreover, our successful breakthrough of the two underlying technical barriers, EDA software development and IP module design, has enabled us with large-scale design capability, and effectively lowered our internal barrier to IC design.

Proprietary EDA Software Tools

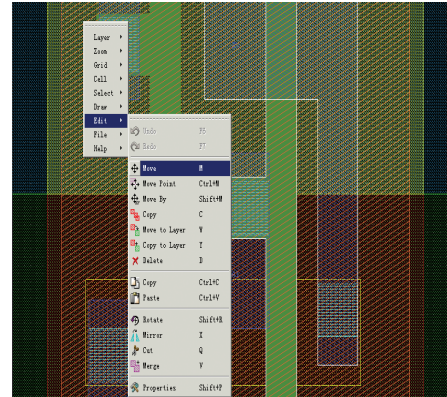
Over the course of 13 years since our inception, we have developed EDA software tools and technologies, enabling us to conduct EDA-assisted design of an array of analog IC patterned wafers and carry out day-to-day research and development. According to Frost & Sullivan, we are the only analog IC design company in China equipped with proprietary EDA software tools. Our proprietary EDA software lays a solid foundation for our analog IC design and effectively lowers our internal barrier to analog IC design, presenting a competitive advantage for us.

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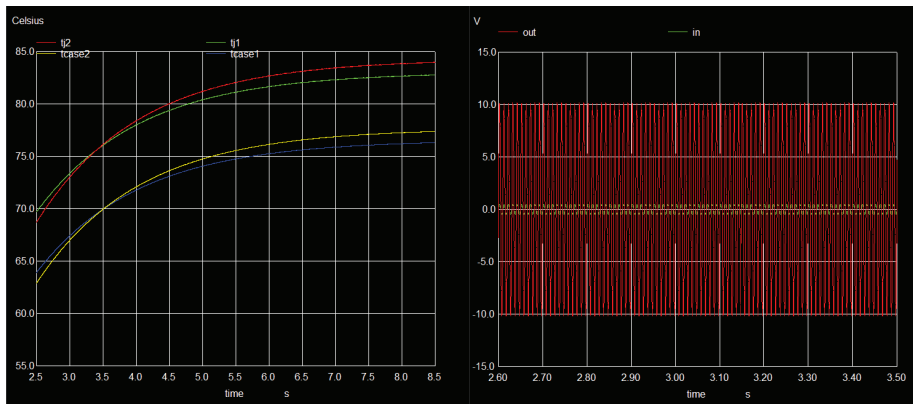
The following figures demonstrate our schematic editor, layout editor and IC simulation tool on our EDA software:



Schematic editor



Layout editor



IC simulation tool

Our EDA software tools support the following functions:

- *Graphical layout design.* We use EDA-assisted pre-compiled programs to convert coded text into graphical flow chart during layout design. Specifically, we replace plain text editing with assignment to graphical variables, which helps lower the difficulty in layout design and accelerate the entire process.
- *Assisted IC design based on machine learning.* We perform machine learning of the IC topology diagrams derived from historical IC designs. Based on the output results of machine learning, we can quickly make a simulation judgment on the modifications of IC topology or parameters, or optimize circuit designs. As a result, not only is our EDA software adaptable to our R&D personnel’s working habits, it also helps improve the efficiency of IC design.

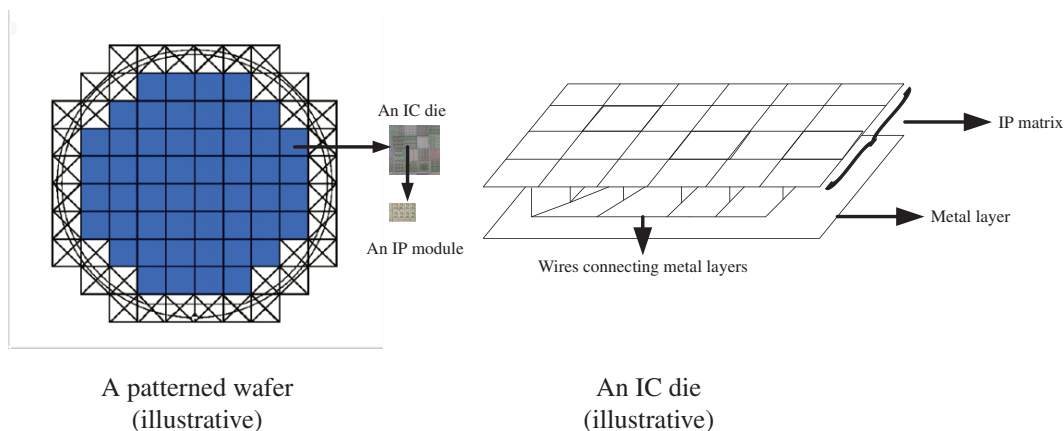
BUSINESS

- *Optimized IC simulation.* By using our EDA software, we divide the circuit layouts into multiple sub-circuit modules and fit all or part of them through the fitting function to present the circuit characteristics of these sub-circuit modules. We then simulate the fitting functions corresponding to the sub-circuit modules without constructing a circuit matrix with complicated data, and thereby improving the IC simulation efficiency.

Reusable IP Library

As of the Latest Practicable Date, we have amassed more than 400 IP modules covering 12 core categories of analog IC design and adaptable to nine core processing technologies, representing the most comprehensive IP coverage among all analog IC design companies in China. Almost all of our IP modules are reusable and can be widely and readily applied to the design of many types of complex analog IC patterned wafers. As our IP modules are basic, generic and extensive, our IC design engineers can readily reuse them for similar but different types of products, making the design process efficient and cost-effective.

Below is an illustrative figure demonstrating how the IP modules function in our IC design:



Our IP modules have strong inherent correlation and compatibility, allowing for deep coupling and calls for multiple IP modules simultaneously, which optimizes the performance of a system by allowing for better coordination between different modules. Our extensive and comprehensive IP library covers core functions of analog ICs, provides a semi-automatic way of analog IC design and helps save unnecessary time in repetitive work on new product design, making it possible for even undergraduates with relevant academic background to readily start performing analog IC patterned wafer design after a short period of on-the-job training.

BUSINESS

Advantages of Our Analog IC Design Platform

We have achieved the following advantages from our analog IC design platform, empowering and maximizing our analog IC design capabilities:

- *Full-stack analog IC design capabilities.* We have gained full-stack analog IC design capabilities with the assistance of our proprietary EDA software and reusable IP modules as foundational tools and technologies. In particular, leveraging machine learning technology, our EDA software can reduce the computational resources required to run a circuit verification simulation and provide optimization recommendations for circuit design, effectively improving our design efficiency. Moreover, our IP library consists of frequently used IP modules, which supports our effective analog IC “block-building” model. Leveraging the co-optimization of these technologies and tools, we on average save approximately 25% of design time as compared to other analog IC design companies without full-stack analog IC design capabilities, according to Frost & Sullivan. In 2020, 2021 and 2022, we successfully launched eight, 45 and 157 analog IC patterned wafer products, respectively, representing a CAGR of 343.0%, which, according to Frost & Sullivan, is the fastest expansion of analog IC product offerings in China and makes us one of the most comprehensive industrial grade analog IC product providers in China in terms of product categories we offer as of December 31, 2022. We also cover the broadest range of industrial grade downstream applications among China’s analog IC design companies in term of application fields, according to Frost & Sullivan. As of the Latest Practicable Date, we successfully taped out more than 300 types of analog IC patterned wafers.
- *Complementary IP library and analog IC design.* Our extensive and compatible IP library is adaptable to nine core processing technologies and is crucial and foundational to our design platform. During IC design, we design and optimize circuit layouts for specific functions and categorize and store them as modules, basic building blocks for more complex circuit design. Sometimes, simpler modules can be assembled to perform a specified function so as to form a new, more complex module. These modules are constantly added to our IP library. On one hand, building up of IP modules enables us to perform product design efficiently, and on the other hand, modules for new functions developed in the design process of new products can be added to our IP library, which broadens our reusable IP library and further enhances our design efficiency.
- *Performance modeling and simulation.* We feed circuit designs, which can consist of our multiple IP modules, into our EDA tools for system-level simulation and performance modeling. During the design, in order to optimize circuit performance, different IP modules can be readily retrieved from the IP library for simulation trials. The performance modeling and simulation process provides us with an opportunity to analyze the availability and compatibility of our existing IP modules with the desired analog IC products and can prompt us to broaden, improve and refine our IP library.

BUSINESS

DESIGN, RESEARCH AND DEVELOPMENT

We consider that we possess in-depth knowledge of the technical specifications and features, functionalities and applications of analog IC products, based on which we perform day-to-day design and R&D activities. Our design and R&D of analog IC patterned wafers are carried out as a group effort in close collaboration between our different teams. Our sales and marketing team is responsible for the initial conceptualization of product candidates, which is typically derived from in-house ideas as well as collaboration with our distributor partners who are deeply rooted in the industry and closer to downstream customers. Through these distributors, we are able to acquire first-hand market information and quickly respond to the demand of downstream customers. Our R&D team, comprising analog IC design group and foundational technologies R&D group, is responsible for the design and verification of analog IC patterned wafers. Apart from our R&D team members, certain members of our sales and marketing team also possess technical backgrounds which we believe directly contribute to an effective and seamless collaboration among the different teams for a successful and smooth analog IC design.

Our Design Activities

Our design activities usually start with a detailed design planning, upon confirmation of which we evaluate the functionality and feasibility of the new product design, conduct verification of our design on the finished product sample, and eventually tape out of our analog ICs.

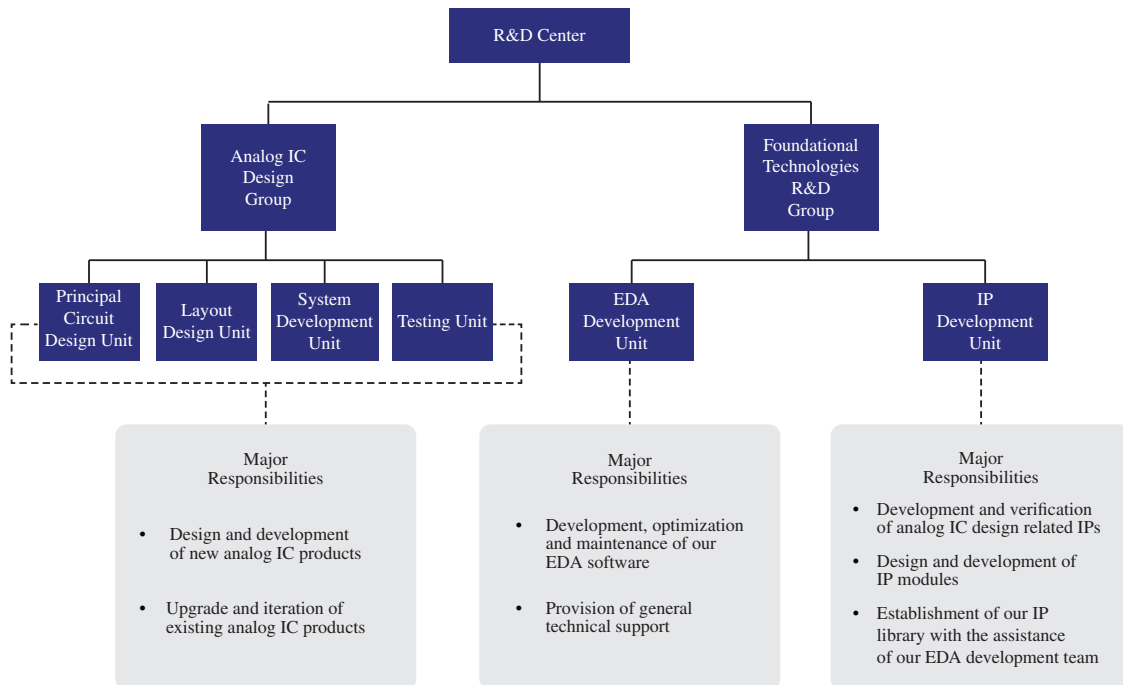
- *Design planning.* At this stage, we analyze market trends, regulatory requirements and competing products or products in related areas and formulate a preliminary product specification. We aim to address the needs of downstream customers as well as our own design initiatives, taking into consideration market opportunities and our market strategies.
- *Design development.* Upon completion of the new product design planning, we transform the product specification into engineering requirements, followed by developing and assembling hardware components in order to achieve the desired function and performance of the new product.
- *Design verification.* At this stage, we conduct several verification tests, covering functionality, stability and operability of the new product. The goal at this stage is to evaluate and confirm our initial design plan and to ensure the design satisfies the needs of downstream customers and conforms to our design initiatives.
- *Tape-out.* After the planning, development and verification stages, we conduct tape-out for our products, which is the final stage in the whole IC design process before IC products are ready for mass production. If we detect any issues in the tape-out process, we will return to previous stages and fix the issues. Such process can be repeated several rounds before a successful tape-out, upon which our products can undergo the final manufacturing process.

Our R&D Team

Traditionally, analog IC design companies mainly rely on the personal deep expertise and broad experience of their design engineers for reliable and timely product designs. Considering the relatively long training time and working experience required to produce such engineers, it is usually difficult to recruit and costly to maintain a team of such expert-level analog IC design engineers. Our full-stack analog IC platform is user-friendly and easy to learn, making it possible for even undergraduates with relevant academic background to readily start performing analog IC design after a short period of on-the-job training.

BUSINESS

We currently operate an R&D center in Suzhou, China where we carry out day-to-day operational activities. Our R&D center enables us to conduct R&D activities and onward design of analog IC patterned wafers. Our R&D center consists of two major groups, namely analog IC design group and foundational technologies R&D group. The organizational structure and major responsibilities of each group are shown in the following chart:



We maintain and manage our analog IC design group following a “matrix” model. Horizontally, we maintain four functional units, each focusing on a particular R&D field. Vertically, we select a certain number of engineers from each of the functional units to form different project teams. Considering the broad range of our analog IC patterned wafer products, we generally maintain several product lines to carry out day-to-day design and R&D of different types of products. For each product line, we typically form several project teams to take responsibility in monitoring the entire design and development progress and leading daily design work. Each project team usually consists of four to five members, including one or two principal circuit design engineers, one layout design engineer, one system development engineer and one testing engineer.

Our design and R&D capabilities enable us to possess solid foundational technologies, an integrated analog IC design platform, a science-oriented and rigorous R&D management system, and an ability to develop, upgrade and iterate existing and new products. As of December 31, 2022, we had 65 R&D members, of which 41 members possessed over five years of professional experience.

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Our core R&D personnel are in charge of our design and R&D activities and leading the design and R&D of our new and existing analog IC products. Mr. Li Zhen, our founder and chairman of the board, has been leading our overall design and development activities. We have successfully designed and developed approximately 300 diversified analog IC patterned wafers, and are further exploring the iteration of our foundational technologies. Our core R&D personnel have served in the Company for more than five years, and all of them had remained with us as of the Latest Practicable Date.

Further, we occasionally invite industry experts from external institutions to provide advisory insights for our R&D teams. We also exchange ideas and thoughts on R&D progress or latest market trends by attending industry forums. We consider our communication with industry experts and participation in industry events helpful to our R&D activities.

For more details of our dedicated R&D team, see “– Competitive Strengths – Management and R&D Team with Pioneering Spirit and Extensive Experience.”

PROCUREMENT

We operate on a “fabless” model in order to optimize our IC design capabilities. Fabless is a typical operation model adopted by many IC design companies. Unlike the IDM model where companies perform design, manufacturing, packaging and testing of IC products, companies operating on the fabless model focus on the design process, and outsource the IC manufacturing to foundries. The fabless model allows us to maximize our design resources and capabilities with limited and efficient capital commitment.

During the Track Record Period, we primarily procured (i) foundry-manufactured wafers with completed built-on circuits designed by us, and (ii) chip probing services. Our procurement team is mainly responsible for formulating procurement plans based on the requests raised by our sales and marketing team and R&D team, and liaising with our suppliers, placing procurement orders and following up on deliveries.

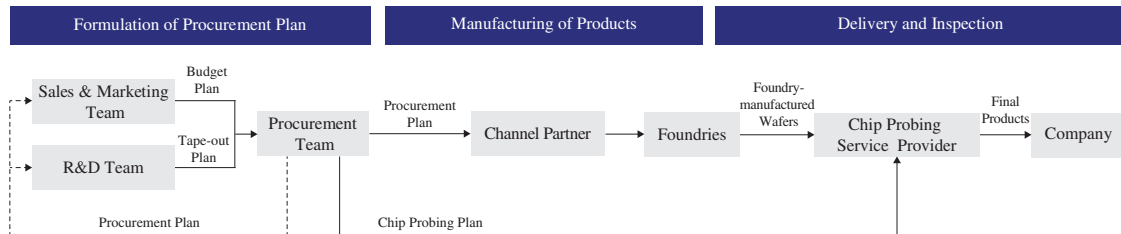
Our procurement process generally includes three phases, namely, formulation of procurement plan, manufacturing of products, and delivery and inspection.

- *Formulation of procurement plan.* In this stage, our sales and marketing team determines budget plans, and our R&D team forms tape-out plans, both of which are submitted to our procurement team for subsequent formulation of overall procurement plans. The procurement team then distributes the procurement plans to the sales and marketing team and R&D team for collaborative execution.
- *Manufacturing of products.* Following our procurement plans, we turn to our wafer channel partner for procurement of wafers which will be manufactured by third-party foundries. The wafers we procure have been built with our designed analog circuits.

BUSINESS

- *Delivery and inspection.* We usually request the manufactured patterned wafers to be delivered to our escrow warehouse located at the chip probing service provider’s plant, upon which we will arrange for subsequent inspection and chip probing on the delivered products.

The following flowchart illustrates our procurement process:



OUR SUPPLIERS

Our suppliers primarily include companies with business operations in R&D, manufacturing or sales of wafers and relevant components and devices, chip verification design, test development, application development and testing equipment development. During the Track Record Period, our purchases from our five largest suppliers accounted for 98.6%, 99.1% and 97.5% of our total purchases in 2020, 2021 and 2022, respectively, while our purchase from the largest supplier accounted for 87.9%, 89.4% and 75.7% of our total purchases, respectively, for the same years. During the Track Record Period, our suppliers generally (1) granted us a credit term of 10 to 60 days, or (2) requested us to make prepayment ranging from 50% to 90% of the purchase amount.

The following tables set out the details of our five largest suppliers in each year based on purchases from them during the Track Record Period:

For the year ended December 31, 2020

Ranking	Supplier	Nature of Purchase	Principal business	Listing status	Year of commencement of business relationship with us	Purchase amount (RMB'000)	Percentage of total purchase
1.	Supplier A	Wafers for sale	R&D, design and testing of electronic circuits and sales of electronic products	Private	2018	78,561	87.9%
2.	Supplier B	Chip probing services	Sales of semiconductor devices, IC R&D, and provision of technical services	Private	2018	7,912	8.9%
3.	Supplier C	Aluminum electrolytic capacitors	R&D, manufacture and sales of aluminum electrolytic capacitors	Private	2019	1,007	1.1%

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Ranking	Supplier	Nature of Purchase	Principal business	Listing status	Year of commencement of business relationship with us	Purchase amount (RMB'000)	Percentage of total purchase
4.	Supplier D	Wafers for R&D purpose and masks	Provision of wafer foundry services	Listed on the Korea Stock Exchange	2019	364	0.4%
5.	Supplier E	Microcontroller units	Provision of sales agency services and supply chain management of computer components	Private	2019	224	0.3%
Total						88,068	98.6%

For the year ended December 31, 2021

Ranking	Supplier	Nature of Purchase	Principal business	Listing status	Year of commencement of business relationship with us	Purchase amount (RMB'000)	Percentage of total purchase
1.	Supplier A	Wafers for sale	R&D, design and testing of electronic circuits and sales of electronic products	Private	2018	122,257	89.4%
2.	Supplier B	Chip probing services	Sales of semiconductor devices, IC R&D, and provision of technical services	Private	2018	10,701	7.8%
3.	Supplier F	Equipment	Sales of automobiles and automobile parts, and provision of related services	Private	2021	1,108	0.8%
4.	Supplier G	Wafers for R&D purpose and masks	R&D, design and manufacture of ICs	Private	2018	850	0.6%
5.	Supplier D	Wafers for R&D purpose and masks	Provision of wafer foundry services	Listed on the Korea Stock Exchange	2019	698	0.5%
Total						135,614	99.1%

BUSINESS

For the year ended December 31, 2022

Ranking	Supplier	Nature of Purchase	Principal business	Listing status	Year of commencement of business relationship with us	Purchase amount (RMB'000)	Percentage of total purchase
1.	Supplier A	Wafers for sale	R&D, design and testing of electronic circuits and sales of electronic products	Private	2018	214,836	75.7%
2.	Supplier H	Wafer manufacturing equipment for R&D purpose	Sales of IC technology services, materials and spare parts	Private	2021	40,972	14.4%
3.	Supplier B	Chip probing services	Sales of semiconductor devices, IC R&D, and provision of technical services	Private	2018	13,480	4.8%
4.	Supplier I	Wafer bonding equipment for R&D purpose	Sales of electronic products and accessories, communication equipment, hardware and machinery	Private	2022	4,032	1.4%
5.	Supplier G	Wafers for R&D purpose and masks	R&D, design and manufacture of ICs	Private	2018	3,472	1.2%
Total						<u>276,792</u>	<u>97.5%</u>

To the best of our knowledge, during the Track Record Period and up to the Latest Practicable Date, all of our five largest suppliers in each year were Independent Third Parties.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any significant fluctuation in prices set by our suppliers, material breach of contracts on the part of our suppliers, or delay in delivery of our orders from our suppliers.

BUSINESS

To the best of our Directors’ knowledge, none of our Directors or their respective close associates or any person who, to the knowledge of our Directors, owned more than 5% of our issued share capital, had any interest in any of our five largest suppliers in each year as of the Latest Practicable Date.

Relationship with Supplier A

Overview

During the Track Record Period, we primarily procured foundry-manufactured wafers from Supplier A. In 2020, 2021 and 2022, our purchases from Supplier A were RMB78.6 million, RMB122.3 million and RMB214.8 million, respectively, representing 87.9%, 89.4% and 75.7%, respectively, of our total purchases for the same years. Supplier A has maintained long-term relationships with various foundries, achieving economy of scale. Leveraging Supplier A’s foundry supplier base, we are able to secure stable foundries’ manufacturing capacity with relatively competitive prices.

According to Frost & Sullivan, due to the nature of manufacturing needs for a small number of units for multiple types of analog IC products, it is common in the analog IC industry for companies to procure foundry-manufactured wafers with built-on analog circuits designed by these companies, including us, indirectly through third-party wafer channel partners for better prices and more sufficient manufacturing capacity.

As our procurement of foundry-manufactured wafers primarily derived from Supplier A during the Track Record Period, if our relationship with Supplier A is terminated, interrupted, or modified in any way adverse to us, there may be material interruptions to our operations and business. See “Risk Factors – Risks Relating to Our Business and Industry – We procured foundry-manufactured wafers from a commercial patterned wafer channel partner during the Track Record Period. Any decrease in purchase from, or loss of, our wafer channel partner would have negative impacts on our results of operations.”

Our Directors are of the view that the relationship between Supplier A and us is unlikely to materially adversely change or terminate, because (i) our procurement agreements with Supplier A are automatically renewed at expiration, (ii) we have maintained a long-term and stable collaboration relationship with Supplier A for nearly five years, (iii) during the Track Record Period and up to the Latest Practicable Date, we did not have any disputes with Supplier A, and (iv) Supplier A believes we are a valuable business partner and have maintained a good business relationship with us. According to Frost & Sullivan, there are other patterned wafer channel partners in the market with similar operational scales and foundry supplier bases as Supplier A. In the event that Supplier A no longer works with us, we believe we are able to find alternative patterned wafer channel partners in a timely and efficient manner.

BUSINESS

Key Terms of Procurement Agreements with Supplier A

We have entered into framework procurement agreements with Supplier A, which are subject to annual renewal. The key terms and conditions of our framework procurement agreements with Supplier A are summarized as follows:

- *Procurement.* We place work orders under the framework agreement. A work order primarily includes unit price, quantity of units, purchase amount, delivery of products and settlement of payment.
- *Duration.* Each of the framework agreements is effective for one year and will be automatically renewed for another one year upon two months’ prior written notice before its expiration.
- *Confidentiality.* Each party shall keep confidential the trade secrets, technologies and proprietary rights of the other party until five years after the termination or expiration of the agreement, unless otherwise required by laws and regulations, in which case a prior notification shall be provided to the other party.
- *Termination.* The framework procurement agreement may be terminated (i) upon mutual consent of both parties; (ii) in the event of a *force majeure*; and (iii) by the non-defaulting party in the event of a material breach.
- *Dispute resolution.* In the event of any dispute related to the enforcement of any agreement during our agreement term, both parties shall negotiate amicably. If an agreement cannot be reached, the parties have the right to sue.

SALES, MARKETING AND DISTRIBUTION OF OUR PRODUCTS

We market our patterned wafer products through our sales and marketing team, who is responsible for identifying suitable potential markets and customers. Our dedicated sales and marketing team is responsible for formulating and coordinating marketing activities and promotion campaigns. Our sales and marketing members are equipped with knowledge and expertise about our patterned wafer products, and are able to identify the requests of downstream customers and provide technical support. They stay abreast of emerging products and technologies that appeal to our existing and potential customers and provide our customers with pre-sale consultations and recommendations tailored to their needs. As of December 31, 2022, our sales and marketing team consisted of nine members who worked closely with other teams as well as our distributor partners to execute our marketing strategies. For the years ended December 31, 2020, 2021 and 2022, our distribution costs were RMB0.8 million, RMB1.8 million and RMB3.6 million, respectively, accounting for 0.9%, 0.8% and 1.0%, respectively, of our revenue for the corresponding periods.

BUSINESS

Our Direct Sales

We directly acquire new direct customers primarily through (i) customer referrals, (ii) attending activities, exhibitions and conferences, and (iii) direct marketing efforts. During the Track Record Period, our sales generated from direct customers amounted to RMB4.3 million, RMB20.5 million and RMB69.8 million, respectively, accounting for 4.8%, 9.6% and 19.8%, respectively, of our revenue for the corresponding periods. The increasing revenue contribution from our direct customers during the Track Record Period demonstrated our efforts in direct sales and marketing.

Our Distribution Channels

During the Track Record Period, we primarily sold and marketed our patterned wafer products through third-party professional distributors. Our distributor partners are able to flexibly provide packaging services on our patterned wafers according to downstream customers’ demand, or directly resell our products to their customers. For the years ended December 31, 2020, 2021 and 2022, our total sales to distributors amounted to RMB84.4 million, RMB192.2 million, and RMB282.7 million, respectively, accounting for 95.2%, 90.4% and 80.2%, respectively, of our revenue for the corresponding periods. We partnered with five distributors in 2020. In 2021, we terminated our relationship with three distributors due to commercial reasons. From 2021 and onwards, the number of our distributors remained unchanged as two, namely Arrow, a global leading distributor, and Customer A, a local patterned wafer distributor. We consider our choice of distributors are aligned with our comprehensive marketing strategies. All of our distributors are our customers and we maintain a buyer/seller relationship with them. See “– Our Customers – Relationship with Our Two Largest Customers.” With experience in logistics, marketing and sales of IC products, our distributor partners help us assemble downstream sales resources, provide useful and timely market demand information and broaden our sales channels. According to Frost & Sullivan, considering the fragmented analog IC market, it is in line with industry practice for analog IC design companies like us to collaborate with third-party professional distributors for marketing and sales of products. Through our distribution channels, we are able to focus on the design aspects of analog IC patterned wafers and optimize our design capabilities.

OUR CUSTOMERS

Our customers primarily include companies principally engaged in sales of electronic components, integrated appliances and modular circuits. During the Track Record Period, revenue contributed from our five largest customers accounted for 99.9%, 99.9% and 100.0% of our total revenue in 2020, 2021 and 2022, respectively, while the largest customer contributed 54.1%, 54.7% and 44.3% of our total revenue, respectively, for the same years. During the Track Record Period, we generally granted a credit term ranging from 30 to 90 days to our customers.

BUSINESS

The following tables set out the details of our five largest customers in each year based on the revenue contributed from them during the Track Record Period:

For the year ended December 31, 2020

Ranking	Customer	Nature of revenue	Principal business	Listing status	Year of commencement of business relationship with us	Revenue (RMB'000)	Percentage of total revenue
1.	Customer A	Patterned wafers	Technology development and sales of integrated appliances and modular circuits	Private	2020	47,995	54.1%
2.	Arrow	Patterned wafers	Sales of electronic components and provision of enterprise computing solutions	Listed on the New York Stock Exchange (parent company)	2018	26,245	29.6%
3.	Customer C*	Patterned wafers	Sales of ICs and communication equipment	Private	2018	9,897	11.1%
4.	Customer D	Patterned wafers	R&D, production, processing and sales of industrial equipment and electronic products	Private	2019	4,295	4.8%
5.	Customer E	Patterned wafers	Sales of ICs and other electronic products	Private	2019	283	0.3%
Total						88,715	99.9%

* Customer C was a related party and a connected person in 2020. See note 29 to the Accountants' Report in Appendix I to this document for related parties transactions during the Track Record Period.

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For the year ended December 31, 2021

Ranking	Customer	Nature of revenue	Principal business	Listing status	Year of commencement of business relationship with us	Revenue (RMB'000)	Percentage of total revenue
1.	Customer A	Patterned wafers	Technology development and sales of integrated appliances and modular circuits	Private	2020	116,393	54.7%
2.	Arrow	Patterned wafers	Sales of electronic components and provision of enterprise computing solutions	Listed on the New York Stock Exchange (parent company)	2018	75,804	35.6%
3.	Customer D	Patterned wafers	R&D, production, processing and sales of industrial equipment and electronic products	Private	2019	15,515	7.3%
4.	Customer F	Patterned wafers	Sales of electronic components and provision of agent services	Private	2021	4,957	2.3%
5.	Customer G	Patterned wafers	R&D and sales of smart home appliances, industrial equipment and electronic components	Listed on the Shenzhen Stock Exchange (parent company)	2021	21	0.01%
Total						<u>212,690</u>	<u>99.9%</u>

BUSINESS

For the year ended December 31, 2022

Ranking	Customer	Nature of revenue	Principal business	Listing status	Year of commencement of business relationship with us	Revenue (RMB'000)	Percentage of total revenue
1.	Arrow	Patterned wafers	Sales of electronic components and provision of enterprise computing solutions	Listed on the New York Stock Exchange (parent company)	2018	156,094	44.3%
2.	Customer A	Patterned wafers	Technology development and sales of integrated appliances and modular circuits	Private	2020	126,585	35.9%
3.	Customer F	Patterned wafers	Sales of electronic components and provision of agent services	Private	2021	39,849	11.3%
4.	Customer D	Patterned wafers	Research and development, production, processing and sales of industrial equipment and electronic products	Private	2019	29,982	8.5%
5.	-	-	-	-	-	-	-
Total						<u>352,510</u>	<u>100%</u>

To the best of our knowledge, during the Track Record Period and up to the Latest Practicable Date, except for Customer C which was our connected person in 2020 only, all of our five largest customers in each year were Independent Third Parties.

During the Track Record Period, we did not have any material disputes with the aforementioned customers nor did we receive any material complaints from such customers.

To the best of our Directors' knowledge, except for Customer C which was controlled by one of our Directors in 2020, none of our Directors or their respective close associates or any person who, to the knowledge of our Directors, owned more than 5% of our issued share capital, had any interest in any of our five largest customers in each year as of the Latest Practicable Date.

BUSINESS

Relationship with Our Two Largest Customers

Overview

During the Track Record Period, our revenue was primarily derived from sales of patterned wafers to our distributor partners. See “– Sales, Marketing and Distribution of Our Products – Our Distribution Channels.” In 2020, 2021 and 2022, our aggregate revenue generated from our two largest distributor partners during the Track Record Period, Arrow and Customer A, amounted to RMB74.2 million, RMB192.2 million and RMB282.7 million, respectively, representing 83.7%, 90.4% and 80.2%, respectively, of our total revenue for each year, and 87.9%, 100.0% and 100.0%, respectively, of our total sales to distributors in the same years. Due to their significant revenue contribution, any decrease in sales from, or loss of, one or more of them would harm our business, operating results, financial condition, and cash flows. See “Risk Factors – Risks Relating to Our Business and Industry – A significant portion of our revenue was derived from our distributor partners, including Arrow and Customer A, a local patterned wafer distributor, during the Track Record Period. Any decrease in sales from, or loss of, one or more of our distributor partners would have negative impacts on our results of operations.”

The following table demonstrates the sales amount generated from Arrow and Customer A during the Track Record Period:

	Year ended December 31,					
	2020		2021		2022	
	Sales Amount	Contribution to Revenue	Sales Amount	Contribution to Revenue	Sales Amount	Contribution to Revenue
	<i>(RMB in millions)</i>	<i>(%)</i>	<i>(RMB in millions)</i>	<i>(%)</i>	<i>(RMB in millions)</i>	<i>(%)</i>
Total sales amount	74.2	83.7	192.2	90.4	282.7	80.2
– Arrow	26.2	29.6	75.8	35.6	156.1	44.3
– Customer A	48.0	54.1	116.4	54.7	126.6	35.9

Our Directors are of the view that the relationships between Arrow or Customer A and us are unlikely to materially adversely change or terminate, because (i) our framework agreements with Arrow or Customer A either remains effective until either party intends to terminate or is automatically renewed at expiration, (ii) we have maintained long-term and stable collaboration relationships with Arrow and Customer A for over five and three years, respectively, (iii) during the Track Record Period and up to the Latest Practicable Date, we did not have any disputes with Arrow or Customer A, and (iv) both Arrow and Customer A believe we are a valuable business partner and have maintained good business relationships with us. Although we have thriving business relationships with Arrow and Customer A, we have been planning to acquire new customers to grow our customer base. See “– Our Strategies – Broaden Our Customer Base and Deepen the Relationships with Customers.” According to Frost & Sullivan, there are quite a few distributors in the market with similar operational scales and downstream customer bases as Arrow or Customer A. In the event that Arrow or Customer A no longer works with us, we believe we are able to develop new distributor partners as customers or strength cooperation with existing customers in a timely and efficient manner.

BUSINESS

Key Terms of Agreements with Our Two Largest Customers

We have entered into framework distribution agreements with Arrow and Customer A. The key terms and conditions of our framework distribution agreements with Arrow and Customer A are summarized as follows:

- *Purchases.* The purchase amount is specified in purchase orders. We typically do not impose requirement of minimum purchase amount on our two largest customers.
- *Selling prices.* The prices of our products are set forth in our price list in effect as of the date of the agreements. In the event of a price increase, our two largest customers may order products and request delivery at the prior price before the new price becomes effective.
- *Obligations of each party.* We deliver the goods in the manner agreed upon in each purchase order, and furnish them with the current price and product information. We ensure that the products fully comply with all applicable laws, standards, codes, and regulations, are duly marked and labeled and are suitable for distribution. Our two largest customers use their best efforts to promote the distribution of our products and provide timely delivery of products to their customers. They are obligated to inspect the materials upon the arrival of the products at the warehouse or designated location.
- *Risk allocation.* Control of the products shall be passed to Arrow in accordance with its shipping instructions. Control of the products shall be passed to Customer A upon its issuance of a signed receipt of the products to us. The risk of damage to, or loss of, the products shall be borne by our two largest customers.
- *Duration.* Our framework agreement with Arrow remains effective until either party intends to terminate. Our framework agreement with Customer A is effective for one year and will be automatically renewed for another one year upon two months' prior written notice before its expiration.
- *Goods return.* Our two largest customers may negotiate with us on return of defective products. We shall conduct investigation and will only agree with such return if the issue of the defective product originates from us.
- *Appointment of sub-distributors.* Not specified.
- *Confidentiality.* Each party shall keep confidential the trade secrets, technologies and proprietary rights of the other party, unless otherwise required by laws and regulations.

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- *Termination.* The framework distribution agreement may be terminated (i) upon mutual consent of both parties; (ii) in the event of a *force majeure*; and (iii) by the non-defaulting party in the event of a material breach.
- *Dispute resolution.* In the event of any dispute related to the enforcement of any agreement during our service term, both parties shall negotiate amicably. If an agreement cannot be reached, the parties have the right to sue.

QUALITY MANAGEMENT

Quality control and assurance are crucial to us, and we endeavor to ensure the quality of our operations through a comprehensive quality management system, which was formulated in accordance with the ISO9001:2015 standard in China, covering substantially every aspect of our operations including analog IC product design, procurement, among other things.

We have established a comprehensive set of quality control and assurance procedures to monitor our operations to ensure compliance with relevant regulatory requirements and our internal quality requirements. For example, we select our suppliers based on a strict set of criteria to make sure our requirements are being consistently met. In addition, we conduct inspection on delivered products in accordance with our quality management standards.

INVENTORY MANAGEMENT

Our inventories primarily consist of raw materials and finished goods. See “Financial Information – Discussion of Certain Items of Statements of Financial Position – Inventories.” We have taken measures to optimize our inventory level. We standardize our inventory management through our digital warehousing system across our escrow warehouse at our chip probing service provider’s plant located in Shanghai. Each of the inventories is given a unique identification code at the time of storage and we keep track of all inventories at all stages.

We conduct regular inventory check every six months, and conduct spot checks from time to time to ensure smooth operation within the warehouses. As a product cycle usually lasts for several months, we adjust our inventory plan in time according to our sales plan and inventory storage.

INTELLECTUAL PROPERTY

We regard our patents, trademarks, trade secrets and other intellectual property rights as critical to our business operations. As of the Latest Practicable Date, we possessed 95 patents, 292 proprietary rights of IC layout design, 17 software copyrights and 72 trademarks in China. We had also filed applications for 17 patents, 20 IC layout proprietary rights and 33 trademarks in China and Hong Kong, and 16 patents under the Patent Cooperation Treaty (PCT) as of the same date. For detailed information about our material intellectual property, see “Appendix VI Statutory and General Information – B. Further Information about our Business – 2. Intellectual Property Rights of our Company.”

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In this regard, we rely primarily on a combination of patents, trademarks, trade secrets, and unfair competition laws and contractual rights, such as confidentiality agreement, to protect our intellectual property rights. We generally state all rights and obligations regarding the ownership and protection of intellectual properties in employment confidentiality agreements and some commercial agreements we enter into. In addition, we have taken the following key measures to protect our intellectual property rights: (i) implementing a set of comprehensive internal policies to establish robust management over our intellectual property rights, (ii) deploying a special team to guide, manage, supervise and monitor our daily work regarding intellectual properties, (iii) timely registration, filing and application for ownership of our intellectual properties, (iv) actively tracking the registration and authorization status of intellectual properties and take action in a timely manner if any potential conflicts with our intellectual properties are identified, and (v) engaging professional intellectual property service providers.

As of the Latest Practicable Date, we had not been subject to any material disputes or claims for infringement upon third parties’ intellectual property rights in the PRC.

DATA PRIVACY AND INFORMATION SECURITY RISK MANAGEMENT

In the course of our business, we collect, store and process business data and transaction data. As we only make transactions with enterprises, we do not collect or process personal data. We maintain a financial system, a human resource management system and a business management system. See “Risk Factors – Risks Relating to Our Business and Industry – Security breaches and other disruptions could compromise our confidential and proprietary information, which could cause our business and reputation to suffer” and “Regulatory Overview – Laws and Regulations Relating to Cybersecurity and Data Protection.”

We pay close attention to risk management relating to our IT system, as storage and protection of corporate data and related information is critical to us. To ensure data security, we have adopted a rigorous encrypted algorithm to store sensitive data and strictly execute a data accessing and transmitting policy to ensure the confidentiality of our data. We have also developed strict internal control and data accessing mechanisms and detailed approval and operation procedures regarding data storage and processing. We have established a set of internal protocols on data security, which set forth detailed, strict requirements in relation to the use, disclosure and protection of confidential information. Among other things, such internal protocols provide limited authorization to our employees holding specific positions at specific levels to access and process corporate data on a need-to-know basis, who shall use such data only for the purposes of performing their work assignment.

All of our employees are required to sign a confidentiality agreement with us, which prohibits them from disclosing any confidential information relating to their work without our consent. We have a comprehensive data backup system to encrypt and store data on servers in different locations in order to minimize the risk of data loss. We also conduct data restoration tests to examine the status of the backup system on a regular basis.

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In addition, we have established a remote disaster recovery system for our server by setting up multiple storage for the same information and data of long time dimension on the cloud, local and remote locations. Even if the server is damaged due to the highest level of disasters such as earthquakes, mudslides and other irresistible natural disasters, we believe that it can safeguard and guarantee that the service and data can be completely restored within 24 hours.

During the Track Record Period, we did not experience any breach of confidential information of users or any other user information related incidents which could cause a material adverse effect on our business, financial condition or results of operations.

COMPETITION

We face competition in respect of the quality of our products, our ability to meet downstream customers’ expectations, and our experience and reputation. The principal competitive factors in our industry generally include product stability and reliability, price competitiveness, marketing and sales capabilities, and brand influence.

We believe that there are high barriers for our competitors to enter into the analog IC patterned wafer market, which include, among other things, design efficiency, first-mover advantages, extensive product lineup, downstream customers’ recognition and collaboration with foundries or wafer channel partners. For more information on the competitive landscape of our industry, see “Industry Overview.” Our Directors believe that we will maintain our competitiveness over other competitors and our market position by strengthening and developing our competitive strengths. Our competitive strengths are highlighted in the paragraph headed “– Competitive Strengths” in this section.

EMPLOYEES

As of December 31, 2022, we had 107 full-time employees, all of whom were based in China. The following table sets forth the number of our employees by function as of December 31, 2022:

Function	Number of employees
Senior management	2
R&D	65
Sales and marketing	9
Business operations and administration	<u>31</u>
Total	<u><u>107</u></u>

BUSINESS

We recognize the importance of talents for sustainable business growth and competitive advantages. We believe that our success depends on our ability to attract, retain and motivate qualified personnel. As part of our human resources strategy, we offer employees relatively competitive salaries, performance-based bonuses, and other incentives. We typically sign non-competition agreement with our senior management or other key employees for an unlimited term. We occasionally review the performance of our employees on the basis of, among other criteria, their abilities to achieve stipulated performance targets. As a result, we have generally been able to attract and retain qualified employees and maintain a stable core management team.

We plan to adopt a diversified recruitment approach to ensure a sufficient talent pool for key positions. We primarily recruit our employees through on-campus recruitment, online channels and third-party employment websites. We provide on-board training for all of our employees as well as periodic training or seminars to ensure their self-development. In particular, we provide a special training program which lasts for two to three weeks for our R&D employees to help them get familiar with R&D activities and project management. Experienced engineers serve as mentors in the program, and conduct tutoring with new R&D employees. Furthermore, we hold lectures and exchange ideas through seminars with external professionals. We also provide courses for our employees as an important part of their continuous self-learning. We strive to create a multiple-incentive mechanism and a friendly working environment to fulfil our employees’ full potential. Due to our efforts, we generally maintain a stable team of employees that make continuous contributions.

Our employees are currently represented by our internal labor union. We believe that we generally maintain good working relationship with our employees. During the Track Record Period and up to the Latest Practicable Date, we did not experience any labor disputes or strikes.

Social Insurance and Housing Provident Fund Contribution

During the Track Record Period and up to the Latest Practicable Date, we did not make full social insurance and housing provident fund contribution for our employees in accordance with relevant laws and regulations. For the years ended December 31, 2020, 2021 and 2022, the aggregate shortfall in such contribution amounted to approximately RMB0.4 million, RMB2.1 million and RMB2.2 million, respectively. See “Risk Factors – Risks Relating to Our Business and Industry – We may be subject to additional contributions of social insurance and housing provident fund and late payments and fines imposed by relevant governmental authorities.” According to the certifying letters issued by relevant local social insurance and housing provident fund bureaus which, according to our PRC Legal Advisors, are the competent authorities for issuing such letters, during the Track Record Period, such authorities did not impose administrative penalties on us for failure to make full social insurance or housing provident fund contributions. It is also confirmed that we had not had social insurance or housing provident fund contributions in arrears.

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Our Directors are of the view that the abovementioned issues in relation to the contribution of social insurance and housing provident funds would not have a material adverse effect on our business, results of operations or financial condition, considering that: (i) we had not been imposed of any administrative penalties for not paying the social insurance premiums and housing provident funds in full, or received any notice to pay the shortfall, by relevant social insurance and housing provident fund bureaus during the Track Record Period; (ii) neither penalty records related to social insurance nor housing provident funds have been found through public search and proper examinations and inspections conducted by our PRC Legal Advisors; (iii) as of the Latest Practicable Date, there were no pending disputes or controversies between the Company and its employees in connection with labor and employment matters including in respect of social insurance and housing provident fund contribution; and (iv) during the Track Record Period, no employees or relevant competent authorities raised objections in relation to the contribution arrangements relating to social insurance or housing provident funds, and up to the Latest Practicable Date, the Company had not received any objections from any employees or authorities in relation to labor and employment, social insurance or housing provident funds.

Based on the above, our Directors are of the view that the possibility for any relevant competent authorities imposing administrative penalty or seeking recovery from the Company in relation to any outstanding social insurance and housing provident funds contribution incurred during the Track Record Period is low.

We will review our social insurance and housing provident fund contributions on a regular basis and will make social insurance and housing provident plan contributions in accordance with applicable legal requirements. In particular, we aim to implement the following internal control measures to rectify and prevent the recurrence of such issues: (i) we plan to adopt internal policies governing social insurance and housing provident fund arrangements and contributions according to the requirements of the Labor Law of the PRC and applicable regulations, for the purpose of monitoring and ensuring our compliance with such laws and regulations; (ii) we will consult PRC legal advisors as well as relevant competent authorities, as and when necessary and/or practicable, for the purpose of assessing and ensuring the contribution basis of social insurance and housing provident funds for our eligible employees comply with applicable laws and regulations on an ongoing basis; and (iii) we will provide internal training for our Directors, members of senior management and employees on the relevant laws and regulations.

LAND AND PROPERTIES

We are headquartered in Suzhou, and maintain certain operation functions in Shanghai. As of the Latest Practicable Date, we did not own any property in the PRC, and leased three properties in the PRC with an aggregate GFA of approximately 4,000 sq.m. from third parties. These properties were used primarily as premises of offices, R&D activities and daily operations. Our lease agreements in respect of the abovementioned leased properties generally have lease terms ranging from one to three years.

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Pursuant to the applicable PRC laws and regulations, property lease agreements must be registered with the local property administration authority. As of the Latest Practicable Date, we had not obtained lease registration for two of our leased properties in China. See “Risk Factors – Risks Relating to Our Business and Industry – We may be liable for failure to register and file our lease agreements, which may subject us to penalties.” for details. The lease agreements for our leased properties had not been registered as required, primarily due to the lack of cooperation from our lessors in registering the relevant lease agreements. We will take all practicable and reasonable steps to ensure that such leases are registered. To minimize the potential negative impact of the non-registered leases on our operations, we continue to communicate with such lessors to seek their cooperation to complete the registration process. As advised by our PRC Legal Advisors, the lack of registration of the lease agreements does not affect the validity of such lease agreements.

According to the relevant PRC laws and regulations, we may be ordered by the relevant government authorities to register the relevant lease agreements within a prescribed period, failing which we may be subject to a fine ranging from RMB1,000 to RMB10,000 for each non-registered lease. As of the Latest Practicable Date, we had not received any such request or suffered any such fine from the relevant government authorities. Our Directors are of the view that the failure to complete the filing of such lease agreements does not have any material or adverse effect on our business operations or financial conditions. We undertake to cooperate fully to facilitate the registration of lease agreements once we receive any requirements from relevant government authorities.

INSURANCE

During the Track Record Period, we provided mandatory social insurance for our employees as required by PRC social insurance regulations, such as pension insurance, unemployment insurance, work injury insurance and medical insurance. During the Track Record Period, we had not been the subject of any project liability claims. Our Directors consider our insurance policy as a whole is in line with the general market practice and complies with the relevant rules and regulation in China. See “Risk Factors – Risks Relating to Our Business and Industry – We may not have sufficient insurance coverage to cover our potential liability or losses and as a result, our business, financial conditions, results of operations and prospects may be materially and adversely affected should any such liability or losses arise.” As of the Latest Practicable Date, we had not experienced any business interruptions that had a material adverse effect on our business.

BUSINESS

AWARDS AND RECOGNITIONS

During the Track Record Period, we received awards and recognition in respect of our Company and our patterned wafer products, significant ones of which are set forth below:

Award year	Award/Recognition	Awarding Institution/Authority
2022	“Processor power supply chip based on self-developed modular software” winning the 17th “CHINACHIP” Excellent Market Performance Product (“基於自研模塊化軟件的處理器供電芯片”獲第十七屆“中國芯”優秀市場表現產品)	China Center for Information Industry Development (中國電子信息產業發展研究院)
	Specialized and New SME in Jiangsu Province (江蘇省專精特新中小企業)	Industry and Information Technology Department of Jiangsu (江蘇省工業和信息化廳)
	Gazelle Enterprise of Sunan National Innovation Park (蘇南國家自主創新示范區瞪羚企業)	Sunan National Innovation Park (蘇南國家自主創新示范區)
2020	National High-Tech Enterprise (國家高新技術企業)	Jiangsu Provincial Department of Science and Technology (江蘇省科學技術廳), Department of Finance of Jiangsu Province (江蘇省財政廳), and Jiangsu Provincial Tax Service, State Taxation Administration (國家稅務總局江蘇省稅務局)

LICENSES, PERMITS AND APPROVALS

As of the Latest Practicable Date, as advised by our PRC Legal Advisors, we had obtained all material licenses and permits required for our business operations (i.e. business license) in the PRC, and such business license had remained in full effect. Our PRC Legal Advisors have advised us that there was no material legal impediment to renewing business license as of the Latest Practicable Date.

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ENVIRONMENTAL, SOCIAL AND GOVERNANCE

We believe our continued growth rests on integrating social values into our business and are committed to being a responsible corporate citizen. We are committed to promoting corporate social responsibility and sustainable development and integrating it into all major aspects of our business operations. For example, in July 2021, our co-founders, Mr. Li Zhen and Mr. Zhang Guangping as distinguished alumni, collectively made a donation to Tsinghua University for the establishment of “Chen-Ning Yang Education Development Fund” (“楊振寧教育發展基金”). We believe that corporate social responsibility is part of our core growth philosophy that will be pivotal to our ability to create sustainable value for our Shareholders by embracing diversity and public interests.

Governance regarding Environmental, Social and Climate-related Risks

Being environmentally friendly and having positive social impact are at the core of our business and corporate governance. We have implemented an ESG policy, which provides guidelines to the management of our environmental, social and climate-related issues.

We believe that it requires collective effort from our Directors to evaluate and manage material ESG issues, therefore we have not established any sub-committee for ESG issues. Instead, our Directors take up the responsibility of monitoring and managing material ESG issues, with the assistance from the management team. Our Directors are principally responsible for setting up our overall ESG vision, direction and strategy, monitoring and reviewing our ESG performances and fulfillment of the Directors’ ESG vision. Our Directors have also assigned our general manager to oversee the coordination of different teams to ensure that our operations and practices are in line with related ESG strategies.

Furthermore, our Directors closely follow and monitor the latest requirements regarding ESG disclosure and regulatory compliance. For instance, we place great emphasis on the Stock Exchange’s ESG requirements, and in order to ensure compliance with the said requirements, our Directors and our general manager will oversee the compilation of our ESG report, and shall review the content and quality of the ESG report after the [REDACTED].

With respect to the management of environmental, social and climate-related issues, our Directors recognize the importance of shareholders’ expectations and involvement, and therefore endeavor to maintain an effective communication channel between shareholders and us. Our Directors have assigned our general manager to identify, monitor and assess material ESG issues. Our Directors will review the results from the assessment and conclude on the issues that we shall focus on.

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Metrics and Targets on Environmental, Social and Climate-related Risks

Major parameters and measurable metrics we use to assess and manage our environmental, social and climate-related risks include electricity consumption. We typically do not generate electronic waste by ourselves. As a result, we did not generate any significant environmental compliance cost during the Track Record Period.

For the years ended December 31, 2020, 2021 and 2022, our electricity consumption expenses amounted to RMB106.8 thousand, RMB101.5 thousand and RMB177.3 thousand, respectively, representing a CAGR of 28.8% which is significantly lower than the CAGR of our revenue, 99.3%, during the same periods.

We currently do not operate any manufacturing facilities and are not subject to significant environmental risks. We do not expect to incur any material liabilities or expenditures in these respects. During the Track Record Period, as advised by our PRC Legal Advisors and, up to the Latest Practicable Date, to the best knowledge of our Directors, we had not been subject to any fines or other penalties due to non-compliance with environmental regulations.

LEGAL PROCEEDINGS AND COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, to the best knowledge of our Directors, we had not been and were not a party to any legal, arbitral or administrative proceedings, and we were not aware of any pending or threatened legal, arbitral or administrative proceedings against us or our Directors. To the best knowledge of our Directors, our business operations had been carried out in compliance with applicable laws and regulations in all material aspects during the Track Record Period and up to the Latest Practicable Date.

See “ – Employees – Social Insurance and Housing Provident Fund Contribution” and “ – Land and Properties” in this section for a description of certain legal matters relating to our compliance with PRC employment and real property related laws and regulations which we consider would not have a material adverse effect on our business, financial condition, or results of operations. We are of the view that we have in place adequate internal control measures to ensure ongoing compliance with applicable laws and regulations.

RISK MANAGEMENT AND INTERNAL CONTROL

It is the responsibility of our Board to ensure that we maintain sound and effective internal controls and risk management system to safeguard our Shareholders’ investment and our assets at all times. We maintain internal manuals setting out operating procedures, internal control procedures and other policies and guidelines. We also adopted and implemented comprehensive risk management policies in various aspects of our business operations, such as IT, financial reporting, compliance, and human resources.

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Our Board of Directors and our general manager are responsible for the establishment, updating and implementation of our internal control policies and systems, while our management team monitors the daily implementation of the internal control procedures and measures with respect to our functional teams.

Compliance Risk Management

In order to effectively manage our compliance and legal risk exposures, we have adopted strict internal procedures to ensure the compliance of our business operations with the applicable rules and regulations. In accordance with these procedures, our in-house legal team performs the basic function of reviewing and updating the form of contracts we enter into with our customers, partners, and suppliers. Our legal team examines the contract terms and reviews all relevant documents for our business operations, including licenses and permits obtained by the counterparties to perform their obligations of business contracts and all the necessary underlying due diligence materials, before we enter into any contract or business arrangements.

Our in-house legal team is responsible for obtaining any requisite governmental pre-approvals or consents, including preparing and submitting all necessary documents for filing with relevant government authorities, within the prescribed regulatory timelines. We continuously improve our internal policies according to changes in laws, regulations and industry standards, and update internal templates for legal documents. We undertake compliance management over various aspects of our operations and employee activities. We have also established an accountability system in respect of employees’ violations of laws, regulations and internal policies. In addition, we continually review the implementation of our risk management policies and measures to ensure our policies and implementation are effective and sufficient.