The following discussion and analysis should be read in conjunction with our financial information included in the Accountants' Report in Appendix I to this document, together with the accompanying notes. Our financial statements have been prepared in accordance with HKFRSs, which may differ in certain aspects from generally accepted accounting principles in other jurisdictions. You should read the entire Accountants' Report and not merely rely on the information contained in this section.

The following discussion and analysis contains forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties, many of which we cannot control or foresee. In evaluating our business, you should carefully consider all of the information provided in this document, including the sections headed "Risk Factors" and "Business."

For the purposes of this section, unless the context otherwise requires, references to 2020, 2021 and 2022 refer to our fiscal years ended December 31 of such years.

OVERVIEW

We are one of the analog IC patterned wafer providers with a prominent market position in China. Our deliverable products are analog IC patterned wafers with completed built-on circuits, which can then be fabricated into individual IC chips after standard and straightforward packaging and testing steps performed by our downstream customers. During the Track Record Period, our revenue was primarily generated from sales of power management products and signal chain products. We offer approximately 400 types of diversified industrial grade analog IC patterned wafer products across seven sub-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 category and the signal chain category as of the Latest Practicable Date.

We achieved robust business growth 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%. Our revenue increased by 26.1% from RMB162.1 million for the six months ended June 30, 2022 to RMB204.4 million for the six months ended June 30, 2023. In addition, 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%. Our gross profit increased by 21.3% from RMB93.1 million for the six months ended June 30, 2022 to RMB112.9 million for the six months ended June 30, 2023. In

2020, 2021 and 2022 and the six months ended June 30, 2022 and 2023, we maintained high gross profit margin at 54.9%, 56.4%, 56.5%, 57.4% and 55.2%, respectively. Our net profit 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%. Our net profit increased by 7.3% from RMB42.8 million for the six months ended June 30, 2022 to RMB45.9 million for the six months ended June 30, 2023. Our adjusted net profit (Non-HKFRS measure) increased by 32.5% from RMB42.8 million for the six months ended June 30, 2022 to RMB56.6 million for the six months ended June 30, 2023.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial performance are principally affected by the following factors:

Our ability to diversify product offerings and expand our product mix

Our ability to offer diversified analog IC patterned wafer products is one of the most important factors affecting our results of operations and financial condition. Our success depends on our ability to anticipate industry trends and develop analog IC patterned wafer products with high-performance and differentiated IC design that meet the evolving demand of our downstream customers in various application fields. Due to our continuous R&D efforts, we successfully launched eight, 45, 157 and 78 analog IC patterned wafer products in 2020, 2021 and 2022 and the six months ended June 30, 2023, respectively. As of the Latest Practicable Date, we successfully taped out more than 400 types of analog IC patterned wafers. 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 consumer electronics. With an ever-expanding high-performance industrial grade product portfolio, we are able to respond quickly to changing market conditions and remain profitable.

The mix of analog IC patterned wafer products that we provide is also among the primary factors that affect our revenue and profitability. During the Track Record Period, we primarily derived our revenue from the sale of seven sub-categories of industrial grade power management products and signal chain products, namely switching regulators, multi-channel ICs and PMICs, linear regulators, battery management ICs, monitoring and modulating ICs, driver ICs, and linear products. Our gross profit margin increased from 54.9% in 2020 to 56.4% in 2021, and remained stable at 56.5% in 2022. Our gross profit margin decreased from 57.4% for the six months ended June 30, 2022 to 55.2% for the six months ended June 30, 2023. Our product mix may fluctuate significantly in response to the technological changes in the industries and markets to which our products are sold, and the changes in market demand and market competition. If there are any significant changes in our product mix, our gross profit margin will be affected by the changes in gross profit margin attributable to each type of product. As a result, our financial condition and results of operations may be materially and adversely affected.

Continuous investment in R&D facilities and talents

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 recognized 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. To extend our technology leadership in the analog IC design industry, we have made, and will continue to make, significant investments in upgrading our design capabilities and R&D infrastructure. In 2020, 2021 and 2022 and for the six months ended June 30, 2022 and 2023, we incurred R&D expenses of RMB28.4 million, RMB47.6 million, RMB84.9 million, RMB39.3 million and RMB57.4 million, respectively. Going forward, we will continue to invest resources in R&D to support the long-term growth of our business.

The growth of our business depends largely on our R&D talents. 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. As of June 30, 2023, our R&D team comprises 64 members, who on average are only 29 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. We will continue to invest resources to attract more talented R&D personnel and further improve our full-stack design platform.

Our ability to expand and efficiently manage our sales network

During the Track Record Period, we primarily sold and marketed our patterned wafer products in the PRC through third-party professional distributors. In 2020, 2021 and 2022, our revenue generated from 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. For the six months ended June 30, 2022 and 2023, our revenue generated from sales to distributors amounted to RMB132.1 million and RMB168.2 million, respectively, accounting for 81.5% and 82.3%, respectively, of our revenue for the corresponding periods. Through our distribution channels, we are able to focus on the design aspects of analog IC patterned wafers and optimize our design capabilities. As a result, our ability to expand and efficiently manage our sales and distribution network remains critical to our business and financial performance. In particular, we have established cooperation with a global leading IC distributor, Arrow, and a local IC distributor, Customer A, to match our comprehensive marketing strategies. See "Business – Sales, Marketing and Distribution of our Products." We plan to optimize and expand our sales and distribution network and to further expand our downstream customer base in the PRC. During the Track Record Period, revenue derived from direct sale customers increased from RMB4.3 million in 2020 to RMB20.5 million in 2021, and further to RMB69.8 million in 2022. Furthermore, revenue derived from direct sale customers increased from RMB30.0 million for the six months ended June 30, 2022 to RMB36.2 million for the six months ended June 30, 2023. In the future, we will continue to deepen our relationship with existing distributors and direct sale customers, and expand sales channels to attract new customers in key targeted industries.

Relationship with our major suppliers

We operate with a fabless model, and focus on the design process and outsource IC manufacturing to foundries. During the Track Record Period, we 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. See "Business – Our Business Model" and "Business – Our Suppliers – Relationship with Supplier A." Therefore, our ability to maintain long-term stable business relationship with our wafer channel partner to provide us with quality and price competitive foundry-manufactured wafers on a timely basis is crucial for our business development and results of operations. Although we have entered into a framework supply agreement with our third-party wafer channel partner, we cannot assure you that the supply of foundry-manufactured wafers is not interrupted or delayed due to any circumstances and the terms of supply are acceptable to us. It will also take time to establish new or alternative supplier relationships to ensure a steady supply in a timely and cost-efficient manner. In those circumstances, we may not be able to offer analog IC patterned wafer products demanded by our customers, or to offer them in sufficient quantities and at prices acceptable to them. As a result, our business, financial condition and results of operations will be materially and adversely affected.

BASIS OF PRESENTATION

Our Company was incorporated as a limited liability company in the PRC on November 12, 2010, and was converted into a joint stock limited liability company in November 2021. For more details, please see "History, Development and Corporate Structure" in this document.

Our historical financial information has been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (the "**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

We have identified various accounting policies that are significant to the preparation of our financial information, and the understanding of our financial condition and results of operations, details of which are disclosed in note 2 of the Accountants' Report in Appendix I to this document.

Our Directors are required to make judgements, estimates and assumptions that affect our application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on our historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed by our management on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods, details of which are disclosed in note 3 of the Accountants' Report in Appendix I to this document.

The following paragraphs discuss, among others, our critical accounting policies, estimates and judgements applied in preparing our financial information:

Revenue recognition

Income is classified by us as revenue when it arises from the sale of goods, the provision of services or the use by others of our assets under leases in the ordinary course of our business. We are the principal for our revenue transactions and recognize revenue on a gross basis, including the sale of electronic products that are sourced externally. In determining whether we act as a principal or as an agent, we consider whether we obtain control of the products before they are transferred to the customers. Control refers to our ability to direct the use of and obtain substantially all of the remaining benefits from the products.

Revenue is recognized when control over a product or service is transferred to the customer, at the amount of promised consideration to which we are expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts. For sale of goods and provision of services, revenue is recognized when the customer takes possession of and accepts the products.

Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

Trade and other receivables

A receivable is recognized when we have an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. Trade receivables that do not contain a significant financing component are initially measured at their transaction price. All receivables are subsequently stated at amortized cost, using the effective interest method and including an allowance for credit losses.

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

The following table sets forth a summary of our statements of profit or loss and other comprehensive income, with line items in absolute amounts and as a percentage of our revenue for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	RMB'000	*% of Revenue*	*RMB'000*	*% of Revenue*	*RMB'000*	*% of Revenue*	*RMB'000* *(Unaudited)*	*% of Revenue*	*RMB'000*	*% of Revenue*
Revenue	88,720	100.0	212,711	100.0	352,510	100.0	162,065	100.0	204,422	100.0
Cost of sales	(39,971)	(45.1)	(92,711)	(43.6)	(153,186)	(43.5)	(68,990)	(42.6)	(91,527)	(44.8)
Gross profit	48,749	54.9	120,000	56.4	199,324	56.5	93,075	57.4	112,895	55.2
Other income and net gain	1,965	2.2	4,087	1.9	9,791	2.8	1,668	1.0	5,642	2.8
Distribution costs	(791)	(0.9)	(1,772)	(0.8)	(3,580)	(1.0)	(1,500)	(0.9)	(2,870)	(1.4)
Administrative expenses	(3,505)	(4.0)	(13,860)	(6.5)	(22,181)	(6.3)	(10,591)	(6.5)	(10,596)	(5.2)
R&D expenses	(28,405)	(32.0)	(47,609)	(22.4)	(84,879)	(24.1)	(39,279)	(24.2)	(57,411)	(28.1)
Profit from operations	18,013	20.3	60,846	28.6	98,475	27.9	43,373	26.8	47,660	23.3
Finance costs	(4,018)	(4.5)	(3,877)	(1.8)	(1,651)	(0.5)	(612)	(0.4)	(1,796)	(0.9)
Profit before taxation	13,995	15.8	56,969	26.8	96,824	27.5	42,761	26.4	45,864	22.4
Income tax	–	–	–	–	(1,562)	(0.4)	–	–	–	–
Profit for the year/period	13,995	15.8	56,969	26.8	95,262	27.0	42,761	26.4	45,864	22.4
Other comprehensive income for the year/period, net of nil tax	–	–	–	–	–	–	–	–	–	–
Total comprehensive income for the year/period	13,995	15.8	56,969	26.8	95,262	27.0	42,761	26.4	45,864	22.4
Earnings per share										
Basic and diluted (RMB cents)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

NON-HKFRS MEASURE

To supplement our historical financial information which are presented in accordance with HKFRS, we also use adjusted net profit (Non-HKFRS measure) as an additional financial measure, which is not required by, or presented in accordance with, HKFRS. We believe that this non-HKFRS measure facilitates comparisons of operating performance from period to period by eliminating potential impacts of certain items. We believe that this measure provides useful information to investors and others in understanding and evaluating our results of operations in the same manner as it helps our management. However, our presentation of adjusted net profit (Non-HKFRS measure) may not be comparable to similarly titled measures presented by other companies. The use of this non-HKFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under HKFRS.

We define adjusted net profit (Non-HKFRS measure) as profit for the year/period adjusted by adding back [**REDACTED**] expenses and share-based payments. [**REDACTED**] expenses are expenses relating to the [**REDACTED**]. Share-based payments are non-cash in nature.

The following table reconciles our adjusted net profit (Non-HKFRS measure) for the year/period presented to profit for the year/period:

	Year ended December 31,			Six months ended June 30,	
	2020	**2021**	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit for the year/period	13,995	56,969	95,262	42,761	45,864
Add:					
[**REDACTED**] expenses	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Share-based payments	–	–	–	–	9,995
Adjusted net profit (non-HKFRS measure)	13,995	56,969	95,262	42,761	56,644

Our adjusted net profit increased from RMB14.0 million in 2020 to RMB57.0 million in 2021, and further increased to RMB95.3 million in 2022. Our adjusted net profit increased from RMB42.8 million in the six months ended June 30, 2022 to RMB56.6 million in the six months ended June 30, 2023. The continuous increase in adjusted net profit during the Track Record Period was primarily attributable to increased market demand and our ability to achieve significant expansion in our product offering during the Track Record Period, and as a result the sales volume increased from 17.1 million units in 2020 to 37.4 million units in 2021 and further increased to 87.5 million units in 2022, and increased from 42.3 million units in the six months ended June 30, 2022 to 52.9 million units in the six months ended June 30, 2023, while our gross profit margin did not have any significant fluctuation. See "Revenue – Revenue by Business Line" for details of market drivers and our product expansion.

Revenue

Revenue by Business Line

During the Track Record Period, we generated our revenue primarily from sales of power management products and signal chain products. The following table sets forth a breakdown of our revenue by business line, in absolute amounts and as a percentage of our revenue, for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	RMB'000	*% of Revenue*	*RMB'000*	*% of Revenue*	*RMB'000*	*% of Revenue*	*RMB'000*	*% of Revenue*	*RMB'000*	*% of Revenue*
							(Unaudited)			
Sales of power management products	87,075	98.1	192,899	90.7	294,797	83.6	133,228	82.2	179,596	87.9
– Switching regulators	28,453	32.1	99,445	46.8	149,500	42.4	77,804	48.0	75,701	37.1
– Multi-channel ICs and PMICs	44,362	50.0	79,832	37.5	109,794	31.1	36,705	22.6	85,283	41.7
– Others[(1)]	14,260	16.1	13,622	6.4	35,503	10.1	18,719	11.6	18,612	9.1
Sales of signal chain products	1,645	1.9	19,812	9.3	57,713	16.4	28,837	17.8	24,826	12.1
– Linear products	1,645	1.9	19,812	9.3	57,713	16.4	28,837	17.8	24,826	12.1
Total	88,720	100.0	212,711	100.0	352,510	100.0	162,065	100.0	204,422	100.0

Note:

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

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. During the Track Record Period, the types of power management products we sold increased from 61 in 2020 to 84 in 2021, and further to 232 in 2022, and increased from 157 for the six months ended June 30, 2022 to 291 for the six months ended June 30, 2023. Revenue generated from sales of power management products accounted for 98.1%, 90.7%, 83.6%, 82.2% and 87.9%, respectively, of our revenue in 2020, 2021 and 2022 and for the six months ended June 30, 2022 and 2023.

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. During the Track Record Period, the types of signal chain products we sold increased from one in 2020 to 23 in 2021, and further to 32 in 2022, and increased from 30 for the six months ended June 30, 2022 to 36 for the six months ended June 30, 2023. Revenue generated from sales of signal chain products accounted for 1.9%, 9.3%, 16.4%, 17.8% and 12.1%, respectively, of our revenue in 2020, 2021 and 2022 and for the six months ended June 30, 2022 and 2023.

We continuously enriched our product offerings to meet the needs of downstream customers in various application fields. We leveraged end-to-end data from our marketing and sales channels and feedback from existing partners, and designed new types of analog IC patterned wafers considering market demand. Due to the trend of replacing imported analog IC products with price-competitive domestic substitutes in the PRC, the underlying demand of our analog IC products increased steadily during the Track Record Period. We were able to achieve significant expansion in our product offering during the Track Record Period because our EDA software and IP libraries greatly improved our design efficiency. We released our proprietary EDA software in 2011, and significantly improved it from 2018 to 2020 which could shorten the time to develop a product by up to six months. In addition, by reusing existing IPs, we can shorten the design cycle and gain flexibility in layout design, which also leads to reduced R&D expenses. 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. As a result, our R&D process became less labor intensive, and the number of our R&D personnel only increased slightly during the Track Record Period.

The trend of replacing imported analog IC products with domestic substitutes began in 2013 when ICs became the largest imported commodity in the PRC, which was primarily driven by (i) the largest consumption market of analog IC products in the PRC; (ii) the favorable government policies to support the development of IC design and manufacturing; and (iii) the rapid development of Chinese IC design companies in recent years, and their ability to provide high-performance analog IC products with price advantages. Such trend was accelerated by the U.S.-China trade tensions, and the supply shortage caused by both the COVID-19 pandemic and the cyclical nature of the global semiconductor market. PRC has the largest consumption market of analog IC products, with a wide range of market demand for analog IC products, according to Frost & Sullivan. In order to reduce reliance on overseas companies in China's IC market, China has formulated a series of policies to support the high-quality development of IC design and manufacturing, such as talent introduction, R&D subsidies, tax and fee reductions. In June 2014, in view of the strategic significance of semiconductor chips, the State Council issued the "National Integrated Circuit Industry Development and Promotion Outline" (《國家集成電路產業發展推進綱要》) to promote the development of domestic IC industry at the national level. In November 2018, the National Bureau of Statistics proposed to include IC design, manufacturing, packaging and testing, and related materials in the list of strategic emerging industries in the "Classification of Strategic Emerging Industries (2018)" (《戰略性新興產業分類(2018)》). According to the Notice of

"14th Five-Year Plan" for the Development of Digital Economy (《"十四五"數字經濟發展規劃的通知》), promulgated by the State Council on December 12, 2021, efforts should be concentrated on breakthroughs in key technologies in the fields such as high-end chips and operating systems, and strengthening the self-sufficiency guarantee capability of key products. Chinese IC design companies have developed rapidly in recent years, and are able to provide high-performance analog IC products with price advantages. According to Frost & Sullivan, the maximum price difference between the imported and domestic consumer grade analog IC products, in general, is around 30%, and the maximum price difference between the imported and domestic industrial grade analog IC products is around 50%. In addition, the trend of replacement of imported analog IC products with domestic substitutes was accelerated by (i) the U.S.-China trade tensions, which have led Chinese customers to focus more on supply chain security and increased their willingness to purchase domestic analog IC products; (ii) the supply shortage of imported analog IC products due to the impact on global trade caused by COVID-19 pandemic since 2020, during which period the global trade volume in 2020 decreased by 9% compared with 2019, according to Frost & Sullivan; and (iii) the supply shortage of the global semiconductor market, as the global semiconductor industry operates in cycles, experiencing periodic supply shortages. From the second half of 2020 to the first half of 2021, the industry faced a shortage in manufacturing capacity due to the rapid growth in market demand for semiconductor chips according to Frost & Sullivan. Due to the above reasons, the import substitution rate in China, calculated as the market share of domestic product as a proportion of total market consisting of domestic product and imported product in terms of market revenue, has increased from 6% in 2017 to 14% in 2022, according to Frost & Sullivan. We expect such trend to continue in the future due to the favorable government policies, technology improvements, talent development, and the synergistic effects brought by a more comprehensive industrial chain. According to Frost & Sullivan, the import substitution rate in China is expected to reach 28% in 2027.

We base our pricing strategies for patterned wafer products according to a range of factors, including the purchase price of our raw materials (i.e. untested patterned wafers), R&D costs, and the demand of downstream markets. We also take into consideration prices of domestic and international competitive products. See "Business – Our Product Offerings – Our Operational Highlights" for details of our pricing strategies. Revenue from sales of power management products and signal chain products is primarily driven by sales volume and unit selling price. Benefiting from the growing demand from our downstream customers and the trend of replacing imported analog IC products with price-competitive domestic substitute in the PRC, as well as our continuous R&D efforts to develop new types of analog IC patterned wafers, our sales volume of power management products and signal chain products increased steadily during the Track Record Period. The average selling price of power management products and signal chain products had fluctuated during the Track Record Period primarily due to a shift in our product mix. For detailed analysis of the fluctuations of our sales volume and average selling price during the Track Record Period, see "Business – Our Product Offerings – Our Operational Highlights."

Our revenue increased by 139.8% from RMB88.7 million in 2020 to RMB212.7 million in 2021, and further increased by 65.7% to RMB352.5 million in 2022. Meanwhile, the market size of China's analog IC patterned wafers increased by 26.2% and 16.4% for the respective years, according to Frost & Sullivan. Our outperformance against the industry growth was primarily because (i) the analog IC patterned wafer market in China is a relatively large and fragmented market. The market size increased by RMB3.8 billion in 2021 and RMB3.0 billion in 2022. While we ranked the first in terms of revenue generated from analog IC patterned wafers in 2022, our market share only accounted for 1.7% of the total market share; (ii) while almost all market players provided finished IC chips, we focused on providing analog IC patterned wafers and maintained competitive advantages in our core technologies, such as EDA software and IP modules for sustainable business growth; (iii) we were growing rapidly with relatively small revenue at the beginning of the Track Record Period. Our rapid growth started to stabilize in 2023. Our revenue increased by 26.1% from RMB162.1 million for the six months ended June 30, 2022 to RMB204.4 million for the six months ended June 30, 2023, and we expect a stable growth rate in the second half of 2023. Even though we experienced fast growth in our revenue during the Track Record Period, we cannot assure you that we are able to sustain our historical growth rate in the future. For details of the risks related to our future growth, please refer to "Risk Factors – Risks Relating to Our Business and Industry – Our historical growth may not be indicative of our future growth. If we are unable to manage our growth or execute our business strategies effectively, our results of operations and business prospects may be materially and adversely affected."

Revenue by Sales Channel

The following table sets forth a breakdown of our revenue by sales channel, in absolute amounts and as a percentage of our revenue, for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	RMB'000	*% of Revenue*	*RMB'000*	*% of Revenue*	*RMB'000*	*% of Revenue*	*RMB'000*	*% of Revenue*	*RMB'000*	*% of Revenue*
							(Unaudited)			
Sales to distributors	84,422	95.2	192,197	90.4	282,679	80.2	132,076	81.5	168,243	82.3
Direct sales	4,298	4.8	20,514	9.6	69,831	19.8	29,989	18.5	36,179	17.7
Total	88,720	100.0	212,711	100.0	352,510	100.0	162,065	100.0	204,422	100.0

For sales made to our customers, we generally recognize revenue when our products have been delivered to and accepted by our customers. Our revenue from sales to distributors contributed a significant proportion of our total revenue during the Track Record Period. The proportion of our revenue generated from direct sales increased from 4.8% in 2020 to 9.6% in 2021, and further to 19.8% in 2022, primarily due to our increased efforts in sales and marketing to attract direct sale customers. The proportion of revenue derived from direct sales decreased slightly from 18.5% for the six months ended June 30, 2022 to 17.7% for the six months ended June 30, 2023, primarily due to the increase in sales to distributors which outpaced the increase in direct sales.

Cost of Sales

Our cost of sales of power management products and signal chain products consists primarily of material costs. As we operate with a fabless model, we focus on the design process and outsource the IC manufacturing to third parties. Our material costs represented our procurement costs of untested foundry-manufactured wafers.

The following table sets forth a breakdown of cost of sales by business line for the periods indicated:

	Year ended December 31,						**Six months ended June 30,**			
	2020		**2021**		**2022**		**2022**		**2023**	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*
							(Unaudited)			
Sales of power management products	39,818	99.6	86,439	93.2	131,129	85.6	57,866	83.9	81,774	89.3
– Switching regulators	9,306	23.3	34,357	37.1	59,281	38.7	30,359	44.0	31,570	34.5
– Multi-channel ICs and PMICs	26,305	65.8	47,391	51.1	58,929	38.5	21,057	30.5	43,124	47.1
– Others[(1)]	4,207	10.5	4,691	5.1	12,919	8.4	6,450	9.3	7,080	7.7
Sales of signal chain products	153	0.4	6,272	6.8	22,057	14.4	11,124	16.1	9,753	10.7
– Linear products	153	0.4	6,272	6.8	22,057	14.4	11,124	16.1	9,753	10.7
Total	39,971	100.0	92,711	100.0	153,186	100.0	68,990	100.0	91,527	100.0

Note:

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

Gross Profit and Gross Profit Margin

Our gross profit represents our revenue less our cost of sales. Our gross profit margin represents our gross profit divided by our revenue, expressed as a percentage. The table below sets forth a breakdown of our gross profit and gross profit margin by business line for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(Unaudited)			
Sales of power management products	47,257	54.3	106,460	55.2	163,668	55.5	75,362	56.6	97,822	54.5
– Switching regulators	19,147	67.3	65,088	65.5	90,219	60.3	47,445	61.0	44,131	58.3
– Multi-channel ICs and PMICs	18,057	40.7	32,441	40.6	50,865	46.3	15,648	42.6	42,159	49.4
– Others[(1)]	10,053	70.5	8,931	65.6	22,584	63.6	12,269	65.5	11,532	62.0
Sales of signal chain products	1,492	90.7	13,540	68.3	35,656	61.8	17,713	61.4	15,073	60.7
– Linear products	1,492	90.7	13,540	68.3	35,656	61.8	17,713	61.4	15,073	60.7
Total	48,749	54.9	120,000	56.4	199,324	56.5	93,075	57.4	112,895	55.2

Note:

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

During the Track Record Period, we maintained high gross profit margin due to (i) the high entry barriers for our competitors to provide similar industrial grade analog IC patterned wafers with high reliability and stability. As a result, there were limited competing products in the domestic market; and (ii) we provided high-performance industrial grade analog IC patterned wafers cost-effectively with our full-stack analog IC design platform.

Our gross profits and gross profit margins largely depend on our product mix, as we normally provide multi-variety products in small batches to our customers. Our gross profit margin increased slightly from 54.9% in 2020 to 56.4% in 2021, primarily due to changes in our product mix as we provided more types of analog IC patterned wafer products in 2021. Our gross profit margin remained stable at 56.4% in 2021 and 56.5% in 2022. Our gross profit margin decreased from 57.4% for the six months ended June 30, 2022 to 55.2% for the six months ended June 30, 2023, primarily due to an increase in revenue contribution of multi-channel ICs and PMICs which had relatively low gross profit margin compared with switching regulators due to the higher unit costs. During the Track Record Period, the multi-channel ICs and PMICs we sold were primarily SoC products, which integrated multiple electronic components in a single product. The size of SoC products is larger than non-SoC products, resulting in higher unit costs. Therefore, our multi-channel ICs and PMICs had lower gross profit margins than other products during the Track Record Period. We did not shift part of the costs of multi-channel ICs and PMICs to our customers because in addition to costs, we considered other factors such as downstream market demand and prices of domestic and international competitive products to determine the price of our patterned wafer products.

Power management products: In 2020, 2021 and 2022 and for the six months ended June 30, 2022 and 2023, we sold 61, 84, 232, 157 and 291 types of power management products, respectively, under three sub-categories, including switching regulators, multi-channel ICs and PMICs and others. During the Track Record Period, the gross profit margin of different types of power management products varied due to different functions and performance, and the gross profit margins, average selling price and material costs of the same type of power management product we sold remained relatively stable. Therefore, the gross profit margin of our power management products primarily depends on the types of products we sold in response to changes in market demand. The gross profit margin of power management products increased slightly from 54.3% in 2020 to 55.2% in 2021, primarily due to an increase in revenue contribution of switching regulators, which had relatively high gross profit margin compared with multi-channel ICs and PMICs. The gross profit margin of sales of power management products remained relatively stable at 55.2% in 2021 and 55.5% in 2022. The gross profit margin of power management products decreased slightly from 56.6% for the six months ended June 30, 2022 to 54.5% for the six months ended June 30, 2023, primarily due to an increase in revenue contribution of multi-channel ICs and PMICs, which had relatively low gross profit margins.

Switching Regulators

In 2020, 2021 and 2022 and for the six months ended June 30, 2022 and 2023, our gross profit margin of switching regulators was 67.3%, 65.5%, 60.3%, 61.0% and 58.3%, respectively. During the Track Record Period, the average unit costs for switching regulators remained relatively stable. Gross profit margin of switching regulators decreased during the Track Record Period, primarily due to the increase in revenue contribution from the Low ASP Switching Regulators with lower average selling prices and lower gross profit margin than the average of our existing analog IC products, and the decrease in revenue contribution from High ASP Switching Regulators with higher average selling prices and higher gross profit margin. For details of these products and their average selling prices, please refer to "Business – Our Product Offerings – Our Operational Highlights." For example, we launched Low ASP Switching Regulators based on a high performance switching regulator. Compared with the high performance switching regulator, the new products are not compatible with both lower starting voltage and higher extreme working voltage, and has reduced the withstand voltage level of the built-in power transistor. Such new products, although have relatively lower average selling prices and lower gross profit margin, have effectively enlarged sales volume due to its simplified design and reduced product size.

Multi-channel ICs and PMICs

Gross profit margin of multi-channel ICs and PMICs remained stable at 40.7% in 2020 and 40.6% in 2021. Gross profit margin of multi-channel ICs and PMICs increased from 40.6% in 2021 to 46.3% in 2022, and increased from 42.6% for the six months ended June 30, 2022 to 49.4% for the six months ended June 30, 2023, primarily due to the decreases in revenue contribution of High ASP Multi-channel ICs and PMICs being the six types of multi-channel ICs and PMICs (including four-channel buck SOC chips and three-channel buck SOC chips), which had lower than average gross profit margins. In 2020, 2021 and 2022, and the six months ended June 30, 2022 and 2023, the sales amount of these products accounted for 55.8%, 60.1%, 37.6%, 53.7% and 16.7%, respectively, of our total sales amount of multi-channel ICs and PMICs, and the fluctuation was mainly due to changes in market demand in relation to the emergence of similar products in the market. The average gross profit margin of these products was 36.5%, 37.4%, 37.7%, 37.2% and 37.3% in 2020, 2021 and 2022, and the six months ended June 30, 2022 and 2023, respectively. These products have lower than average gross profit margin because they integrate more components to achieve the function of continuously outputting large currents, resulting in higher than average unit costs, despite that they had relatively higher average selling prices due to higher reliability and more complex functions. For details of these products and their average selling prices, please refer to "Business – Our Product Offerings – Our Operational Highlights."

Signal chain products: In 2020, 2021 and 2022 and for the six months ended June 30, 2022 and 2023, we sold one, 23, 32, 30 and 36 types of signal chain products, respectively, under the only sub-category, linear products. Similar to power management products, the gross profit margin of different types of signal chain products varied due to different functions and performance, and the gross profit margins, average selling price and material costs of the same type of signal chain product we sold remained relatively stable during the Track Record Period. Therefore, the gross profit margin of our signal chain products primarily depends on the types of products we sold in response to changes in market demand. The gross profit margins of signal chain products decreased from 90.7% in 2020 to 68.3% in 2021, and further decreased to 61.8% in 2022, and decreased from 61.4% for the six months ended June 30, 2022 to 60.7% for the six months ended June 30, 2023, primarily due to our increased revenue contribution of new types of linear products with relatively low gross profit margins to meet our customers' demands. We launched our first signal chain product in 2020. This signal chain product, being a two-channel amplifier, allows a higher input voltage to be supplied at its input terminals, and such specification is rarely seen among amplifiers in the market. Due to its advanced technological specifications that drive its price up, the gross profit margin of this signal chain product was higher than other signal chain products during the Track Record Period, being 90.7%, 90.4%, 94.5% and 93.4%, in 2020, 2021 and 2022 and the six months ended June 30, 2022, respectively. Due to its advanced technological specifications, such signal chain product has a relatively high average selling price as compared to our other signal chain products launched thereafter and limited downstream market demand, therefore we did not sell this product in the six months ended June 30, 2023. In order to diversify our product offerings and cover a broader range of downstream applications, we have successively launched other signal chain products since 2021, including comparators and amplifiers with various capabilities and specifications. Although these signal chain products are not as technologically advanced as our first signal chain product, they can still meet the needs of our customers in most scenarios and combines good performance with competitive prices. Therefore, although the gross profit margins of the new signal chain products are relatively low, being 66.3%, 60.7%, 59.1% and 60.7% in 2021 and 2022, and the six months ended June 30, 2022 and 2023, respectively, their revenue contribution continued to increase, which led to the continuous decreases in our gross profit margin of signal chain products during the Track Record Period. Revenue generated from these signal chain products was RMB18.1 million, RMB55.8 million, RMB26.9 million and RMB24.8 million in 2021 and 2022, and the six months ended June 30, 2022 and 2023, respectively, accounting for 91.4%, 96.7%, 93.4% and 100.0% of our revenue from signal chain products for the same periods. For details of the average selling prices for signal chain products, please refer to "Business – Our Product Offerings – Our Operational Highlights."

Our gross profit margin for sales to distributors and direct sales remained relatively stable during the Track Record Period. The gross profit margin of different sales channels is mainly influenced by the differences in the types of analog IC products we sold. During the Track Record Period, the gross profit margin for sales to distributors was generally higher than that of direct sales, mainly due to different types of product they purchased. Our major distributors, such as Arrow, mainly purchased sub-categories of products with higher gross profit margin during the Track Record Period, such as switching regulators and signal chain products, due to the needs of their downstream customers. In 2020, 2021 and 2022 and the six months ended June 30, 2022 and 2023, revenue generated from multi-channel ICs and PMICs, the sub-category with lower gross profit margin, accounted for 50.6%, 34.6%, 29.2%, 18.5% and

42.1% of revenue generated from sales to distributors, respectively, and 37.5%, 65.0%, 39.2%, 40.9% and 40.0% of revenue generated from direct sales, respectively. The following table sets forth a breakdown of our gross profit and gross profit margin by sales channel for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(unaudited)			
Sales to distributors	46,398	55.0	109,530	57.0	160,958	56.9	76,710	58.1	93,641	55.7
Direct sales	2,351	54.7	10,470	51.0	38,366	54.9	16,365	54.6	19,254	53.2
Total	48,749	54.9	120,000	56.4	199,324	56.5	93,075	57.4	112,895	55.2

Other Income and Net Gain

Other income and net gain primarily consist of (i) government grants; (ii) interest income from bank deposits, part of which were pledged for the issuance of bank acceptance bills; (iii) rental income from lease of our testing equipment; (iv) net realized and unrealized gains on financial assets measured at fair value through profit or loss ("**FVTPL**"), representing gains from wealth management products offered by reputable commercial banks in the PRC, including primarily wealth management products that invest mainly in money market instruments and debt securities with low risk and high liquidity, and structured deposits; and (v) R&D service income.

Our government grants primarily include industry-specific subsidies granted by the local government authorities in China to encourage R&D projects. The establishment of the incentive programs and grant of such subsidies are subject to the government's discretion and the receipt of such subsidies is thus unpredictable. There are no unfulfilled conditions relating to such government grants recognized. Our government grants that were non-recurring in nature caused the fluctuations in the amount of other income and net gain. Our government grants increased from RMB1.2 million in 2020 to RMB2.2 million in 2021, primarily due to an increase in COVID-19-related subsidies to stabilize employment and an increase in local government subsidies to promote the innovation in high-tech enterprises. Our government grants decreased from RMB2.2 million in 2021 to RMB0.7 million in 2022, primarily due to a decrease in COVID-19-related subsidies and a decrease in local government grants to promote innovation which were one-off in nature. Our government grants increased from RMB0.3 million for the six months ended June 30, 2022 to RMB4.3 million for the six months ended June 30, 2023, primarily due to an increase in local government subsidies to boost high-end manufacturing in Suzhou, and promote the innovation in high-tech enterprises.

Our R&D service income mainly consist of income derived from entrusted R&D agreements, according to which we provided circuit design services to a third party customer, a PRC state-owned enterprise established in 1979 and headquartered in Anhui primarily engaging in R&D and manufacturing of microelectronic devices (the "**Counterparty**"), in accordance with its design and testing requirements.

The salient terms of the entrusted R&D agreements are set out below:

- *Termination.* Either party has right to terminate the agreement upon mutual consent, or upon the occurrence of technical risks and force majeure which renders the performance of the agreement impossible.

- *Parties' obligations.* We are responsible for, among others, (i) designing, researching and developing a DC-DC switching regulator product according to specifications and requirements stipulated in the agreement; (ii) delivering to the Counterparty all related materials, including graphics, reports and other documents, and cooperating in relevant review and testing procedures; and (iii) upon the Counterparty's requests, providing technical assistance and guidance relating to the product after its delivery. The Counterparty is responsible for, among others, (i) providing the designing and testing specifications and requirements to be met by the product; and (ii) paying us in accordance with the amount and schedule stipulated in the agreement.

- *Upfront and Milestone Payments.* The total consideration of these agreements (i.e. the total amount of the R&D service income for the years ended December 31, 2021 and 2022) amounted to RMB6.8 million and is payable to us (i) in full within 15 days after entering into agreement, or (ii) in four installments. Within 15 days after entering into the agreement, 30% of the total consideration is payable to us. Upon passing review procedure for the prototype design and passing the review procedure for the sample design, 30% of the total consideration is payable to us for each of these two milestones. 10% of the total consideration is payable to us when the product passes the testing by a designated testing agency. The amount of the total consideration and the schedule of payment installments were negotiated on an arm's length basis and have taken into account our R&D costs including primarily labor costs, tape-out costs and chip probing costs, and a reasonable level of profit.

- *Confidentiality.* Each party of the agreement shall keep confidential the materials such as technical resolutions, software and design methods, as well as trade secrets and other confidential information within a specified period.

- *Intellectual Property.* The technical achievements and related IP rights arising from the performance of the agreement are shared by both parties, and neither party shall transfer or license them to any other third party without the written consent of the other party. After fulfilling our R&D obligations in accordance with the agreement, we may further improve the product and own the IP rights of any new achievements arising from such improvement.

The following table sets forth a breakdown of our other income and net gain for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*
							(Unaudited)			
Government grants	1,194	60.8	2,194	53.7	672	6.9	317	19.0	4,283	75.9
Interest income	289	14.7	166	4.1	495	5.1	158	9.5	628	11.1
Rental income	–	–	–	–	710	7.3	261	15.6	397	7.0
Net realized and unrealized gains on financial assets measured at fair value through profit or loss	417	21.2	1,195	29.2	1,730	17.7	932	55.9	237	4.2
R&D service income	–	–	609	14.9	6,184	63.2	–	–	–	–
Net loss on disposal of property, plant and equipment	–	–	(37)	(0.9)	–	–	–	–	(1)	(0.0)[1]
Others	65	3.3	(40)	(1.0)	–	–	–	–	98	1.7
Total	1,965	100.0	4,087	100.0	9,791	100.0	1,668	100.0	5,642	100.0

Note:

(1) Less than 0.05%.

Distribution Costs

Our distribution costs primarily consist of (i) employee benefits expenses, which mainly include salaries and welfare of our sales and marketing staff; and (ii) travel and entertainment expenses. In 2020, 2021 and 2022 and for the six months ended June 30, 2022 and 2023, our distributions costs only accounted for 0.9%, 0.8%, 1.0%, 0.9% and 1.4% of our revenue, respectively, as we primarily sold and marketed our patterned wafer products through third-party professional distributors during the Track Record Period.

The following table sets forth the components of our distribution costs for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*
							(Unaudited)			
Employee benefits expenses	625	79.0	1,428	80.6	2,891	80.8	1,235	82.3	1,670	58.2
Travel and entertainment expenses	166	21.0	338	19.1	676	18.9	263	17.5	544	19.0
Others	–	–	6	0.3	13	0.3	2	0.1	656	22.8
Total	791	100.0	1,772	100.0	3,580	100.0	1,500	100.0	2,870	100.0

Administrative Expenses

Our administrative expenses primarily consist of (i) employee benefits expenses, which mainly include salaries and welfare of our senior management and business operations and administration staff; (ii) consultation and agency fees, which mainly arise from the engagement of professional service providers for potential A-share [**REDACTED**] in the PRC; (iii) depreciation and amortization; (iv) [**REDACTED**] expenses; (v) travel and entertainment expenses; (vi) impairment loss; and (vii) office expenses, which mainly include property management fees and other general office expenses.

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

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*
							(Unaudited)			
Employee benefits expenses	2,402	68.5	7,099	51.2	11,460	51.7	4,878	46.1	5,630	53.1
Consultation and agency fees	386	11.0	2,540	18.3	2,960	13.3	258	2.4	1,931	18.2
Depreciation and Amortization	337	9.6	1,681	12.1	2,548	11.5	1,208	11.4	1,576	14.9
[REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*
							(Unaudited)			
Travel and entertainment expenses	294	8.4	863	6.2	1,765	8.0	612	5.8	763	7.2
Office expenses	565	16.1	795	5.7	1,298	5.9	612	5.8	620	5.9
Impairment loss	(317)	(9.0)	678	4.9	1,528	6.9	2,932	27.7	(1,046)	(9.9)
Others[(1)]	(162)	(4.6)	204	1.5	622	2.8	91	0.9	337	3.2
Total	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Note:

(1) Others mainly include patent annual fee and bank fees.

R&D Expenses

Our R&D expenses primarily consist of (i) material costs for R&D projects; (ii) share-based payments in relation to the capital injection agreement Backward Partnership entered into with our R&D director, Mr. Shi Chao, for his contribution to us and providing him with an incentive for outstanding future performance. The amount of share-based payments was determined as the difference between the fair value of our equity interest and the consideration received by Backward Partnership; and (iii) employee benefits expenses, which mainly include salaries and welfare of our R&D staff. The following table sets forth a breakdown of the components of our R&D expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*
							(Unaudited)			
Material costs	15,180	53.4	31,212	65.6	61,171	72.1	29,239	74.4	32,653	56.9
Share-based payments	–	–	–	–	–	–	–	–	9,995	17.4
Employee benefits expenses	10,771	37.9	13,279	27.9	17,831	21.0	7,807	19.9	9,477	16.5
Depreciation cost	1,002	3.5	1,001	2.1	868	1.0	438	1.1	275	0.5
Others[(1)]	1,452	5.1	2,117	4.4	5,009	5.9	1,795	4.6	5,011	8.7
Total	28,405	100.0	47,609	100.0	84,879	100.0	39,279	100.0	57,411	100.0

Note:

(1) Others mainly include testing fees for R&D projects, IP application, registration and agency fees.

Material costs primarily comprised tape-out costs in the IC design verification, which accounted for 53.4%, 65.6%, 72.1%, 74.4% and 56.9% of our R&D expenses in 2020, 2021 and 2022, and the six months ended June 30, 2022 and 2023, respectively. Material costs were mainly affected by the number and stage of our R&D projects, and the difficulties encountered in developing products with varying levels of technical complexity. During the Track Record Period, we continuously increased our investment in R&D. The number of our R&D projects increased from 32 in 2020 to 46 in 2021, and further to 53 in 2022, and increased from 45 for the six months ended June 30, 2022 to 48 for the six months ended June 30, 2023. Material costs increased from RMB15.2 million in 2020 to RMB31.2 million in 2021, and further to RMB61.2 million in 2022, primarily due to increased procurement of raw materials to support an increasing number of R&D projects. Material costs increased from RMB29.2 million for the six months ended June 30, 2022 to RMB32.7 million for the six months ended June 30, 2023, primarily due to the use of R&D tape-out with relatively high unit price in our R&D projects in develop high-performance products with strict technical requirements.

During the Track Record Period, our R&D expenses were mainly invested in the development of new types of analog IC patterned wafers. The R&D expenses attributable to the development of EDA software primarily consisted of salaries and welfare of our R&D staff, which accounted for less than 1.6% of our total R&D expenses in each year/period comprising the Track Record Period.

Finance Costs

Our finance costs primarily consist of (i) interest on loans and borrowings, which mainly include interest on short-term bank loans and other borrowings; (ii) interest on lease liabilities; and (iii) interest on financial instruments issued to investors, mainly arising from financial instruments issued to investors with preferred rights. Pursuant to the agreements between our investors and us, certain investors were granted the right to liquidate us and receive a preference amount upon liquidation or require us to redeem their paid-in or share capital for cash upon specified events, including a resignation of the founders (the "**Preferred Rights**"). We entered into an agreement with our investors to terminate the financial instruments issued to investors in December 2021. See "Financial Information – Discussion of Certain Items of Statements of Financial Position – Financial Instruments Issued to Investors" for details. The following table sets forth a breakdown of the components of our finance costs for the periods indicated:

	Year ended December 31,						**Six months ended June 30,**			
	2020		**2021**		**2022**		**2022**		**2023**	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*
							(Unaudited)			
Interest on										
– loans and borrowings	1,263	31.4	650	16.8	1,403	85.0	494	80.7	1,684	93.8
– lease liabilities	15	0.4	179	4.6	248	15.0	118	19.3	112	6.2
– financial instruments issued to investors	2,740	68.2	3,048	78.6	–	–	–	–	–	–
Total	4,018	100.0	3,877	100.0	1,651	100.0	612	100.0	1,796	100.0

Income Tax

Our income tax expense was nil, nil, RMB1.6 million, nil and nil in 2020, 2021 and 2022 and for the six months ended June 30, 2022 and 2023, respectively. The income tax provision of the Company has been calculated at the tax rate of 25% on the taxable income during the Track Record Period in accordance with the EIT Law. We were entitled to preferential tax rate, additional deduction on R&D expenses and deduction on equipment newly purchased as explained below.

According to the EIT Law and its relevant regulations, entities that qualified as high-technology enterprise are entitled to a preferential income tax rate of 15%. We obtained the certificate of high-technology enterprise on December 2, 2020 and is subject to income tax rate at 15% for a three-year period from 2020 to 2022. We are in the process of renewing the high-technology enterprise certificate. During the Track Record Period, we did not have any taxable income. According to the Notice of the State Council on Promulgation of Several Policies for Promoting the High-quality Development of Integrated Circuit and Software Industries in the New Era, from the year that we have taxable income, we can enjoy the exemption from EIT for the first two years and a half reduced rate on statutory rate for the following three years.

According to the Circular on Improving the Policy on Super-deduction of R&D Expenses (《關於完善研究開發費用稅前加計扣除政策的通知》) promulgated by the STA, the MOF and the MOST, effective from January 1, 2016 onwards, enterprises carrying out R&D activities are entitled to claim super-deduction of R&D expenses amounting to 50% of its R&D expenses in determining its tax assessable profits for the year. The ratio of the super-deduction of R&D expenses increased from 50% to 75%, effective from January 1, 2018 to December 31, 2020, according to the new tax incentives policy, the Notice of Increasing the Ratio of the Super-deduction of R&D Expenses (《關於提高研究開發費用稅前加計扣除比例的通知》) promulgated by the STA, the MOF and the MOST in September 2018. The applicable period of this policy was subsequently extended to December 31, 2023, pursuant to the Announcement of the MOF and the STA on Extending the Implementation Period of Some Preferential Tax Policies (《財政部 稅務總局關於延長部分稅收優惠政策執行期限的公告》) issued on March 15, 2021. The ratio of the super-deduction of R&D expenses has been further increased to 100% for enterprises entitled to 75% super-deduction of R&D expenses during the period from October 1, 2022 to June 30, 2023, and such enterprises are allowed to deduct the full amount of equipment and appliances newly purchased during the period from October 1, 2022 to June 30, 2023 from the taxable income, according to the Announcement on Increasing Super-deduction in Support of Scientific and Technological Innovation (《關於加大支持科技創新稅前扣除力度的公告》) promulgated by the STA, the MOF and the MOST in September 2022. According to the Announcement of the MOF and the STA on Further Improving the Pre-tax Deduction Policy for R&D Expenses (2023) (《財政部、稅務總局關於進一步完善研發費用稅前加計扣除政策的公告(2023)》), where R&D expenses actually incurred by an enterprise when it conducts any R&D activity have not been included in the current profit and loss, from January 1, 2023 onwards, 100% of the amount of R&D expenses actually incurred in this year shall be deducted from the amount of taxable income in this year, and where intangible assets have been formed, 200% of the costs of the intangible assets shall be amortized before tax. We have claimed super-deduction of R&D expenses upon above mentioned regulations in ascertaining our tax assessable profits for the Track Record Period.

As of the Latest Practicable Date, we did not have any material dispute with any tax authority.

DISCUSSION OF RESULTS OF OPERATIONS

Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022

Revenue

Our revenue increased by 26.1% from RMB162.1 million for the six months ended June 30, 2022 to RMB204.4 million for the six months ended June 30, 2023 due to increases in sales of power management products.

- *Power management products.* Our revenue generated from sales of power management products increased by 34.8% from RMB133.2 million for the six months ended June 30, 2022 to RMB179.6 million for the six months ended June 30, 2023. Such increase was primarily due to (i) an increase in our sales volume of power management products from 35.4 million units for the six months ended June 30, 2022 to 45.3 million units for the six months ended June 30, 2023, which was driven by the increased types of power management products we sold from 157 for the six months ended June 30, 2022 to 291 for the six months ended June 30, 2023; and (ii) an increase in average selling price from RMB3.8 for the six months ended June 30, 2022 to RMB4.0 for the six months ended June 30, 2023, primarily attributable to an increase in the portion of revenue contribution of multi-channel ICs and PMICs, the type of products with the highest average selling price.

  Our revenue generated from sales of switching regulators decreased by 2.7% from RMB77.8 million for the six months ended June 30, 2022 to RMB75.7 million for the six months ended June 30, 2023, primarily due to a decrease in the average selling price of switching regulators from RMB3.0 for the six months ended June 30, 2022 to RMB2.3 for the six months ended June 30, 2023, partially offset by an increase in sales volume of switching regulators from 26.4 million units for the six months ended June 30, 2022 to 33.6 million units for the six months ended June 30, 2023 due to the sales volume contribution of the new types of switching regulators.

  Our revenue generated from sales of multi-channel ICs and PMICs increased by 132.3% from RMB36.7 million for the six months ended June 30, 2022 to RMB85.3 million for the six months ended June 30, 2023, primarily due to an increase in sales volume of multi-channel ICs and PMICs from 0.8 million units for the six months ended June 30, 2022 to 3.9 million units for the six months ended June 30, 2023 due to the sales volume contribution of both the types of multi-channel ICs and PMICs we already provided in the first half of 2022 and the new types of multi-channel ICs and PMICs, partially offset by a decrease in the average selling price of multi-channel ICs and PMICs from RMB44.0 for the six months ended June 30, 2022 to RMB21.9 for the six months ended June 30, 2023.

- *Signal chain products.* Our revenue generated from sales of signal chain products decreased by 13.9% from RMB28.8 million for the six months ended June 30, 2022 to RMB24.8 million for the six months ended June 30, 2023. Such decrease was primarily due to a decrease in average selling price of linear products from RMB4.2 for the six months ended June 30, 2022 to RMB3.2 for the six months ended June 30, 2023, and was partially offset by an increase in our sales volume of signal chain products from 6.8 million units for the six months ended June 30, 2022 to 7.7 million units for the six months ended June 30, 2023, which was driven by the increased types of signal chain products we sold from 30 for the six months ended June 30, 2022 to 36 for the six months ended June 30, 2023.

Cost of Sales

Our cost of sales increased by 32.7% from RMB69.0 million for the six months ended June 30, 2022 to RMB91.5 million for the six months ended June 30, 2023. The increase of costs of sales was mainly attributable to an increase in material costs.

- *Power management products.* Our cost of sales of power management products increased by 41.3% from RMB57.9 million for the six months ended June 30, 2022 to RMB81.8 million for the six months ended June 30, 2023, primarily due to (i) an increase in cost of sales of switching regulators by 4.0% from RMB30.4 million for the six months ended June 30, 2022 to RMB31.6 million for the six months ended June 30, 2023, which was in line with the revenue growth in switching regulators; (ii) an increase in cost of sales of multi-channel ICs and PMICs by 104.8% from RMB21.1 million for the six months ended June 30, 2022 to RMB43.1 million for the six months ended June 30, 2023, primarily due to the increased sales volume of multi-channel ICs and PMICs; and (iii) an increase in cost of sales of other power management products by 9.8% from RMB6.5 million for the six months ended June 30, 2022 to RMB7.1 million for the six months ended June 30, 2023, primarily due to an increase in cost of sales of linear regulators and monitoring and modulating ICs due to the increased sales volume of linear regulators and monitoring and modulating ICs.

- *Signal chain products.* Our cost of sales of signal chain products decreased by 12.3% from RMB11.1 million for the six months ended June 30, 2022 to RMB9.8 million for the six months ended June 30, 2023, which was in line with the revenue growth in signal chain segment.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 21.3% from RMB93.1 million for the six months ended June 30, 2022 to RMB112.9 million for the six months ended June 30, 2023. Our gross profit margin decreased from 57.4% for the six months ended June 30, 2022 to 55.2% for the six months ended June 30, 2023, primarily due to an increase in revenue contribution of multi-channel ICs and PMICs, which had relatively lower gross profit margin compared with switching regulators. See "– Description of Major Components of Our Results of Operations – Gross Profit and Gross Profit Margin" in this section for more details of our gross profit and gross profit margin.

- *Power management products.* Our gross profit of sales of power management products increased from RMB75.4 million for the six months ended June 30, 2022 to RMB97.8 million for the six months ended June 30, 2023. The gross profit margin of sales of power management products decreased from 56.6% for the six months ended June 30, 2022 to 54.5% for the six months ended June 30, 2023, primarily due to an increase in revenue contribution of multi-channel ICs and PMICs from 22.6% to 41.7% for the same periods. The gross profit margin of multi-channel ICs and PMICs is lower compared with other power management products because the multi-channel ICs and PMICs we sold were mainly SoC products with higher unit costs.

  Our gross profit margin of sales of switching regulators decreased from 61.0% for the six months ended June 30, 2022 to 58.3% for the six months ended June 30, 2023, primarily due to the increases in revenue contribution from Low ASP Switching Regulators, which had lower than average gross profit margin, and the decrease in revenue contribution from High ASP Switching Regulators, which had higher than average gross profit margin. The average unit costs for switching regulators remained relatively stable for the six months ended June 30, 2022 and 2023. Our gross profit margin of sales of multi-channel ICs and PMICs increased from 42.6% for the six months ended June 30, 2022 to 49.4% for the six months ended June 30, 2023, primarily due to the decreases in revenue contribution of High ASP Multi-channel ICs and PMICs, which had lower than average gross profit margin. Our gross profit margin of sales of other power management products decreased from 65.5% for the six months ended June 30, 2022 to 62.0% for the six months ended June 30, 2023, which were mainly affected by the gross profit margins of new types of products.

- *Signal chain products.* Our gross profit of sales of signal chain products decreased from RMB17.7 million for the six months ended June 30, 2022 to RMB15.1 million for the six months ended June 30, 2023. The gross profit margin of sales of signal chain products decreased from 61.4% for the six months ended June 30, 2022 to 60.7% for the six months ended June 30, 2023, primarily due to the relatively lower gross profit margin of the new types of linear products we offered to meet our customers' demands for the six months ended June 30, 2023 compared with the linear products we provided for the six months ended June 30, 2022.

Other Income and Net Gain

Our other income and net gain increased from RMB1.7 million for the six months ended June 30, 2022 to RMB5.6 million for the six months ended June 30, 2023, primarily due to (i) an increase in government grants by RMB4.0 million, due to an increase in local government subsidies to boost high-end manufacturing in Suzhou and promote the innovation in high-tech enterprises; and (ii) an increase in interest income by RMB0.5 million due to increase in bank deposits, partially offset by a decrease in net realized and unrealized gains on financial assets measured at fair value through profit or loss by RMB0.7 million due to decrease in purchase amount of wealth management products.

Distribution Costs

Our distribution costs increased by 91.3% from RMB1.5 million for the six months ended June 30, 2022 to RMB2.9 million for the six months ended June 30, 2023, primarily due to (i) an increase in others by RMB0.7 million, which mainly represents the depreciation of property, plant and equipment in relation to passenger vehicles and depreciation of right-of-use assets in relation to our leased office in Shanghai; and (ii) an increase in employee benefits expenses by RMB0.4 million as a result of an increase in the average number of our sales staff from seven for the six months ended June 30, 2022 to eight for the six months ended June 30, 2023. The proportion of distribution costs as a percentage of our revenue increased from 0.9% for the six months ended June 30, 2022 to 1.4% for the six months ended June 30, 2023, as we increased our investment in sales and distribution to expand our customer base.

Administrative Expenses

Our administrative expenses remained relatively stable at RMB10.6 million for the six months ended June 30, 2022 and RMB10.6 million for the six months ended June 30, 2023. The consultation and agency fees increased from RMB0.3 million for the six months ended June 30, 2022 to RMB1.9 million for the six months ended June 30, 2023, primarily due to the expensed audit fee in 2022 and the first quarter of 2023 for potential A-share [**REDACTED**] in the PRC, and ISO certification costs. The impairment loss decreased from RMB2.9 million for the six months ended June 30, 2022 to negative RMB1.0 million for the six months ended June 30, 2023, primarily due to the collection of trade receivables from our largest customer, which was a favorable change in the estimates used to determine the recoverable amount and led to a reversed impairment loss. Our administrative expenses as a percentage of revenue decreased from 6.5% for the six months ended June 30, 2022 to 5.2% for the six months ended June 30, 2023.

R&D Expenses

Our R&D expenses increased by 46.2% from RMB39.3 million for the six months ended June 30, 2022 to RMB57.4 million for the six months ended June 30, 2023, primarily due to (i) an increase in share-based payments by RMB10.0 million in relation to the capital injection agreement Backward Partnership entered into with our R&D director, Mr. Shi Chao; (ii) an increase in material cost by RMB3.4 million due to the use of R&D tape-out with relatively high unit price in our R&D projects to develop high-performance products with strict technical requirements; (iii) an increase in employee benefits expenses by RMB1.7 million due to an increase in average compensation paid to our R&D staff from approximately RMB110,000 for the six months ended June 30, 2022 to approximately RMB132,000 for the six months ended June 30, 2023; and (iv) an increase in others by RMB3.2 million, including primarily testing fees in relation to wafer mask making in a R&D project.

Our R&D expenses as a percentage of revenue increased from 24.2% for the six months ended June 30, 2022 to 28.1% for the six months ended June 30, 2023, primarily due to more R&D activities conducted for the six months ended June 30, 2023.

Finance Costs

Our finance costs increased from RMB0.6 million for the six months ended June 30, 2022 to RMB1.8 million for the six months ended June 30, 2023, primarily due to an increase in interest expense on loans and borrowing by RMB1.2 million driven by a larger amount of balance of bank loans.

Profit for the Period

As a result of the foregoing, we recorded a profit of RMB42.8 million for the six months ended June 30, 2022 and RMB45.9 million for the six months ended June 30, 2023.

Year Ended December 31, 2022 Compared to Year Ended December 31, 2021

Revenue

Our revenue increased by 65.7% from RMB212.7 million in 2021 to RMB352.5 million in 2022 due to increases in sales of power management products and signal chain products.

- *Power management products.* Our revenue generated from sales of power management products increased by 52.8% from RMB192.9 million in 2021 to RMB294.8 million in 2022. Such increase was primarily due to an increase in our sales volume of power management products from 34.2 million units in 2021 to 72.9 million units in 2022, which was driven by the increased types of power management products we sold from 84 in 2021 to 232 in 2022, and was partially offset by the decrease in average selling price from RMB5.6 in 2021 to RMB4.0 in 2022.

  Our revenue generated from sales of switching regulators increased by 50.3% from RMB99.4 million in 2021 to RMB149.5 million in 2022, primarily due to an increase in sales volume of switching regulators from 26.4 million units in 2021 to 53.7 million units in 2022 due to the sales volume contribution of the new types of switching regulators, partially offset by a decrease in the average selling price of switching regulators from RMB3.8 in 2021 to RMB2.8 in 2022.

Our revenue generated from sales of multi-channel ICs and PMICs increased by 37.5% from RMB79.8 million in 2021 to RMB109.8 million in 2022, primarily due to an increase in sales volume of multi-channel ICs and PMICs from 1.9 million units in 2021 to 3.5 million units in 2022 due to the sales volume contribution of the new types of multi-channel ICs and PMICs, partially offset by a decrease in the average selling price of multi-channel ICs and PMICs from RMB42.1 in 2021 to RMB31.4 in 2022.

Our revenue generated from sales of other power management products increased by 160.6% from RMB13.6 million in 2021 to RMB35.5 million in 2022, primarily due to an increase in revenue generated from sales of monitoring and modulating ICs and linear regulators.

- *Signal chain products.* Our revenue generated from sales of signal chain products increased by 191.3% from RMB19.8 million in 2021 to RMB57.7 million in 2022. Such increase was primarily due to an increase in our sales volume of signal chain products from 3.2 million units in 2021 to 14.6 million units in 2022, which was driven by the increased types of signal chain products we sold from 23 in 2021 to 32 in 2022, and was partially offset by the decrease in average selling price from RMB6.2 in 2021 to RMB4.0 in 2022.

Cost of Sales

Our cost of sales increased by 65.2% from RMB92.7 million in 2021 to RMB153.2 million in 2022, which was generally in line with our revenue growth. The increase of costs of sales was mainly attributable to an increase in material costs which was in line with our revenue growth.

- *Power management products.* Our cost of sales of power management products increased by 51.7% from RMB86.4 million in 2021 to RMB131.1 million in 2022, primarily due to (i) an increase in cost of sales of switching regulators by 72.5% from RMB34.4 million in 2021 to RMB59.3 million in 2022, primarily due to an increase in the sales volume of switching regulators; (ii) an increase in cost of sales of multi-channel ICs and PMICs by 24.3% from RMB47.4 million in 2021 to RMB58.9 million in 2022, primarily due to an increase in the sales volume of multi-channel ICs and PMICs; and (iii) an increase in cost of sales of other power management products by 175.4% from RMB4.7 million in 2021 to RMB12.9 million in 2022, primarily due to an increase in cost of sales of monitoring and modulating ICs due to the increased sales volume of monitoring and modulating ICs.

- *Signal chain products.* Our cost of sales of signal chain products increased by 251.7% from RMB6.3 million in 2021 to RMB22.1 million in 2022, primarily due to the increased sales volume of linear products with higher unit costs.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 66.1% from RMB120.0 million in 2021 to RMB199.3 million in 2022. Our gross profit margin remained stable at 56.4% in 2021 and 56.5% in 2022. See "– Description of Major Components of Our Results of Operations – Gross Profit and Gross Profit Margin" in this section for more details of our gross profit and gross profit margin.

- *Power management products.* Our gross profit of sales of power management products increased from RMB106.5 million in 2021 to RMB163.7 million in 2022. The gross profit margin of sales of power management products remained relatively stable at 55.2% in 2021 and 55.5% in 2022.

  Our gross profit margin of sales of switching regulators decreased from 65.5% in 2021 to 60.3% in 2022, primarily due to the increase in revenue contribution from Low ASP Switching Regulators, which had lower than average gross profit margin, and the decrease in revenue contribution from High ASP Switching Regulators, which had higher than average gross profit margin. The average unit costs for switching regulators remained relatively stable in 2021 and in 2022. Our gross profit margin of sales of multi-channel ICs and PMICs increased from 40.6% in 2021 to 46.3% in 2022, primarily due to the decreases in revenue contribution of High ASP Multi-channel ICs and PMICs that had lower than average gross profit margin. Our gross profit margin of sales of other power management products decreased from 65.6% in 2021 to 63.6% in 2022, which were mainly affected by the gross profit margins of new types of products.

- *Signal chain products.* Our gross profit of sales of signal chain products increased from RMB13.5 million in 2021 to RMB35.7 million in 2022. The gross profit margin of sales of signal chain products decreased from 68.3% in 2021 to 61.8% in 2022, primarily due to the new types of signal chain products we offered to meet our customers' demands had a relatively lower gross profit margin compared with the signal chain products we provided in 2021.

Other Income and Net Gain

Our other income and net gain increased from RMB4.1 million in 2021 to RMB9.8 million in 2022, primarily due to (i) an increase in R&D service income by RMB5.6 million arising from an entrusted R&D agreement, in which we provided R&D services; (ii) an increase in rental income by RMB0.7 million we received for lease of our testing equipment stored in our chip probing service provider's plant to improve utilization; and (iii) an increase in net realized and unrealized gains on financial assets measured at FVTPL by RMB0.5 million, partially offset by a decrease in government grants by RMB1.5 million.

Distribution Costs

Our distribution costs increased by 102.0% from RMB1.8 million in 2021 to RMB3.6 million in 2022, primarily due to an increase in employee benefits expenses as a result of an increase in average compensation paid to our sales staff due to our business expansion from approximately RMB224,000 in 2021 to approximately RMB384,000 in 2022. The proportion of distribution costs as a percentage of our revenue increased from 0.8% in 2021 to 1.0% in 2022, as we increased our investment in sales and distribution to expand our customer base.

Administrative Expenses

Our administrative expenses increased by 60.0% from RMB13.9 million in 2021 to RMB22.2 million in 2022, primarily due to (i) an increase in employee benefits expenses by RMB4.4 million as a result of an increase in the average number of our business operations and administration staff from 23 in 2021 to 33 in 2022 to support our business growth and an increase in average compensation paid to our business operations and administration staff from approximately RMB214,000 in 2021 to approximately RMB268,000 in 2022; (ii) an increase in travel and entertainment expenses of RMB0.9 million; (iii) an increase in depreciation and amortization by RMB0.9 million in relation to the depreciation of our passenger vehicles inproperty, plant and equipment and right-of-use assets; and (iv) an increase in impairment loss of RMB0.9 million in relation to trade and other receivables. Our administrative expenses as a percentage of revenue remained stable at 6.5% in 2021 and 6.3% in 2022.

R&D Expenses

Our R&D expenses increased by 78.3% from RMB47.6 million in 2021 to RMB84.9 million in 2022, primarily due to (i) an increase in material costs by RMB30.0 million due to increased procurement of raw materials in our R&D projects, which increased from 45 in 2021 to 52 in 2022; (ii) an increase in employee benefits expenses by RMB4.6 million due to an increase in average compensation paid to our R&D staff from approximately RMB196,000 in 2021 to approximately RMB251,000 in 2022; and (iii) an increase in others by RMB2.9 million, which represented testing fees for R&D projects, IP application, registration and agency fees.

Our R&D expenses as a percentage of revenue increased from 22.4% in 2021 to 24.1% in 2022, primarily due to more R&D activities conducted in 2022.

Finance Costs

Our finance costs decreased from RMB3.9 million in 2021 to RMB1.7 million in 2022, primarily due to a decrease in interest on financial instruments issued to investors, as we entered into an agreement with our investors to terminate the financial instruments issued to investors in December 2021, which was partially offset by an increase in interest expense on loans and borrowing.

Income Tax

Our income tax was nil in 2021. We recorded a deferred income tax of RMB1.6 million in 2022 due to the temporary difference arising from the one-off tax deduction on the newly purchased equipment and the accounting policy to deduct the depreciation amount over its estimated useful life.

Profit for the Year

As a result of the foregoing, we recorded a profit of RMB57.0 million in 2021 and RMB95.3 million in 2022.

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

Revenue

Our revenue increased by 139.8% from RMB88.7 million in 2020 to RMB212.7 million in 2021 due to increases in sales of power management products and signal chain products.

- *Power management products.* Our revenue generated from sales of power management products increased by 121.5% from RMB87.1 million in 2020 to RMB192.9 million in 2021. Such increase was primarily due to (i) an increase in our sales volume of power management products from 17.0 million units in 2020 to 34.2 million units in 2021, which was driven by the increased types of power management products we sold from 61 in 2020 to 84 in 2021; and (ii) an increase in the average selling price from RMB5.1 in 2020 to RMB5.6 in 2021.

  Our revenue generated from sales of switching regulators increased by 249.5% from RMB28.5 million in 2020 to RMB99.4 million in 2021, primarily due to an increase in sales volume of switching regulators from 10.2 million units in 2020 to 26.4 million units in 2021 due to the sales volume contribution of both the types of switching regulators we already provided in 2020 and the new types of switching regulators, and an increase in the average selling price of switching regulators from RMB2.8 in 2020 to RMB3.8 in 2021.

  Our revenue generated from sales of multi-channel ICs and PMICs increased by 80.0% from RMB44.4 million in 2020 to RMB79.8 million in 2021, primarily due to an increase in sales volume of multi-channel ICs and PMICs from 1.2 million units in 2020 to 1.9 million units in 2021 due to the sales volume contribution of both the types of multi-channel ICs and PMICs we already provided in 2020 and the new types of multi-channel ICs and PMICs, and an increase in the average selling price of multi-channel ICs and PMICs from RMB36.2 in 2020 to RMB42.1 in 2021.

  Our revenue generated from sales of other power management products decreased by 4.5% from RMB14.3 million in 2020 to RMB13.6 million in 2021, primarily due to a decrease in revenue generated from sales of linear regulators.

- *Signal chain products.* Our revenue generated from sales of signal chain products increased by 1,104.4% from RMB1.6 million in 2020 to RMB19.8 million in 2021. Such increase was primarily due to an increase in our sales volume of signal chain products from 0.2 million units in 2020 to 3.2 million units in 2021, which was driven by the increased types of signal chain products we sold from one in 2020 to 23 in 2021, and was partially offset by the decrease in the average selling price from RMB9.3 in 2020 to RMB6.2 in 2021.

Cost of Sales

Our cost of sales increased by 131.9% from RMB40.0 million in 2020 to RMB92.7 million in 2021. The increase of costs of sales was mainly attributable to an increase in material costs which was in line with our revenue growth.

- *Power management products.* Our cost of sales of power management products increased by 117.1% from RMB39.8 million in 2020 to RMB86.4 million in 2021, primarily due to (i) an increase in cost of sales of switching regulators by 269.2% from RMB9.3 million in 2020 to RMB34.4 million in 2021, primarily due to the increased sales volume of switching regulators, and the higher unit costs of seven types of switching regulators we sold in 2021 among our new types of switching regulators due to their larger product size; (ii) an increase in cost of sales of multi-channel ICs and PMICs by 80.2% from RMB26.3 million in 2020 to RMB47.4 million in 2021, which was in line with the revenue growth in multi-channel ICs and PMICs; and (iii) an increase in cost of sales of other power management products by 11.5% from RMB4.2 million in 2020 to RMB4.7 million in 2021, primarily due to an increase in cost of sales of monitoring and modulating ICs due to the increased sales volume of monitoring and modulating ICs.

- *Signal chain products.* Our cost of sales of signal chain products increased from RMB0.2 million in 2020 to RMB6.3 million in 2021, primarily due to the 22 new types of linear products we sold in 2021 with higher unit costs compared with the one linear product we sold in 2020.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our overall gross profit increased by 146.2% from RMB48.7 million in 2020 to RMB120.0 million in 2021. Our gross profit margin increased slightly from 54.9% in 2020 to 56.4% in 2021, primarily due to changes in our product mix as we provided more types of analog IC patterned wafer products in 2021. See "– Description of Major Components of Our Results of Operations – Gross Profit and Gross Profit Margin" in this section for more details of our gross profit and gross profit margin.

- *Power management products.* Our gross profit of sales of power management products increased from RMB47.3 million in 2020 to RMB106.5 million in 2021. Our gross profit margin of sales of power management products increased slightly from 54.3% in 2020 to 55.2% in 2021, primarily due to an increase in revenue contribution of switching regulators, which had relatively high gross profit margin compared with multi-channel ICs and PMICs.

  Our gross profit margin of sales of switching regulators decreased from 67.3% in 2020 to 65.5% in 2021, primarily due to the increase in revenue contribution from the Low ASP Switching Regulators, which had lower than average gross profit margin. Our gross profit margin of sales of multi-channel ICs and PMICs remained stable at 40.7% in 2020 and 40.6% in 2021. Our gross profit margin of sales of other power management products decreased from 70.5% in 2020 to 65.6% in 2021, which were mainly affected by the gross profit margins of new types of products.

- *Signal chain products.* Our gross profit of sales of signal chain products increased from RMB1.5 million in 2020 to RMB13.5 million in 2021. The gross profit margin of sales of signal chain products decreased from 90.7% in 2020 to 68.3% in 2021, primarily due to our concentrated sales of one type of industrial grade signal chain product in 2020, being a two-channel amplifier allowing a higher input voltage to be supplied at its input terminals, which had a high unit selling price as there were limited competing products in the domestic market due to the high entry barrier for competitors to provide similar signal chain products with the advanced technological specifications we were able to offer. In 2021, we expanded our product portfolio and offered 23 types of signal chain products to respond to our customers' growing demand, and the overall gross profit margin decreased due to the more diversified product mix.

Other Income and Net Gain

Our other income and net gain increased from RMB2.0 million in 2020 to RMB4.1 million in 2021, primarily due to (i) an increase in government grants by RMB1.0 million; (ii) an increase in net realized and unrealized gains on financial assets measured at FVTPL by RMB0.8 million in relation to the gains from our redeemed wealth management products; and (iii) an increase in R&D service income by RMB0.6 million arising from an entrusted R&D agreement, in which we provided R&D services.

Distribution Costs

Our distribution costs increased by 124.0% from RMB0.8 million in 2020 to RMB1.8 million in 2021, primarily due to an increase in employee benefits expenses as a result of an increase in average compensation paid to our sales staff due to our business expansion from approximately RMB120,000 in 2020 to approximately RMB224,000 in 2021. The proportion of distribution costs out of our revenue remained relatively stable at 0.9% in 2020 and 0.8% in 2021.

Administrative Expenses

Our administrative expenses increased by 295.4% from RMB3.5 million in 2020 to RMB13.9 million in 2021, primarily due to (i) an increase in employee benefits expenses by RMB4.7 million as a result of an increase in the average number of our business operations and administration staff from 12 in 2020 to 23 in 2021 to support our business growth and an increase in average compensation paid to our business operations and administration staff from approximately RMB130,000 in 2020 to approximately RMB214,000 in 2021; (ii) an increase in consultation and agency fees by RMB2.2 million due to the engagement of professional service providers for potential A-share listing in the PRC; (iii) an increase in depreciation and amortization by RMB1.3 million arising from the depreciation of right-of-use assets in relation to our office leases and the depreciation of our passenger vehicles in property, plant and equipment; and (iv) an increase in impairment loss by RMB1.0 million in relation to trade and other receivables due to the larger amount of balance of trade receivables as of December 31, 2021. Our administrative expenses as a percentage of revenue increased from 4.0% in 2020 to 6.5% in 2021.

R&D Expenses

Our R&D expenses increased by 67.6% from RMB28.4 million in 2020 to RMB47.6 million in 2021, primarily due to (i) an increase in material costs by RMB16.0 million due to increased procurement of raw materials for our R&D projects, which increased from 31 in 2020 to 45 in 2021; (ii) an increase in employee benefits expenses by RMB2.5 million due to an increase in the average number of our R&D staff from 56 in 2020 to 62 in 2021 and an increase in average compensation paid to R&D staff from approximately RMB186,000 in 2020 to approximately RMB196,000 in 2021.

Our R&D expenses as a percentage of revenue decreased from 32.0% in 2020 to 22.4% in 2021, primarily due to the significant growth of our revenue in 2021.

Finance Costs

Our finance costs remained relatively stable at RMB4.0 million in 2020 and RMB3.9 million in 2021.

Income Tax

Our income tax was nil in 2020 due to the preferential tax treatment and additional deduction on R&D expenses. Our income tax was nil in 2021 due to the preferential tax treatment, additional deduction on R&D expenses and the unused tax losses in 2021.

Profit for the Year

As a result of the foregoing, we recorded a profit of RMB14.0 million in 2020 and RMB57.0 million in 2021.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we financed our cash requirements primarily through cash generated from operating activities, capital contributions by investors and bank loans. In the future, we expect to continue relying on cash flows from operations, net [**REDACTED**] from the [**REDACTED**], and other debt to fund our working capital needs.

Cash Flows

The following table sets forth a summary of our statements of cash flows for the periods indicated:

	Years ended December 31,			Six months ended June 30,	
	2020	**2021**	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Net cash (used in)/generated from operating activities	(41,493)	8,805	(31,416)	7,888	50,116
Net cash (used in)/generated from investing activities	(48,886)	19,602	(15,480)	(63,830)	(5,201)
Net cash generated from/(used in) financing activities	91,065	104,936	62,625	(7,392)	5
Net increase/(decrease) in cash and cash equivalents	686	133,343	15,729	(63,334)	44,920
Cash and cash equivalents at January 1	12,749	13,435	146,778	146,778	162,507
Cash and cash equivalents at December 31/June 30	13,435	146,778	162,507	83,444	207,427

We had net cash outflow from operating activities for the years ended December 31, 2020 and 2022. In order to improve our net operating cash outflow position, we have adopted internal control measures, including, among others, the financial management handbook (《財務管理手冊》). The general ledger accountant shall prepare a monthly capital plan, receive approval from the financial manager and submit to the chief financial officer and general manager for review. The finance department will manage our working capital according to the plan to avoid business interruption due to shortage of funds or waste of resources due to excessive idle funds. The general ledger accountant shall track the receipts based on the plan, receive approval from the financial manager and submit a cash flow forecast to the chief financial officer and general manager for review. We also intend to strengthen the internal policy to control the trade receivables in various aspects, including, among others, monitoring of the progress of receivables collection and enhancing the discussion with customers regarding the delayed payment.

Net Cash (Used in)/Generated from Operating Activities

In 2020, our net cash used in operating activities was RMB41.5 million, primarily due to our profit before tax of RMB14.0 million, as adjusted by (i) non-cash items, which primarily included finance costs of RMB4.0 million; and (ii) changes in working capital, which primarily included (a) an increase in inventories of RMB31.5 million due to the growth of our sales volume; and (b) an increase in prepayments of RMB28.6 million due to our increased prepayments to suppliers primarily for the procurement of raw materials.

In 2021, our net cash generated from operating activities was RMB8.8 million, primarily due to our profit before tax of RMB57.0 million, as adjusted by (i) non-cash items, which primarily included finance costs of RMB3.9 million; and (ii) changes in working capital, which primarily included (a) an increase in prepayments of RMB43.7 million due to our increased procurement volume of raw materials which led to an increase in prepayments to suppliers; (b) an increase in inventories of RMB12.0 million due to the growth of our sales volume; (c) an increase in trade and other payables of RMB11.2 million due to increase in contract liabilities in relation to the advance payments we received for sales of products; and (d) an increase in trade and other receivables of RMB8.8 million due to the revenue growth for both sales of power management products and signal chain products.

In 2022, our net cash used in operating activities was RMB31.4 million, primarily due to our profit before tax of RMB96.8 million, as adjusted by (i) non-cash items, which primarily included depreciation of right-of-use assets of RMB2.2 million; and (ii) changes in working capital, which primarily included (a) an increase in prepayments of RMB126.9 million due to our increased procurement volume of raw materials which led to an increase in prepayments to suppliers; (b) an increase in trade and other payables of RMB74.7 million due to increase in bills payable in relation to bank acceptance we used for settlement in 2022; (c) an increase in trade and other receivables of RMB37.9 million due to the revenue growth for both sales of power management products and signal chain products; (d) an increase in pledged bank deposits of RMB21.2 million as a guarantee to issue bank acceptance bills; and (e) an increase in inventories of RMB19.8 million due to the growth of our sales volume.

For the six months ended June 30, 2023, our net cash generated from operating activities was RMB50.1 million, primarily due to our profit before tax of RMB45.9 million, as adjusted by (i) non-cash items, which primarily included equity-settled share-based transactions of RMB10.0 million; and (ii) changes in working capital, which primarily included (a) an increase in trade and other payables of RMB170.0 million due to increase in bills payable for the procurement of foundry-manufactured wafers; (b) an increase in prepayments of RMB82.2 million due to our increased procurement volume of raw materials and the increased [**REDACTED**] expenses; (c) an increase in pledged bank deposits of RMB60.2 million as a guarantee to issue bank acceptance bills; (d) an increase in inventories of RMB54.1 million due to growth of our sales volume; and (e) a decrease in trade and other receivables of RMB17.5 million because the trade receivables from our largest customer as of December 31, 2022 were fully settled in the first half of 2023, and we accelerated the collection of trade receivables in the first half of 2023.

Net Cash (Used in)/Generated from Investing Activities

In 2020, our net cash used in investing activities was RMB48.9 million, primarily due to payments for acquisition of financial assets measured at FVTPL of RMB117.5 million and payment for the purchase of property, plant and equipment of RMB5.8 million, partially offset by proceeds from disposal of financial assets measured at FVTPL of RMB63.9 million and repayments of loans and borrowings to related parties of RMB11.7 million.

In 2021, our net cash generated from investing activities was RMB19.6 million, primarily due to proceeds from disposal of financial assets measured at FVTPL of RMB106.3 million, partially offset by payments for acquisition of financial assets measured at FVTPL of RMB51.0 million and payment for the purchase of property, plant and equipment of RMB35.9 million.

In 2022, our net cash used in investing activities was RMB15.5 million, primarily due to payments for acquisition of financial assets measured at FVTPL of RMB462.7 million and payment for the purchase of property, plant and equipment of RMB18.7 million, partially offset by proceeds from disposal of financial assets measured at FVTPL of RMB464.4 million.

For the six months ended June 30, 2023, our net cash used in investing activities was RMB5.2 million, primarily due to payment for the purchase of property, plant and equipment of RMB5.9 million, partially offset by interest received of RMB0.6 million.

Net Cash Generated from/(Used in) Financing Activities

In 2020, our net cash generated from financing activities was RMB91.1 million, primarily due to proceeds from the issue of financial instruments to investors of RMB45.0 million, capital contributions by investors of RMB44.5 million and proceeds from loans and borrowings of RMB20.0 million, partially offset by repayment of loans and borrowings of RMB21.6 million.

In 2021, our net cash generated from financing activities was RMB104.9 million, primarily due to proceeds from the issue of financial instruments to investors of RMB70.5 million, proceeds from loans and borrowings of RMB30.5 million and capital contributions by investors of RMB25.2 million, partially offset by repayment of loans and borrowings of RMB20.0 million.

In 2022, our net cash generated from financing activities was RMB62.6 million, primarily due to proceeds from loans and borrowings of RMB153.7 million, partially offset by repayment of loans and borrowings of RMB88.8 million.

For the six months ended June 30, 2023, our net cash generated from financing activities was RMB5,000, primarily due to proceeds from loans and borrowings of RMB11.9 million, partially offset by [**REDACTED**] expenses paid of [**REDACTED**] and interest paid of RMB1.7 million.

Current Assets/Liabilities

The following table sets forth our current assets and current liabilities of the statements of financial position as of the respective dates indicated:

	As of December 31,			As of June 30,	As of October 31,
	2020	**2021**	**2022**	**2023**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)
Current assets					
Inventories	44,429	56,474	76,316	130,384	201,233
Trade and other receivables	20,972	31,749	67,097	49,581	67,184
Prepayments	32,228	75,915	202,845	302,720	289,571
Pledged bank deposits	–	–	21,151	81,379	44,048
Cash and cash equivalents	13,435	146,778	162,507	207,427	126,604
Financial assets at FVTPL	54,059	–	–	–	–
Total current assets	165,123	310,916	529,916	771,491	728,640
Current liabilities					
Loans and borrowings	20,029	30,508	95,512	107,370	149,859
Trade and other payables	11,500	18,585	96,049	270,213	142,578
Lease liabilities	267	2,229	3,627	4,702	5,176
Total current liabilities	31,796	51,322	195,188	382,285	297,613
Net current assets	133,327	259,594	334,728	389,206	431,027

Net current assets

Our net current assets increased from RMB133.3 million as of December 31, 2020 to RMB259.6 million as of December 31, 2021, primarily due to an increase in cash and cash equivalents of RMB133.3 million mainly as a result of the capital contributions by investors and proceeds from our operating activities.

Our net current assets increased from RMB259.6 million as of December 31, 2021 to RMB334.7 million as of December 31, 2022, primarily due to (i) an increase in trade and other receivables of RMB35.3 million; (ii) a decrease in payment for the purchase of property, plant and equipment of RMB17.2 million; and (iii) an increase in cash and cash equivalents of RMB15.7 million mainly due to proceeds from our operating activities.

Our net current assets increased from RMB334.7 million as of December 31, 2022 to RMB389.2 million as of June 30, 2023, primarily due to (i) an increase in prepayments of RMB99.9 million primarily due to our increasing procurement volume of foundry-manufactured wafers and the increased [**REDACTED**] expenses; (ii) an increase in pledged bank deposits of RMB60.2 million as a guarantee to issue bank acceptance bills; (iii) an increase in inventories of RMB54.1 million due to the growth in our sales volume. This was partially offset by an increase in trade and other payables of RMB174.2 million, including primarily bills payable.

Our net current assets increased from RMB389.2 million as of June 30, 2023 to RMB431.0 million as of October 31, 2023, primarily due to (i) a decrease in trade and other payables of RMB127.6 million related to the maturity of bills payable; (ii) an increase in inventories of RMB70.8 million related to the procurement of untested foundry-manufactured wafers. This was partially offset by an increase in loans and borrowings of RMB42.5 million to support our working capital, and a decrease of RMB80.8 million in cash and cash equivalents.

Accumulated losses

We recorded accumulated losses in the amount of RMB60.3 million as of January 1, 2020, including the impact of (i) our share-based payments of RMB35.5 million in connection with a capital increase, a non-operating item which is not directly correlated with our business performance in a particular period; (ii) accrued interest expenses in relation to Preferred Rights of RMB8.3 million, a non-operating item which is not directly correlated with our business performance in a particular period; and (iii) the fact that our undistributed profits were negative as of December 31, 2019, because we were still at an early stage of development and incurred significant R&D expenses to expand our high-performance industrial grade product portfolio. As a result, these contributed to our accumulated loss position as of January 1, 2020, the commencement of our Track Record Period. We were able to turn around from loss-making in 2018 to profit-making in 2019 mainly because (i) we were able to provide analog IC patterned wafer products with high-performance and differentiated IC design that meet the evolving demand of our downstream customers in various application fields. The sales volume of our analog IC products increased substantially in 2019, due to the strong market demand for such products from domestic companies, and our advantages in providing industrial grade analog IC patterned wafers with high reliability and stability. Out of the five types of products that had the largest increase in sales volume from 2018 to 2019, four types of products were power management products that were newly launched in 2019, which included switching regulators, linear regulator and battery management IC. These products were designed for industrial-grade use based on the market demand, and their functions were directly benchmarked to international competitors targeting the same set of customers; (ii) we continued to strengthen our marketing strategies and actively promote our products to potential customers. In 2018, we began to establish cooperation with Arrow, a global leading IC distributor that was capable of promoting our products by leveraging its channel resources and large downstream customer base. In 2019, with the deepening of cooperation with Arrow, sales amount from Arrow increased by 94.8%, leading to an increase in revenue. In addition, Arrow connected us with mature medium and large companies and multinational companies through its national network, covering IC companies, automobile and large equipment manufacturers, for which we designed and developed products based on their needs and provided them with after-sales customers support, enabling us to expand our product offerings and enhance our brand reputation. We believe we could still benefit from our distributorship model in the future as we may predict market demand better through feedback from distributors and control our distribution costs; and (iii) our R&D expenses as a proportion of revenue decreased from 48.6% in 2018 to 38.2% in 2019, primarily because we improved operational efficiency. Our initial R&D cycle was relatively long, resulting in a high proportion of our R&D expenses in revenue before the Track Record Period. We upgraded our EDA software in 2018 to provide more simulation models and streamline the amount of simulation data, thus improving the software processing speed. We strengthened the compatibility of EDA software and existing IP modules, while continuously accumulated new IP modules. The number of our accumulated IP modules increased from 178 as of December 31, 2018 to 228 as of December 31, 2019. Subsequently, the number of accumulated IP modules increased to 292, 372, 496 and 558 as of December 31, 2020, 2021 and 2022 and June 30, 2023. Due to the accumulation of experience and know-how, our product design efficiency has been significantly improved in 2018 and 2019, resulting in a decrease in the proportion of R&D expenses in revenue.

DISCUSSION OF CERTAIN ITEMS OF STATEMENTS OF FINANCIAL POSITION

Property, Plant and Equipment

Our property, plant and equipment primarily consist of equipment and machinery, passenger vehicles, office equipment and furniture, construction in progress and leasehold improvements. Our construction in progress primarily consist of (i) R&D equipment we purchased, which has been delivered to us and pending installation. When we complete substantially all of the activities necessary to prepare the R&D equipment for its intended use, we will transfer it from construction in progress to equipment and machinery; and (ii) renovation of our office buildings in Suzhou and Shanghai and R&D center in Suzhou. The following table sets forth the net carrying amount of our property, plant and equipment as of the dates indicated:

	As of December 31,			As of June 30,
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Equipment and machinery	1,265	1,288	7,733	8,077
Passenger vehicles	–	998	735	2,025
Office equipment and furniture	155	313	350	1,090
Construction in progress	–	4,759	50,275	40,971
Leasehold improvements	–	–	160	9,451
Total	1,420	7,358	59,253	61,614

Our property, plant and equipment increased from RMB1.4 million as of December 31, 2020 to RMB7.4 million as of December 31, 2021, primarily due to (i) additions of construction in progress of RMB4.8 million in relation to renovation of our office building in Suzhou; and (ii) additions of passenger vehicles of RMB1.1 million.

Our property, plant and equipment increased from RMB7.4 million as of December 31, 2021 to RMB59.3 million as of December 31, 2022, primarily due to (i) additions of construction in progress of RMB45.5 million in relation to the equipment pending installation and renovation of our R&D center in Suzhou and office building in Shanghai. We purchased the equipment for conducting R&D activities, including equipment used for lithography, etching, film deposition, debonding and cleaning. We expect to complete the installation at the end of 2023; and (ii) additions of equipment and machinery of RMB7.2 million, partially offset by the depreciation of RMB0.8 million charged for 2022.

Our property, plant and equipment increased from RMB59.3 million as of December 31, 2022 to RMB61.6 million as of June 30, 2023, primarily due to (i) additions of passenger vehicles of RMB1.6 million; and (ii) additions of office equipment and furniture of RMB0.9 million.

Right-of-use Assets

Our right-of-use assets represent carrying amounts of long-term leased properties. The lease terms typically range from two to three years for an initial period.

Our right-of-use assets increased from RMB0.2 million as of December 31, 2020 to RMB4.8 million as of December 31, 2021, primarily due to additions to right-of-use assets in relation to the capitalized lease payments payable under the new tenancy agreement in Suzhou for business expansion.

Our right-of-use assets decreased from RMB4.8 million as of December 31, 2021 to RMB3.4 million as of December 31, 2022, primarily due to the depreciation charge and lease modification of right-of-use assets, which was partially offset by additions to right-of-use assets.

Our right-of-use assets decreased from RMB3.4 million as of December 31, 2022 to RMB2.6 million as of June 30, 2023, primarily due to a decrease in the carrying amounts of long-term leased properties, as the lease term for certain office properties in Suzhou expired in the first half of 2023, and we did not renew the lease agreement because we had leased another office building in Suzhou.

Other Non-current Assets

Our other non-current assets primarily consist of prepayments for property, plant and equipment.

Our other non-current assets increased from RMB4.9 million as of December 31, 2020 to RMB32.7 million as of December 31, 2021, primarily due to the prepayments for equipment purchased for enhancing our R&D capacity. Our other non-current assets decreased from RMB32.7 million as of December 31, 2021 to RMB2.7 million as of December 31, 2022, and further decreased to RMB0.8 million as of June 30, 2023, primarily due to the delivery of equipment in 2022 and the first half of 2023.

Inventories

Our inventories primarily consist of (i) raw materials, including untested foundry-manufactured wafers; and (ii) finished goods. Our raw materials are transferred to finished goods after the chip probing process, which only takes less than a month to complete. Our inventories increased from RMB44.4 million as of December 31, 2020 to RMB56.5 million as of December 31, 2021, and further increased to RMB76.3 million as of December 31, 2022 and RMB130.4 million as of June 30, 2023, primarily due to the inventories held in stock based on our customers' needs, which was in line with our business growth.

The following table sets forth our inventories as of the dates indicated:

	As of December 31,			As of June 30,
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	26,744	30,242	64,598	104,037
Finished goods	17,685	26,232	11,718	26,347
Total	44,429	56,474	76,316	130,384

The following table sets forth the aging analysis of our inventory as of December 31, 2020, 2021 and 2022 and June 30, 2023:

	As of December 31,			As of June 30,
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials				
Within six months	22,260	26,503	60,033	96,431
Six months to one year	5,887	4,172	5,612	10,103
One year to two years	137	1,220	712	59
	28,284	31,895	66,357	106,593

	As of December 31,			As of June 30,
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Finished goods				
Within six months	16,533	22,268	11,348	26,013
Six months to one year	1,485	5,262	375	323
One year to two years	77	35	178	182
Over two years	5	–	–	72
	18,100	27,565	11,901	26,590
	46,384	59,460	78,258	133,183
Provision for inventories	(1,955)	(2,986)	(1,942)	(2,799)
Total	44,429	56,474	76,316	130,384

There was no material recoverability issue for our inventories as of the end of each year during the Track Record Period for the following reasons: (i) a substantial portion of the inventories as of December 31, 2020, 2021 and 2022, and June 30, 2023 were aged less than one year and were subsequently settled in one year; and (ii) during the Track Record Period, we had not encountered any material impairment loss that have materially and adversely affected our business operations caused by slow-moving inventories. In 2020, 2021 and 2022 and for the six months ended June 30, 2023, our provision for inventories was RMB2.0 million, RMB3.0 million, RMB1.9 million and RMB2.8 million, respectively. Our Directors consider sufficient provision for inventories had been made.

The following table sets forth the number of our inventory turnover days for the periods indicated:

	Year ended December 31,			Six Months ended June 30,
	2020	**2021**	**2022**	**2023**
Inventory turnover days[1]	261.9	198.6	158.2	203.3

Note:

(1) Inventory turnover days was calculated based on the average of opening and closing inventory balance for the relevant year, divided by the cost of sales for the relevant year, and multiplied by number of days within the relevant year/period, being 365 days or 180 days.

Our inventory turnover days decreased from 261.9 days in 2020 to 198.6 days in 2021, and further to 158.2 days in 2022, due to our closely monitoring and adjustment of inventory level to avoid excessive stock. Our inventory turnover days increased from 158.2 days in 2022 to 203.3 days for the six months ended June 30, 2023, due to an increase in raw materials in anticipation of an increase in customers' demand in the second half of 2023.

As of October 31, 2023, RMB90.8 million, or 68.2% of our inventories as of June 30, 2023 had been subsequently consumed or sold.

Trade and Other Receivables

During the Track Record Period, our trade receivables primarily represent receivables from customers for sales of analog IC patterned wafer products. The credit period granted to our customers was generally 30 days to 90 days from the date of invoice. Our other receivables and deposits primarily represent VAT recoverable, loans to employees, contingency cash for business trips and sporadic purchases and rental deposits. The following table sets forth our trade and other receivables, as of the dates indicated:

	As of December 31,			As of June 30,
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from third parties				
– Trade receivables, net of loss allowance	18,039	27,829	64,870	44,974
– Other receivables and deposits, net of loss allowance	1,770	3,349	2,227	4,607
	19,809	31,178	67,097	49,581
Amounts due from related parties				
– Other receivables and deposits, net of loss allowance	1,163	571	–	–
Trade and other receivables	20,972	31,749	67,097	49,581

Our trade receivables increased from RMB18.0 million as of December 31, 2020 to RMB27.8 million as of December 31, 2021, and further to RMB64.9 million as of December 31, 2022, primarily due to an increase in revenue generated from the increased amount of sales of both power management products and signal chain products, which was in line with our business expansion. Our trade receivables decreased from RMB64.9 million as of December 31, 2022 to RMB45.0 million as of June 30, 2023, primarily because the trade receivables from our largest customer as of December 31, 2022 were fully settled in the first half of 2023, and we accelerated the collection of trade receivables in the first half of 2023. The fluctuation of our other receivables and deposits from third parties during the Track Record Period was primarily due to changes in VAT recoverable. The amounts due from related parties were interest receivables arising from loans to related parties and were non-trade in nature.

The following table sets forth an aging analysis of our trade receivables at the end of each year/period of the Track Record Period, based on the invoice dates and net of loss allowance:

	As of December 31,			**As of June 30,**
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one month	15,039	11,378	14,643	19,111
One to two months	3,000	16,166	8,756	16,235
Two to three months	–	274	10,757	2,586
Over three months	–	11	30,714	7,042
Total	18,039	27,829	64,870	44,974

We generally recovered trade receivables within three months. Our trade receivables aged over three months increased significantly as of December 31, 2022, which was primarily related to the extended payment period for our largest customer due to the impact of COVID-19 on the payment process, and the amount due from our largest customer as of December 31, 2022 had been fully received as of the Latest Practicable Date. We seek to maintain strict control over our trade receivables and overdue balances are reviewed monthly by senior management. There was no material recoverability issue for our trade receivables as of the end of each year during the Track Record Period taking into consideration the following factors: (i) 84.3% of our outstanding trade receivables as of June 30, 2023 aged less than three months and our trade receivables shall be generally settled within three months which were in line with our credit terms granted; (ii) the trade receivables from Arrow was RMB43.0 million as of June 30, 2023, accounting for 90.8% of our trade receivables. As of October 31, 2023, all of our trade receivables from Arrow as of June 30, 2023 had been subsequently settled; (iii) we have maintained continuous communication with Arrow and we have not encountered any commercial disputes with it; and (iv) historically, our trade receivables from Arrow have always been collected eventually. The parent company of Arrow is listed on the New York Stock Exchange, and is still carrying on its normal business operations based on publicly available information. In 2020, 2021 and 2022 and for the six months ended June 30, 2023, our loss allowance was RMB0.9 million, RMB1.5 million, RMB3.4 million and RMB2.4 million, respectively. Our Directors consider sufficient provision for impairment of trade receivables had been made.

Our management determines the loss allowance for expected credit losses on trade and other receivables based on an assessment of the present value of all expected cash shortfalls. These estimates are based on the information about past events, current conditions and forecasts of future economic conditions. Our management reassesses the loss allowance at the end of each Track Record Period. During the Track Record Period, the IC market in China was experiencing rapid growth. There were no material change in late payment and default risk as well as forward-looking factors throughout the Track Record Period. As a result, our ECL rates remained stable throughout the Track Record Period.

The table below sets forth the turnover days of our trade receivables for the periods indicated:

	Year ended December 31,			Six Months ended June 30,
	2020	**2021**	**2022**	**2023**
Trade receivables turnover days[1]	72.8	39.4	48.0	48.4

Note:

(1) Trade receivables turnover days for a year equals the average opening and closing trade receivables balance divided by revenue for the relevant year and multiplied by the number of days in the relevant year/period, being 365 days or 180 days.

The trade receivable turnover days indicate the average time required for us to collect payments. Our trade receivables turnover days decreased from 72.8 days in 2020 to 39.4 days in 2021, as we enhanced our credit collection efforts in 2021. Our trade receivables turnover days increased from 39.4 days in 2021 to 48.0 days in 2022, due to extended payment period for our largest customer located in Shanghai due to the resurgence of COVID-19 variants in China in 2022. Our trade receivables turnover days remained relatively stable at 48.0 days in 2022 and 48.4 days for the six months ended June 30, 2023.

As of October 31, 2023, RMB45.3 million or 95.7% of our trade receivables as of June 30, 2023 had been subsequently settled.

Prepayments

Our prepayments primarily consist of prepayment to suppliers for the purchase of raw materials and chip probing services, and [**REDACTED**] expense. The following table sets forth our prepayments as of the dates indicated:

	As of December 31,			As of June 30,
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments to suppliers	32,051	75,851	202,735	284,873
[**REDACTED**] expense	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Others	177	64	110	218
Total	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]

The following table sets forth an aging analysis of our prepayments to suppliers as of the dates indicated:

	As of December 31,			As of June 30,
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within three months	26,496	38,955	149,168	115,340
Three to six months	5,527	36,633	52,614	152,447
Six to 12 months	6	95	931	17,064
One to two years	–	146	–	–
Over two years	22	22	22	22
Total	32,051	75,851	202,735	284,873

We generally made full prepayment to wafer channel partner six months in advance according to our estimation based on our customers' demand to secure the manufacturing capacity during the Track Record Period and up to the Latest Practicable Date. According to Frost & Sullivan, it is in line with industry practice for analog IC patterned wafer design companies to make prepayments to suppliers of foundry-manufactured wafers. During the Track Record Period and up to the Latest Practicable Date, our prepayments to suppliers were generally settled within six months. It normally takes approximately six months for our supplier to deliver foundry-manufactured wafers, and approximately half a month for our supplier to perform chip probing services after we make an order. As we do not provide custom-designed analog IC products, we may reserve manufacturing capacity and place manufacturing orders before receiving orders from our customers based on our customers' forecasted demand and our estimated sales volume. After we received orders from our customers, we just need to go through the chip probing process and deliver our analog IC products to our customers. We reserve manufacturing capacity based on estimated sales volume in the next year. Considering that our newly developed products are usually produced in small batches, we normally reserve the spare manufacturing capacity of our suppliers, which requires earlier reservation because the spare manufacturing capacity is difficult to reserve and is usually reserved only for enterprises with long-term cooperative relationship. By reserving manufacturing capacity early, we can ensure that manufacturing capacity is not affected by the market condition when market manufacturing capacity is scarce, and secure manufacturing capacity with better prices when there is overcapacity in the market.

We have entered into framework procurement agreements with Supplier A to procure foundry-manufactured wafers. Supplier A does not impose requirement of minimum purchase amount on us or request upfront deposit. For details of the procurement agreements, please refer to "Business – Our Suppliers – Relationship with Supplier A – Key Terms of Procurement Agreements with Supplier A." 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. Our prepayments increased from RMB32.2 million as of December 31, 2020 to RMB75.9 million as of December 31, 2021, and further to RMB202.8 million as of December 31, 2022, primarily due to our increasing procurement volume of foundry-manufactured wafers, which was in line with our business growth. Our prepayments continued to increase from RMB202.8 million as of December 31, 2022 to RMB302.7 million as of the June 30, 2023, primarily due to our increasing procurement volume of foundry-manufactured wafers and the increased [**REDACTED**] expenses. We increased our prepayments to suppliers in the second half of 2022 and the in the first half of 2023 in anticipation of economic recovery and increased market demand. We consider the impairment risk to be insignificant as our analog IC products are applicable under diverse application scenarios and the product life cycle of analog IC products is approximately ten years. Our Directors believe that there is no material recoverability issue for our prepayments to suppliers taking into consideration the following factors: (i) the prepayments to Supplier A was RMB277.2 million as of June 30, 2023, accounting for 97.3% of our prepayments to suppliers. As of August 31, 2023, RMB71.5 million or 25.8% of our prepayments to Supplier A as of June 30, 2023 had been subsequently settled, which was in line with our normal practice; (ii) we have maintained continuous communication with Supplier A and we have not encountered any commercial disputes with it; and (iii) historically, Supplier A could generally deliver foundry-manufactured wafers on time according to the agreement with us.

As of September 30, 2023, RMB131.2 million or 46.0% of our prepayments to suppliers as of June 30, 2023 had been subsequently settled. As of October 31, 2023, RMB255.4 million or 93.9% of our prepayments to suppliers aging within six months, and RMB183.0 million or 64.2% of our prepayments as of June 30, 2023 had been subsequently settled. In addition, we settled payments with our suppliers primarily by bills payable, which normally has a term of three to nine months, and had bills payable of RMB256.1 million as of June 30, 2023, compared to prepayments to suppliers of RMB284.5 million as of the same date. For details, see "– Discussion of Certain Items of Statements of Financial Position – Trade and Other Payables." Considering the above, our Directors are of the view that our prepayments will not materially and adversely affect our cash flow position.

Financial Assets at FVTPL

Our financial assets at FVTPL represent our investment in wealth management products offered by reputable commercial banks in the PRC, including primarily wealth management products that invest mainly in money market instruments and debt securities with low risk and high liquidity, and structured deposits during the Track Record Period. As of December 31, 2020, 2021 and 2022 and June 30, 2023, we had financial assets at FVTPL of RMB54.1 million, nil, nil and nil, respectively. We mainly invested in short-term wealth management products and redeemed the wealth management products before the end of 2021 and 2022 and June 30, 2023 upon maturity. We have established a set of investment policies and internal control measures to achieve reasonable returns on our investments of wealth management products while mitigating our exposure to investment risks. These policies and measures include:

- investments shall be made when we have idle funds and not interfere with our normal business activities or capital expenditures;
- investments shall generally be short-term in order to maintain our liquidity and financial flexibility;
- we only purchase low-risk wealth management products issued by reputable commercial banks and/or other qualified financial institutions;
- investments exceeding certain thresholds must be approved by our Shareholders or the Board in accordance with relevant laws and regulations and our Articles of Association; and
- our finance department, subject to the review and approval of our management, is responsible for the overall execution of our investments, including risk assessment.

We have categorized our financial instruments into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The fair value of our investments in Level 2 as of December 2020 was the estimated amount that we would receive to transfer the financial assets at the end of 2020, taking into account current interest rates published on the counterparty banks' websites. For details of the fair value measurement of our financial assets, please refer to note 28(d) to the Accountants' Report set out in Appendix I to this document.

Trade and Other Payables

Our trade and other payables include (i) trade payables, which primarily related to payments due to a supplier for chip probing services; (ii) bills payable, which primarily related to payments due to our wafer channel partner; (iii) contract liabilities, which mainly arise from the advance payments made by customers before we provided the analog IC patterned wafer products, and the advance payments received for an entrusted R&D agreement; and (iv) other payables and accruals, which primarily include investment payables from an investor and equipment payables in relation to the renovation of our leased premises in Suzhou and Shanghai and the purchase of R&D equipment. The following table sets forth our trade and other payables, as of the dates indicated:

	As of December 31,			As of June 30,
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to third parties				
Trade payables	847	2,086	1,724	–
Bills payable	–	–	67,119	256,140
	847	2,086	68,843	256,140
Contract liabilities	332	6,487	10,629	–
Other payables and accruals	10,321	10,012	16,577	14,073
	11,500	18,585	96,049	270,213

Our trade payables decreased from RMB1.7 million as of December 31, 2022 to nil as of June 30, 2023, primarily because our supplier for chip probing services requested prepayments in the first half of 2023. We began to use bank acceptance for settlement with our wafer channel partner in 2022 to improve capital efficiency. Our bills payable increased from RMB67.1 million as of December 31, 2022 to RMB256.1 million as of June 30, 2023, primarily due to the payments to our wafer channel partner to secure foundries' manufacturing capacity in anticipation of increased sales in the second half of 2023.

Our contract liabilities increased from RMB0.3 million as of December 31, 2020 to RMB6.5 million as of December 31, 2021, and further to RMB10.6 million as of December 31, 2022, reflecting an increase in advance payments for sales of products as the demand for our analog IC patterned wafer products increased. Our contract liabilities decreased from RMB10.6 million as of December 31, 2022 to nil as of June 30, 2023, primarily because we did not request advance payments from our customers for the six months ended June 30, 2023. We only required customers to make advance payment when they request for our products to be delivered on an urgent basis.

Other payables and accruals remained stable at RMB10.3 million as of December 31, 2020 and RMB10.0 million as of December 31, 2021. Other payables and accruals increased from RMB10.0 million as of December 31, 2021 to RMB16.6 million as of December 31, 2022, primarily due to increased equipment payables in relation to the renovation of our leased premise in Suzhou and purchase of R&D equipment. Other payables and accruals decreased from RMB16.6 million as of December 31, 2022 to RMB14.1 million as of June 30, 2023, primarily due to decreased payroll as only half-year staff bonus was accrued as of June 30, 2023.

The following table sets forth the aging analysis of our trade payables and bills payable based on the invoice dates as of the dates indicated:

	As of December 31,			As of June 30,
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within three months	847	2,086	24,074	109,666
Three to six months	–	–	39,965	146,474
Six to 12 months	–	–	4,804	–
Total	847	2,086	68,843	256,140

During the Track Record Period, the credit period granted to us would be around 30 days by our chip probing service provider, from the date of invoice. Our trade payables and bills payable increased from RMB0.8 million as of December 31, 2020 to RMB2.1 million as of December 31, 2021, and further increased to RMB68.8 million as of December 31, 2022 and RMB256.1 million as of June 30, 2023 reflecting the expansion of our business operations. Our trade payables and bills payable aged over three months increased from nil as of December 31, 2021 to RMB44.8 million as of December 31, 2022, primarily due to our use of bank acceptance for settlement, which normally has a term of three to nine months. As of June 30, 2023, we fully settled bills payable aged six to 12 months and partially settled bills payable aged three to six months as of December 31, 2022.

The following table sets forth our average trade payables turnover days for the periods indicated:

	Year ended December 31,			Six Months ended June 30,
	2020	2021	2022	2023
Trade payables turnover days(1)	12.0	5.8	4.5	1.7

Note:

(1) Trade payables turnover days for a year equals the average of opening and closing trade payables balance divided by cost of sales for the relevant year and multiplied by the number of days in the relevant year/period, being 365 days or 180 days.

Our trade payables turnover days decreased from 12.0 days in 2020 to 5.8 days in 2021, and further to 4.5 days in 2022, primarily due to increase in cost of sales, which primarily consists of material costs, the largest component of our cost of sales with rapid growth. Our trade payable turnover days decreased from 4.5 days in 2022 to 1.7 days in June 30, 2023, primarily due to our decrease trade payables as our supplier for chip probing services requested prepayments in the first half of 2023. Meanwhile, payments due to our wafer channel partner were not included in trade payables during the Track Record Period as we either made prepayments to wafer channel partner or included the payments due to wafer channel partner in bills payable.

As of October 31, 2023, all of our bills payable as of June 30, 2023 had been subsequently settled.

Financial Instruments Issued to Investors

Pursuant to the agreements between our investors and us, certain investors were granted the right to liquidate us and receive a preference amount upon liquidation or require us to redeem their paid-in or share capital for cash upon specified events, including a resignation of the founders. We recognized the obligation to pay cash to those investors with Preferred Rights as financial liabilities, because not all triggering events are within our control. The financial liabilities are measured at the present value of the redemption amount. The financial instruments issued to investors was RMB106.0 million as of December 31, 2020.

In December 2021, pursuant to the supplementary agreement signed between our Pre-[**REDACTED**] Investors who entered into investment agreements in or prior to 2021 with Preferred Rights and us, the investors' Preferred Rights were terminated for purpose of our potential A-share [**REDACTED**] in the PRC. See "History, Development and Corporate Structure – Pre-[**REDACTED**] Investments" for more details. Hence, the redemption liabilities were derecognized and the carrying amount of the redemption liabilities was reclassified to equity thereafter.

INDEBTEDNESS

Our indebtedness primarily consist of loans and borrowings and lease liabilities. The following table sets forth a breakdown of our indebtedness as of the dates indicated:

	As of December 31,			As of June 30,	As of October 31,
	2020	**2021**	**2022**	**2023**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Loans and borrowings	20,029	30,508	95,512	107,370	149,859
Lease liabilities	267	6,386	6,570	6,029	5,839
Total indebtedness	20,296	36,894	102,082	113,399	155,698

Save as disclosed below, we did not have any bank and other loan, or any loan capital issued and outstanding or agreed to be issued, bank overdraft, borrowing or similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchases or finance lease commitments, guarantees or other material contingent liabilities as of the Latest Practicable Date for our indebtedness statement. Our Directors confirm that there has not been any material change in our indebtedness since the Latest Practicable Date up to the date of this document.

Loans and Borrowings

The following table sets forth the principal amounts of our interest-bearing bank loans as of the dates indicated:

	As of December 31,			As of June 30,	As of October 31,
	2020	**2021**	**2022**	**2023**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Bank loans, within 1 year or on demand	20,029	30,508	95,512	107,370	149,859
Represented by:					
– guaranteed	20,029	10,500	–	–	–
– unsecured and unguaranteed	–	20,008	95,512	107,370	149,859
	20,029	30,508	95,512	107,370	149,859

Our total outstanding bank loans increased from RMB20.0 million as of December 31, 2020 to RMB30.5 million as of December 31, 2021, and further to RMB95.5 million as of December 31, 2022 and RMB107.4 million as of June 30, 2023, primarily due to increasing financing activities as a result of our business expansion, which was used to support our working capital, such as payment for raw materials, salaries and welfare of our employees and office expenses.

The effective interest rates of our bank loans ranged from 3.0% to 5.2% per annum in 2020, 2021 and 2022 and for the six months ended June 30, 2023. We consider these interest rates to be within the range of market interest rates.

As of December 31, 2020, we had interest-bearing borrowings of RMB20.0 million, which were guaranteed by Mr. Li Zhen and Mr. Li Yi with effective interest rates ranging from 3.9% to 5.2% per annum, which were fully repaid in 2021.

As of December 31, 2021, we had interest-bearing borrowings of RMB30.5 million with effective interest rates ranging from 3.9% to 4.5% per annum. In particular, RMB10.5 million were guaranteed by Mr. Li Zhen, which were fully repaid in 2022.

As of December 31, 2022, we had interest-bearing borrowings of RMB95.5 million, all of which were unguaranteed and unsecured borrowings with effective interest rates ranging from 3.0% to 3.8% per annum and will become due in 2023.

As of June 30, 2023, we had interest-bearing borrowings of RMB107.4 million, all of which were unguaranteed and unsecured borrowings with effective interest rates ranging from 3.0% to 3.8% per annum. RMB95.5 million will become due in 2023 and RMB11.9 million will become due in 2024.

We consider our bank borrowing agreements to contain standard terms, conditions and covenants that are customary for commercial bank loans. Our Directors confirm that we did not experience any difficulty in obtaining bank borrowings, default in payment of bank borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

As of the Latest Practicable Date, we had unutilized banking facilities of RMB658.2 million.

Lease Liabilities

Lease liabilities represent the present value of outstanding lease payments under our lease agreements. The following table sets forth our lease liabilities as of the dates indicated:

	As of December 31,			As of June 30,	As of October 31,
	2020	**2021**	**2022**	**2023**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)
Current	267	2,229	3,627	4,702	5,176
Non-current	–	4,157	2,943	1,327	663
Total	267	6,386	6,570	6,029	5,839

As of December 31, 2020, 2021 and 2022 and June 30, 2023, our lease liabilities were RMB0.3 million, RMB6.4 million, RMB6.6 million and RMB6.0 million, respectively. These lease liabilities primarily related to lease contracts of our R&D and office premises. Our lease liabilities increased from RMB0.3 million as of December 31, 2020 to RMB6.4 million as of December 31, 2021, primarily due to our new lease contract of office premises in Suzhou in 2021. Our lease liabilities increased from RMB6.4 million as of December 31, 2021 to RMB6.6 million as of December 31, 2022, primarily due to our new lease contract of office premises in Shanghai in 2022. Our lease liabilities decreased from RMB6.6 million as of December 31, 2022 to RMB6.0 million as of June 30, 2023, because we did not enter into new lease contract in the first half of 2023, and we made lease payment for our leased R&D and office premises in Suzhou and Shanghai.

CONTINGENT LIABILITIES

We did not have any contingent liabilities as of December 31, 2020, 2021 and 2022 and June 30, 2023, respectively. As of October 31, 2023, being the indebtedness date for the purpose of the indebtedness statement, we did not have any contingent liabilities. Our Directors have confirmed that there has not been any material change in the contingent liabilities of our Company since October 31, 2023 and up to the Latest Practicable Date.

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios as of and for the year/period indicated:

	As of and for the year ended December 31,			As of and for the six months ended June 30,
	2020	2021	2022	2023
Gross profit margin	54.9%	56.4%	56.5%	55.2%
Current ratio	5.2	6.1	2.7	2.0
Quick ratio	3.8	5.0	2.3	1.7
Gearing ratio	59.2%	10.1%	24.1%	23.8%
Return on equity	70.0%	34.1%	27.4%	10.8%
Return on assets	12.0%	21.6%	20.0%	6.4%

Gross Profit Margin

Gross profit margin is calculated by the gross profit divided by the revenue for the respective year/period and multiplied by 100%. See "– Discussion of Results of Operations" in this section for more details on our gross profit margin.

Current Ratio and Quick Ratio

The calculation of current ratio is based on current assets divided by current liabilities as of the year/period end. Our quick ratio is calculated by our current assets less inventories divided by our current liabilities as of the year/period end.

Our current ratio increased from 5.2 times as of December 31, 2020 to 6.1 times as of December 31, 2021 and our quick ratio increased from 3.8 times as of December 31, 2020 to 5.0 times as of December 31, 2021, primarily due to the increase in current assets outpaced the increase in current liabilities. The increase in current assets was primarily due to (i) an increase in cash and cash equivalents of RMB133.3 million, mainly due to the proceeds we received from the redeemed wealth management products at the end of 2021, the capital contributions by investors and proceeds from our operating activities; and (ii) an increase in prepayments of RMB43.7 million.

Our current ratio decreased from 6.1 times as of December 31, 2021 to 2.7 times as of December 31, 2022 and our quick ratio decreased from 5.0 times as of December 31, 2021 to 2.3 times as of December 31, 2022, primarily due to the increase in current liabilities outpaced the increase in current assets. The increase in current liabilities was primarily due to (i) an increase in trade and other payables of RMB77.5 million; and (ii) an increase in loans and borrowings of RMB65.0 million.

Our current ratio decreased from 2.7 times as of December 31, 2022 to 2.0 times as of June 30, 2023 and our quick ratio decreased from 2.3 times as of December 31, 2022 to 1.7 times as of June 30, 2023, primarily due to the increase in current liabilities outpaced the increase in current assets. The increase in current liabilities was primarily due to an increase in trade and other payables of RMB174.2 million and an increase in loans and borrowings of RMB11.9 million.

Gearing Ratio

The calculation of gearing ratio is based on our loans and borrowings divided by total equity for the respective year/period and multiplied by 100.0%. Our gearing ratio decreased from 59.2% as of December 31, 2020 to 10.1% as of December 31, 2021, primarily due to an increase in total equity from RMB33.8 million as of December 31, 2020 to RMB300.6 million as of December 31, 2021 as a result of termination of financial instruments issued to investors.

Our gearing ratio increased from 10.1% as of December 31, 2021 to 24.1% as of December 31, 2022, primarily due to an increase in our loans and borrowings from RMB30.5 million as of December 31, 2021 to RMB95.5 million as of December 31, 2022.

Our gearing ratio remained relatively stable at 24.1% as of December 31, 2022 and 23.8% as of June 30, 2023.

Return on Equity

Return on equity is calculated by the profit for the year/period divided by the average of opening and closing total equity for the respective year/period and multiplied by 100%.

Our return on equity decreased from 70.0% in 2020 to 34.1% in 2021, and further decreased to 27.4% in 2022, primarily due to the significant increase in our equity.

Return on Assets

Return on assets is calculated based on profit divided by the average of opening and closing total assets for the respective year/period and multiplied by 100%.

Our return on assets increased from 12.0% in 2020 to 21.6% in 2021, primarily due to higher profits derived from industry-grade analog IC patterned wafer products. Our return on assets decreased from 21.6% in 2021 to 20.0% in 2022, primarily due to the increase in our total assets.

CAPITAL EXPENDITURES AND COMMITMENTS

Capital Expenditures

Our capital expenditures during the Track Record Period consist of expenditures on the additions to property, plant and equipment. We made prepayments for property, plant and equipment during the Track Record Period, and such prepayments were classified as other non-current assets in our statements of financial position, which affected our capital expenditures during the Track Record Period. Our capital expenditures amounted to RMB5.8 million, RMB35.9 million, RMB18.7 million, RMB5.7 million and RMB5.9 million in 2020, 2021 and 2022 and for the six months ended June 30, 2022 and 2023, respectively. Historically, we have funded our capital expenditures mainly through cash generated from our operations, the capital contributions by investors and bank borrowings.

We expect our capital expenditures to increase in the future as our business continues to grow, which we will use primarily for the renovation of our leased premises. We expect to fund future capital expenditures through cash generated from operations, bank borrowings and the net [**REDACTED**] from the [**REDACTED**].

Capital Commitments

Our capital commitments primarily relate to additions to property, plant and equipment contracted but not provided for. Our capital commitments were RMB0.2 million, RMB2.4 million, RMB0.8 million and RMB0.7 million as of December 31, 2020, 2021 and 2022 and for the six months ended June 30, 2023, respectively.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into transactions with our related parties from time to time. These transactions primarily include but not limited to (i) loans and borrowings to related parties and the repayment of loans and borrowings that were non-trade in nature; and (ii) sales of products to a company in 2020 that were trade in nature. The company was our related party before August 2020 and purchased our analog IC patterned wafer products as a distributor in 2020.

As of December 31, 2020, 2021 and 2022 and June 30, 2023, amounts due from related parties was RMB1.2 million, RMB0.6 million, nil and nil, respectively. For detail of our related party transactions, see note 30 to the Accountants' Report in Appendix I to this document.

It is the view of our Directors that our transactions with related parties during the Track Record Period was conducted on an arm's length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our historical results or make our historical results not reflective of our future performance.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we did not have any material off-balance sheet commitments or arrangements.

FINANCIAL RISKS DISCLOSURE

Credit Risk

Our credit risk is primarily attributable to trade receivables. For trade receivables, we experience concentration risk as all of our trade receivables were due from our five largest customers during the Track Record Period, and 39.02%, 99.96%, 89.17% and 90.83% of the total trade receivables were due from the largest single customer as of December 31, 2020, 2021 and 2022 and June 30, 2023, respectively.

We have established a credit risk management policy under which individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 days to 90 days from the date of invoice. Normally, the Company does not obtain collateral from customers.

We performed impairment assessment under ECL model. For details of information about exposure to credit risk and ECLs for trade receivables, please refer to note 28(a) to the Accountants' Report included in Appendix I to this document.

For prepayments and other receivables and deposits, credit risk is limited since the balance mainly includes prepayments to reputable suppliers, VAT recoverable, deposits to landlord, and debts due from related parties.

For cash and cash equivalents and pledged bank deposits, credit risk is limited because the counterparties are state-owned banks or reputable commercial banks for which we consider to have low credit risk.

Liquidity Risk

Our policy is to regularly monitor liquidity requirements, and to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. For details of remaining contractual maturities at the end of each Track Record Period of our financial liabilities, please refer to note 28(b) to the Accountants' Report included in Appendix I to this document.

Interest Rate Risk

Our interest rate risk arises primarily from cash at bank, pledged bank deposits and interest-bearing borrowings. The Company's interest-bearing financial instruments at variable rates as of December 31, 2020, 2021 and 2022 and June 30, 2023 are primarily the cash at bank, and the cash flow interest rate risk arising from the change of market interest rate on these balances is not considered significant.

DIVIDENDS

No dividend had been paid or declared by our Company during the Track Record Period. There is no assurance that dividends of any amount will be declared or be distributed in any year. Although currently we do not have a formal dividend policy or a fixed dividend distribution ratio, our Board may declare dividends in the future after taking into account various factors, including our future earnings and cash inflows, future plan for use of funds, long-term development of our business, statutory reserves, discretionary common reserve funds, legal and regulatory restrictions, and other factors which our Directors consider relevant. Distribution of dividends will be decided by our Board at their discretion and will be subject to Shareholders' approval. In addition, our dividend policy will also be subject to our Articles of Association, the PRC Company Law, any other applicable PRC laws and regulations. In any event, we will pay dividends out of our profit after tax only after we have made the following allocations:

(a) recovery of accumulated losses, if any;

(b) allocation to the statutory common reserve fund an amount of 10% of our profit after tax, as determined under the Accounting Standards for Business Enterprises issued by the MOF (the "**PRC GAAP**"); until such fund has reached more than 50% of our registered capital; and

(c) allocation, if any, to a discretionary common reserve fund an amount approved by the shareholders in a shareholders' meeting.

Payment of dividends is subject to restrictions under PRC laws. Under PRC laws, dividends may be paid only out of distributable profits. Distributable profits are our net profit as determined under PRC GAAP, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make.

WORKING CAPITAL SUFFICIENCY

Our Directors are of the opinion that, taking into account the estimated net [**REDACTED**] from the [**REDACTED**] and the financial resources available to us, including expected cash generated from operating activities, we have sufficient working capital to meet our present needs and for the next 12 months from the date of this document. We base this opinion on the basis that as of the Latest Practicable Date, we had unutilized banking facilities of RMB658.2 million, providing us with financial resources. Historically, we have been able to obtain bank and other borrowings when needed, and we believe that our healthy relationships with banks will continue to support our borrowing needs in the future. In addition, a of November 30, 2023, we had cash and cash equivalents of RMB205.1 million, and we closely monitor and manage our cash position and requirements to ensure that we have sufficient working capital for our operations.

DISTRIBUTABLE RESERVES

As of June 30, 2023, our Company had retained profits of RMB406.7 million under PRC GAAP. The retained profits are reserves available for distribution to our Shareholders.

[**REDACTED**] EXPENSES

Based on the mid-point [**REDACTED**] of HK$[**REDACTED**] per Share, the total estimated [**REDACTED**] expenses in relation to the [**REDACTED**] are RMB[**REDACTED**] (HK$[**REDACTED**]), assuming the [**REDACTED**] is not exercised, which constitute approximately [**REDACTED**]% of the gross [**REDACTED**]. Our total [**REDACTED**] expenses consist of (i) [**REDACTED**] expenses of RMB[**REDACTED**] (HK$[**REDACTED**]); and (ii) [**REDACTED**] expenses of RMB[**REDACTED**] (HK$[**REDACTED**]), including (a) fees payable to our legal advisors and Reporting Accountants of RMB[**REDACTED**] (HK$[**REDACTED**]) and (b) other fees and expenses, including sponsors fees and the fees of other professional parties, of RMB[**REDACTED**] (HK$[**REDACTED**]). During the Track Record Period, we incurred [**REDACTED**] expenses of RMB[**REDACTED**], of which RMB[**REDACTED**] was recognized in our statements of profit or loss in the six months ended June 30, 2023, and RMB[**REDACTED**] was recognized as prepayments in our statements of financial position as of June 30, 2023, to be accounted for as a deduction from equity upon the [**REDACTED**]. Subsequent to the Track Record Period, we expect to incur [**REDACTED**] expenses of RMB[**REDACTED**] (HK$[**REDACTED**]) prior to and upon completion of the [**REDACTED**], of which RMB[**REDACTED**] (HK$[**REDACTED**]) is expected to be recognized as expenses in our statements of profit or loss, and RMB[**REDACTED**] (HK$[**REDACTED**]) is expected to be accounted for as a deduction from equity upon the [**REDACTED**]. The [**REDACTED**] expenses to be incurred subsequent to the Track Record Period consist of (i) [**REDACTED**] expenses of RMB[**REDACTED**] (HK$[**REDACTED**]), and (ii) [**REDACTED**] expenses of RMB[**REDACTED**] (HK$[**REDACTED**]), including (a) fees payable to our legal advisors and Reporting Accountants of RMB[**REDACTED**] (HK$[**REDACTED**]) and (b) other fees and expenses of RMB[**REDACTED**] (HK$[**REDACTED**]). The [**REDACTED**] expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Company prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the HKICPA is set out below to illustrate the effect of the [**REDACTED**] on the net tangible assets of the Company as of June 30, 2023 as if the [**REDACTED**] had taken place on June 30, 2023.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the net tangible assets of the Company had the [**REDACTED**] been completed as of June 30, 2023 or any future date.

	Net tangible assets of the Company as of June 30, 2023(1)	Estimated net [REDACTED] from the [REDACTED](2 & 4)	Unaudited pro forma adjusted net tangible assets of the Company	Unaudited pro forma adjusted net tangible assets of the Company per Share(3)	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$(4)*
Based on an [REDACTED] of HK$[REDACTED] per [REDACTED]	451,295	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of HK$[REDACTED] per [REDACTED]	451,295	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

(1) The net tangible assets of the Company as of June 30, 2023 is calculated based on the total equity of the Company of RMB451,694,000 as of June 30, 2023, less the intangible assets of RMB399,000 as of June 30, 2023, extracted from the Accountants' Report set out in Appendix I to the document.

(2) The estimated net [**REDACTED**] from the [**REDACTED**] are based on the expected issuance of [**REDACTED**] H Shares at the indicative [**REDACTED**] of [HK$[**REDACTED**]] and [HK$[**REDACTED**]] per [**REDACTED**], respectively, being the lower end price and higher end price of this stated [**REDACTED**] range, after deduction of estimated [**REDACTED**] fee and other related [**REDACTED**] expenses paid or payable by the Company (excluding the [**REDACTED**] expenses charged to profit or loss during the Track Record Period of RMB[**REDACTED**]) and does not take into account of any Shares which may be issued upon the exercise of the [**REDACTED**].

(3) The unaudited pro forma adjusted net tangible assets of the Company per Share are arrived at after the above adjustment and on the basis that [**REDACTED**] Shares are in issue immediately following the completion of the [**REDACTED**] and assuming that the [**REDACTED**] had been completed on June 30, 2023 without taking into account of the Shares which may be issued upon exercise of the [**REDACTED**].

(4) For illustrative purpose, the estimated net [**REDACTED**] from the [**REDACTED**] are converted from Hong Kong dollar into Renminbi and the unaudited pro forma adjusted net tangible assets of the Company per Share is converted from the Renminbi into Hong Kong dollar at a rate of [HK$1 = RMB0.91022], being the PBOC rate prevailing on the Latest Practicable Date. No representation is made that the Hong Kong dollars amounts have been, could have been or may be converted into Renminbi, or vice versa at that rate.

(5) No adjustment has been made to reflect any trading result or other transactions of the Company entered into subsequent to June 30, 2023.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, up to the date of this document, there had been no material adverse change in our financial or trading position or prospects since June 30, 2023, being the end date of our latest audited financial statements, and there had been no event since June 30, 2023 that would materially affect the information shown in the Accountants' Report set out in Appendix I.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there are no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.