1H2024 vs 1H2023

The Group recorded revenue of approximately RMB31.1 million for 1H2024, representing a decrease of approximately 82.4% as compared to that of RMB176.7 million for 1H2023. Such decrease was mainly due to (i) the Group's clients in the IoT industry having delayed their projects taking into consideration of their concerns in cash flows and uncertainty in macroeconomic condition; and (ii) lack of customer demand for telecommunication equipment.

The Group's gross profit decreased by approximately 95.1% to approximately RMB1.3 million for 1H2024 from approximately RMB27.2 million for 1H2023. The Group's gross profit margin decreased by 11.1 percentage points to approximately 4.3% for 1H2024 from approximately 15.4% for 1H2023. Such decrease in gross profit margin was mainly attributable to (i) intensified market competition and uncertainty in macroeconomic conditions; (ii) a decrease in exports of IoT antennas to the United States, which had a high gross profit margin of approximately 34.9% in the 1H2023; and (iii) offering a relatively low price to new customers, which accounted for approximately 66.7% of the total number of customers in 1H2024.

The Group recorded loss for the period of approximately RMB30.7 million for 1H2024 as compared to profit for the period of approximately 10.3 million for 1H2023. The loss for the period was mainly due to (i) decrease in gross profit as mentioned above; (ii) increase in administrative expenses as a result of increase in research and development expenses and staff costs; and (iii) increase in impairment losses on financial assets as a result of the increase of the trade receivables aged over one years as at 30 June 2024 as compared to that of 31 December 2023. The industries in which the Group operates are subject to rapid technological changes and are evolving quickly in terms of technological innovation. Since the inception, the Group has continuously invested in research and development. Recently, the Group has focused on improving the 5G network services, researching and developing industrial WLAN and upgrading the Group's self-developed centralized data platform to enhance functionality and add new features to services and products to its customers.

According to the Profit Warning Announcements, the Group is expected to record a net loss for the year ended 31 December 2024 ("**FY2024**") of approximately RMB68.0 million to approximately RMB83.0 million as compared to a net profit of approximately RMB25.5 million for the year ended 31 December 2023. Such decrease was mainly due to (i) a decrease of revenue by approximately 75.0% to approximately 85.0% as a result of (a) a decrease in revenue from data transmission and processing services because the Group's clients in the IoT industry have delayed their projects taking into consideration of their concerns in cashflows and uncertainty in macroeconomic condition; and (b) a decrease in revenue from sales of telecommunication equipment due to the lack of customer demand in 2024; (ii) a decrease in gross profit margin as a result of the intensified market competition; and (iii) an increase in impairment losses on trade receivables due to slower collection.

Financial Position

Set out below is a summary of the consolidated statement of financial position of the Group as at 31 December 2021, 2022 and 2023 and 30 June 2024 as extracted from the 2022 Annual Report, 2023 Annual Report and 2024 Interim Report:

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)	(unaudited)
Non-current assets	13,352	13,034	28,147	24,860
Current assets	339,345	345,652	322,622	287,710
Current liabilities	197,880	102,388	81,465	70,274
Non-current liabilities	1,783	214	927	466
Net current assets	141,465	243,264	241,157	217,436
Net assets	153,034	256,084	268,377	241,830
Equity attributable to owners of the Company	153,034	256,084	268,377	241,830
Gearing ratio (%) *(Note 1)*	4.1	4.7	2.6	2.6
Current ratio (times) *(Note 2)*	1.7	3.4	4.0	4.1

Notes:

1. Gearing ratio was calculated by total debt (including interest-bearing bank borrowings and lease liabilities) divided by total equity.

2. Current ratio was calculated by current assets divided by current liabilities.

As shown in the table above, the net current assets of the Group increased from approximately RMB141.5 million as at 31 December 2021 to approximately RMB243.3 million as at 31 December 2022. Such increase was primarily due to (i) increase in trade and notes receivables from approximately RMB140.8 million to approximately RMB214.0 million; and (ii) decrease in other payables and accruals from approximately RMB161.8 million to approximately RMB29.8 million, as at 31 December 2021 and 2022, respectively. The net current assets of Group recorded a decreasing trend since 2022. The Group's net current assets decreased from approximately RMB243.3 million as at 31 December 2022 to approximately RMB241.2 million as at 31 December 2023, mainly as a result of (i) decrease in cash and cash equivalent from approximately RMB47.3 million to RMB27.5 million; (ii) decrease in time deposits from approximately RMB73.4 million to approximately RMB5.7 million; and partially offset by (iii) increase in trade and note receivables from approximately RMB214.0 million to approximately RMB279.8 million; (iv) decrease in other payables and accruals from approximately RMB29.8 million to approximately RMB9.9 million; and (v) decrease in interest-bearing bank

from approximately RMB10.4 million to approximately RMB5.0 million, as at 31 December 2022 and 2023, respectively. The Group's net current assets further to decrease approximately RMB217.4 million as at 30 June 2024, which primarily due to (i) decrease in cash and cash equivalents of approximately from RMB27.5 million to RMB14.1 million; (ii) decrease in trade and note receivables from approximately RMB279.8 million to RMB263.4 million; and (iii) decrease in time deposits from approximately RMB5.7 million to nil, as at 31 December 2023 and 30 June 2024, respectively.

The net assets of the Group increased significantly from approximately RMB153.0 million as at 31 December 2021 to approximately RMB256.1 million as at 31 December 2022, primarily due to successfully listing on the Stock Exchange in December 2022. The net assets of the Group decreased from approximately RMB268.4 million as at 31 December 2023 to RMB241.8 million as at 30 June 2024, which primarily due to the net loss recorded for 1H2024.

The gearing ratio of the Group remained relatively low. The significantly decrease in gearing ratio from approximately 4.7% as at 31 December 2022 to approximately 2.6% as at 31 December 2023, primarily due to decrease in total debt.

The current ratio of the Group increased from 1.7 times as at 31 December 2021 to 3.4 times as at 31 December 2022, which primarily due to (i) increase in time deposits; (ii) increase in trade and note receivables and (iii) decrease in other payables and accruals. The current ratio of the Group further increased to 4.0 time as at 31 December 2023, which primarily due to (i) decrease in other payables and accruals and (ii) repayment of interest-bearing bank borrowings.

1.3 Historical dividend payout

During the three years ended 31 December 2023 and the six months ended 30 June 2024, no dividend had been declared.

1.4 Business prospect of the Group

With reference to the 2023 Annual Report and the 2024 Interim Report, the majority of the Group's revenue is derived from the provision of data transmission and processing services for IoT applications, which accounted for approximately 86.3% and 100.0% of its total revenue for FY2023 and 1H2024, respectively.

According to an article entitled "Forecast for 2024: Market Size, Competitive Landscape, and Development Outlook of China's IoT Industry" (https://bg.qianzhan.com/trends/detail/506/231128-8f903ca8.html) by QianZhan Industrial Research Institute, a leading PRC-based industry research and market consultancy institute established in 1998, the IoT industry in China is poised for rapid growth. The market size is projected to surpass RMB7.5 trillion by 2028 with a CAGR exceeding 15% from 2023 to 2028, driven by China's emphasis on improving economic quality and living standards through the adoption of new technologies like IoT. This advancement is expected to improve industrial efficiency, smart public services and home automation.

The Chinese government has played a pivotal role in fostering IoT development through key policies such as the Made in China 2025 initiative, which was implemented by the State Council of the People's Republic of China in May 2015, and the 14th Five-Year Plan (2021-2025), which was officially adopted by the National People's Congress in March 2021. Made in China 2025 emphasizes the integration of IoT, artificial intelligence, and big data into smart manufacturing, driving the adoption of Industrial IoT across sectors such as automotive, electronics, and machinery. It has driven the establishment of smart factories, where IoT-enabled systems optimize production and reduce costs, while also encouraging domestic research and development investments in IoT components like sensors and chips to enhance technological self-reliance. Meanwhile, the 14th Five-Year Plan has reinforced IoT's importance by prioritizing 5G deployment, which provides the connectivity backbone for IoT applications. The plan also supports the development of smart cities, where IoT technologies enhance urban management, transportation, and energy efficiency, contributing to sustainable urban development.

These policies have fostered a thriving IoT ecosystem, enabling China to become a global leader in IoT innovation and adoption. Government funding, standardization efforts, and public-private partnerships have accelerated digital transformation across industries such as healthcare, agriculture, and logistics. Additionally, IoT applications in environmental monitoring and smart transportation align with China's sustainability goals. In particular, the rise of smart factories and digitalized supply chains has spurred investment in private 5G networks, enabling real-time data transmission, enhanced automation, and improved operational resilience. According to the China Academy of Information and Communications Technology, which is a leading research institute under the Ministry of Industry and Information Technology, China's private 5G network market is expected to reach RMB80.2 billion by 2027, growing at a remarkable CAGR of 42% in the next five years, reflecting increasing demand for high-speed, low-latency connectivity in industrial applications.

Despite its promising outlook, the IoT industry faces several challenges. Market fragmentation and intense competition remain significant concerns. According to an article entitled "2024 IoT Industry Chain Analysis and Competitive Landscape Research Report" (https://baijiahao.baidu.com/s?id=1792647298890362713&wfr=spider&for=pc) published by chyxx.com (智研諮詢), a Chinese website that provides market research, industry analysis, and data reports across a wide range of sectors in China since 2008, the IoT industry in the PRC spans a wide range of fields, attracting a large number of participants despite its rapid growth. While companies specialize in different areas, competition within the same sector remains intense due to product similarities. As noted in the industry overview of the Group's prospectus, Frost & Sullivan, an independent market research consultant commissioned by the Group in connection with the global offering in November 2022, there were over 30,000 players operating across various IoT ecosystem layers, from perception to application services in 2021. Technological innovation, service integration, and industry expertise are key to maintaining a competitive edge. Data security and privacy risks are also escalating, requiring companies to invest in secure data transmission, encryption, and regulatory compliance. Moreover, interoperability and standardization issues continue to hinder seamless device connectivity and integration across diverse platforms. To address this, companies are increasingly adopting cloud-based solutions and standardized protocols.

Macroeconomic conditions further complicate the landscape. According to an article entitled "National Economy Witnessed Steady Progress amidst Stability with Major Development Targets Achieved Successfully in 2024"(https://www.stats.gov.cn/english/PressRelease/202501/t20250117_1958330.html) released by the National Bureau of Statistics of China, while the national economy remained stable in 2024, external challenges are mounting. Domestic demand remains weak, businesses face operational difficulties, and the economy is still facing difficulties and challenges. Reduced consumer and business spending could dampen IoT investment, particularly among small and medium-sized enterprises (SMEs). Additionally, global supply chain disruptions and escalating trade tensions may increase costs for IoT hardware components, such as semiconductors, thereby impacting profitability. As of February 2025, trade tensions between the United States and China have intensified. The U.S. recently imposed a 10% tariff on all Chinese imports, prompting China to retaliate with tariffs on U.S. goods, including a 15% duty on coal and liquefied natural gas and a 10% duty on oil and agricultural machinery, effective 10 February 2025. Export restrictions may force more businesses to shift their focus inward, the IoT industry may experience more intense competition and increased pricing pressure in the domestic market. Given the current economic climate, businesses in China are already facing challenges, including weak demand and operational difficulties, this could further influence investment in IoT solutions.

Our view

As detailed in the section "1.2 Historical Financial Information of the Group", the Group's financial performance has significantly deteriorated in FY2024, primarily due to weak customer demand and delays in spending. The Group's 2024 Interim Report also highlights a high customer concentration, with its five largest customers contributing approximately 97.2% of total revenue in the first half of 2024. Any reduction in spending by these key customers could materially impact revenue, particularly in a cautious economic environment.

Although the proportion of new customers increased from 63.6% in FY2023 to 66.7% in the first half of 2024, customer acquisition remains slow and challenging amid economic uncertainty. To attract new clients, the Group may need to offer competitive pricing, free trials, or flexible terms, which could further pressure margins.

Considering (i) the Group's deteriorating financial performance in FY2024, (ii) its high customer concentration, (iii) the cautious spending environment despite economic recovery, and (iv) trade tensions and the imposition of tariffs, we believe the Group's outlook remains uncertain in the near future despite government support.

2 Information on the Purchasers

2.1 *Background information of the Offeror*

As stated in the Letter from Lego Securities, the Offeror is an investment holding company incorporated in the British Virgin Islands with limited liability, and is directly wholly owned by Mr. Chan Chin Ching. The directors of the Offeror are Mr. Chan Chin Ching and Mr. Chan Chin Chun, who are brothers of each other. Mr. Chan Chin Ching (Ray), aged 41, is a technology entrepreneur and investor born and raised in Hong Kong. He is the CEO and co-founder of Memeland, a Web3 venture studio building and investing in content, community, and culture. He is also the CEO and co-founder of 9GAG, currently one of the world's top three social media platforms in the humor category based on traffic share, according to similarweb.com, which is a publicly traded company on the NYSE (ticker: SMWB) since 2021, is a leading provider of digital intelligence and web analytics, widely trusted by global businesses including Fortune 500 companies for market insights.

Ray's entrepreneurial journey began in 2008 when he and his co-founders launched 9GAG. Today, the platform has a global audience of 200 million across various social media channels, including Instagram (56 million), Facebook (40 million), X (16 million), Threads (6.5 million), Pinterest (3.9 million), TikTok (2.8 million), and WhatsApp (1.8 million). 9GAG, with a global user base and influence on internet culture, serves as an example of a technology company from Hong Kong achieving global reach. Driven by his vision and passion for blockchain technology, Ray founded Memeland in