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APPENDIX I

ACCOUNTANTS’ REPORT

[To insert the firm’s letterhead with official EY address]

ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SG MICRO CORP AND CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED AND HUATAI FINANCIAL HOLDINGS (HONG KONG) LIMITED

Introduction

We report on the historical financial information of SG Micro Corp (the “Company”) and its subsidiaries (together, the “Group”) set out on pages [] to [], which comprises the consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the years ended 31 December 2023, 2024 and 2025 (the “Relevant Periods”), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2023, 2024 and 2025 and material accounting policy information and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages [] to [] forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [] (the “Document”) in connection with the [REDACTED] of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Directors’ responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants’ responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants’ Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s

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internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of the financial position of the Group and the Company as at 31 December 2023, 2024 and 2025, and of the financial performance and cash flows of the Group for the years then ended in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

Dividends

We refer to note 12 to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Relevant Periods.

[]
Certified Public Accountants
Hong Kong
[Date]

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I HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants’ report.

The historical financial information of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the “Underlying Financial Statements”).

The Historical Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

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CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Notes	Year ended 31 December		
		2023	2024	2025
		RMB'000	RMB'000	RMB'000
Revenue	5	2,615,716	3,346,983	3,898,055
Cost of sales		(1,440,156)	(1,766,139)	(2,095,593)
Gross profit		1,175,560	1,580,844	1,802,462
Other income and gains	6	120,963	108,309	193,378
Selling and marketing expenses		(198,571)	(234,184)	(258,450)
Administrative expenses		(91,409)	(106,086)	(125,874)
Research and development expenses		(737,074)	(870,747)	(1,045,195)
Impairment losses on financial assets and contract assets, net	7	(1,677)	(1,086)	(2,457)
Other expenses		(3,697)	(2,606)	(9,527)
Finance costs	8	(2,277)	(2,242)	(11,996)
Share of (losses)/profits of associates		(7,679)	12,581	7,549
PROFIT BEFORE TAX	7	254,139	484,783	549,890
Income tax credit/(expense)	11	15,798	6,379	(15,515)
PROFIT FOR THE YEAR		269,937	491,162	534,375
Attributable to:				
Owners of the parent		280,768	500,249	547,060
Non-controlling interests		(10,831)	(9,087)	(12,685)
EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT:				
Basic	13	0.46	0.82	0.89
Diluted	13	0.46	0.81	0.88

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	<u>269,937</u>	<u>491,162</u>	<u>534,375</u>
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations	4,205	4,783	(9,641)
Others	35	23	(118)
Other comprehensive income/(loss) for the year, net of tax	<u>4,240</u>	<u>4,806</u>	<u>(9,759)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>274,177</u>	<u>495,968</u>	<u>524,616</u>
Attributable to:			
Owners of the parent	285,008	505,055	537,301
Non-controlling interests	<u>(10,831)</u>	<u>(9,087)</u>	<u>(12,685)</u>

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December		
		2023	2024	2025
		RMB’000	RMB’000	RMB’000
NON-CURRENT ASSETS				
Property, plant and equipment	14	545,191	691,094	711,825
Other intangible assets	17	33,743	52,837	85,978
Right-of-use assets	16	61,747	52,060	38,837
Goodwill	18	80,875	78,692	301,277
Deferred tax assets	19	161,791	175,896	151,264
Investments in associates	20	423,360	508,329	555,364
Time deposits	26	10,182	379,427	371,754
Financial assets at fair value through profit or loss, non current	21	109,163	121,849	115,991
Other non-current assets	22	32,336	20,321	23,371
Total non-current assets		1,458,388	2,080,505	2,355,661
CURRENT ASSETS				
Inventories	23	901,367	1,164,817	1,448,216
Trade and bills receivables at amortised cost	24	166,472	232,764	362,830
Trade and bills receivables at fair value through other comprehensive income		—	—	260
Contract assets		—	—	2,084
Prepayments, other receivables and other assets	25	86,236	100,084	137,634
Financial assets at fair value through profit or loss	21	769,093	1,378,000	1,340,087
Cash and cash equivalents	26	1,303,007	813,194	1,181,028
Time deposits	26	—	—	81,810
Restricted cash	26	22,289	1,755	44,540
Total current assets		3,248,464	3,690,614	4,598,489
CURRENT LIABILITIES				
Trade payables	27	264,141	316,000	400,910
Other payables and accruals	28	321,780	478,419	470,629
Interest-bearing bank borrowings	29	—	36,579	329,729
Lease liabilities	16	17,884	19,565	12,752
Contract liabilities	30	14,894	18,307	18,389
Total current liabilities		618,699	868,870	1,232,409
NET CURRENT ASSETS		2,629,765	2,821,744	3,366,080
TOTAL ASSETS LESS CURRENT LIABILITIES		4,088,153	4,902,249	5,721,741
NON-CURRENT LIABILITIES				
Interest-bearing bank borrowings	29	—	34,121	67,172
Lease liabilities	16	26,992	14,370	7,767
Deferred tax liabilities	19	50,240	56,726	54,799
Other payables and accruals	28	45,581	72,071	8,703
Deferred income	31	71,516	75,701	68,195
Other non-current liabilities	32	50,000	50,000	187,999
Total non-current liabilities		244,329	302,989	394,635
NET ASSETS		3,843,824	4,599,260	5,327,106

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ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION—continued

	Notes	As at 31 December		
		2023	2024	2025
		RMB’000	RMB’000	RMB’000
EQUITY				
Equity attributable to owners of the parent				
Share capital	33	469,487	473,450	620,063
Reserves	35	3,381,060	4,135,777	4,674,322
		3,850,547	4,609,227	5,294,385
Non-controlling interests		(6,723)	(9,967)	32,721
Total equity		<u>3,843,824</u>	<u>4,599,260</u>	<u>5,327,106</u>

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ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Notes	Attributable to owners of the parent								Total equity RMB'000	
	Share capital RMB'000	Capital reserves* RMB'000	Share-based payment reserve* RMB'000	Reserve funds* RMB'000	Exchange fluctuation reserve* RMB'000	Other reserves* RMB'000	Retained profits* RMB'000	Total RMB'000		Non-controlling interests RMB'000
	358,061	499,653	416,369	179,031	20,800	82,594	1,909,950	3,466,458	(15,779)	3,450,679
Balance at 1 January 2023	—	—	—	—	—	—	280,768	280,768	(10,831)	269,937
Profit for the year	—	—	—	—	—	—	—	35	—	35
Other comprehensive income for the year:	—	—	—	—	—	—	—	—	—	—
Share of OCI of associates	—	—	—	—	—	35	—	35	—	35
Exchange differences on translation of the financial statements	—	—	—	—	4,205	—	—	4,205	—	4,205
Total comprehensive income for the year	—	—	—	—	4,205	35	280,768	285,008	(10,831)	274,177
Equity-settled share-based payment schemes	3,580	199,513	(72,678)	—	—	—	—	130,415	—	130,415
Tax effect from equity-settled share-based payment schemes	—	—	(14,404)	—	—	—	—	(14,404)	—	(14,404)
Share-based payment compensation	34	—	116,860	—	—	—	—	116,860	1,931	118,791
Acquisition of non-controlling interests	—	(17,581)	—	—	—	—	—	(17,581)	(935)	(18,516)
Capital contribution from non-controlling shareholders	—	(18,891)	—	—	—	—	—	(18,891)	18,891	—
Transfer from retained profits	—	—	—	30,736	—	—	(30,736)	—	—	—
2022 final dividend settled by cash	12	—	—	—	—	—	(107,846)	(107,846)	—	(107,846)
Capital reserve converted to capital	35	107,846	(107,846)	—	—	—	—	—	—	—
Share of capital reserve of associates	—	—	—	—	—	10,528	—	10,528	—	10,528
Balance at 31 December 2023	469,487	554,848	446,147	209,767	25,005	93,157	2,052,136	3,850,547	(6,723)	3,843,824

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ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY—continued

	Attributable to owners of the parent										
	Notes	Share capital	Capital reserves*	Share-based payment reserve*	Reserve funds*	Exchange fluctuation reserve*	Other reserves*	Retained profits*	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2024		469,487	554,848	446,147	209,767	25,005	93,157	2,052,136	3,850,547	(6,723)	3,843,824
Profit for the year		—	—	—	—	—	—	500,249	500,249	(9,087)	491,162
Other comprehensive income for the year:											
Share of OCI of associates		—	—	—	—	—	23	—	23	—	23
Exchange differences on translation of the financial statements		—	—	—	—	4,783	—	—	4,783	—	4,783
Total comprehensive income for the year		—	—	—	—	4,783	23	500,249	505,055	(9,087)	495,968
Equity-settled share-based payment schemes		3,963	271,533	(61,152)	—	—	—	—	214,344	—	214,344
Tax effect from equity-settled share-based payment schemes		—	—	949	—	—	—	—	949	—	949
Share-based payment compensation	34	—	—	81,468	—	—	—	—	81,468	3,368	84,836
Capital contribution from non-controlling shareholders		—	(2,275)	—	—	—	—	—	(2,275)	2,475	200
Transfer from retained profits		—	—	—	26,958	—	—	(26,958)	—	—	—
2023 final dividend settled by cash	12	—	—	—	—	—	—	(47,073)	(47,073)	—	(47,073)
Share of capital reserve of associates		—	—	—	—	—	6,212	—	6,212	—	6,212
Balance at 31 December 2024		473,450	824,106	467,412	236,725	29,788	99,392	2,478,354	4,609,227	(9,967)	4,599,260

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY—continued

	Attributable to owners of the parent									
	Share capital	Capital reserves*	Share-based payment reserve*	Reserve funds*	Exchange fluctuation reserve*	Other reserves*	Retained profits*	Total	Non-controlling interests	Total equity
Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2025	473,450	824,106	467,412	236,725	29,788	99,392	2,478,354	4,609,227	(9,967)	4,599,260
Profit for the year	—	—	—	—	—	—	547,060	547,060	(12,685)	534,375
Other comprehensive income for the year:										
Share of OCI of associates	—	—	—	—	—	(118)	—	(118)	—	(118)
Exchange differences on translation of the financial statements	—	—	—	—	(9,641)	—	—	(9,641)	—	(9,641)
Total comprehensive income for the year	—	—	—	—	(9,641)	(118)	547,060	537,301	(12,685)	524,616
Equity-settled share-based payment schemes	4,021	292,866	(69,643)	—	—	—	—	227,244	—	227,244
Tax effect from equity-settled share-based payment schemes	—	—	(5,840)	—	—	—	—	(5,840)	—	(5,840)
Share-based payment compensation	34	—	152,411	—	—	—	—	152,411	6,702	159,113
Acquisition of non-controlling interests	—	(39,920)	—	—	—	—	—	(39,920)	36,578	(3,342)
Effect on non-controlling interests of the acquisition of a subsidiary	—	—	—	—	—	—	—	—	12,093	12,093
To acquire non-controlling interests obligations arising from acquisitions of subsidiaries	—	(130,580)	—	—	—	—	—	(130,580)	—	(130,580)
Capital reserve converted to capital	35	142,592	(142,592)	—	—	—	(54,706)	—	—	—
Transfer from retained profits	—	—	—	54,706	—	—	(95,062)	(95,062)	—	(95,062)
2024 final dividend settled by cash	—	—	—	—	—	—	—	—	—	—
Share of capital reserve of associates	—	—	—	—	—	39,604	—	39,604	—	39,604
Balance at 31 December 2025	620,063	803,880	544,340	291,431	20,147	138,878	2,875,646	5,294,385	32,721	5,327,106

* These reserve accounts comprise the consolidated reserves of RMB3,381,060,000, RMB4,135,777,000 and RMB4,674,322,000 in the consolidated statement of financial position as at 31 December 2023, 2024 and 2025, respectively.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December		
		2023	2024	2025
		RMB’000	RMB’000	RMB’000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		254,139	484,783	549,890
Adjustments for:				
Finance costs	8	2,277	2,242	11,996
Foreign exchange differences, net	6, 7	(415)	(6,204)	8,869
Share of losses/(profits) of associates		7,679	(12,581)	(7,549)
Gains on disposal of items of property, plant and equipment, intangible assets and right-of-use assets, net	6, 7	(62)	(3,283)	(1,009)
Depreciation of property, plant and equipment	7,14	101,555	125,154	150,120
Depreciation of right-of-use assets	7,16	22,599	23,788	22,047
Amortization of intangible assets	7,17	13,932	19,172	25,678
Amortization of deferred income	31	(7,303)	(11,005)	(39,447)
Impairment losses on goodwill	7,18	—	2,183	—
Impairment of contract assets	7	—	—	410
Impairment losses on financial assets, net		1,677	1,086	2,047
Fair value losses/(gains), net:				
Equity investments at fair value through profit or loss	7	3,134	(3,147)	(26,479)
Wealth management products	6,7	(1,602)	(7,407)	(16,030)
Interest income	6	(34,720)	(31,687)	(30,061)
Gains on disposal of investments at fair value through profit or loss	7	(18,230)	(18,597)	(18,616)
Share-based payment expenses	7,34	118,791	84,836	159,113
Increase in inventories		(199,443)	(263,450)	(270,924)
Increase in trade and bills receivables at amortised cost		(56,546)	(67,517)	(116,057)
Increase in trade and bills receivables at fair value through other comprehensive income		—	—	(260)
Increase in contract assets		—	—	(122)
(Increase)/decrease in prepayments, other receivables and other assets		(31,011)	(1,966)	18,335
Increase/(decrease) in trade payables		(22,781)	51,859	81,944
Increase/(decrease) in contract liabilities		(4,667)	3,413	(1,668)
Increase/(decrease) in other payables and accruals		(42,113)	119,863	(27,672)
Increase in deferred government grants		1,600	—	—
(Increase)/decrease in restricted cash		(7,616)	20,534	(43,975)
Cash generated from operations		100,874	512,069	430,580
Interest received		34,720	31,687	15,671
Income tax paid		26,202	(9,607)	(11,872)
Net cash flows from operating activities		161,796	534,149	434,379

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CONSOLIDATED STATEMENTS OF CASH FLOWS—continued

	Notes	Year ended 31 December		
		2023	2024	2025
		RMB’000	RMB’000	RMB’000
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposal of wealth management products		2,092,500	2,563,500	5,107,000
Proceeds from disposal of items of property, plant and equipment, intangible assets and other non-current assets	4	—	—	2,154
Proceeds from disposal of time deposits upon maturity		—	—	160,000
Proceeds of the income from time deposits		—	—	9,511
Purchases of items of property, plant and equipment		(204,032)	(209,026)	(232,643)
Purchase of time deposits		(10,000)	(362,979)	(229,258)
Additions to other intangible assets		(29,218)	(31,287)	(23,523)
Purchases of investments in associates		(19,867)	(68,000)	—
Dividend from equity investments at fair value through profit or loss		—	—	311
Dividend from associates		—	—	1,847
Proceeds of the income from wealth management products		18,230	18,286	33,464
Purchases of wealth management products		(2,332,000)	(3,165,000)	(5,080,000)
Proceeds from disposal of equity investments at fair value through profit or loss		—	—	59,432
Purchase of subsidiaries		—	—	(254,135)
Intentional deposit of the purchase of an investment		—	—	(5,000)
Payment the performance guarantee for project funds		(1,190)	(1,190)	—
Refund the performance guarantee for project funds		—	1,190	1,190
Purchases of equity investments at fair value through profit or loss		(64,420)	(9,000)	(15,000)
Receipt of government grants for property, plant and equipment . . .		8,874	15,190	31,941
Net cash flows used in investing activities		(541,119)	(1,248,316)	(432,709)

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CONSOLIDATED STATEMENTS OF CASH FLOWS—continued

	Notes	Year ended 31 December		
		2023	2024	2025
		RMB’000	RMB’000	RMB’000
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of shares		130,415	214,344	227,244
Contributions from non-controlling shareholders of subsidiaries		50,000	200	—
New bank loans		—	70,646	362,554
Interest paid		—	(451)	(3,258)
Payment of lease payments	16	(23,780)	(22,537)	(22,543)
Prepayments for the right of use assets		(550)	(1,125)	—
Payment of bank and other borrowings		—	—	(62,585)
Payment of [REDACTED] expense		[REDACTED]	[REDACTED]	[REDACTED]
Acquisition of non-controlling interests		(8,924)	—	(3,342)
Dividends paid		(107,846)	(47,073)	(95,062)
Net cash flows from financing activities		39,315	214,004	384,746
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
Cash and cash equivalents at beginning of year		1,638,363	1,303,007	813,194
Effect of foreign exchange rate changes, net		4,652	10,350	(18,582)
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,303,007	813,194	1,181,028
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances		1,325,296	814,949	1,225,568
Restricted cash		(22,289)	(1,755)	(44,540)
Cash and cash equivalents as stated in the consolidated statement of financial position		1,303,007	813,194	1,181,028
Cash and cash equivalents as stated in the consolidated statement of cash flows		1,303,007	813,194	1,181,028

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ACCOUNTANTS’ REPORT

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	As at 31 December		
		2023	2024	2025
		RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	14	396,191	277,038	278,679
Investment properties	15	—	148,739	143,407
Right-of-use assets	16	39,674	26,112	11,959
Other intangible assets	17	24,750	45,351	44,173
Goodwill	18	24,484	24,484	24,484
Investment in subsidiaries	45	422,989	513,940	947,203
Investments in associates	20	423,360	508,329	555,364
Financial assets at fair value through profit or loss, non current	21	77,247	86,592	104,567
Deferred tax assets	19	164,713	180,067	171,255
Time deposits	26	—	368,915	371,754
Other non-current assets	22	30,366	15,924	18,286
Total non-current assets		1,603,774	2,195,491	2,671,131
CURRENT ASSETS				
Inventories	23	774,098	969,934	1,226,959
Trade and bills receivables at amortised cost	24	79,335	160,423	273,686
Prepayments, other receivables and other current assets	25	63,239	56,946	93,052
Financial assets at fair value through profit or loss, current	21	704,344	1,338,813	1,242,018
Due from subsidiaries	45	213,855	267,157	192,823
Restricted cash	26	21,099	565	44,250
Time deposits	26	—	—	65,309
Cash and cash equivalents	26	952,636	387,516	758,757
Total current assets		2,808,606	3,181,354	3,896,854
CURRENT LIABILITIES				
Trade payables	27	193,650	267,490	330,871
Contract liabilities	30	5,489	7,908	7,899
Due to subsidiaries	45	11,818	91,149	283,371
Interest-bearing bank borrowings-current liabilities	29	—	—	300,928
Other payables and accruals	28	214,209	263,521	202,632
Lease liabilities	16	13,037	11,860	3,926
Total current liabilities		438,203	641,928	1,129,627
NET CURRENT ASSETS		2,370,403	2,539,426	2,767,227
TOTAL ASSETS LESS CURRENT LIABILITIES		3,974,177	4,734,917	5,438,358
NON-CURRENT LIABILITIES				
Lease liabilities-non current	16	21,726	8,387	1,670
Other payables and accruals	28	42,224	31,521	—
Deferred income	31	68,545	59,281	47,842
Deferred tax liabilities	19	14,965	16,802	—
Total non-current liabilities		147,460	115,991	49,512
Net assets		3,826,717	4,618,926	5,388,846
EQUITY				
Share capital	33	469,487	473,450	620,063
Reserves	35	3,357,230	4,145,476	4,768,783
TOTAL EQUITY		3,826,717	4,618,926	5,388,846

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

SG Micro Corp (hereinafter referred to as “the Company”) is a limited company registered in Beijing, Chinese mainland on 26 January 2007. The registered address of the Company is Room 4-1106, 11th Floor, No. 87, Xisanhuan North Road, Haidian District, Beijing, the People’s Republic of China (the “PRC”). On 6 June 2017, the Company’s A shares were listed on the Shenzhen Stock Exchange.

During the Relevant Periods, the Company and its subsidiaries (hereinafter collectively referred to as “the Group”) are principally engaged in designing, developing and selling analog ICs and sensors that sense, amplify, convert and power, forming the fundamental building blocks of all electronic systems. These products are widely applied in Industrial & Energy, Automotive, Networking & Computing and Consumer Electronics.

As at 31 December 2025, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong). The particulars of the Company’s principal subsidiaries are as follows:

Name*	Notes	Place and date of incorporation/ registration and place of operations	Registered share capital (in thousand)	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
						Development of semiconductor technology, technology transfer, sales and trade
SG MICRO (HK) LIMITED	a	Hong Kong 05 December 2005	HKD10	100.00%	—	
SHANGHAI SG MICRO CO., LTD.	b	PRC/Shanghai 13 October 2016	RMB30,000	100.00%	—	R&D and sales service
SHANGHAI PINGSHENG MICRO CO., LTD.	b	PRC/Shanghai 26 November 2018	RMB2,450	100.00%	—	R&D
SHEN AN MICRO CO., LTD.	b	PRC/Hangzhou 19 August 2019	RMB16,000	56.00%	—	R&D
SG MICRO SUZHOU CO., LTD.	d	PRC/Suzhou 09 February 2021	RMB15,683	100.00%	—	R&D and sales services
SG MICRO JIANGYIN CO., LTD.	b	PRC/Wuxi 27 October 2021	RMB150,000	100.00%	—	R&D and testing services
SG MICRO HANGZHOU CO., LTD.	c	PRC/Hangzhou 22 December 2021	RMB2,000	100.00%	—	R&D and sales services
SHENZHEN SHENAN MICRO CO., LTD.	c	PRC/Shenzhen 01 December 2023	RMB2,000	—	56.00%	R&D and sales services
SG MICRO HARBIN CO., LTD.	b	PRC/Harbin 29 June 2023	RMB100,000	100.00%	—	R&D and sales
SG MICRO JAPAN K.K.	c	Japan 16 November 2023	JPY10,000	—	100.00%	Sales services
SG MICRO GMBH	c	Germany 6 March 2024	EUR100	—	100.00%	Sales services
SG MICRO SHANGHAI CO., LTD.	e	PRC/Shanghai 16 December 2024	RMB30,000	100.00%	—	R&D and sales

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

1. CORPORATE INFORMATION—continued

Name*	Notes	Place and date of incorporation/ registration and place of operations	Registered share capital (in thousand)	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
GANRUI TECH (CHANGZHOU) CO., LTD.	f	PRC/Changzhou 21 October 2016	RMB3,322	68.9918%	—	Controlling Stake
VTRAN TECH (CHANGZHOU) CO., LTD.	f	PRC/Changzhou 16 January 2017	RMB80,000	—	68.9918%	R&D and sales
SG MICRO SHENZHEN CO., LTD.	g	PRC/Shenzhen 21 January 2025	RMB60,000	100.00%	—	R&D and sales services
SG MICRO DALIAN CO., LTD.	g	PRC/Dalian 24 July 2025	RMB20,000	100.00%	—	R&D
TeraDevices Inc.	f	PRC/Shanghai 29 March 2018	RMB5,697	77.5418%	—	R&D and sales
SG MICRO CHENGDU CO., LTD.	g	PRC/Chengdu 29 December 2025	RMB30,000	100.00%	—	R&D and sales

Notes:

- The statutory financial statements for the entity were prepared in accordance with IFRS Accounting Standards. The statutory auditor is Raymond Yeung & Co. for the year ended 31 December 2023 and 2024. No audited financial statements have been prepared for the entity for the year ended 31 December 2025 as at the date of this report.
 - The statutory financial statements for these entities were prepared in accordance with PRC Generally Accepted Accounting Principles (“PRC GAAP”). The statutory auditor is Grant Thornton Zhitong Certified Public Accountants LLP for the year ended 31 December 2023 and 2024. No audited financial statements have been prepared for these entities for the year ended 31 December 2025 as at the date of this report.
 - No audited financial statements have been prepared for the entity for the year ended 31 December 2023, 2024 and 2025 as these entities were not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdictions of registration.
 - The statutory financial statements for the entity were prepared in accordance with PRC GAAP. The statutory auditor for the year ended 31 December 2023 and 2024 were Suzhou Genhood Certified Public Accountants Co., Ltd. and Suzhou Genhood Certified Public Accountants Co., Ltd.. No audited financial statements have been prepared for the entity for the year ended 31 December 2025 as at the date of this report.
 - No audited financial statements have been prepared for the year 2023 as the entity was registered in 2024. And no audited financial statements have been prepared for the entity for the year ended 31 December 2024 and 2025 as the entity was not subject to any statutory audit requirements under the relevant rules and regulations in its jurisdictions of registration.
 - These entities were acquired in 2025, and no audited financial statements have been prepared since the acquisition date.
 - No audited financial statements have been prepared for these entities for the year ended 31 December 2023 and 2024 as these entities were registered in 2025. And no audited financial statements have been prepared for the year ended 31 December 2025 as these entities were not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdictions of registration.
- * The English names of these entities registered in Chinese mainland represent the best efforts made by the management of the Company to directly translate their Chinese names as they did not register any official English names.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the Relevant Periods or formed a substantial portion of the net assets of the Group.

2.1 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with IFRS Accounting Standards, which comprise all standards and interpretations approved by the International Accounting Standards Board.

All IFRS Accounting Standards effective for the accounting period commencing from 1 January 2025 together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2.1 BASIS OF PREPARATION—continued

The Historical Financial Information has been prepared under the historical cost basis, except for financial assets at fair value through profit or loss (“FVTPL”), financial assets at fair value through other comprehensive income (“FVTOCI”) and derivative financial instruments, which have been measured at fair value.

Basis of consolidation

The historical financial information include the financial statements of the Company and its subsidiaries for the Relevant Periods. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, any non-controlling interest and the exchange fluctuation reserve; and recognizes the fair value of any investment retained and any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2.2 ISSUED BUT NOT YET EFFECTIVE IFRS ACCOUNTING STANDARDS

The Group has not applied the following new and revised IFRS Accounting Standards, that have been issued but are not yet effective in the Historical Financial Information. The Group intends to apply these new and revised IFRS Accounting Standards, if applicable, when they become effective:

IFRS 18	Presentation and Disclosure in Financial Statements ²
IFRS 19 and its amendments	Subsidiaries without Public Accountability: Disclosures ²
Amendments to IFRS 9 and IFRS 7	Amendments to the Classification and Measurement of Financial Instruments ¹
Amendments to IFRS 9 and IFRS 7	Contracts Referencing Nature-dependent Electricity ¹
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate ³
Amendments to IAS 21	Translation to a Hyperinflationary Presentation Currency ²
Annual Improvements to IFRS Accounting Standards – Volume 11	Amendments to IFRS 1, IFRS 7, IFRS 9, IFRS 10 and IAS 7 ¹

¹ Effective for annual periods beginning on or after 1 January 2026

² Effective for annual/reporting period beginning on or after 1 January 2027

³ No mandatory effective date yet determined but available for adoption

The Group is in the process of making a detailed assessment of the impact of these new and revised IFRS Accounting Standards upon initial application. So far, the Group considers that these new and revised IFRS Accounting Standards, except for IFRS 18, may result in changes in certain accounting policies and no significant impact on the Group’s financial performance and financial position is expected in the period of initial application. The application of IFRS 18 is not expected to have material impact on the financial position of the Group but is expected to affect the presentation of the statements of profit or loss and other comprehensive income and statement of cash flows and disclosures in the future financial information. The Group will continue to assess the impact of IFRS 18 on the Group’s financial information.

2.3 MATERIAL ACCOUNTING POLICIES

Investments in associates

An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group’s investments in associates is stated in the consolidated statement of financial position at the Group’s share of net assets under the equity method of accounting, less any impairment losses.

The Group’s share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated statements of comprehensive income, respectively. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes in the consolidated statement

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2.3 MATERIAL ACCOUNTING POLICIES—continued

of changes in equity. Unrealized gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group’s investments in the associates, except where unrealized losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group’s investments in associates.

Investments in subsidiaries

The results of subsidiaries are included in the Company’s statements of profit or loss to the extent of dividends received and receivable. The Company’s investments in subsidiaries are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree’s identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group’s previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2.3 MATERIAL ACCOUNTING POLICIES—continued

indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gains or losses on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2.3 MATERIAL ACCOUNTING POLICIES—continued

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets, inventories, and financial assets), the asset’s recoverable amount is estimated. An asset’s recoverable amount is the higher of the asset’s or cash-generating unit’s value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of the Relevant Periods as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2.3 MATERIAL ACCOUNTING POLICIES—continued

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person’s family and that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; and the sponsoring employers of the post-employment benefit plan;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2.3 MATERIAL ACCOUNTING POLICIES—continued

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The annual depreciation rates used for this purpose are as follows:

	<u>Useful lives (year)</u>	<u>Residual value rate</u>	<u>Annual depreciation rate</u>
Motor vehicles	4	—	25.00%
Office furniture	5	—	20.00%
Electronic equipment and others	3-10	—	33.33%-10.00%
Buildings	30	—	3.33%
Leasehold improvements	3-5	—	33.33%-20.00%
Special Tooling	2	—	50.00%

Leasehold improvements shall be amortized over the lease term or their useful lives, whichever is shorter, with no residual value.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gains or losses on disposal or retirement recognized in the statement of profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. It is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including right-of-use assets) held to earn rental income or for capital appreciation. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, the Group chooses the cost model to measure all of its investment property.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2.3 MATERIAL ACCOUNTING POLICIES—continued

Depreciation is calculated on the straight-line basis to write off the cost of each item of investment properties to its residual value over its estimated useful life. The annual depreciation rates used for this purpose are as follows:

	<u>Useful lives (year)</u>	<u>Residual value rate</u>	<u>Annual depreciation rate</u>
Buildings	30	—	3.33%

Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of profit or loss in the year of the retirement or disposal.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents, non-patented technology, certificate of layout rights for integrated circuits, software copyright and software

Patents, non-patented technology, certificate of layout rights for integrated circuits, software copyright and software are stated at cost less any impairment losses. Patents is generally amortized on the straight-line basis over its estimated useful lives of 10 to 20 years. Non-patented technology is generally amortized on the straight-line basis over its estimated useful lives of 5 to 10 years. Certificate of layout rights for integrated circuits is generally amortized on the straight-line basis over its estimated useful lives of 10 years. Software copyright is generally amortized on the straight-line basis over its estimated useful lives about 10 years. Software is generally amortized on the straight-line basis over its estimated useful lives less than 5 years.

Research and development expenses

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortized using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2.3 MATERIAL ACCOUNTING POLICIES—continued

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognized at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. If the lease transfers ownership of the underlying asset to the Group by the end of the lease term, or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, right-of-use assets are depreciated on a straight-line basis over the estimated useful life of the underlying asset. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Land use rights	50 years
Parking space use rights	31.67 years
Buildings	1.17 to 6 years

(b) Lease liabilities

Lease liabilities are recognized at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2.3 MATERIAL ACCOUNTING POLICIES—continued

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of buildings and electronic equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment that are considered to be of low value.

Lease payments on short-term leases are recognized as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease term and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Group’s business model for managing them. With the exception of trade and bills receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade and bills receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for “Revenue recognition” below.

In order for a financial asset to be classified and measured at amortized cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest (“SPPI”) on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2.3 MATERIAL ACCOUNTING POLICIES—continued

The Group’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortized cost (debt instruments)

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognized in other comprehensive income. Upon derecognition, the cumulative fair value change recognized in other comprehensive income is recycled to the statement of profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on the equity investments are also recognized as other income in the statement of profit or loss when the right of payment has been established.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2.3 MATERIAL ACCOUNTING POLICIES—continued

value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in the statement of profit or loss. Reassessment occurs if there is a change in the terms of the contract that significantly modifies the cash flows.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group’s consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group’s continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognizes an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2.3 MATERIAL ACCOUNTING POLICIES—continued

result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group may consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortized cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade and bills receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade and bills receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade and bills receivables and contract assets that contain a significant financing component, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2.3 MATERIAL ACCOUNTING POLICIES—continued

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group’s financial liabilities include trade payables, financial liabilities at fair value through profit or loss, financial liabilities included in other payables and other non-current liabilities, interest-bearing bank borrowings.

For option arrangement to purchase the Group’s subsidiary’s share capital from non-controlling shareholders and redemption financial liabilities, the Group initially recognizes, a financial liability at the present value of the redemption amount, and is reclassified from equity.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the statement of profit or loss. The net fair value gain or loss recognized in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortized cost (trade and other payables, and borrowings)

After initial recognition, trade payables, financial liabilities included in other payables and other non-current liabilities, and interest-bearing bank borrowings are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in the statement of profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in the statement of profit or loss.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2.3 MATERIAL ACCOUNTING POLICIES—continued

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in the statement of profit or loss.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as foreign currency agreements, to hedge its foreign currency risk. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges.

Inventories

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

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and at banks, and short term highly liquid deposits with a maturity of generally within three months that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value and held for the purpose of meeting short-term cash commitments.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and at banks, time deposits and assets similar in nature to cash, which are not restricted as to use.

Provisions

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

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2.3 MATERIAL ACCOUNTING POLICIES—continued

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of the reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2.3 MATERIAL ACCOUNTING POLICIES—continued

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual installments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue from contracts with customers

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

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

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2.3 MATERIAL ACCOUNTING POLICIES—continued

(a) Sale of products

Revenue from the sale of products (mainly power management ICs and signal chain ICs) is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the products or customer’s acceptance of the products.

For contracts which provide a customer with a right to return the goods within a specified period, the Group bases its estimates of sales return on historical results. The requirements in IFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognized. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognized for the right to recover products from a customer.

(b) Rendering of services

Revenue of other services is recognized when the customer passes the acceptance and the development results are submitted.

Revenue from other sources

Rental income is recognized on a time proportion basis over the lease terms.

Other income

Interest income is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognized when the shareholders’ right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract assets

If the Group performs by transferring goods or services to a customer before being unconditionally entitled to the consideration under the contract terms, a contract asset is recognized for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets. They are reclassified to trade receivables when the right to the consideration becomes unconditional.

Contract liabilities

A contract liability is recognized when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognized as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2.3 MATERIAL ACCOUNTING POLICIES—continued

Contract costs

Other than the costs which are capitalized as inventories, property, plant and equipment and intangible assets, costs incurred to fulfill a contract with a customer are capitalized as an asset if all of the following criteria are met:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

The capitalized contract costs are amortized and charged to the statement of profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Other contract costs are expensed as incurred.

Right-of-return assets

A right-of-return asset is recognized for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods and any potential decreases in the value of the returned goods. The Group updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned goods.

Refund liabilities

A refund liability is recognized for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of the reporting period.

Share-based payments

The Group operates share award schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Employees of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (“equity-settled transactions”).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value of share awards is determined by an external valuer using the Black-Scholes formula. Since there are no cash settlement alternatives, the Group accounts for the share-based payment schemes as equity-settled share-based schemes, further details are included in note 34 to the Historical Financial Information.

The cost of equity-settled transactions is recognized in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each of

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2.3 MATERIAL ACCOUNTING POLICIES—continued

the Relevant Periods until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group’s best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognized. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognized for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is canceled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately.

Other Employee benefits

Pension scheme

The employees of the Group’s subsidiaries which operate in Chinese mainland are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Dividends distributed to the shareholders is recognized as a liability in the period when the dividends are approved by the entities’ shareholders or directors, where appropriate.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2.3 MATERIAL ACCOUNTING POLICIES—continued

Foreign currencies

These financial statements are presented in RMB, which is the Company’s functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are recorded using an exchange rate determined by a systematic and reasonable method that approximates the spot exchange rate on the transaction date for conversion. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognized in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the average exchange rates during the reporting period.

The resulting exchange differences are recognized in other comprehensive income and accumulated in the exchange fluctuation reserve, except to the extent that the differences are attributable to non-controlling interests. On disposal of a foreign operation, the cumulative amount in the reserve relating to that particular foreign operation is recognized in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the combined statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Historical Financial Information requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES—continued

Judgments

In the process of applying the Group’s accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the Historical Financial Information:

Deferred tax assets

Deferred tax assets are recognized for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses or temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Business model

The classification of financial assets upon initial recognition depends on the Groups business model for managing financial assets. In determining the business model, the Group considers the ways in which the Company evaluates and reports the performance of financial assets to key management personnel, the risks that affect the performance of financial assets and their management, and the way in which relevant business management personnel are remunerated. When evaluating whether to target the collection of contractual cash flows, the group needs to analyse and judge the reasons, timing, frequency and value of the financial assets sold before the maturity date.

Contractual cash flow characteristics

The classification of financial assets at initial recognition depends on the contractual cash flow characteristics of the financial assets. When it is necessary to judge whether the contractual cash flows are only payments of principal and interest based on outstanding principal, it is necessary to judge whether the contractual cash flows are significantly different from the benchmark cash flows when the valuation includes amendments to the time value of money.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Variable consideration arising from price adjustments or sales returns

For contracts with similar characteristics, the Group estimates price adjustments and sales return rates based on historical performance, evolving customer demand, prevailing market conditions, and the product lifecycle stage, using the most reliable available information. Due to inherent uncertainties, the estimated amounts may differ from the actual outcomes. The Group reassesses the estimated price adjustments or return rates at least as of each balance sheet date, and determines the accounting treatment based on the revised estimates.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES—continued

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill at 31 December 2023, 2024 and 2025 were RMB80,875,000, RMB78,692,000 and RMB301,277,000. Further details are given in note 18.

Provision for expected credit losses on trade and bills receivables

The Group assesses impairment of trade and bills receivables using the expected credit loss model. The application of the expected credit loss model requires significant judgment and estimation, and all reasonable and supportable information, including forward-looking information, must be considered. When making these judgments and estimations, the Group infers the expected changes in the credit risk of debtors based on historical repayment data in combination with economic conditions, macroeconomic indicators, industry risks and other factors. Different estimates may affect the amount of impairment provisions recognized, and the impairment provisions already recognized may not equal the actual impairment losses in the future.

The information about the ECLs on the Group’s trade and bills receivables is disclosed in note 24 to the Historical Financial Information, respectively.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of the reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm’s length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of inventories

The Group measures inventories at the lower of cost and net realizable value. For inventories where the cost exceeds the net realizable value, a write-down of inventories is recognized. At the end of each reporting period, the Company reassesses whether the inventories is obsolete or slow-moving and whether the net realizable value is lower than the inventory cost. If the reassessment results differ from the existing estimates, such differences will impact the carrying value of the inventories in the period in which the estimates are revised.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES—continued

Fair value of unlisted equity investments

The unlisted equity investments have been valued net asset value of underlying investments as detailed in note 42 to the financial statements.

The Group classifies the fair value of these investments as Level 3. Further details are included in note 21 to the financial statements.

4. OPERATING SEGMENT INFORMATION

(a) Description of segments and principal activities

Management monitors the operating results of the Group as a whole for the purpose of making decision on resources allocation and preformation assessment. On this basis, the Group has determined that it only has one operating segment which is the sales of ICs products.

(b) Segment information

There was no single customer from which the revenue amounted to 10% or more of the Group’s revenue for the Relevant Periods.

The Group’s non-current assets excluding financial instruments and deferred taxes were primarily located in Chinese mainland as at the end of each of the Relevant Periods.

5. REVENUE

An analysis of revenue is as follows:

	Year ended 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Revenue from contracts with customers:			
Disaggregated by major products or service lines			
- Power management ICs	1,746,024	2,181,660	2,379,834
- Signal chain ICs	864,242	1,156,700	1,471,023
- Others	5,450	8,623	47,198
Total revenue	<u>2,615,716</u>	<u>3,346,983</u>	<u>3,898,055</u>

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APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

5. REVENUE—continued

Revenue from contracts with customers

(a) Disaggregated revenue information

	Year ended 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Geographical information			
Hong Kong	1,358,701	1,484,881	1,921,049
Chinese mainland	1,042,216	1,497,608	1,635,122
Taiwan	91,117	134,205	171,691
Others	123,682	230,289	170,193
Total revenue	<u>2,615,716</u>	<u>3,346,983</u>	<u>3,898,055</u>
Timing of revenue recognition			
Goods and services transferred at a point in time	<u>2,615,716</u>	<u>3,346,983</u>	<u>3,898,055</u>
Total revenue	<u>2,615,716</u>	<u>3,346,983</u>	<u>3,898,055</u>

The following table shows the amounts of revenue recognized during the Relevant Periods that were included in the contract liabilities at the beginning of each of the respective period:

	Year ended 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Revenue recognized that was included in contract liabilities at the beginning of the year			
Sale of products	17,675	12,913	13,245
Rendering of services	—	—	4,151
Total	<u>17,675</u>	<u>12,913</u>	<u>17,396</u>

(b) Performance obligations

Information about the Group’s performance obligations is summarized below:

Sale of products

The performance obligation is satisfied when the products are delivered or accepted by the customer, and payment is generally due within certain days upon delivery or after acceptance, except for new customers, where payment in advance is normally required.

Rendering of services

The performance obligation is satisfied upon completion and acceptance of the services and payment is generally due upon completion of the services.

For the above contracts with customers, they are rendered in a short period of time, which is generally less than one year.

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APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

6. OTHER INCOME AND GAINS

	Year ended 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
<u>Other income</u>			
Government grants*	50,541	37,844	101,072
Bank interest income	34,720	31,687	30,061
Subtotal	85,261	69,531	131,133
<u>Gains</u>			
Foreign exchange income, net	415	6,204	—
Gains on disposal of investments at fair value through profit or loss:			
Wealth management products	18,230	18,286	6,521
Equity investments at fair value through profit or loss	—	311	12,095
Gains on disposal of items of property, plant and equipment and right-of-use assets	62	3,283	1,009
Fair value gains on:			
Wealth management products	1,602	7,407	16,030
Equity investments at fair value through profit or loss	—	3,147	26,479
Others	15,393	140	111
Subtotal	35,702	38,778	62,245
Total other income and gains	120,963	108,309	193,378

* The government grants were mainly incentives provided by local government authorities in Chinese mainland, including various forms of government financial incentives and preferential tax treatments. There were no unfulfilled conditions or contingencies relating to these government grants.

APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

7. PROFIT BEFORE TAX

The Group’s profit before tax is arrived at after charging/(crediting):

	Year ended 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Cost of raw materials consumed	656,690	861,037	964,819
Cost of packaging testing	589,127	687,553	837,955
Research and development expenses	737,074	870,747	1,045,195
Equity-settled share-based payment expense*	118,791	84,836	159,113
Depreciation of property, plant and equipment*	101,555	125,154	150,120
Depreciation of right-of-use assets*	22,599	23,788	22,047
Amortization of intangible assets*	13,932	19,172	25,678
Lease payments not included in the measurement of lease liabilities*	2,002	3,510	3,210
Staff costs (excluding directors’ remuneration (note 9))*:			
Salaries, wages and bonus	582,372	761,676	831,688
Pension scheme contributions**	47,959	60,602	72,484
Total	630,331	822,278	904,172
Impairment of goodwill	—	(2,183)	—
Impairment of financial assets and contract assets, net:			
Impairment/(reversal of impairment losses) of other receivables, net	766	(122)	(126)
Impairment of trade and bills receivables, net	911	1,208	2,173
Impairment of contract assets, net	—	—	410
Impairment of Inventories	108,634	128,851	169,828
Gains on disposal of items of property, plant, and equipment, intangible assets and right-of-use assets, net	(62)	(3,283)	(1,009)
Gains on disposal of investments at fair value through profit or loss	(18,230)	(18,597)	(18,616)
Foreign exchange (income)/loss, net	(415)	(6,204)	8,869
Fair value losses/(gains), net:			
Wealth management products	(1,602)	(7,407)	(16,030)
Equity investments at fair value through profit or loss	3,134	(3,147)	(26,479)

* The amounts of these accounts are included in the cost of raw materials consumed, the cost of packaging testing and research and development expenses.

** There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

8. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Amortization of interest expense on redemption financial liabilities	—	—	7,418
Interest on borrowings	—	341	3,431
Interest on lease liabilities	2,277	1,901	1,147
Total	2,277	2,242	11,996

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APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

9. DIRECTORS’ AND THE CHIEF EXECUTIVE’ REMUNERATION

The remuneration of the directors and the chief executive for the Relevant Periods is as follows:

	Year ended 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Fees	120	124	120
Other emoluments:			
Salaries, wages and bonus	2,046	2,304	2,417
Pension scheme contributions	126	132	136
Total	<u>2,292</u>	<u>2,560</u>	<u>2,673</u>

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the Relevant Periods is as follows:

	Year ended 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Ms. Chen Jingshan (i)	60	45	—
Ms. Sheng Qinghui (i)	60	45	—
Ms. Du Meijie (ii)	—	17	60
Ms. Tang Chunlin (ii)	—	17	60
Total	<u>120</u>	<u>124</u>	<u>120</u>

There were no other emoluments payable to the independent non-executive directors as at 31 December 2023, 2024 and 2025.

(b) Executive directors and the chief executive and non-executive directors

	Year ended 31 December 2023		
	Salaries, wages and bonus	Pension scheme contributions	Total
	RMB’000	RMB’000	RMB’000
Executive directors and the chief executive			
Mr. Zhang Shilong	1,137	63	1,200
Ms. Zhang Qin	909	63	972
Non-executive directors			
Mr. Lin Lin	—	—	—
Total	<u>2,046</u>	<u>126</u>	<u>2,172</u>

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ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

9. DIRECTORS’ AND THE CHIEF EXECUTIVE’ REMUNERATION—continued

	Year ended 31 December 2024		
	Salaries, wages and bonus	Pension scheme contributions	Total
	RMB’000	RMB’000	RMB’000
Executive directors and the chief executive			
Mr. Zhang Shilong	1,283	66	1,349
Ms. Zhang Qin	1,021	66	1,087
Non-executive directors			
Mr. Lin Lin	—	—	—
Total	<u>2,304</u>	<u>132</u>	<u>2,436</u>
	Year ended 31 December 2025		
	Salaries, wages and bonus	Pension scheme contributions	Total
	RMB’000	RMB’000	RMB’000
Executive directors and the chief executive			
Mr. Zhang Shilong	1,302	68	1,370
Ms. Zhang Qin	1,053	68	1,121
Non-executive directors			
Ms. Liu Ming	62	—	62
Mr. Lin Lin	—	—	—
Total	<u>2,417</u>	<u>136</u>	<u>2,553</u>

Notes:

- (i) Ms. Chen Jingshan and Ms. Sheng Qinghui resigned as independent non-executive directors as they had served for the Company for six consecutive years, with effect from 19 September 2024.
- (ii) Ms. Du Meijie and Ms. Tang Chunlin were appointed as independent non-executive directors on 19 September 2024.
- (iii) Ms. Liu Ming was appointed as non-executive director on 19 September 2025.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods.

10. FIVE HIGHEST PAID EMPLOYEES

During the Relevant Periods, details of the remuneration for the five highest paid employees who is neither a director nor chief executive of the Company during that periods, are as follow:

	Year ended 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Share based compensation	12,043	9,443	11,323
Salaries, wages and bonus	8,613	10,385	11,490
Pension scheme contributions	177	163	173
Total	<u>20,833</u>	<u>19,991</u>	<u>22,986</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

10. FIVE HIGHEST PAID EMPLOYEES—continued

The numbers of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands are as follows:

	Year ended 31 December		
	2023	2024	2025
HKD1,500,001 to HKD2,000,000	—	—	—
HKD2,000,001 to HKD2,500,000	—	—	—
HKD2,500,001 to HKD3,000,000	—	—	—
HKD3,000,001 to HKD3,500,000	—	—	—
HKD3,500,001 to HKD4,000,000	1	—	—
HKD4,000,001 to HKD4,500,000	1	3	—
HKD4,500,001 to HKD5,000,000	2	2	1
HKD5,000,001 to HKD5,500,000	1	—	3
HKD5,500,001 to HKD6,000,000	—	—	—
HKD6,000,001 to HKD6,500,000	—	—	—
HKD6,500,001 to HKD7,000,000	—	—	1
Total	<u>5</u>	<u>5</u>	<u>5</u>

11. INCOME TAX

Income tax expense is recognized based on management’s best knowledge of the income tax rates expected for the financial year.

(i) PRC corporate income tax

The income tax provision of the Group in respect of its operations in Chinese mainland was calculated at tax rate of 25% on the assessable profits for the periods presented, based on the existing legislation, interpretation and practices in respect thereof.

Pursuant to the Notice of the Ministry of Industry and Information Technology, the Ministry of Finance, the State Taxation Administration and National Development Reform Commission on Relevant Issues Concerning the Preferential Policies on Enterprise Income Tax to promote high quality development of integrated circuit industry and software industry in December 2020, the Company was entitled to apply a reduced tax rate of 10% after passing the qualification verification of Key Integrated Circuit Design Enterprise by relevant authorities during the Relevant Periods.

Certain subsidiaries of the Company in Chinese mainland were approved as High-tech enterprises, and they were subject to a preferential corporate income tax rate of 15% for the Relevant Periods.

(ii) Hong Kong profits tax

The first HKD2,000,000 of assessable profits of Hong Kong subsidiaries are taxed at 8.25% and the remaining assessable profits are taxed at 16.5% on the estimated assessable profits. SG Micro (HK) Limited was entitled to enjoy offshore tax exemption from the Hong Kong Inland Revenue Department due to its offshore transaction nature for the Relevant Periods.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

11. INCOME TAX—continued

(iii) Corporate income tax in other jurisdictions

The income tax rates of the subsidiaries in Japan and Germany are 22.39% and 27.9%, respectively.

The major components of income tax (credit)/expense of the Group are as follows:

	Year ended 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Current tax	15	291	298
Deferred tax (note 19)	(15,813)	(6,670)	15,217
Total tax charge for the year	<u>(15,798)</u>	<u>(6,379)</u>	<u>15,515</u>

A reconciliation of the tax (credit)/expense applicable to profit before tax at the applicable tax rate for the jurisdiction in which the major operating subsidiaries are domiciled and/or operate to the tax expense at the effective tax rate is as follows:

	Year ended 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Profit before tax	254,139	484,783	549,890
Tax at the applicable tax rate of 10%	25,414	48,478	54,989
Tax losses and temporary difference not recognized	5,771	8,427	16,485
Effect of different tax rates of subsidiaries operating in different jurisdiction	878	2,084	2,885
The impact of tax rate changes on the beginning deferred income tax balance	—	(224)	(224)
Expenses not deductible for tax	1,047	645	490
Loss/(profit) attributable to associates	734	(1,333)	(410)
Additional deductible expenses for research and development expenditure	(49,642)	(64,456)	(58,700)
Income tax (credit)/expense	<u>(15,798)</u>	<u>(6,379)</u>	<u>15,515</u>

12. DIVIDENDS

	Year ended 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Dividends declared by the Company	<u>107,846</u>	<u>47,073</u>	<u>95,062</u>

The final dividends of RMB3.00, RMB1.00, RMB2.00 per 10 shares (tax inclusive) in respect of the years ended 31 December 2022, 2023 and 2024 were approved by the shareholder in the Annual General Meetings of the Company. In addition, 3 shares per 10 shares, nil shares per 10 shares and 3 shares per 10 shares were transferred to the all shareholders from the Company’s capital reserves into share capital in respect of the years ended 31 December 2022, 2023, 2024.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

12. DIVIDENDS—continued

The final cash dividend distribution of RMB107,846,000 (tax inclusive) and the conversion of capital reserve into share capital in respect of the year ended 31 December 2022 approved by the Annual General Meeting on 12 May 2023 was subsequently paid in June 2023.

The final cash dividend distribution of RMB47,073,000 (tax inclusive) in respect of the year ended 31 December 2023 approved by the Annual General Meeting on 17 May 2024 was subsequently paid in June 2024.

The final cash dividend distribution of RMB95,062,000 (tax inclusive) and the conversion of capital reserve into share capital in respect of the year ended 31 December 2024 approved by the Annual General Meeting on 23 May 2025 was subsequently paid in July 2025.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the years attributable to ordinary equity holders of the parent, and the weighted average numbers of ordinary shares outstanding during the Relevant Periods.

The share option and restricted stock granted by the Company have potential dilutive effect on the earnings per share. The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in outstanding during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
<u>Earnings</u>			
Profit attributable to ordinary equity holders of the parent	280,768	500,249	547,060
<u>Shares</u>			
Weighted average number of ordinary shares outstanding during the year, used in the basic earnings per share calculation	607,240	612,400	617,366
Effect of dilution - weighted average number of ordinary shares:			
Share options	8,404	2,930	5,733
Total	615,644	615,330	623,099

APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

14. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Motor vehicles	Electronic equipment and others	Leasehold improvements	Office furniture	Special Tooling	Construction in progress	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Cost:								
At 1 January 2023	72,881	1,418	253,858	26,558	6,145	151,515	64,962	577,337
Additions	—	—	79,265	10,175	3,288	55,297	98,247	246,272
Transfers from construction in progress	87,090	—	—	—	—	—	(87,090)	—
Disposals	—	—	(2,803)	—	—	(1,610)	—	(4,413)
At 31 December 2023	<u>159,971</u>	<u>1,418</u>	<u>330,320</u>	<u>36,733</u>	<u>9,433</u>	<u>205,202</u>	<u>76,119</u>	<u>819,196</u>
Depreciation:								
At 1 January 2023	810	1,130	92,706	13,733	1,980	64,894	—	175,253
Provided during the year	5,090	227	54,871	8,709	1,575	31,083	—	101,555
Disposals	—	—	(2,803)	—	—	—	—	(2,803)
At 31 December 2023	<u>5,900</u>	<u>1,357</u>	<u>144,774</u>	<u>22,442</u>	<u>3,555</u>	<u>95,977</u>	<u>—</u>	<u>274,005</u>
Impairment:								
At 1 January 2023	—	—	—	—	—	—	—	—
At 31 December 2023	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net carrying amount as at 31 December 2023	<u>154,071</u>	<u>61</u>	<u>185,546</u>	<u>14,291</u>	<u>5,878</u>	<u>109,225</u>	<u>76,119</u>	<u>545,191</u>
Net carrying amount as at 1 January 2023	<u>72,071</u>	<u>288</u>	<u>161,152</u>	<u>12,825</u>	<u>4,165</u>	<u>86,621</u>	<u>64,962</u>	<u>402,084</u>

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ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

14. PROPERTY, PLANT AND EQUIPMENT—continued

	Buildings	Motor vehicles	Electronic equipment and others	Leasehold improvements	Office furniture	Special Tooling	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:								
At 1 January 2024	159,971	1,418	330,320	36,733	9,433	205,202	76,119	819,196
Additions	—	—	97,591	4,581	1,432	65,633	102,292	271,529
Transfers from construction in progress	178,411	—	—	—	—	—	(178,411)	—
Disposals	—	—	—	—	—	(834)	—	(834)
At 31 December 2024	<u>338,382</u>	<u>1,418</u>	<u>427,911</u>	<u>41,314</u>	<u>10,865</u>	<u>270,001</u>	<u>—</u>	<u>1,089,891</u>
Depreciation:								
At 1 January 2024	5,900	1,357	144,774	22,442	3,555	95,977	—	274,005
Provided during the year	5,332	31	69,361	9,381	1,815	39,234	—	125,154
Disposals	—	—	—	—	—	(362)	—	(362)
At 31 December 2024	<u>11,232</u>	<u>1,388</u>	<u>214,135</u>	<u>31,823</u>	<u>5,370</u>	<u>134,849</u>	<u>—</u>	<u>398,797</u>
Impairment:								
At 1 January 2024	—	—	—	—	—	—	—	—
At 31 December 2024	—	—	—	—	—	—	—	—
Net carrying amount as at 31 December 2024	<u>327,150</u>	<u>30</u>	<u>213,776</u>	<u>9,491</u>	<u>5,495</u>	<u>135,152</u>	<u>—</u>	<u>691,094</u>
Net carrying amount as at 1 January 2024	<u>154,071</u>	<u>61</u>	<u>185,546</u>	<u>14,291</u>	<u>5,878</u>	<u>109,225</u>	<u>76,119</u>	<u>545,191</u>

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II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

14. PROPERTY, PLANT AND EQUIPMENT—continued

	<u>Buildings</u>	<u>Motor</u>	<u>Electronic</u>	<u>Leasehold</u>	<u>Office</u>	<u>Special</u>	<u>Construction</u>	<u>Total</u>
	<u>RMB’000</u>	<u>vehicles</u>	<u>equipment</u>	<u>improvements</u>	<u>furniture</u>	<u>Tooling</u>	<u>in progress</u>	<u>RMB’000</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
Cost:								
At 1 January 2025	338,382	1,418	427,911	41,314	10,865	270,001	—	1,089,891
Additions	583	—	82,894	1,065	1,147	87,259	1,317	174,265
Transfers from construction in progress	1,317	—	—	—	—	—	(1,317)	—
Acquisition of subsidiaries	—	1	2,648	41	117	3,538	—	6,345
Disposals	—	—	(265)	(639)	(150)	(7,945)	—	(8,999)
At 31 December 2025	<u>340,282</u>	<u>1,419</u>	<u>513,188</u>	<u>41,781</u>	<u>11,979</u>	<u>352,853</u>	<u>—</u>	<u>1,261,502</u>
Depreciation:								
At 1 January 2025	11,232	1,388	214,135	31,823	5,370	134,849	—	398,797
Provided during the year	11,141	25	80,637	6,096	2,015	50,206	—	150,120
Acquisition of subsidiaries	—	—	1,751	17	103	—	—	1,871
Disposals	—	—	(154)	(564)	(73)	(320)	—	(1,111)
At 31 December 2025	<u>22,373</u>	<u>1,413</u>	<u>296,369</u>	<u>37,372</u>	<u>7,415</u>	<u>184,735</u>	<u>—</u>	<u>549,677</u>
Impairment:								
At 1 January 2025	—	—	—	—	—	—	—	—
At 31 December 2025	—	—	—	—	—	—	—	—
Net carrying amount as at 31 December 2025	<u>317,909</u>	<u>6</u>	<u>216,819</u>	<u>4,409</u>	<u>4,564</u>	<u>168,118</u>	<u>—</u>	<u>711,825</u>
Net carrying amount as at 1 January 2025	<u>327,150</u>	<u>30</u>	<u>213,776</u>	<u>9,491</u>	<u>5,495</u>	<u>135,152</u>	<u>—</u>	<u>691,094</u>

This document is in draft form, incomplete and subject to change and the information must be read in conjunction with the section headed “Warning” on the cover of this document

APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

14. PROPERTY, PLANT AND EQUIPMENT—continued

The Company

	<u>Buildings</u> RMB’000	<u>Motor vehicles</u> RMB’000	<u>Electronic equipment and others</u> RMB’000	<u>Leasehold improvements</u> RMB’000	<u>Office furniture</u> RMB’000	<u>Special Tooling</u> RMB’000	<u>Construction in progress</u> RMB’000	<u>Total</u> RMB’000
Cost:								
At 1 January								
2023	72,881	1,395	188,267	14,065	4,693	134,450	59,779	475,530
Additions	—	—	54,144	6,693	2,788	47,802	27,311	138,738
Transfers from construction in progress	87,090	—	—	—	—	—	(87,090)	—
Disposals	—	—	(2,262)	—	—	(1,610)	—	(3,872)
At 31 December								
2023	<u>159,971</u>	<u>1,395</u>	<u>240,149</u>	<u>20,758</u>	<u>7,481</u>	<u>180,642</u>	<u>—</u>	<u>610,396</u>
Depreciation:								
At 1 January								
2023	810	1,128	75,262	8,879	1,477	49,325	—	136,881
Provided during the year	5,090	221	39,384	3,137	1,215	30,539	—	79,586
Disposals	—	—	(2,262)	—	—	—	—	(2,262)
At 31 December								
2023	<u>5,900</u>	<u>1,349</u>	<u>112,384</u>	<u>12,016</u>	<u>2,692</u>	<u>79,864</u>	<u>—</u>	<u>214,205</u>
Impairment:								
At 1 January								
2023	—	—	—	—	—	—	—	—
At 31 December								
2023	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net carrying amount as at 31 December								
2023	<u>154,071</u>	<u>46</u>	<u>127,765</u>	<u>8,742</u>	<u>4,789</u>	<u>100,778</u>	<u>—</u>	<u>396,191</u>
Net carrying amount as at 1 January								
2023	<u>72,071</u>	<u>267</u>	<u>113,005</u>	<u>5,186</u>	<u>3,216</u>	<u>85,125</u>	<u>59,779</u>	<u>338,649</u>

APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

14. PROPERTY, PLANT AND EQUIPMENT—continued

	Buildings RMB’000	Motor vehicles RMB’000	Electronic equipment and others RMB’000	Leasehold improvements RMB’000	Office furniture RMB’000	Special Tooling RMB’000	Total RMB’000
Cost:							
At 1 January 2024	159,971	1,395	240,149	20,758	7,481	180,642	610,396
Additions	—	—	81,209	1,873	625	59,770	143,477
Disposals	—	(89)	(30,053)	—	(4,634)	(834)	(35,610)
Transfers to investment properties	(159,971)	—	—	—	—	—	(159,971)
At 31 December 2024	<u>—</u>	<u>1,306</u>	<u>291,305</u>	<u>22,631</u>	<u>3,472</u>	<u>239,578</u>	<u>558,292</u>
Depreciation:							
At 1 January 2024	5,900	1,349	112,384	12,016	2,692	79,864	214,205
Provided during the year . . .	—	18	43,403	4,487	564	37,444	85,916
Disposals	—	(61)	(11,414)	—	(1,130)	(362)	(12,967)
Transfers to investment properties	(5,900)	—	—	—	—	—	(5,900)
At 31 December 2024	<u>—</u>	<u>1,306</u>	<u>144,373</u>	<u>16,503</u>	<u>2,126</u>	<u>116,946</u>	<u>281,254</u>
Impairment:							
At 1 January 2024	—	—	—	—	—	—	—
At 31 December 2024	—	—	—	—	—	—	—
Net carrying amount as at 31 December 2024	<u>—</u>	<u>—</u>	<u>146,932</u>	<u>6,128</u>	<u>1,346</u>	<u>122,632</u>	<u>277,038</u>
Net carrying amount as at 1 January 2024	<u>154,071</u>	<u>46</u>	<u>127,765</u>	<u>8,742</u>	<u>4,789</u>	<u>100,778</u>	<u>396,191</u>
		Motor vehicles RMB’000	Electronic equipment and others RMB’000	Leasehold improvements RMB’000	Office furniture RMB’000	Special Tooling RMB’000	Total RMB’000
Cost:							
At 1 January 2025		1,306	291,305	22,631	3,472	239,578	558,292
Additions		—	38,821	812	361	76,054	116,048
Disposals		—	(20,550)	—	(927)	(7,945)	(29,422)
At 31 December 2025		<u>1,306</u>	<u>309,576</u>	<u>23,443</u>	<u>2,906</u>	<u>307,687</u>	<u>644,918</u>
Depreciation:							
At 1 January 2025		1,306	144,373	16,503	2,126	116,946	281,254
Provided during the year		—	49,422	4,203	430	45,186	99,241
Disposals		—	(13,280)	—	(656)	(320)	(14,256)
At 31 December 2025		<u>1,306</u>	<u>180,515</u>	<u>20,706</u>	<u>1,900</u>	<u>161,812</u>	<u>366,239</u>
Impairment:							
At 1 January 2025		—	—	—	—	—	—
At 31 December 2025		—	—	—	—	—	—
Net carrying amount as at 31 December 2025		<u>—</u>	<u>129,061</u>	<u>2,737</u>	<u>1,006</u>	<u>145,875</u>	<u>278,679</u>
Net carrying amount as at 1 January 2025		<u>—</u>	<u>146,932</u>	<u>6,128</u>	<u>1,346</u>	<u>122,632</u>	<u>277,038</u>

APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

15. INVESTMENT PROPERTIES

The Company

	As at 31 December	
	2024	2025
	RMB’000	RMB’000
At 1 January		
Cost	—	159,971
Accumulated depreciation	—	(11,232)
Net carrying amount	—	148,739
Cost at 1 January, net of accumulated depreciation and impairment	—	148,739
Transfers from property, plant and equipment	154,071	—
Depreciation provided during the year	(5,332)	(5,332)
Net carrying amount as at 31 December	148,739	143,407

The properties are leased to a subsidiary and recorded as investment properties on the statement of financial position of the Company. At the Group level, they are classified as property, plant and equipment as it is self-used within the Group.

16. LEASES

The Group as a lessee

(a) Right-of-use assets

The carrying amounts of the Group’s right-of-use assets and the movements are as follows:

	Land use rights	Parking space use rights	Buildings	Total
	RMB’000	RMB’000	RMB’000	RMB’000
As at 1 January 2023	12,773	7,030	55,120	74,923
Additions	—	—	10,242	10,242
Lease cancellation	—	—	(819)	(819)
Depreciation charge	(259)	(225)	(22,115)	(22,599)
As at 31 December 2023	12,514	6,805	42,428	61,747
As at 31 December 2023 and 1 January 2024	12,514	6,805	42,428	61,747
Additions	—	—	35,653	35,653
Lease cancellation	—	—	(21,552)	(21,552)
Depreciation charge	(259)	(225)	(23,304)	(23,788)
As at 31 December 2024	12,255	6,580	33,225	52,060
As at 31 December 2024 and 1 January 2025	12,255	6,580	33,225	52,060
Additions	—	—	16,154	16,154
Lease cancellation	—	—	(7,159)	(7,159)
Revision of lease payments	—	—	(1,140)	(1,140)
Acquisition of subsidiaries	—	—	969	969
Depreciation charge	(259)	(227)	(21,561)	(22,047)
As at 31 December 2025	11,996	6,353	20,488	38,837

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

16. LEASES—continued

(b) Lease liabilities

The carrying amounts of the Group’s leases liabilities and the movements are as follows:

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Carrying amount at 1 January	57,560	44,876	33,935
New leases	9,692	34,528	16,154
Acquisition of subsidiary	—	—	1,100
Accretion of interest recognized during the year	2,277	1,901	1,147
Exchange realignment	(1)	161	34
Revision of lease payments	—	—	(1,140)
Lease cancellation	(872)	(24,994)	(8,168)
Payments	(23,780)	(22,537)	(22,543)
Carrying amount at 31 December	<u>44,876</u>	<u>33,935</u>	<u>20,519</u>
Analyzed into:			
Current portion	17,884	19,565	12,752
Non-current portion	<u>26,992</u>	<u>14,370</u>	<u>7,767</u>

The maturity analysis of lease liabilities is disclosed in note 43 to the Historical Financial Information.

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

	Year ended 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Depreciation charge of right-of-use assets	22,599	23,788	22,047
Interest on lease liabilities	2,277	1,901	1,147
Expense relating to short-term leases	2,002	3,510	3,210
Total amount recognized in profit or loss	<u>26,878</u>	<u>29,199</u>	<u>26,404</u>

APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

16. LEASES—continued

The Company as a lessee

(a) Right-of-use assets

The carrying amounts of the Company’s right-of-use assets and the movements are as follows:

	Parking space use rights	Building	Total
	RMB’000	RMB’000	RMB’000
As at 1 January 2023	7,030	45,101	52,131
Additions	—	3,095	3,095
Depreciation charge	(225)	(15,327)	(15,552)
As at 31 December 2023	<u>6,805</u>	<u>32,869</u>	<u>39,674</u>
As at 31 December 2023 and 1 January 2024	6,805	32,869	39,674
Additions	—	19,022	19,022
Depreciation charge	(225)	(15,175)	(15,400)
Lease cancellation	—	(17,184)	(17,184)
As at 31 December 2024	<u>6,580</u>	<u>19,532</u>	<u>26,112</u>
As at 31 December 2024 and 1 January 2025	6,580	19,532	26,112
Additions	—	3,412	3,412
Depreciation charge	(227)	(10,591)	(10,818)
Lease cancellation	—	(5,607)	(5,607)
Revision of lease payments	—	(1,140)	(1,140)
As at 31 December 2025	<u>6,353</u>	<u>5,606</u>	<u>11,959</u>

(b) Lease liabilities

The carrying amounts of the Company’s leases liabilities and the movements are as follows:

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Carrying amount at 1 January	46,928	34,763	20,247
New leases	3,097	18,090	3,412
Accretion of interest recognized during the year	1,872	1,283	419
Payments	(17,134)	(14,020)	(10,833)
Revision of lease payments	—	—	(1,140)
Lease cancellation	—	(19,869)	(6,509)
Carrying amount at 31 December	<u>34,763</u>	<u>20,247</u>	<u>5,596</u>
Analysed into:			
Current portion	13,037	11,860	3,926
Non-current portion	<u>21,726</u>	<u>8,387</u>	<u>1,670</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

16. LEASES—continued

The Company as a lessor

The Company leases its investment properties under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions. Rental income recognized by the Company for the years ended 31 December 2023, 2024 and 2025 was nil, RMB5,313,000 and RMB5,313,000, respectively.

As at 31 December 2023, 2024 and 2025, the undiscounted lease payments receivable by the Company in future periods under operating leases with its tenants are as follows:

	Year ended 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Within one year	—	5,313	5,313
After one year but within two years	—	—	5,313
Total	—	5,313	10,626

17. OTHER INTANGIBLE ASSETS

The Group

	Non-patented	Software	Total
	technology		
	RMB’000	RMB’000	RMB’000
Cost:			
At 1 January 2023	17,132	39,342	56,474
Additions	69	18,357	18,426
At 31 December 2023	17,201	57,699	74,900
Amortisation:			
At 1 January 2023	4,735	22,490	27,225
Provided during the year	1,793	12,139	13,932
At 31 December 2023	6,528	34,629	41,157
Impairment:			
At 1 January 2023	—	—	—
At 31 December 2023	—	—	—
Net carrying amount as at 31 December 2023	10,673	23,070	33,743
Net carrying amount as at 1 January 2023	12,397	16,852	29,249

APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

17. OTHER INTANGIBLE ASSETS—continued

	Non-patented technology	Software	Total
	RMB’000	RMB’000	RMB’000
Cost:			
At 1 January 2024	17,201	57,699	74,900
Additions	62	38,204	38,266
At 31 December 2024	<u>17,263</u>	<u>95,903</u>	<u>113,166</u>
Amortisation:			
At 1 January 2024	6,528	34,629	41,157
Provided during the year	1,806	17,366	19,172
At 31 December 2024	<u>8,334</u>	<u>51,995</u>	<u>60,329</u>
Impairment:			
At 1 January 2024	—	—	—
At 31 December 2024	—	—	—
Net carrying amount as at 31 December 2024	<u>8,929</u>	<u>43,908</u>	<u>52,837</u>
Net carrying amount as at 1 January 2024	<u>10,673</u>	<u>23,070</u>	<u>33,743</u>

	Software copyright	Certificate of layout rights for integrated circuits	Patented technology	Non-patented technology	Software	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Cost:						
At 1 January 2025	—	—	—	17,263	95,903	113,166
Additions	—	—	—	—	22,465	22,465
Acquisition of subsidiaries	898	1,483	34,024	—	—	36,405
Disposal	—	—	—	(93)	(4)	(97)
At 31 December 2025	<u>898</u>	<u>1,483</u>	<u>34,024</u>	<u>17,170</u>	<u>118,364</u>	<u>171,939</u>
Amortisation:						
At 1 January 2025	—	—	—	8,334	51,995	60,329
Provided during the year	70	155	2,613	1,684	21,156	25,678
Disposal	—	—	—	(45)	(1)	(46)
At 31 December 2025	<u>70</u>	<u>155</u>	<u>2,613</u>	<u>9,973</u>	<u>73,150</u>	<u>85,961</u>
Impairment:						
At 1 January 2025	—	—	—	—	—	—
At 31 December 2025	—	—	—	—	—	—
Net carrying amount as at 31 December 2025	<u>828</u>	<u>1,328</u>	<u>31,411</u>	<u>7,197</u>	<u>45,214</u>	<u>85,978</u>
Net carrying amount as at 1 January 2025	<u>—</u>	<u>—</u>	<u>—</u>	<u>8,929</u>	<u>43,908</u>	<u>52,837</u>

APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

17. OTHER INTANGIBLE ASSETS—continued

The Company

	<u>Non-patented technology</u> RMB’000	<u>Software</u> RMB’000	<u>Total</u> RMB’000
Cost:			
At 1 January 2023	9,377	37,186	46,563
Additions	<u>—</u>	<u>16,315</u>	<u>16,315</u>
At 31 December 2023	<u>9,377</u>	<u>53,501</u>	<u>62,878</u>
Amortisation:			
At 1 January 2023	3,288	22,419	25,707
Provided during the year	<u>938</u>	<u>11,483</u>	<u>12,421</u>
At 31 December 2023	<u>4,226</u>	<u>33,902</u>	<u>38,128</u>
Impairment:			
At 1 January 2023	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December 2023	<u>—</u>	<u>—</u>	<u>—</u>
Net carrying amount as at 31 December 2023	<u>5,151</u>	<u>19,599</u>	<u>24,750</u>
Net carrying amount as at 1 January 2023	<u>6,089</u>	<u>14,767</u>	<u>20,856</u>
	<u>Non-patented technology</u> RMB’000	<u>Software</u> RMB’000	<u>Total</u> RMB’000
Cost:			
At 1 January 2024	9,377	53,501	62,878
Additions	<u>—</u>	<u>37,111</u>	<u>37,111</u>
At 31 December 2024	<u>9,377</u>	<u>90,612</u>	<u>99,989</u>
Amortisation:			
At 1 January 2024	4,226	33,902	38,128
Provided during the year	<u>938</u>	<u>15,572</u>	<u>16,510</u>
At 31 December 2024	<u>5,164</u>	<u>49,474</u>	<u>54,638</u>
Impairment:			
At 1 January 2024	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December 2024	<u>—</u>	<u>—</u>	<u>—</u>
Net carrying amount as at 31 December 2024	<u>4,213</u>	<u>41,138</u>	<u>45,351</u>
Net carrying amount as at 1 January 2024	<u>5,151</u>	<u>19,599</u>	<u>24,750</u>

APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

17. OTHER INTANGIBLE ASSETS—continued

	Non-patented technology	Software	Total
	RMB’000	RMB’000	RMB’000
Cost:			
At 1 January 2025	9,377	90,612	99,989
Additions	—	19,731	19,731
At 31 December 2025	<u>9,377</u>	<u>110,343</u>	<u>119,720</u>
Amortisation:			
At 1 January 2025	5,164	49,474	54,638
Provided during the year	938	19,971	20,909
At 31 December 2025	<u>6,102</u>	<u>69,445</u>	<u>75,547</u>
Impairment:			
At 1 January 2025	—	—	—
At 31 December 2025	—	—	—
Net carrying amount as at 31 December 2025	<u>3,275</u>	<u>40,898</u>	<u>44,173</u>
Net carrying amount as at 1 January 2025	<u>4,213</u>	<u>41,138</u>	<u>45,351</u>

18. GOODWILL

The Group

	As at 31 December		
	2023 RMB’000	2024 RMB’000	2025 RMB’000
At beginning of year			
Cost	80,875	80,875	80,875
Accumulated impairment	—	—	(2,183)
Net carrying amount	<u>80,875</u>	<u>80,875</u>	<u>78,692</u>
Cost at beginning of year, net of accumulated impairment	80,875	80,875	78,692
Acquisition of subsidiaries	—	—	222,585
Impairment during the year	—	(2,183)	—
Cost and carrying amount at end of year	<u>80,875</u>	<u>78,692</u>	<u>301,277</u>
At end of year			
Cost	80,875	80,875	303,460
Accumulated impairment	—	(2,183)	(2,183)
Net carrying amount	<u>80,875</u>	<u>78,692</u>	<u>301,277</u>

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the group of Cash-Generating Units (“CGU” or “CGUs”) for impairment testing as below:

- Suzhou Qingxinfang
- Shanghai Fangtai
- Dalian Alpha
- Hangzhou Shenan

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

18. GOODWILL—continued

- Shanghai Pingsheng
- Changzhou Ganrui
- TeraDevices Inc

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Suzhou Qingxinfang	49,851	49,851	49,851
Shanghai Fangtai	16,555	16,555	16,555
Dalian Alpha	7,929	7,929	7,929
Hangzhou Shenan	4,357	4,357	4,357
Shanghai Pingsheng	2,183	—	—
Changzhou Ganrui	—	—	151,360
TeraDevice Inc	—	—	71,225
Total	<u>80,875</u>	<u>78,692</u>	<u>301,277</u>

Impairment reviews on the goodwill of the Group have been conducted by the management as at 31 December 2023, 2024 and 2025, according to IAS 36 “Impairment of assets”. For the purposes of impairment review, the recoverable amounts of CGU or group of CGUs are determined based on value in use (“VIU”) calculations by using the discounted cash flow method covering a 5-year period.

Management has assessed that the Suzhou Qingxinfang, Changzhou Ganrui, TeraDevices Inc. were material CGUs. Assumptions were used in the value in use calculation. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Revenue growth rate-The basis used to determine the budgeted revenue is based on management’s expectation and also expectation of the future market.

Gross profit margin-Estimated based on the Group’s historical experience and forecast of the semiconductor markets.

Pre-tax discount rate -Estimated by using the weighted average cost of capital (“WACC”) method. The WACC was calculated by referring to public market data including risk-free rate, market return, beta of comparable public companies etc. and the specific risk of the business.

(a) Suzhou Qingxinfang

The pre-tax discount rates used for VIU calculation for the impairment test as at 31 December 2023, 2024 and 2025 are 16.83%, 16.23%, and 14.31%, respectively.

APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

18. GOODWILL—continued

For the sensitivity analysis conducted during the impairment review for material CGUs, Suzhou Qingxinfang, had there been reasonably possible changes with an increase in pre-tax discount rate by 1%, a decrease in gross profit margin by 2% or a decrease in revenue growth rate by 5%, if one of the key assumptions was to change while other variable held constant, the recoverable amount would decrease by:

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Pre-tax discount rate increases by 1%	8,186	9,330	12,600
Gross profit margin decreases by 2%	8,297	12,365	15,100
Revenue growth rate decrease by 5%	9,142	8,248	21,800

Based on management’s assessment on the recoverable amounts, the headroom of material CGUs as follows:

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Suzhou Qingxinfang	51,171	61,377	41,089

As disclosed above, the management has considered and assessed reasonably possible changes for the key assumptions and has not identified any instances that would cause the carrying amounts of the CGUs to exceed their recoverable amounts as at 31 December 2023, 2024 and 2025, respectively.

(b) Changzhou Ganrui

The pre-tax discount rates used for VIU calculation for the impairment test as at 31 December 2025 is 12.51%, respectively.

For the sensitivity analysis conducted during the impairment review for material CGUs, Changzhou Ganrui, had there been reasonably possible changes with an increase in pre-tax discount rate by 1%, a decrease in gross profit margin by 2% or a decrease in revenue growth rate by 2%, if one of the key assumptions was to change while other variable held constant, the recoverable amount would decrease by:

	31 December 2025
	RMB’000
Pre-tax discount rate increases by 1%	37,000
Gross profit margin decreases by 2%	36,900
Revenue growth rate decreases by 2%	29,000

Based on management’s assessment on the recoverable amounts, the headroom of material CGUs as follows:

	31 December 2025
	RMB’000
Changzhou Ganrui	64,825

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

18. GOODWILL—continued

As disclosed above, the management has considered and assessed reasonably possible changes for the key assumptions and has not identified any instances that would cause the carrying amounts of the CGUs to exceed their recoverable amounts as at 31 December 2025 respectively.

(c) TeraDevices Inc

The pre-tax discount rates used for VIU calculation for the impairment test as at 31 December 2025 is 16.91%, respectively.

For the sensitivity analysis conducted during the impairment review for material CGUs, TeraDevices Inc, had there been reasonably possible changes with an increase in pre-tax discount rate by 0.5%, a decrease in gross profit margin by 0.5% or a decrease in revenue growth rate by 1%, if one of the key assumptions was to change while other variable held constant, the recoverable amount would decrease by:

	<u>31 December 2025</u>
	RMB’000
Pre-tax discount rate increases by 0.5%	3,620
Gross profit margin decreases by 0.5%	2,420
Revenue growth rate decreases by 1%	4,030

Based on management’s assessment on the recoverable amounts, the headroom of material CGUs as follows:

	<u>31 December 2025</u>
	RMB’000
TeraDevices Inc.	4,377

As disclosed above, the management has considered and assessed reasonably possible changes for the key assumptions and has not identified any instances that would cause the carrying amounts of the CGUs to exceed their recoverable amounts as at 31 December 2025 respectively.

The Company

	<u>As at 31 December</u>		
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	RMB’000	RMB’000	RMB’000
Goodwill	24,484	24,484	24,484
Less: Impairment	—	—	—
Total	<u>24,484</u>	<u>24,484</u>	<u>24,484</u>

	<u>As at 31 December</u>		
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	RMB’000	RMB’000	RMB’000
Shanghai Fangtai	16,555	16,555	16,555
Dalian Alpha	7,929	7,929	7,929
Total	<u>24,484</u>	<u>24,484</u>	<u>24,484</u>

APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

19. DEFERRED TAX

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position.

The Group

The gross amounts of deferred tax assets and liabilities of the Group before offsetting are as follows:

(a) Gross deferred tax assets:

2023

	At 1 January 2023	Deferred tax credited/(charged) to the statement of profit or loss during the year	Deferred tax charged to the statement of equity during the year	As at 31 December 2023
	RMB’000	RMB’000	RMB’000	RMB’000
Losses available for offsetting against future taxable profits	49,597	20,662	—	70,259
Share-based payment	48,228	(13,471)	(14,404)	20,353
Accruals and provision	21,625	1,326	—	22,951
Impairment of assets	19,873	710	—	20,583
Payroll payables	8,447	7,155	—	15,602
Deferred income	6,834	21	—	6,855
Lease liabilities	4,819	(1,184)	—	3,635
Depreciation and amortization	1,169	384	—	1,553
Changes in fair value	76	(76)	—	—
Total	<u>160,668</u>	<u>15,527</u>	<u>(14,404)</u>	<u>161,791</u>

2024

	At 1 January 2024	Deferred tax credited/(charged) to the statement of profit or loss during the year	Deferred tax credited to the statement of equity during the year	As at 31 December 2024
	RMB’000	RMB’000	RMB’000	RMB’000
Losses available for offsetting against future taxable profits	70,259	16,303	—	86,562
Accruals and provision	22,951	3,336	—	26,287
Impairment of assets	20,583	3,277	—	23,860
Share-based payment	20,353	(4,976)	949	16,326
Payroll payables	15,602	(3,400)	—	12,202
Deferred income	6,855	(927)	—	5,928
Lease liabilities	3,635	(1,571)	—	2,064
Depreciation and amortization	1,553	1,036	—	2,589
Others	—	78	—	78
Total	<u>161,791</u>	<u>13,156</u>	<u>949</u>	<u>175,896</u>

APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

19. DEFERRED TAX—continued

2025

	At 1 January 2025	Deferred tax credited/(charged) to the statement of profit or loss during the year	Deferred tax charged to the statement of equity during the year	As at 31 December 2025
	RMB’000	RMB’000	RMB’000	RMB’000
Losses available for offsetting against future taxable profits	86,562	(18,615)	—	67,947
Accruals and provision	26,287	926	—	27,213
Impairment of assets	23,860	4,735	—	28,595
Share-based payment	16,326	13,694	(5,840)	24,180
Payroll payables	12,202	(2,457)	—	9,745
Deferred income	5,928	(1,144)	—	4,784
Depreciation and amortisation	2,589	(913)	—	1,676
Lease liabilities	2,064	(1,441)	—	623
Others	78	(78)	—	—
Total	<u>175,896</u>	<u>(5,293)</u>	<u>(5,840)</u>	<u>164,763</u>

(b) Gross deferred tax liabilities

2023

	At 1 January 2023	Deferred tax credited/(charged) to the statement of profit or loss during the year	As at 31 December 2023
	RMB’000	RMB’000	RMB’000
Withholding taxes	34,222	401	34,623
Depreciation and amortization	11,050	569	11,619
Right-of-use assets	4,510	(1,223)	3,287
Fair value adjustments arising from acquisition of subsidiaries	744	(92)	652
Changes in fair value	—	59	59
Total	<u>50,526</u>	<u>(286)</u>	<u>50,240</u>

2024

	At 1 January 2024	Deferred tax credited/(charged) to the statement of profit or loss during the year	As at 31 December 2024
	RMB’000	RMB’000	RMB’000
Withholding taxes	34,623	4,965	39,588
Depreciation and amortization	11,619	2,389	14,008
Right-of-use assets	3,287	(1,334)	1,953
Fair value adjustments arising from acquisition of subsidiaries	652	(316)	336
Changes in fair value	59	782	841
Total	<u>50,240</u>	<u>6,486</u>	<u>56,726</u>

This document is in draft form, incomplete and subject to change and the information must be read in conjunction with the section headed “Warning” on the cover of this document

APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

19. DEFERRED TAX—continued

2025

	At 1 January 2025	Deferred tax credited/(charged) to the statement of profit or loss during the year	The impact of acquiring a subsidiary	As at 31 December 2025
	RMB’000	RMB’000	RMB’000	RMB’000
Withholding taxes	39,588	13,593	—	53,181
Depreciation and amortisation	14,008	(1,794)	—	12,214
Right-of-use assets	1,953	(1,392)	—	561
Fair value adjustments arising from acquisition of subsidiaries	336	(366)	1,648	1,618
Changes in fair value	841	(352)	—	489
Others	—	235	—	235
Total	<u>56,726</u>	<u>9,924</u>	<u>1,648</u>	<u>68,298</u>

(c) Offsetting

The net amounts of deferred tax assets and liabilities after offsetting are as follows:

	As at 31 December					
	2023		2024		2025	
	Offsetting	Net carrying amount	Offsetting	Net carrying amount	Offsetting	Net carrying amount
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Deferred tax assets	—	161,791	—	175,896	13,499	151,264
Deferred tax liabilities	—	50,240	—	56,726	13,499	54,799

(d) Deferred tax assets not recognized

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Deductible temporary difference	43,460	56,019	142,168
Tax losses	577,914	736,276	1,165,029
Total	<u>621,374</u>	<u>792,295</u>	<u>1,307,197</u>

The above tax losses are available in one to ten years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognized in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilized.

At 31 December 2023, 2024 and 2025, other than the amount recognized in the consolidated financial statements, deferred tax has not been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group’s subsidiaries established in Chinese mainland. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Chinese mainland for which deferred tax liabilities have not been recognized approximately RMB621,374,000, RMB792,295,000 and RMB1,307,197,000, respectively at 31 December 2023, 2024 and 2025.

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ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

19. DEFERRED TAX—continued

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

The Company

The gross amounts of deferred tax assets and liabilities of the Company before offsetting are as follows:

(a) Gross deferred tax assets

2023

	At 1 January 2023	Deferred tax credited/(charged) to the statement of profit or loss during the year	Deferred tax charged to the statement of equity during the year	As at 31 December 2023
	RMB’000	RMB’000	RMB’000	RMB’000
Losses available for offsetting against future taxable profits	49,597	20,662	—	70,259
Share-based payment	48,228	(13,471)	(14,404)	20,353
Accruals and provision	21,625	1,326	—	22,951
Impairment of assets	19,873	3,632	—	23,505
Payroll payables	8,447	7,155	—	15,602
Deferred income	6,834	21	—	6,855
Lease liabilities	4,819	(1,184)	—	3,635
Depreciation and amortization	1,169	384	—	1,553
Changes in fair value	76	(76)	—	—
Total	160,668	18,449	(14,404)	164,713

2024

	At 1 January 2024	Deferred tax credited/(charged) to the statement of profit or loss during the year	Deferred tax credited to the statement of equity during the year	As at 31 December 2024
	RMB’000	RMB’000	RMB’000	RMB’000
Losses available for offsetting against future taxable profits	70,259	16,303	—	86,562
Impairment of assets	23,505	4,526	—	28,031
Accruals and provision	22,951	3,336	—	26,287
Share-based payment	20,353	(4,976)	949	16,326
Payroll payables	15,602	(3,400)	—	12,202
Deferred income	6,855	(927)	—	5,928
Lease liabilities	3,635	(1,571)	—	2,064
Depreciation and amortization	1,553	1,036	—	2,589
Others	—	78	—	78
Total	164,713	14,405	949	180,067

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ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

19. DEFERRED TAX—continued

The Company—continued

The gross amounts of deferred tax assets and liabilities of the Company before offsetting are as follows—continued:

(a) Gross deferred tax assets—continued

2025

	At 1 January 2025	Deferred tax credited/(charged) to the statement of profit or loss during the year	Deferred tax charged to the statement of equity during the year	As at 31 December 2025
	RMB’000	RMB’000	RMB’000	RMB’000
Losses available for offsetting against future taxable profits	86,562	(18,615)	—	67,947
Impairment of assets	28,031	20,555	—	48,586
Accruals and provision	26,287	926	—	27,213
Share-based payment	16,326	13,694	(5,840)	24,180
Payroll payables	12,202	(2,457)	—	9,745
Deferred income	5,928	(1,144)	—	4,784
Lease liabilities	2,064	(1,441)	—	623
Depreciation and amortisation	2,589	(913)	—	1,676
Others	78	(78)	—	—
Total	<u>180,067</u>	<u>10,527</u>	<u>(5,840)</u>	<u>184,754</u>

(b) Gross deferred tax liabilities

2023

	At 1 January 2023	Deferred tax credited/(charged) to the statement of profit or loss during the year	As at 31 December 2023
	RMB’000	RMB’000	RMB’000
Depreciation and amortization	11,050	569	11,619
Right-of-use assets	4,510	(1,223)	3,287
Changes in fair value	—	59	59
Total	<u>15,560</u>	<u>(595)</u>	<u>14,965</u>

2024

	At 1 January 2024	Deferred tax credited/(charged) to the statement of profit or loss during the year	As at 31 December 2024
	RMB’000	RMB’000	RMB’000
Depreciation and amortization	11,619	2,389	14,008
Right-of-use assets	3,287	(1,334)	1,953
Changes in fair value	59	782	841
Total	<u>14,965</u>	<u>1,837</u>	<u>16,802</u>

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ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

19. DEFERRED TAX—continued

The Company—continued

The gross amounts of deferred tax assets and liabilities of the Company before offsetting are as follows—continued:

(b) Gross deferred tax liabilities—continued

2025

	At 1 January 2025	Deferred tax credited/(charged) to the statement of profit or loss during the year	As at 31 December 2025
	RMB’000	RMB’000	RMB’000
Depreciation and amortization	14,008	(1,794)	12,214
Right-of-use assets	1,953	(1,392)	561
Changes in fair value	841	(352)	489
Others	—	235	235
Total	<u>16,802</u>	<u>(3,303)</u>	<u>13,499</u>

(c) Offsetting

The net amounts of deferred tax assets and liabilities of the Company after offsetting are as follows:

	As at 31 December					
	2023		2024		2025	
	Offsetting	Net carrying amount	Offsetting	Net carrying amount	Offsetting	Net carrying amount
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Deferred tax assets	—	164,713	—	180,067	13,499	171,255
Deferred tax liabilities	—	14,965	—	16,802	13,499	—

20. INVESTMENTS IN ASSOCIATES

The Group and the Company

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Share of net assets	283,834	338,817	408,358
Goodwill on acquisition	139,526	169,512	147,006
Total	<u>423,360</u>	<u>508,329</u>	<u>555,364</u>

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ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Non-current:			
Listed equity investments, at fair value	31,916	35,257	11,424
Other unlisted investments, at fair value	77,247	86,592	104,567
Subtotal	109,163	121,849	115,991
Current:			
Wealth management products	769,093	1,378,000	1,340,087
Total	878,256	1,499,849	1,456,078

The above equity investments in unlisted entities were classified as financial assets at fair value through profit or loss as the Group has not designated it as financial assets at fair value through other comprehensive income.

The above wealth management products were issued by banks in Chinese mainland. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

The Company

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Non-current:			
Other unlisted investments, at fair value	77,247	86,592	104,567
Current:			
Wealth management products	704,344	1,338,813	1,242,018
Total	781,591	1,425,405	1,346,585

22. OTHER NON-CURRENT ASSETS

The Group

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Prepayments for packaging and testing	11,850	11,850	1,800
Prepayments for software	10,951	3,972	4,160
Prepayments for property, plant and equipment	9,535	4,499	16,830
Others	—	—	581
Subtotal	32,336	20,321	23,371
Less: Impairment	—	—	—
Total	32,336	20,321	23,371

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ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

22. OTHER NON-CURRENT ASSETS—continued

The Company

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Prepayments for packaging and testing	11,850	11,850	1,800
Prepayments for software	10,951	3,972	4,160
Prepayments for property, plant and equipment	7,565	102	12,120
Others	—	—	206
Subtotal	<u>30,366</u>	<u>15,924</u>	<u>18,286</u>
Less: Impairment	—	—	—
Total	<u>30,366</u>	<u>15,924</u>	<u>18,286</u>

23. INVENTORIES

The Group

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Raw materials	597,642	745,999	836,639
Finished goods	372,175	521,099	686,946
Work in progress	150,555	164,305	234,568
Contract costs	—	—	493
Less: Provision for impairment	(219,005)	(266,586)	(310,430)
Total	<u>901,367</u>	<u>1,164,817</u>	<u>1,448,216</u>

The Company

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Raw materials	549,289	640,998	696,779
Finished goods	312,058	427,520	612,560
Work in progress	115,593	134,938	195,251
Contract costs	—	—	493
Less: Provision for impairment	(202,842)	(233,522)	(278,124)
Total	<u>774,098</u>	<u>969,934</u>	<u>1,226,959</u>

APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

24. TRADE AND BILLS RECEIVABLES AT AMORTISED COST

The Group

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Trade receivables	169,576	237,093	372,289
Bills receivables	—	—	1,118
Less: Impairment	(3,104)	(4,329)	(10,577)
Total	<u>166,472</u>	<u>232,764</u>	<u>362,830</u>

The Group’s trading terms with its customers are mainly on credit, except for certain customers, where payment in advance is normally required. The credit period is generally one month. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by management.

Significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 December 2023, 2024 and 2025, 67.31%, 44.27% and 30.68% of the total trade receivables, respectively, was due from the Group’s five largest customers.

Trade and bills receivables are non-interest-bearing.

An aging analysis of the trade receivables as at the end of each of the Relevant Period, based on the past due date and net of loss allowance, is as follows:

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Not due and within one year	166,472	232,764	359,716
Over one year	—	—	1,996
total	<u>166,472</u>	<u>232,764</u>	<u>361,712</u>

The movements in the loss allowance for impairment of trade receivables are as follows:

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
At the beginning of the year	2,182	3,104	4,329
Impairment losses, net	911	1,208	2,173
Exchange realignment	11	17	(37)
Acquisition of a subsidiary	—	—	4,112
At the end of the year	<u>3,104</u>	<u>4,329</u>	<u>10,577</u>

The Group applies the simplified approach to providing for expected credit losses at the end of the reporting period. In addition, the provision rates are based on aging for groupings of various customer segments with similar loss patterns on a collective basis. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade and bills receivables are written off if a customer discontinues

APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

24. TRADE AND BILLS RECEIVABLES AT AMORTISED COST—continued

operation with no reasonable expectation of recovering the contractual cash flows and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group’s trade receivables using a provision matrix:

	As at 31 December					
	2023		2024		2025	
	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Assessment of expected credit losses by credit risk portfolio	169,576	3,104	237,093	4,329	368,888	7,176
Total	<u>169,576</u>	<u>3,104</u>	<u>237,093</u>	<u>4,329</u>	<u>368,888</u>	<u>7,176</u>

31 December 2023	Gross carrying amount	Expected credit losses	Expected loss rate
	RMB’000	RMB’000	
Not due and within one year	<u>169,576</u>	<u>3,104</u>	1.83%

31 December 2024	Gross carrying amount	Expected credit losses	Expected loss rate
	RMB’000	RMB’000	
Not due and within one year	<u>237,093</u>	<u>4,329</u>	1.83%

31 December 2025	Gross carrying amount	Expected credit losses	Expected loss rate
	RMB’000	RMB’000	
Individual evaluation of expected credit losses:	3,401	3,401	100.00%
Assessment of expected credit losses by credit risk portfolio:			
Not due and within one year	366,274	6,558	1.79%
From one year to two years	1,043	97	9.30%
From two years to three years	417	62	14.87%
From three years to four years	701	221	31.53%
From four years to five years	453	238	52.54%
Total	<u>372,289</u>	<u>10,577</u>	2.84%

The Company

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Trade receivables	<u>80,962</u>	<u>163,507</u>	<u>278,717</u>
Less: Impairment	<u>(1,627)</u>	<u>(3,084)</u>	<u>(5,031)</u>
Total	<u>79,335</u>	<u>160,423</u>	<u>273,686</u>

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APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

24. TRADE AND BILLS RECEIVABLES AT AMORTISED COST—continued

An ageing analysis of the trade receivables of the Company as at the end of each of the Relevant Periods, based on the past due date and net of loss allowance, is as follows:

	As at 31 December		
	2023	2024	2025
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
Not due and within one year	79,335	160,423	273,686
Total	<u>79,335</u>	<u>160,423</u>	<u>273,686</u>

The movements in the loss allowance for impairment of the Company’s trade receivables are as follows:

	As at 31 December		
	2023	2024	2025
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
At the beginning of the year	1,909	1,627	3,084
Impairment (reversal)/losses, net	(282)	1,457	1,947
At the end of the year	<u>1,627</u>	<u>3,084</u>	<u>5,031</u>

Set out below is the information about the credit risk exposure on the Company’s trade receivables using a provision matrix:

31 December 2023	Gross carrying amount	Expected credit losses	Expected loss rate
	<u>RMB’000</u>	<u>RMB’000</u>	
Not due and within one year	<u>80,962</u>	<u>1,627</u>	<u>2.01%</u>
31 December 2024	Gross carrying amount	Expected credit losses	Expected loss rate
	<u>RMB’000</u>	<u>RMB’000</u>	
Not due and within one year	<u>163,507</u>	<u>3,084</u>	<u>1.89%</u>
31 December 2025	Gross carrying amount	Expected credit losses	Expected loss rate
	<u>RMB’000</u>	<u>RMB’000</u>	
Not due and within one year	<u>278,717</u>	<u>5,031</u>	<u>1.81%</u>

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ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

25. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

The Group

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Deductible input value-added tax (“VAT”)	39,839	24,804	36,131
Rights of return assets	22,883	34,536	17,018
Deposits	10,961	10,713	8,871
Prepaid income tax	8,406	18,013	29,885
Prepayment for raw materials and products	1,510	1,653	5,280
Dividend receivable	—	2,158	—
[REDACTED] fees	[REDACTED]	[REDACTED]	[REDACTED]
Prepayments for packaging and testing	—	—	10,050
Others	4,579	10,032	11,769
Less: Impairment allowance	(1,942)	(1,825)	(1,741)
Total	<u>86,236</u>	<u>100,084</u>	<u>137,634</u>

The Company

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Deductible input value-added tax (“VAT”)	26,652	8,429	15,966
Rights of return assets	21,188	15,105	5,266
Prepaid income tax	8,406	18,013	29,885
Deposits	3,565	4,555	3,440
Dividend receivable	—	2,158	—
Prepayment for raw materials and products	—	—	992
[REDACTED] fees	[REDACTED]	[REDACTED]	[REDACTED]
Prepayments for packaging and testing	—	—	10,050
Others	4,321	9,334	7,866
Less: Impairment allowance	(893)	(648)	(784)
Total	<u>63,239</u>	<u>56,946</u>	<u>93,052</u>

26. CASH AND CASH EQUIVALENTS, TIME DEPOSITS AND RESTRICTED CASH

The Group

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Time deposits:			
Current	—	—	81,810
Non-current	<u>10,182</u>	<u>379,427</u>	<u>371,754</u>
Current:			
Cash and bank balances	1,325,296	814,949	1,225,568
Less: Restricted cash	<u>(22,289)</u>	<u>(1,755)</u>	<u>(44,540)</u>
Cash and cash equivalents	<u>1,303,007</u>	<u>813,194</u>	<u>1,181,028</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

26. CASH AND CASH EQUIVALENTS, TIME DEPOSITS AND RESTRICTED CASH—continued

As at 31 December 2023 and 2024, the restricted cash mainly consisted of restricted time deposits relating to the bank guarantee. As at 31 December 2025, the restricted cash mainly consisted of property preservation freeze.

The Company

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Time deposits:			
Current	—	—	65,309
Non-current	—	368,915	371,754
Current:			
Cash and bank balances	973,735	388,081	803,007
Less: Restricted cash	(21,099)	(565)	(44,250)
Cash and cash equivalents	952,636	387,516	758,757

27. TRADE PAYABLES

The Group

An aging analysis of the trade payables of the Group as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Within 1 month	213,586	277,101	308,775
1 to 2 months	46,517	38,783	71,211
2 to 3 months	4,038	112	20,869
Over 3 months	—	4	55
Total	264,141	316,000	400,910

The trade payables are non-interest-bearing and are normally settled on 60-day terms.

APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

27. TRADE PAYABLES—continued

The Company

An aging analysis of the trade payables of the Company as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Within 1 month	154,385	234,191	252,959
1 to 2 months	36,744	33,187	60,339
2 to 3 months	2,521	112	17,566
Over 3 months	—	—	7
Total	193,650	267,490	330,871

28. OTHER PAYABLES AND ACCRUALS

The Group

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Payroll and welfare payables	247,163	358,261	348,522
Liabilities for expected sales return and warranty	45,581	72,071	65,867
Payables for technological development	24,572	18,427	7,516
Other tax payable	20,967	16,246	13,856
Payables for additions of property, plant and equipment	1,344	58,676	14,543
Others	27,734	26,809	29,028
Total	367,361	550,490	479,332
Analyzed into:			
Non-current portion	45,581	72,071	8,703
Current portion	321,780	478,419	470,629

The Company

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Payroll and welfare payables	172,679	217,757	155,849
Liabilities for expected sales return and warranty	42,224	31,521	15,645
Payables for additions of property, plant and equipment	1,072	18,011	7,378
Other tax payable	15,304	5,529	3,890
Others	25,154	22,224	19,870
Total	256,433	295,042	202,632
Analysed into:			
Non-current portion	42,224	31,521	—
Current portion	214,209	263,521	202,632

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APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

29. INTEREST-BEARING BANK BORROWINGS

The Group

	As at 31 December		
	2023 RMB’000	2024 RMB’000	2025 RMB’000
Current:			
Bank loans - Secured	—	36,579	—
Bank loans - Unsecured	—	—	300,928
Current portion of long-term bank loans - Secured	—	—	28,801
Total	—	36,579	329,729
Non-current:			
Bank loans - Secured	—	34,121	95,973
Less: Due within one year	—	—	(28,801)
Total	—	34,121	67,172

- (a) As at 31 December 2024, the annual interest rate of short-term borrowings was 2.70%.
- (b) As at 31 December 2024, the annual interest rates of long-term borrowings ranged from 2.75% to 2.76%.
- (c) As at 31 December 2024, secured bank borrowings were guaranteed by the Company.
- (d) As at 31 December 2025, the annual interest rate of short-term borrowings was 2.11%.
- (e) As at 31 December 2025, the annual interest rates of long-term borrowings ranged from 2.65% to 2.76%.
- (f) As at 31 December 2025, secured bank borrowings were guaranteed by the Company.

At 31 December 2023, 2024 and 2025, the Group’s bank loans were repayable as follows:

	As at 31 December		
	2023 RMB’000	2024 RMB’000	2025 RMB’000
Within 1 year	—	36,579	329,729
1 to 2 years	—	10,264	67,172
2 to 3 years	—	23,857	—
Total	—	70,700	396,901

The Company

	As at 31 December		
	2023 RMB’000	2024 RMB’000	2025 RMB’000
Current:			
Bank loans - Unsecured	—	—	300,928

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APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

30. CONTRACT LIABILITIES

An analysis of the contract liabilities arising from short-term advances received from customers are as follows:

The Group

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Receipt in advance			
-Sales of products	13,007	13,556	13,167
-Rendering of services	1,887	4,751	5,222
Total	<u>14,894</u>	<u>18,307</u>	<u>18,389</u>

The Company

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Receipt in advance			
-Sales of products	3,602	3,757	3,330
-Rendering of services	1,887	4,151	4,569
Total	<u>5,489</u>	<u>7,908</u>	<u>7,899</u>

31. DEFERRED INCOME

The Group

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
At beginning of year	68,345	71,516	75,701
Additions during the year	10,474	15,190	31,941
Released to profit or loss	(7,303)	(11,005)	(39,447)
At end of year	<u>71,516</u>	<u>75,701</u>	<u>68,195</u>

The Company

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
At beginning of year	68,345	68,545	59,281
Additions during the year	4,984	—	26,411
Released to profit or loss	(4,784)	(9,264)	(37,850)
At end of year	<u>68,545</u>	<u>59,281</u>	<u>47,842</u>

Deferred income is mainly government grants deferred. Government grants will be recognized into profit or loss when conditions attached are fulfilled or on a straight-line basis over the expected lives of the property, plant and equipment.

APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

32. OTHER NON-CURRENT LIABILITIES

The Group

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Redemption financial liabilities	50,000	50,000	43,916
Financial liabilities related to obligations to acquire non-controlling interests arising from acquisitions of subsidiaries	—	—	144,083
Total	<u>50,000</u>	<u>50,000</u>	<u>187,999</u>

Redemption financial liabilities are recognized initially at the present value of the redemption amount and subsequently measured at amortised cost. The management assessed the impact of discounting and concluded that its financial effect was immaterial; accordingly, the financial liabilities are measured at cost both at initial recognition and subsequent measurement in 2023 and 2024. In 2025, the management re-evaluated the impact of discounting and recognized the cumulative effect of discounting as of 31 December 2025 in the current year.

33. SHARE CAPITAL

Shares

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Issued and fully paid ordinary shares	<u>469,487</u>	<u>473,450</u>	<u>620,063</u>

A summary of movements in the Company’s share capital is as follows:

	Number of shares in issue	Share capital
	RMB’000	RMB’000
At 1 January 2023	358,061	358,061
Converted from capital reserve (Note (a))	107,846	107,846
Shares issued under share-based payment schemes	3,580	3,580
At 31 December 2023	<u>469,487</u>	<u>469,487</u>
At 1 January 2024	469,487	469,487
Shares issued under share-based payment schemes	3,963	3,963
At 31 December 2024	<u>473,450</u>	<u>473,450</u>
At 1 January 2025	473,450	473,450
Converted from capital reserve (Note (b))	142,592	142,592
Shares issued under share-based payment schemes	4,021	4,021
At 31 December 2025	<u>620,063</u>	<u>620,063</u>

Notes:

- (a) As approved in the Annual General Meeting held on 12 May 2023, the Company has transferred capital reserve of RMB107,846,000 to share capital with a nominal value of RMB1 per share.
- (b) As approved in the Annual General Meeting held on 23 May 2025, the Company has transferred capital reserve of RMB142,592,000 to share capital with a nominal value of RMB1 per share.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. SHARE-BASED PAYMENT

(a) Share-based payment expenses during the Track Record Period are as follows:

	Year ended 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Equity settled share-based payment	118,791	84,836	159,113

(b) Share Option Incentive Plans

According to the Company’s performance evaluation and individual performance evaluation, stock options granted to certain senior management personnel, key management personnel, and key technical personnel in 2018, 2022, 2023 and 2025 can be exercised in four installments, with the highest feasible percentage for each exercise period being 22%, 24%, 26%, and 28%, respectively. The first tranche becomes exercisable 12, 15, or 18 months after the grant date; the second tranche, 24, 27, or 30 months after the grant date; the third tranche, 36, 39, or 42 months after the grant date; and the fourth tranche, within 48, 51, or 54 months after the grant date.

(i) The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price	Number of options
	RMB per share	’000
At 1 January 2023		7,593
Granted during the year	66.25	10,310
Forfeited during the year	101.68	(1,310)
Exercised during the year	20.33	(2,732)
At 31 December 2023		13,861
At 1 January 2024		13,861
Granted during the year	58.00	2,066
Forfeited during the year	98.83	(2,579)
Exercised during the year	48.63	(2,824)
At 31 December 2024		10,524
At 1 January 2025		10,524
Granted during the year	66.35	16,468
Forfeited during the year	76.14	(498)
Exercised during the year	51.64	(2,818)
At 31 December 2025		23,676

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ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. SHARE-BASED PAYMENT—continued

(ii) *The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:*

31 December 2023 Number of options ‘000	Exercise price* RMB per share	Exercise period
786	12.86	2020-2024
1,120	55.24	2021-2025
3,696	102.08	2023-2027
8,259	66.00	2024-2028
13,861		
31 December 2024 Number of options ‘000	Exercise price* RMB per share	Exercise period
414	55.14	2021-2025
1,329	101.98	2023-2027
6,716	65.90	2024-2028
2,065	58.00	2025-2029
10,524		
31 December 2025 Number of options ‘000	Exercise price* RMB per share	Exercise period
1,336	78.29	2023-2027
6,494	50.54	2024-2028
2,302	44.46	2025-2029
337	73.69	2026-2030
13,207	55.69	2026-2030
23,676		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company’s share capital.

(iii) Fair value of share options and assumptions

The fair value at grant date is independently determined using an adjusted form of the Black Scholes Model that takes into account the exercise price, the term of the option, the impact of dilution (where material), the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk-free interest rate for the term of the option and the correlations and volatilities of the peer group companies.

Key assumptions used in determining the fair value of share options granted are as follows:

	As at 31 December		
	2023	2024	2025
Fair value at grant date (RMB per share)	5.72-78.24	12.55-78.24	12.55-62.74
Dividend yield (%)	0.1642-0.3807	0.1192-0.3224	0.1192-0.2692
Expected volatility (%)	18.3348-33.3167	18.3348-33.0200	18.3348-40.0925
Risk-free interest rate (%)	1.7199-2.9730	1.4963-2.9730	1.4077-2.4156
Expected life of options (year)	1-4.5	1-4.5	1-4.5
Weighted average share price (RMB per share)	71.74	68.48	55.04

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. SHARE-BASED PAYMENT—continued

(c) Class II Restricted Stock Incentive Plans

The Company operates 2021 Class II restricted stock incentive plan. According to the Company’s performance appraisal and individual performance appraisal, the restricted stock granted to certain senior management personnel, key management personnel and key technical personnel are exercisable in four exercise periods commencing after 12 months from the grant date and ends on a date which is not later than five years from the date of offer of the share options or the expiry date of the Scheme, if earlier, with the maximum exercisable percentage for each period being 24%, 26% and 28%, respectively.

(i) *The number and weighted average subscription prices of restricted stocks are as follows:*

	Weighted average exercise price	Number of restricted stocks
	RMB per share	‘000
At 1 January 2023		3,856
Granted during the year	78.71	844
Forfeited during the year	98.73	(197)
Exercised during the year	88.33	(848)
At 31 December 2023		<u>3,655</u>
At 1 January 2024		3,655
Granted during the year	—	—
Forfeited during the year	91.88	(393)
Exercised during the year	67.62	(1,139)
At 31 December 2024		<u>2,123</u>
At 1 January 2025		2,123
Granted during the year	78.29	186
Forfeited during the year	95.77	(339)
Exercised during the year	67.78	(1,203)
At 31 December 2025		<u>767</u>

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ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. SHARE-BASED PAYMENT—continued

(ii) *The exercise prices and exercise periods of the restricted stocks outstanding as at the end of the reporting period are as follows:*

31 December 2023 Number of options ‘000	Exercise price* RMB per share	Exercise period
2,486	67.72	2022-2026
1,169	102.08	2023-2027
3,655		
31 December 2024 Number of options ‘000	Exercise price* RMB per share	Exercise period
1,230	67.62	2022-2026
893	101.98	2023-2027
2,123		
31 December 2025 Number of options ‘000	Exercise price* RMB per share	Exercise period
767	78.29	2023-2027
767		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company’s share capital.

(iii) Fair value of restricted stock and assumptions

The fair value at grant date is independently determined using an adjusted form of the Black Scholes Model that takes into account the exercise price, the term of the restricted stock, the impact of dilution (where material), the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk-free interest rate for the term of the restricted stock and the correlations and volatilities of the peer group companies.

	As at 31 December		
	2023	2024	2025
Fair value at grant date (RMB per share)	56.11-114.22	56.11-114.22	89.30-114.22
Dividend yield (%)	0.1348-0.2817	0.1348-0.2817	0.1487-0.2817
Expected volatility (%)	24.0418-28.3768	24.0418-28.3768	24.0418-27.2970
Risk-free interest rate (%)	2.0521-2.9048	2.0521-2.9048	2.0521-2.4732
Expected life of restricted stock (year)	1-4	1-4	1-4
Weighted average share price (RMB per share)	78.71	82.06	78.29

35. RESERVES

The amounts of the Group’s reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages I-8 to I-10 of the financial statements.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

35. RESERVES—continued

(a) Capital reserve

The capital reserve represents (i) the excess of capital contributions from the equity holders of the Company over the share capital; (ii) the acquisition of minority interest of the Group’s subsidiaries and the acquisition obligation of minority shareholders; (iii) the increase in capital reserve arising from the exercise of share-based payment schemes. Details of the movement in capital reserve are set out in the consolidated statements of changes in equity of the Historical Financial Information.

(b) Reserve funds

In accordance with the Company Law of the PRC, companies registered in Chinese mainland are required to allocate 10% of the profits after tax to the statutory reserve until the cumulative total of the reserve reaches 50% of the companies’ registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the reserve funds may be converted to registered capital, provided that the remaining balance after the conversion is not less than 25% of the registered capital.

(c) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial information of entities of which the functional currency is not RMB.

(d) Reserves movement of the Company

Year ended 31 December 2023

	Capital reserves	Share- based payment reserves	Reserve funds	Other reserves	Retained profits	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Balance at 1 January 2023	514,522	423,980	179,031	82,556	1,828,015	3,028,104
Profit for the year	—	—	—	—	307,356	307,356
Other comprehensive income for the year:						
Share of OCI of associates	—	—	—	35	—	35
Total comprehensive income for the year	—	—	—	35	307,356	307,391
Equity-settled share-based payment schemes	179,770	(52,934)	—	—	—	126,836
Tax effect from equity-settled share-based payment schemes	—	(14,404)	—	—	—	(14,404)
Share-based payment compensation	—	114,467	—	—	—	114,467
Transfer from retained profits	—	—	30,736	—	(30,736)	—
2022 final dividend settled by cash	—	—	—	—	(107,846)	(107,846)
Capital reserve converted to capital	(107,846)	—	—	—	—	(107,846)
Share of capital reserve of associates	—	—	—	10,528	—	10,528
Balance at 31 December 2023	<u>586,446</u>	<u>471,109</u>	<u>209,767</u>	<u>93,119</u>	<u>1,996,789</u>	<u>3,357,230</u>

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ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

35. RESERVES—continued

Year ended 31 December 2024

	Capital reserves	Share-based payment reserves	Reserve funds	Other reserves	Retained profits	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Balance at 1 January 2024	586,446	471,109	209,767	93,119	1,996,789	3,357,230
Profit for the year	—	—	—	—	539,416	539,416
Other comprehensive income for the year:						
Share of OCI of associates	—	—	—	23	—	23
Total comprehensive income for the year	—	—	—	23	539,416	539,439
Equity-settled share-based payment schemes	251,705	(41,326)	—	—	—	210,379
Tax effect from equity-settled share-based payment schemes	—	949	—	—	—	949
Share-based payment compensation	—	78,340	—	—	—	78,340
Transfer from retained profits	—	—	26,958	—	(26,958)	—
2023 final dividend settled by cash	—	—	—	—	(47,073)	(47,073)
Share of capital reserve of associates	—	—	—	6,212	—	6,212
Balance at 31 December 2024	838,151	509,072	236,725	99,354	2,462,174	4,145,476

Year ended 31 December 2025

	Capital reserves	Share-based payment reserves	Reserve funds	Other reserves	Retained profits	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Balance at 1 January 2025	838,151	509,072	236,725	99,354	2,462,174	4,145,476
Profit for the year	—	—	—	—	461,730	461,730
Other comprehensive income for the year:						
Share of OCI of associates	—	—	—	(118)	—	(118)
Total comprehensive income for the year	—	—	—	(118)	461,730	461,612
Equity-settled share-based payment schemes	223,223	—	—	—	—	223,223
Tax effect from equity-settled share-based payment schemes	—	(5,840)	—	—	—	(5,840)
Share-based payment compensation	—	142,362	—	—	—	142,362
Transfer from retained profits	—	—	54,706	—	(54,706)	—
Capital reserve converted to capital	(142,592)	—	—	—	—	(142,592)
2024 final dividend settled by cash	—	—	—	—	(95,062)	(95,062)
Share of capital reserve of associates	—	—	—	39,604	—	39,604
Balance at 31 December 2025	918,782	645,594	291,431	138,840	2,774,136	4,768,783

36. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

During the Relevant Periods, the Company didn’t have any subsidiary that has material non-controlling interests individual or in the aggregate material to the Company.

APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the years ended 31 December 2023, 2024 and 2025, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB9,692,000, RMB34,528,000 and RMB16,154,000 respectively, in respect of lease arrangements.

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank borrowings	Finance leases/ Lease liabilities
	RMB’000	RMB’000
At 1 January 2023	—	57,560
Changes from financing cash flows	—	(23,780)
Lease cancelation	—	(872)
New lease liabilities arising from additional leases during the year	—	9,692
Interest element of lease liabilities	—	2,277
Exchange realignment	—	(1)
At 31 December 2023	<u>—</u>	<u>44,876</u>
At 1 January 2024	—	44,876
Changes from financing cash flows	70,195	(22,537)
Lease cancelation	—	(24,994)
Interest on borrowings (Note 8)	505	—
New lease liabilities arising from additional leases during the year	—	34,528
Interest element of lease liabilities	—	1,901
Exchange realignment	—	161
At 31 December 2024	<u>70,700</u>	<u>33,935</u>
At 1 January 2025	70,700	33,935
Changes from financing cash flows	296,711	(22,543)
Lease cancelation	—	(8,168)
Interest on borrowings (Note 8)	3,431	—
Revision of lease payments	—	(1,140)
Increase arising from acquisition of subsidiaries	26,059	1,100
New lease liabilities arising from additional leases during the year	—	16,154
Interest element of lease liabilities	—	1,147
Exchange realignment	—	34
At 31 December 2025	<u>396,901</u>	<u>20,519</u>

(c) Total cash outflow for leases

	Year ended 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Within operating activities	2,002	3,510	3,210
Within financing activities	23,780	22,537	22,543
Total	<u>25,782</u>	<u>26,047</u>	<u>25,753</u>

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APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

38. COMMITMENTS

Capital commitments

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Property, plant and equipment	86,257	22,910	36,717

39. BUSINESS COMBINATION

Acquisition of a 67.0018% interest in Ganrui Tech (Changzhou) Co., Ltd.

Ganrui Tech (Changzhou) Co., Ltd. is engaged in the geomagnetic sensor. In March 2025, the Group acquired 67.0018% interest in Ganrui Tech (Changzhou) Co., Ltd. from the original shareholders, several independent third parties. The acquisition was made to improve the Group’s production capacity. The purchase consideration for the acquisition was RMB160,800,000 in cash.

The fair values of the identifiable assets and liabilities of Ganrui Tech (Changzhou) Co., Ltd. as at the date of acquisition were as follows:

	Total
	RMB’000
Cash and cash equivalents	1,061
Trade and bills receivables at amortised cost	5,631
Contract assets	2,372
Inventories	5,925
Prepayments, other receivables and other assets	6,496
Property, plant and equipment	2,203
Right-of-use assets	969
Other Intangible assets	29,811
Other non-current assets	2,000
Trade and bills payables	(2,710)
Other payables and accruals	(10,228)
Contract liabilities	(1,750)
Interest-bearing bank borrowings	(26,059)
Lease liabilities	(1,100)
Other non-current liabilities	(532)
Total identifiable net assets at fair value	14,089
Non-controlling interests	(4,649)
	9,440
Goodwill	151,360
Satisfied by	
Cash consideration paid during the year ended 31 December 2025	160,800

Since the acquisition, Ganrui Tech (Changzhou) Co., Ltd. contributed RMB23,428,000 to the Group’s revenue and a loss of RMB16,104,000 to the Group’s profit for the year ended 31 December 2025.

Had the combination taken place at the beginning of the year ended 31 December 2025, the revenue of the Group and the profit of the Group for the year ended 31 December 2025 would have been RMB3,900,799,000 and RMB525,783,000, respectively.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

39. BUSINESS COMBINATION—continued

The transaction costs for this acquisition is not material. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

An analysis of the cash flows in respect of the acquisition of the subsidiary is as follows:

	RMB*000
Cash consideration	(160,800)
Cash and bank balances acquired	1,061
Net outflow of cash and cash equivalents included in cash flows used in investing activities ...	<u>(159,739)</u>

Acquisition of a 77.5418% interest in TeraDevices Inc.

TeraDevices Inc. is engaged in the research and development services. In September 2025, the Group acquired 77.5418% interest in TeraDevices Inc. from the original shareholders, several independent third parties. The acquisition was made to improve the Group’s production capacity. The purchase consideration for the acquisition was RMB96,927,000 in cash.

The fair values of the identifiable assets and liabilities of TeraDevices Inc. as at the date of acquisition were as follows:

	Total RMB*000
Cash and cash equivalents	8,420
Trade and bills receivables at amortised cost	9,095
Inventories	6,550
Prepayments, other receivables and other assets	4,058
Property, plant and equipment	2,271
Other Intangible assets	6,594
Trade and bills payables	(257)
Other payables and accruals	(1,937)
Other non-current liabilities	<u>(1,648)</u>
Total identifiable net assets at fair value	33,146
Non-controlling interests	<u>(7,444)</u>
Goodwill	25,702
Satisfied by	<u>71,225</u>
Cash consideration paid during the year ended 31 December 2025	<u>96,927</u>

Since the acquisition, TeraDevices Inc. contributed RMB12,854,000 to the Group’s revenue and a loss of RMB3,569,000 to the Group’s profit for the year ended 31 December 2025.

Had the combination taken place at the beginning of the year ended 31 December 2025, the revenue of the Group and the profit of the Group for the year ended 31 December 2025 would have been RMB3,933,397,000 and RMB544,933,000, respectively.

The transaction costs for this acquisition is not material. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

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ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

39. BUSINESS COMBINATION—continued

An analysis of the cash flows in respect of the acquisition of the subsidiary is as follows:

	<u>RMB’000</u>
Cash consideration	(96,927)
Cash and bank balances acquired	<u>8,420</u>
Net outflow of cash and cash equivalents included in cash flows used in investing activities	<u>(88,507)</u>

40. RELATED PARTY

(a) Controlling entity

<u>Name</u>	<u>Type</u>	<u>Place of incorporation</u>	<u>Ownership interest</u>		
			<u>As at 31 December</u>		
			<u>2023</u>	<u>2024</u>	<u>2025</u>
Chongqing Hongshun Xiangtai Enterprise Management Co., Ltd	Controlling shareholder	Chongqing, PRC	19.24%	19.08%	18.94%

The Company’s controlling shareholder entity is Chongqing Hongshun Xiangtai Enterprise Management Co., Ltd, and the ultimate controlling person is Mr. Zhang Shilong.

(b) Names and relationships with related parties

Related parties are those parties that have the ability to control, jointly control or exercise significant influence over the other party in holding power over the investee; exposure or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor’s returns. Parties are also considered to be related if they are subject to common control or joint control. Related parties maybe individuals or other entities.

The directors of the Company are of the view that the there had no significant related parties of the Group that had transactions or balances with the Group for the years ended 31 December 2023, 2024 and 2025.

(c) Compensation of key management personnel of the Group

	<u>Year ended 31 December</u>		
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
Salaries, wages and bonus	3,357	3,710	3,837
Share based compensation	1,494	1,416	1,507
Pension scheme contributions	<u>189</u>	<u>198</u>	<u>205</u>
Total	<u>5,040</u>	<u>5,324</u>	<u>5,549</u>

Further details of directors’ and the chief executive’s emoluments are included in note 9 to the financial statements.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

41. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the Relevant Periods are as follows:

2023

Financial asset

	Financial assets at FVTPL	Financial assets at amortised cost	Total
	RMB’000	RMB’000	RMB’000
Financial assets at fair value through profit or loss	878,256	—	878,256
Cash and cash equivalents	—	1,303,007	1,303,007
Trade and bills receivables	—	166,472	166,472
Financial assets included in prepayments, deposits and other receivables	—	10,277	10,277
Time deposits	—	10,182	10,182
Restricted cash	—	22,289	22,289
Total	<u>878,256</u>	<u>1,512,227</u>	<u>2,390,483</u>

Financial liabilities

	Financial liabilities at FVTPL	Financial liabilities at amortised cost	Total
	RMB’000	RMB’000	RMB’000
Trade payables	—	264,141	264,141
Financial liabilities included in other payables and accruals	—	12,782	12,782
Financial liabilities included in other non-current liabilities	—	50,000	50,000
Total	<u>—</u>	<u>326,923</u>	<u>326,923</u>

2024

Financial asset

	Financial assets at FVTPL	Financial assets at amortised cost	Total
	RMB’000	RMB’000	RMB’000
Financial assets at fair value through profit or loss	1,499,849	—	1,499,849
Cash and cash equivalents	—	813,194	813,194
Time deposits	—	379,427	379,427
Trade and bills receivables	—	232,764	232,764
Financial assets included in prepayments, deposits and other receivables	—	9,523	9,523
Restricted cash	—	1,755	1,755
Total	<u>1,499,849</u>	<u>1,436,663</u>	<u>2,936,512</u>

APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

41. FINANCIAL INSTRUMENTS BY CATEGORY—continued

Financial liabilities

	Financial liabilities at FVTPL	Financial liabilities at amortised cost	Total
	RMB’000	RMB’000	RMB’000
Trade payables	—	316,000	316,000
Interest-bearing bank borrowings	—	70,700	70,700
Financial liabilities included in other payables and accruals	—	69,067	69,067
Financial liabilities included in other non-current liabilities	—	50,000	50,000
Total	<u>—</u>	<u>505,767</u>	<u>505,767</u>

2025

Financial asset

	Financial assets at FVTPL	Financial assets at FVTOCI	Financial assets at amortised cost	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Financial assets at fair value through profit or loss	1,456,078	—	—	1,456,078
Trade and bills receivables	—	260	362,830	363,090
Cash and cash equivalents	—	—	1,181,028	1,181,028
Time deposits	—	—	453,564	453,564
Restricted cash	—	—	44,540	44,540
Financial assets included in prepayments, deposits and other receivables	—	—	13,686	13,686
Total	<u>1,456,078</u>	<u>260</u>	<u>2,055,648</u>	<u>3,511,986</u>

Financial liabilities

	Financial liabilities at FVTPL	Financial liabilities at amortised cost	Total
	RMB’000	RMB’000	RMB’000
Trade payables	—	400,910	400,910
Interest-bearing bank borrowings	—	396,901	396,901
Financial liabilities included in other payables and accruals	—	51,088	51,088
Financial liabilities included in other non-current liabilities	—	187,999	187,999
Total	<u>—</u>	<u>1,036,898</u>	<u>1,036,898</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group’s financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Financial assets:			
Non-current time deposits			
Carrying amount	10,182	379,427	371,754
Fair value	10,410	382,193	373,851
	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Financial liabilities:			
Non-current portion of interest-bearing bank borrowings			
Carrying amount	—	34,121	67,172
Fair value	—	34,104	67,861
Financial liabilities included in other non-current liabilities			
Carrying amount	50,000	50,000	187,999
Fair value	48,333	48,497	188,150

Management has assessed that the fair values of cash and cash equivalents, restricted cash, trade and bills receivables, trade payables, financial assets included in prepayments, other receivables and other assets, current portion of interest-bearing bank borrowings, and financial liabilities included in other payables and accruals, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group’s management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the management analyzes the movements in the values of financial instruments and determines the major inputs applied in the valuation.

The fair values of the financial assets included in time deposits and the financial liabilities included in other non-current liabilities and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group’s own non-performance risk for non-current liabilities and interest-bearing bank borrowings as at 31 December 2023, 2024 and 2025 were assessed to be insignificant.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted investments designated at fair value through profit or loss have been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statements of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of each Relevant Periods.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS—continued

The Group invests in financial products, which represent wealth management products issued by banks in Chinese mainland. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

Below is a summary of significant unobservable input to the valuation of a financial instrument together with a quantitative sensitivity analysis as at 31 December 2023, 2024 and 2025:

Financial assets	Valuation technique	Significant unobservable input	Sensitivity of fair value to the input
-Unlisted equity investments	Net asset value of underlying investments	Net assets	5% increase/decrease in net assets would result in an increase/decrease in fair value by RMB3,862,000/ RMB3,862,000, RMB4,330,000/RMB4,330,000, and RMB5,228,000/RMB5,228,000 as at 31 December 2023, 2024 and 2025
-Wealth management products	Discounted cash flow method	Interest rates	5% increase/decrease in interest rates would result in an increase/decrease in fair value by RMB230,000/RMB230,000, RMB600,000/RMB600,000, and RMB54,000/RMB54,000 as at 31 December 2023, 2024 and 2025

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group’s financial instruments:

Assets measured at fair value:

As at 31 December 2023

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB’000	RMB’000	RMB’000	RMB’000
Listed equity investments	31,916	—	—	31,916
Unlisted equity investments	—	—	77,247	77,247
Wealth management products	—	—	769,093	769,093
Total	31,916	—	846,340	878,256

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ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS—continued

As at 31 December 2024

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB’000	RMB’000	RMB’000	
Listed equity investments	35,257	—	—	35,257
Unlisted equity investments	—	—	86,592	86,592
Wealth management products	—	—	1,378,000	1,378,000
Total	35,257	—	1,464,592	1,499,849

As at 31 December 2025

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB’000	RMB’000	RMB’000	
Financial assets at fair value through profit or loss:				
Listed equity investments	11,424	—	—	11,424
Unlisted equity investments	—	—	104,567	104,567
Wealth management products	—	—	1,340,087	1,340,087
Trade and bills receivables at fair value through other comprehensive income	—	260	—	260
Total	11,424	260	1,444,654	1,456,338

The movements in fair value measurements within Level 3 during the reporting period are as follows:

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Financial assets at fair value through profit or loss			
At 1 January	576,237	846,340	1,464,592
Purchase	2,361,000	3,174,000	5,095,000
Fair value gains	1,603	7,752	29,829
Disposal	(2,092,500)	(2,563,500)	(5,144,767)
At 31 December	<u>846,340</u>	<u>1,464,592</u>	<u>1,444,654</u>

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

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ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS—continued

Liabilities for which fair values are disclosed:

As at 31 December 2023

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB’000	RMB’000	RMB’000	
Financial liabilities included in other non-current liabilities . . .	—	48,333	—	48,333

As at 31 December 2024

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB’000	RMB’000	RMB’000	
Non-current portion of interest-bearing bank borrowings	—	34,104	—	34,104
Financial liabilities included in other non-current liabilities . . .	—	48,497	—	48,497
Total	—	82,601	—	82,601

As at 31 December 2025

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB’000	RMB’000	RMB’000	
Non-current portion of interest-bearing bank borrowings	—	67,861	—	67,861
Financial liabilities included in other non-current liabilities . . .	—	188,150	—	188,150
Total	—	256,011	—	256,011

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group’s principal financial instruments comprise bank loans, and cash and time deposits. The main purpose of these financial instruments is to raise finance for the Group’s operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and payables, which arise directly from its operations.

The Group also enters into derivative transactions, including forward currency contracts. The purpose is to manage the currency risks arising from the Group’s operations and its sources of finance.

The main risks arising from the Group’s financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarized below. The Group’s accounting policies in relation to derivatives are set out in note 2.3 to the financial statements.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES—continued

Interest rate risk

Interest-bearing financial instruments at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest risk, respectively. The Group determines the appropriate weightings of the fixed and floating rate interest-bearing instruments based on the current market conditions and performs regular reviews and monitoring to achieve an appropriate mix of fixed and floating rate exposure. The cash flow interest rate risk and fair value interest rate risk that the Group exposed to are not significant.

Foreign exchange risk

The Group is exposed to foreign exchange risk arising from export sales denominated in foreign currencies. Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the respective functional currency of the Group’s subsidiaries.

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange risk, with all other variables held constant, of the Group’s profit after tax (through the impact on floating rate borrowings) and the Group’s equity.

	Increase/ (decrease) in basis point %	Increase/ (decrease) in profit after tax RMB’000	Increase/ (decrease) in equity RMB’000
31 December 2023			
If the RMB weakens against the USD	5.00%	14,135	14,135
If the RMB strengthens against the USD	-5.00%	(14,135)	(14,135)
If the RMB weakens against the HKD	5.00%	45	45
If the RMB strengthens against the HKD	-5.00%	(45)	(45)
If the RMB weakens against the EUR	5.00%	2	2
If the RMB strengthens against the EUR	-5.00%	(2)	(2)
31 December 2024			
If the RMB weakens against the USD	5.00%	18,848	18,848
If the RMB strengthens against the USD	-5.00%	(18,848)	(18,848)
If the RMB weakens against the HKD	5.00%	39	39
If the RMB strengthens against the HKD	-5.00%	(39)	(39)
If the RMB weakens against the EUR	5.00%	(93)	(93)
If the RMB strengthens against the EUR	-5.00%	93	93
If the RMB weakens against the JPY	5.00%	45	45
If the RMB strengthens against the JPY	-5.00%	(45)	(45)
31 December 2025			
If the RMB weakens against the USD	5.00%	35,451	35,451
If the RMB strengthens against the USD	-5.00%	(35,451)	(35,451)
If the RMB weakens against the HKD	5.00%	1,280	1,280
If the RMB strengthens against the HKD	-5.00%	(1,280)	(1,280)
If the RMB weakens against the EUR	5.00%	(114)	(114)
If the RMB strengthens against the EUR	-5.00%	114	114
If the RMB weakens against the JPY	5.00%	78	78
If the RMB strengthens against the JPY	-5.00%	(78)	(78)

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES—continued

Credit risk

The carrying amounts of cash and cash equivalents, time deposits, trade and bills receivables, and other financial assets at amortized cost included in the consolidated statements of financial position represent the Group’s maximum exposure to credit risk in relation to its financial assets. The Group does not provide any guarantees which would expose the Group to credit risk.

Cash and cash equivalents, time deposits and restricted cash are primarily held with state-owned or listed banks and subject to the impairment requirements of IFRS 9, and the identified impairment loss was immaterial as at 31 December 2023, 2024 and 2025.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses (“ECLs”), which uses a lifetime expected loss allowance for all trade and bills receivables. To measure the ECLs, trade and bills receivables have been grouped based on shared credit risk characteristics and aging. The Group has therefore concluded that the expected loss rates for trade and bills receivables are a reasonable approximation of the loss rates for the contract assets. The Group also made individual assessment on the recoverability of its trade and bills receivables for certain customers based on historical settlement records.

Maximum exposure and year-end staging

The tables below show the credit quality and maximum exposure to credit risk based on Group’s credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at the end of each of the Relevant Periods.

The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2023

	12-month ECLs	Lifetime ECLs			Total
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Cash and cash equivalents	1,303,007	—	—	—	1,303,007
Time deposits	10,182	—	—	—	10,182
Restricted cash	22,289	—	—	—	22,289
Trade and bills receivables at amortised cost*	—	—	—	169,576	169,576
Financial assets included in prepayments, other receivables and other assets					
-Normal**	12,219	—	—	—	12,219
-Doubtful**	—	—	—	—	—
Total	<u>1,347,697</u>	<u>—</u>	<u>—</u>	<u>169,576</u>	<u>1,517,273</u>

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APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES—continued

As at 31 December 2024

	12-month ECLs	Lifetime ECLs			Total
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB’000	RMB’000	RMB’000	RMB’000	
Cash and cash equivalents	813,194	—	—	—	813,194
Time deposits	379,427	—	—	—	379,427
Restricted cash	1,755	—	—	—	1,755
Trade and bills receivables at amortised cost*	—	—	—	237,093	237,093
Financial assets included in prepayments, other receivables and other assets					
-Normal**	11,348	—	—	—	11,348
-Doubtful**	—	—	—	—	—
Total	1,205,724	—	—	237,093	1,442,817

As at 31 December 2025

	12-month ECLs	Lifetime ECLs			Total
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB’000	RMB’000	RMB’000	RMB’000	
Cash and cash equivalents	1,181,028	—	—	—	1,181,028
Time deposits	453,564	—	—	—	453,564
Restricted cash	44,540	—	—	—	44,540
Trade and bills receivables at amortised cost*	—	—	—	373,407	373,407
Trade and bills receivables at fair value through other comprehensive income	—	—	—	260	260
Financial assets included in prepayments, other receivables and other assets					
-Normal**	15,427	—	—	—	15,427
-Doubtful**	—	—	—	—	—
Total	1,694,559	—	—	373,667	2,068,226

* For trade and bills receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 24 to the Historical Financial Information.

** The credit quality of financial assets included in prepayments, other receivables and other assets, financial assets included in other non-current assets is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be “doubtful”.

Further quantitative data in respect of the Group’s exposure to credit risk arising from trade and bills receivables are disclosed in note 24 to the financial statements.

The Group had certain concentrations of credit risk as 22.65% and 67.31%, 12.90% and 44.27%, 7.17% and 30.68% of the Group’s trade receivables were due from the Group’s largest customer and five largest for customers, during the years ended 31 December 2023, 2024 and 2025, respectively.

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APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES—continued

Liquidity risk

The Group’s approach to managing liquidity risk is to ensure sufficient capital liquidity to meet its due debts without incurring unacceptable losses or causing damage to the Group’s reputation. The Group regularly analyzes its liability structure and maturity dates to ensure the maintenance of ample liquidity. The Group’s management monitors the utilization of bank borrowings and ensures compliance with borrowing agreements. At the same time, it maintains close cooperation with financial institutions to maintain sufficient credit lines and effectively prevent and to control liquidity risks.

The maturity profile of the Group’s financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

As at 31 December 2023

	On demand for less than one year	One to five years	Total
	RMB’000	RMB’000	RMB’000
Trade payables	264,141	—	264,141
Financial liabilities included in other payable and accruals	12,782	—	12,782
Lease liabilities	19,415	28,465	47,880
Other non-current liabilities	—	50,000	50,000
Total	<u>296,338</u>	<u>78,465</u>	<u>374,803</u>

As at 31 December 2024

	On demand for less than one year	One to five years	Total
	RMB’000	RMB’000	RMB’000
Trade payables	316,000	—	316,000
Interest-bearing bank borrowings	38,200	35,161	73,361
Financial liabilities included in other payable and accruals	69,067	—	69,067
Lease liabilities	20,599	14,890	35,489
Other non-current liabilities	—	50,000	50,000
Total	<u>443,866</u>	<u>100,051</u>	<u>543,917</u>

As at 31 December 2025

	On demand for less than one year	One to five years	Total
	RMB’000	RMB’000	RMB’000
Trade payables	400,910	—	400,910
Interest-bearing bank borrowings	337,319	67,847	405,166
Financial liabilities included in other payable and accruals	51,088	—	51,088
Lease liabilities	13,272	8,035	21,307
Other non-current liabilities	—	203,621	203,621
Total	<u>802,589</u>	<u>279,503</u>	<u>1,082,092</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES—continued

Capital management

The primary objectives of the Group’s capital management are to safeguard the Group’s ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders’ value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No change was made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using debt-to-asset ratio, which is total liabilities divided by total assets. The ratios as at 31 December 2023 and 2024 and 2025 were as follows:

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Total assets	4,706,852	5,771,119	6,954,150
Total liabilities	863,028	1,171,859	1,627,044
Debt-to-asset ratio	18%	20%	23%

44. CONTINGENCIES

Guarantee

As at 31 December 2023 and 2024 and 2025 no guarantee was provided by the Group to third parties.

As at 31 December 2025, the Company was involved as defendant in one outstanding contractual dispute litigation, with a claimed amount of RMB44,000,000, along with overdue payment interest and other expenses. A court hearing was held on 5 February 2026. As at the date of approval of this report, the court had not yet rendered its first-instance judgment. The Company represented that the likelihood of an outflow of economic benefits arising from this matter is remote.

45. INVESTMENTS IN SUBSIDIARIES AND BALANCES WITH SUBSIDIARIES

The Company

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Investments, at cost	422,989	513,940	947,203

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APPENDIX I

ACCOUNTANTS’ REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

45. INVESTMENTS IN SUBSIDIARIES AND BALANCES WITH SUBSIDIARIES—continued

Particulars of the Company’s principal subsidiaries, which are directly owned by the Company, are included in note 1 to the Historical Financial Information.

The Company’s due from subsidiaries mainly comprise dividends receivables, trade and bills receivables and loan receivables. The Company’s due to subsidiaries mainly comprise trade payables.

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Due from subsidiaries	213,855	267,157	192,823
Due to subsidiaries	<u>11,818</u>	<u>91,149</u>	<u>283,371</u>

46. SUBSEQUENT FINANCIAL STATEMENT

No audited financial statements have been prepared by the Company, the Group or any of the companies comprising the Group in respect of any period subsequent to 31 December 2025.