

APPENDIX I

ACCOUNTANTS’ REPORT

To insert the firm’s letterhead

ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF XREAL LTD., CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED AND CITIGROUP GLOBAL MARKETS ASIA LIMITED

Introduction

We report on the historical financial information of XREAL Ltd. (the “Company”, formerly known as Nreal Ltd.) and its subsidiaries (together, the “Group”) set out on pages I-3 to 51, which comprises the consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and 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 I-3 to 51 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [REDACTED] (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* as 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’ judgement, 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 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.

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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 each of the Relevant Periods 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 11 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

No historical financial statements for the Company

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

[●]

Certified Public Accountants

Hong Kong

[REDACTED]

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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 financial statements 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	390,069	394,492	515,979
Cost of sales		(316,748)	(307,189)	(334,601)
Gross profit		73,321	87,303	181,378
Other operating income and gains	5	9,020	7,427	7,731
Selling and distribution expenses		(214,103)	(143,111)	(130,929)
Administrative expenses		(106,939)	(116,010)	(112,461)
Research and development expenses		(215,896)	(204,187)	(182,939)
(Impairment losses)/reversal of impairment losses on financial assets	6	(1,422)	471	(580)
Impairment losses on long-term assets	6	–	(1,792)	(3,771)
Other operating expenses	5	(2,330)	(3,577)	(3,899)
OPERATING LOSS		(458,349)	(373,476)	(245,470)
Other income, net	5	2,256	4,684	3,591
Finance costs	7	(4,362)	(14,652)	(13,645)
Fair value changes on financial assets		17,388	2,970	1,814
Fair value changes of preferred shares, warrants and convertible notes	26	(438,690)	(328,041)	(202,586)
LOSS BEFORE TAX	6	(881,757)	(708,515)	(456,296)
Income tax expense	10	(52)	(95)	(70)
LOSS FOR THE YEAR		<u>(881,809)</u>	<u>(708,610)</u>	<u>(456,366)</u>
Attributable to: Owners of the parent		<u>(881,809)</u>	<u>(708,610)</u>	<u>(456,366)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12			
Basic (RMB per share)		<u>(8.10)</u>	<u>(6.51)</u>	<u>(4.19)</u>
Diluted (RMB per share)		<u>(8.10)</u>	<u>(6.51)</u>	<u>(4.19)</u>

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December			
	2023	2024	2025	
	RMB'000	RMB'000	RMB'000	
LOSS FOR THE YEAR		<u>(881,809)</u>	<u>(708,610)</u>	<u>(456,366)</u>
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods: Exchange differences on translation of the Company’s foreign subsidiaries		17,295	(29,194)	(2,217)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods: Exchange differences on translation of the Company		21,930	(11,669)	23,147
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		<u>39,225</u>	<u>(40,863)</u>	<u>20,930</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<u>(842,584)</u>	<u>(749,473)</u>	<u>(435,436)</u>
Attributable to: Owners of the parent		<u>(842,584)</u>	<u>(749,473)</u>	<u>(435,436)</u>

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		<u>31 December</u>	<u>31 December</u>	<u>31 December</u>
	<i>Notes</i>	<u>2023</u>	<u>2024</u>	<u>2025</u>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS				
Property, plant and equipment	<i>13</i>	76,188	59,823	51,474
Right-of-use assets	<i>14(a)</i>	31,150	63,996	38,932
Intangible assets		1,459	1,464	766
Investments at fair value through profit or loss	<i>16</i>	3,038	2,609	3,838
Prepayments, other receivables and other assets	<i>19</i>	10,071	48,096	40,995
Total non-current assets		<u>121,906</u>	<u>175,988</u>	<u>136,005</u>
CURRENT ASSETS				
Inventories	<i>17</i>	189,520	166,357	180,593
Trade receivables	<i>18</i>	55,471	15,457	18,247
Prepayments, other receivables and other assets	<i>19</i>	146,048	122,061	104,689
Financial assets at fair value through profit or loss	<i>16</i>	124,852	18,596	800
Time deposits	<i>20</i>	17,974	–	–
Pledged deposits and restricted cash	<i>20</i>	52,413	49,953	37,389
Cash and cash equivalents	<i>20</i>	181,094	204,732	63,634
Total current assets		<u>767,372</u>	<u>577,156</u>	<u>405,352</u>
CURRENT LIABILITIES				
Interest-bearing bank borrowings	<i>23</i>	162,026	153,779	128,933
Trade and notes payables	<i>21</i>	134,803	172,029	162,563
Other payables and accruals	<i>22</i>	77,055	113,116	103,691
Lease liabilities	<i>14(b)</i>	14,871	23,279	18,423
Other liabilities	<i>16</i>	–	–	151,335
Preferred shares, warrants and convertible notes	<i>26</i>	2,311,071	2,676,837	2,924,442
Total current liabilities		<u>2,699,826</u>	<u>3,139,040</u>	<u>3,489,387</u>
NET CURRENT LIABILITIES		<u>(1,932,454)</u>	<u>(2,561,884)</u>	<u>(3,084,035)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(1,810,548)</u>	<u>(2,385,896)</u>	<u>(2,948,030)</u>
NON-CURRENT LIABILITIES				
Interest-bearing bank borrowings	<i>23</i>	–	–	36,111
Lease liabilities	<i>14(b)</i>	15,228	33,252	17,585
Deferred income	<i>25</i>	24,364	20,405	16,316
Other liabilities	<i>16</i>	–	154,782	7,918
Total non-current liabilities		<u>39,592</u>	<u>208,439</u>	<u>77,930</u>
Net liabilities		<u>(1,850,140)</u>	<u>(2,594,335)</u>	<u>(3,025,960)</u>
EQUITY				
Equity attributable to owners of the parent				
Share capital	<i>27</i>	475	475	475
Reserves	<i>28</i>	(1,850,615)	(2,594,810)	(3,026,435)
Total deficit		<u>(1,850,140)</u>	<u>(2,594,335)</u>	<u>(3,025,960)</u>

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Year ended 31 December 2023

	Attributable to owners of the parent				
	Share capital	Share-based payment reserve	Exchange fluctuation reserve	Accumulated losses	Total deficit
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2023	475	62,778	(74,560)	(1,002,084)	(1,013,391)
Loss for the year	–	–	–	(881,809)	(881,809)
Other comprehensive income for the year:					
Exchange differences on translation of foreign operations	–	–	39,225	–	39,225
Share-based payment expenses . . .	–	5,835	–	–	5,835
At 31 December 2023	<u>475</u>	<u>68,613*</u>	<u>(35,335)*</u>	<u>(1,883,893)*</u>	<u>(1,850,140)</u>

Year ended 31 December 2024

	Attributable to owners of the parent				
	Share capital	Share-based payment reserve	Exchange fluctuation reserve	Accumulated losses	Total deficit
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2024	475	68,613	(35,335)	(1,883,893)	(1,850,140)
Loss for the year	–	–	–	(708,610)	(708,610)
Other comprehensive income for the year:					
Exchange differences on translation of foreign operations	–	–	(40,863)	–	(40,863)
Share-based payment expenses . . .	–	5,278	–	–	5,278
At 31 December 2024	<u>475</u>	<u>73,891*</u>	<u>(76,198)*</u>	<u>(2,592,503)*</u>	<u>(2,594,335)</u>

Year ended 31 December 2025

	Attributable to owners of the parent				
	Share capital	Share-based payment reserve	Exchange fluctuation reserve	Accumulated losses	Total deficit
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2025	475	73,891	(76,198)	(2,592,503)	(2,594,335)
Loss for the year	–	–	–	(456,366)	(456,366)
Other comprehensive income for the year:					
Exchange differences on translation of foreign operations	–	–	20,930	–	20,930
Share-based payment expenses . . .	–	3,811	–	–	3,811
At 31 December 2025	<u>475</u>	<u>77,702*</u>	<u>(55,268)*</u>	<u>(3,048,869)*</u>	<u>(3,025,960)</u>

* These reserve accounts comprise the negative balances of consolidated reserves of RMB1,850,615 thousand, RMB2,594,810 thousand and RMB3,026,435 thousand in the consolidated statements 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				
Loss before tax	6	(881,757)	(708,515)	(456,296)
Adjustments for:				
Finance costs	7	4,362	14,652	13,645
Interest income	5	(2,256)	(4,684)	(2,150)
Depreciation of property, plant and equipment		21,569	22,730	23,556
Loss on disposal of items of property, plant and equipment	6	283	7	220
Depreciation of right-of-use assets	6	22,112	23,335	30,865
Amortization of intangible assets	6	574	668	698
Fair value changes of preferred shares, warrants and convertible notes		438,690	328,041	202,586
Share-based payment expenses	6	5,835	5,278	3,811
Fair value changes on financial instruments	6	(17,388)	(2,970)	(1,814)
Foreign exchange differences	6	2,274	3,334	3,899
Impairment of inventories	6	12,181	12,952	8,390
Impairment losses on long-term assets	6	–	1,792	3,771
Impairment losses/(reversal of impairment losses) on financial assets	6	1,422	(471)	580
(Increase)/decrease in inventories		(114,945)	(10,211)	22,626
(Increase)/decrease in trade receivables		(17,256)	40,529	(3,348)
Decrease in prepayments and other assets		38,246	23,987	17,372
(Increase)/decrease of pledged deposits and restricted cash		(42,663)	2,460	12,564
Increase/(decrease) in trade and notes payables		61,076	37,226	(9,466)
Increase/(decrease) in other payables and accruals		1,358	39,837	(70,827)
Decrease in deferred income		(5,433)	(3,959)	(4,089)
Cash used in operations		<u>(471,716)</u>	<u>(173,982)</u>	<u>(203,407)</u>
Income taxes paid		(52)	(95)	(70)
Net cash flows used in operating activities		<u>(471,768)</u>	<u>(174,077)</u>	<u>(203,477)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposal of items of property and equipment		186	8	85
Proceeds from disposals of financial assets at fair value through profit or loss		684,504	120,800	23,220
Purchases of items of property and equipment		(19,402)	(15,621)	(42,702)
Payments for acquisition of financial assets at fair value through profit or loss		(305,991)	(12,112)	(5,119)
Additions to other intangible assets		(68)	(672)	–
Net cash flows from/(used in) investing activities		<u>359,229</u>	<u>92,403</u>	<u>(24,516)</u>

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	Notes	Year ended 31 December		
		2023	2024	2025
		RMB'000	RMB'000	RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from preferred shares, warrants and convertible notes	30	–	–	110,000
Proceeds from other liabilities	30	–	147,150	–
Proceeds from interest-bearing bank borrowings	30	162,026	441,500	669,669
Repayment of interest-bearing bank borrowings	30	–	(449,747)	(658,404)
Lease payments	30	(28,270)	(30,259)	(27,569)
Interest paid		(1,698)	(5,652)	(5,909)
Net cash flows from financing activities		<u>132,058</u>	<u>102,992</u>	<u>87,787</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
		19,519	21,318	(140,206)
Cash and cash equivalents at beginning of year		166,249	181,094	204,732
Effect of foreign exchange rate changes, net		<u>(4,674)</u>	<u>2,320</u>	<u>(892)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR				
		<u>181,094</u>	<u>204,732</u>	<u>63,634</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	20	251,481	254,685	101,023
Time deposits	20	(17,974)	–	–
Pledged deposits and restricted cash	20	<u>(52,413)</u>	<u>(49,953)</u>	<u>(37,389)</u>
Cash and cash equivalents as stated in the statements of cash flows	20	<u>181,094</u>	<u>204,732</u>	<u>63,634</u>

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STATEMENTS OF FINANCIAL POSITION

		<u>31 December</u>	<u>31 December</u>	<u>31 December</u>
	<i>Notes</i>	<u>2023</u>	<u>2024</u>	<u>2025</u>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS				
Investments in subsidiaries	15	1,837,653	1,868,622	1,909,442
Investments at fair value through profit or loss	16	<u>3,038</u>	<u>2,609</u>	<u>3,838</u>
Total non-current assets		1,840,691	1,871,231	1,913,280
CURRENT ASSETS				
Cash and cash equivalents	20	–	370	42
Total current assets		–	370	42
CURRENT LIABILITIES				
Other payables and accruals	22	18	69	1,406
Preferred shares, warrants and convertible notes	26	<u>2,311,071</u>	<u>2,676,837</u>	<u>2,894,442</u>
Total current liabilities		<u>2,311,089</u>	<u>2,676,906</u>	<u>2,895,848</u>
NET CURRENT LIABILITIES		<u>(2,311,089)</u>	<u>(2,676,536)</u>	<u>(2,895,806)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES				
		<u>(470,398)</u>	<u>(805,305)</u>	<u>(982,526)</u>
Net liabilities		<u>(470,398)</u>	<u>(805,305)</u>	<u>(982,526)</u>
EQUITY				
Share capital		475	475	475
Reserves		<u>(470,873)</u>	<u>(805,780)</u>	<u>(983,001)</u>
Total deficit		<u>(470,398)</u>	<u>(805,305)</u>	<u>(982,526)</u>

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II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 5 June 2018. The registered address of the Company is located at PO Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands.

The Company is an investment holding company. During the Relevant Periods, the Company’s subsidiaries were principally engaged in the design, research and development, production, and sale of AR eyewear and related accessories, and the provision of technical research and development services.

As at the end of the Relevant Periods, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies.

The particulars of the company’s principal subsidiaries are as follows:

Name*	Notes	Place of incorporation/ registration and business	Date of incorporation/ registration	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities	
					Direct	Indirect		
				('000)				
Infinite Reality (Shanghai) Technology Co., Ltd.* [^] (無限現實(上海)科技有限公司)		PRC/Chinese mainland	31 Oct 2024	USD	221,601	–	100%	Sales of AR eyewear and accessories
Beijing Unicorn Technology Co., Ltd.* (優奈柯恩(北京)科技有限公司)	(a)(b)	PRC/Chinese mainland	23 Jul 2018	RMB	1,500,000	–	100%	Sales of AR eyewear and accessories
Tairuo Technology (Beijing) Co., Ltd.* [#] (太若科技(北京)有限公司)	(a)(b)	PRC/Chinese mainland	7 Jun 2017	RMB	10,000	–	–	Sales of AR eyewear and accessories
Matrixed Reality (Beijing) Technology Co., Ltd.* (閃耀現實(北京)科技有限公司)	(a)(b)	PRC/Chinese mainland	26 Jan 2021	RMB	10,000	–	100%	Sales of AR eyewear and accessories
Matrixed Reality (Wuxi) Technology Co., Ltd.* (閃耀現實(無錫)科技有限公司)	(a)(b)	PRC/Chinese mainland	12 Mar 2020	RMB	930,000	–	100%	Research, development, manufacturing, and sale of AR eyewear and accessories
Tairuo Technology (Shenzhen) Co., Ltd.* [#] (深圳太若科技有限公司)	(a)(b)	PRC/Chinese mainland	25 Jan 2017	RMB	2,319	–	–	Sales of AR eyewear and accessories
Matrixed Reality (Shanghai) Technology Co., Ltd.* (閃耀現實(上海)科技有限公司)		PRC/Chinese mainland	29 Jul 2024	RMB	5,000	–	100%	Sales of AR eyewear and accessories
Xreal Inc.		The United States	15 Jan 2021	–	–	100%	–	Sales of AR eyewear and accessories
Xreal Japan Limited	(c)	Japan	26 Mar 2020	JPY	10,000	–	100%	Sales of AR eyewear and accessories
Xreal Technology Limited (無限現實科技有限公司)	(d)	Hong Kong	29 Jun 2018	–	–	100%	–	Sales of AR eyewear and accessories
Exreal Technology Limited	(d)	Hong Kong	26 Apr 2022	–	–	100%	–	Sales of AR eyewear and accessories
Xreal Korea Limited		Korea	26 Dec 2019	KRW	120,000	–	100%	Sales of AR eyewear and accessories

Note:

* The English names of all group companies registered in the PRC represent the best efforts made by the directors of the Company to translate the Chinese names of these companies as they do not have official English names.

[^] These entities are registered as wholly-foreign-owned enterprises under PRC law.

[#] Before the termination of a series of contractual arrangements (collectively, the “Contractual Arrangements” including power of attorney, exclusive call option agreement, equity pledge agreement and exclusive technical consulting and service agreement), the Company did not have legal ownership in the equity of Tairuo Technology (Shenzhen) Co., Ltd. (“Shenzhen Tairuo”). However, under the Contractual Arrangements entered into with the registered owners of Shenzhen Tairuo, the Company and its certain subsidiaries with legal ownership obtained control of Shenzhen Tairuo by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of members of their controlling authorities, and casting the majority of votes at meetings of such authorities. In addition, the Contractual Arrangements also transferred the risks and rewards of Shenzhen Tairuo to the Company and/or its other legally owned subsidiaries. Tairuo Technology (Beijing) Co., Ltd. (“Beijing Tairuo”) was wholly owned by Shenzhen Tairuo. As a result, Shenzhen Tairuo and Beijing Tairuo were treated as subsidiaries of the Company and their financial statements have been consolidated by the Company. In January 2026, the Group terminated all the Contractual Arrangements with Shenzhen Tairuo

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and acquired the equity interest of Beijing Tairuo from Shenzhen Tairuo. Therefore, Shenzhen Tairuo will be deconsolidated in 2026, and Beijing Tairuo will continue to be accounted for as a subsidiary of the Group. The deconsolidation of Shenzhen Tairuo would not have a material impact on the consolidated financial statements as it is an investment holding company, holding equity interests in Beijing Tairuo.

- (a) The statutory financial statements of this entity for the years ended 31 December 2023 prepared under PRC Generally Accepted Accounting Principles (“PRC GAAP”) were audited by 尤尼泰振青會計師事務所(特殊普通合夥)北京分所, a certified public accounting firm registered in the PRC.
- (b) The statutory financial statements of this entity for the year ended 31 December 2024 prepared under PRC GAAP were audited by 鵬盛會計師事務所(特殊普通合夥)北京自貿試驗區分所, a certified public accounting firm registered in the PRC.
- (c) The statutory financial statements of these entities for the year ended 31 December 2023 and 31 December 2024 prepared in accordance with Japanese Financial Reporting Standards were audited by 稅理士法人中日 PARTNERS, a certified public accounting firm registered in the Japan.
- (d) The statutory financial statements of these entities for the year ended 31 December 2023 and 31 December 2024 prepared in accordance with Medium-sized Entity Financial Reporting Standards were audited by Lee Heung Wing CPA Limited, a certified public accounting firm registered in Hong Kong.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

The Historical Financial Information has been prepared under the historical cost convention except for investments at fair value through profit or loss, preferred shares, warrants and convertible notes.

The Group incurred net losses for the Relevant Periods and had an accumulated losses of RMB3,048,869,000 as of 31 December 2025, and recorded cash outflows from operations of RMB203,477,000 for the year ended 31 December 2025. As at 31 December 2025, the Group and the Company recorded net current liabilities amounting to RMB3,084,035,000 and RMB2,895,806,000 and total deficit of RMB3,025,960,000 and RMB982,526,000, respectively, primarily attributable to the preferred shares, warrants and convertible notes of RMB2,924,442,000, and the other liabilities of RMB151,335,000 due in April 2026. As disclosed in note 26 to the Historical Financial Information, on 23 March 2026, the Group and the holders of the preferred shares, warrants and convertible notes have entered into an amended investors’ rights agreement to conditionally suspend the redemption rights of the preferred shares, warrants and convertible notes. Accordingly, the directors of the Company have considered that the redemption rights of the preferred shares, warrants and convertible notes cease to be exercisable and as a result the preferred shares, warrants and convertible notes are not expected to be redeemed since the date of the agreement. The directors of the Company have reviewed the Group’s cash flow projection prepared by management, which covered a period of not less than twelve months from 31 December 2025, which includes additional funding from bank facilities and issuance of preferred shares. In the review of the above, the directors of the Company considered that the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2025. Accordingly, the directors of the Company consider it is appropriate to prepare the Historical Financial Information on a going concern basis.

Basis of consolidation

The Historical Financial Information includes 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.

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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 derecognises the related assets (including goodwill), liabilities, any non-controlling interest and the exchange fluctuation reserve; and recognises the fair value of any investment retained and any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised 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.

2.2 ISSUED BUT NOT YET EFFECTIVE IFRS ACCOUNTING STANDARDS

The Group has not applied the following new and amended 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 amended IFRS Accounting Standards, if applicable, when they become effective.

IFRS 18	<i>Presentation and Disclosure in Financial Statements</i> ²
IFRS 19 and its amendments	<i>Subsidiaries without Public Accountability: Disclosures</i> ²
Amendments to IFRS 9 and IFRS 7	<i>Amendments to the Classification and Measurement of Financial Instruments</i> ¹
Amendments to IFRS 9 and IFRS 7	<i>Contracts Referencing Nature-dependent Electricity</i> ¹
Amendments to IFRS 10	<i>Sale or Contribution of Assets between an Investor and its Associate or and IAS 28 Joint Venture</i> ³
Amendments to IAS 21	<i>Translation to a Hyperinflationary Presentation Currency</i> ²
<i>Annual Improvements to IFRS Accounting Standards – Volume 11</i>	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 periods beginning on or after 1 January 2027
- 3 No mandatory effective date yet determined but available for adoption

IFRS 18 replaces IAS 1 *Presentation of Financial Statements*. While a number of sections have been brought forward from IAS 1 with limited changes, IFRS 18 introduces new requirements for presentation within the statement of profit or loss, including specified totals and subtotals. Entities are required to classify all income and expenses within the statement of profit or loss into one of the five categories: operating, investing, financing, income taxes and discontinued operations and to present two new defined subtotals. It also requires disclosures about management-defined performance measures in a single note and introduces enhanced requirements on the grouping (aggregation and disaggregation) and the location of information in both the primary financial statements and the notes. Some requirements previously included in IAS 1 are moved to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, which is renamed as IAS 8 *Basis of Preparation of Financial Statements*. As a consequence of the issuance of IFRS 18, limited, but widely applicable, amendments are made to IAS 7 *Statement of Cash Flows*, IAS 33 *Earnings per Share* and IAS 34 *Interim Financial Reporting*. In addition, there are minor consequential amendments to other IFRS Accounting Standards. IFRS 18 and the consequential amendments to other IFRS Accounting Standards are effective for annual periods beginning on or after 1 January 2027 with earlier application permitted. Retrospective application is required. 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 disclosures.

The Group has already commenced an assessment of the impact of these new and revised IFRS, which are relevant to the Group’s operations. According to the preliminary assessment made by the directors, no significant impact on the financial performance and financial position of the Group is expected when new and amended IFRS Accounting Standards become effective.

2.3 MATERIAL ACCOUNTING POLICIES

Fair value measurement

The Group measures its Investments at fair value through profit or loss, preferred shares, warrants and convertible notes 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.

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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, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Historical Financial Information are categorised 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 recognised in the Historical Financial Information 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 inventories, deferred tax assets, 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.

In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised 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 the statement of 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 each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised 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/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

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 or joint venture 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;

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- (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. 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.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of 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 capitalised 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 recognises 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 principal estimated useful lives used for this purpose are as follows:

Leasehold improvements	Over the shorter of the lease terms and 5 years
Moulds and production equipment	5 to 10 years
Office, electronic equipment and others	3 to 5 years

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 recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised 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.

Intangible assets

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

Purchased Software

Purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 years.

Research and development costs

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

Expenditure incurred on projects to develop new products is capitalised 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.

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 a lessee

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

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(a) *Right-of-use assets*

Right-of-use assets are recognised 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 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 recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. 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:

Offices	1 to 5 years
Plant	3 to 5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) *Lease liabilities*

Lease liabilities are recognised 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 recognised 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.

(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 offices (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 and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised 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 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 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 amortised 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.

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 amortised 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 recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset.

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Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

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 recognised 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 recognised 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 value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised 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 derecognised (i.e., removed from the Group’s consolidated statements 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 recognise the transferred asset to the extent of the Group’s continuing involvement. In that case, the Group also recognises 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 recognises 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 recognised 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 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 considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also 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.

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

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade 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 receivables 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 recognises a loss allowance based on lifetime ECLs at each reporting date.

Individual Assessment

ECL is assessed individually for trade receivables with significantly different credit risk characteristics, is measured based on specific cash flow projections, considering estimated recovery rates, timing of recoveries.

Collective Assessment

The Group has established a provision matrix for all other receivables, which is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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, or payables, as appropriate.

All financial liabilities are recognised 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 and notes payables, other payables and accruals, interest-bearing bank borrowings, other liabilities, preferred shares, warrants and convertible notes, and other non-current liabilities.

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 designated upon initial recognition as at fair value through profit or loss.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group’s own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

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

After initial recognition, trade and notes payables, financial liabilities included in other payables and accruals, interest-bearing bank borrowings, and other liabilities are subsequently measured at amortised 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 recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised 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 amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

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

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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 recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable 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 statements of cash flows, cash and cash equivalents comprise cash on hand and at banks, and short-term deposits as defined above, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised 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 recognised 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 recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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 utilised, 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 recognised 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 utilised.

The carrying amount of deferred tax assets is reviewed at the end of each 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 utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised 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 realised 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.

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 realise 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.

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Government grants

Government grants are recognised 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 recognised 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 instalments 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 recognised 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.

(a) Sale of AR eyewear and accessories

The Group sells AR eyewear and accessories to customers through its own sales channel or through distributors. Revenue from the sale of products is recognised at the point in time when control of the products is transferred to the customer, generally on delivery of the products.

Some contracts for the sale of products provide customers with rights of return, giving rise to variable consideration. When the consideration in a contract includes a variable amount, 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 recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The Group bases its estimates of sales return on historical results, taking into consideration the type of customers, the type of products and the specifics of each arrangement.

(i) Variable consideration

Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. 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, refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

(ii) Consideration payable to a customer

The Group accounts for consideration payable to a customer as a reduction of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the Group. If the consideration payable to a customer includes a variable amount, the Group estimates the transaction price, including assessing whether the estimate of variable consideration is constrained. To estimate the variable consideration, the most likely amount method is used, as this method best predicts the amount of variable consideration.

(b) Technical research and development services

The Group provides research and development services to customers in augmented reality hardware and software. Revenue from technical research and development services is recognised at the point in time when the services have been provided to and accepted by the customers; or over time if one of the following criteria is met: (i) the customer simultaneously receives and consumes the benefits as the Group performs; (ii) the Group’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (iii) the asset delivered has no alternative use and the Group has an enforceable right to payment for performance completed to date.

Other income

Interest income is recognised 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.

Contract liabilities

A contract liability is recognised 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 recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

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Right-of-return assets

A right-of-return asset is recognised 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 recognised 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 each reporting period.

Provisions

A provision is recognised 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.

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

The Group provides for warranties in relation to the sale of AR eyewear. Provisions for these assurance-type warranties granted by the Group are initially recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate. The warranty-related cost is revised annually.

Share-based payments

The Company operates a share option scheme. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange 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 at which they are granted. The fair value is determined by an external valuer based on a recent transaction price, further details of which are given in note 29 to the Historical Financial Information.

The cost of equity-settled transactions is recognised 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 recognised for equity-settled transactions at the end of each reporting period 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 the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Forfeitures are estimated at the time of grant and revised, if necessary, in the subsequent period if actual forfeitures differ from initial estimates. Forfeiture rates are estimated based on historical experience and future expectations of employee turnover rates and are periodically reviewed. To the extent the Company revises these estimates in the future, the share-based payments could be materially impacted in the period of revision, as well as in following periods.

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 recognised. 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 recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised 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 cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

Other employee benefits

Pension scheme

The employees of the Group’s subsidiary which operates in the Chinese mainland are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 5% of its 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.

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Housing fund and other social insurances

The Group has participated in defined social security contribution schemes for its employees pursuant to the relevant laws and regulations of the PRC. These include housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances. The contributions are charged to profit or loss on an accrual basis. The Group’s liability in respect of these funds is limited to the contributions payable in each reporting period.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

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 capitalised as part of the cost of those assets. The capitalisation 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.

Events after the reporting period

If the Group receives information after the reporting period, but prior to the date of authorisation for issue, about conditions that existed at the end of the reporting period, it will assess whether the information affects the amounts that it recognises in its financial statements. The Group will adjust the amounts recognised in its financial statements to reflect any adjusting events after the reporting period and update the disclosures that relate to those conditions in light of the new information. For non-adjusting events after the reporting period, the Group will not change the amounts recognised in its financial statements, but will disclose the nature of the non-adjusting events and an estimate of their financial effects, or a statement that such an estimate cannot be made, if applicable.

Foreign currencies

The Historical Financial Information is presented in RMB, while the Company’s functional currency is US dollar. As the major operations of the Group during the Relevant Periods are within the Chinese mainland, the Group determined to present its Historical Financial Information in RMB (unless otherwise stated). 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 initially recorded using their respective functional currency rates prevailing at the dates of the transactions. 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 recognised in the statements 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 recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of the Company and certain overseas subsidiaries are currencies other than the RMB. As at the end of each of the Relevant Periods, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of each of the Relevant Periods and their statements of profit or loss are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve, except to the extent that the differences are attributable to non-controlling interests.

For the purpose of the consolidated statements of cash flows, the cash flows of the Company and any overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. 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 JUDGEMENTS AND ESTIMATES

The preparation of the Group’s Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, costs and 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.

Judgements

In the process of applying the Group’s accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Determining the method to estimate variable consideration and assessing the constraint for the sale of AR eyewear

Certain contracts for the sale of AR eyewear include a right of return that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for the sale of AR eyewear with rights of return, given the large number of customer contracts that have similar characteristics.

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Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses 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. Further details of our unrecognized tax losses at the end of each reporting period are contained in Note 10 to the Historical Financial Information.

Significant judgement in determining the lease term of contracts with renewal options

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate the lease (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, 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.

Provision for expected credit losses on trade receivables and other receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns

The provision matrix is initially based on the Group’s historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group’s historical credit loss experience and forecast of economic conditions may also not be representative of a customer’s actual default in the future. The information about the ECLs on the Group’s trade receivables is disclosed in note 18 to the Historical Financial Information.

Impairment of inventories

The Group periodically assesses the net realisable value of its inventories and provides for inventory impairment based on the difference between the cost of the inventory and the net realisable value. When estimating the net realisable value of inventories, management considers the purpose for which the inventories are held, as well as future use or sales as the basis for estimation. Where the expectation is different from the original estimate, such difference will impact on the carrying value of the inventories and write-down of inventories in the period in which such estimates have been changed.

Variable consideration for returns

The Group estimates variable consideration to be included in the transaction price for the sale of AR eyewear and accessories with rights of return.

The Group has developed a statistical model for forecasting sales returns. The model used the historical return data to estimate expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by the Group.

The Group updates its assessment of expected returns periodically and the provisions are adjusted accordingly. Estimates of expected returns are sensitive to changes in circumstances and the Group’s experience regarding returns entitlements may not be representative of customers’ actual returns in the future.

Fair value of preferred shares, warrants and convertible notes at fair value through profit or loss

The fair value of preferred shares, warrants and convertible notes is determined by using valuation techniques with assumptions such as discount rate, risk-free interest rate discount, discount for lack of marketability (“DLOM”), and volatility. The discounted cash flow method was used to determine the total equity value of the Group and then equity allocation based on the option pricing model was adopted to determine the fair value of preferred shares, warrants and convertible notes. The Group classified the fair value of preferred shares, warrants and convertible notes as Level 3. Further details are included in note 26 to the Historical Financial Information.

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4. OPERATING SEGMENT INFORMATION

The Group determines the reporting segments on the basis of internal organisation structure, management requirements and internal report principles.

For the Relevant Periods, the Group was primarily engaged in the design, development, production, and sales of AR eyewear and related accessories, and the provision of technical research and development services. The Group did not segregate these operations in its internal organisational structure or management requirements. Management did not distinguish the operating results of these businesses when reviewing internal reports, allocating resources, or evaluating performance. Accordingly, the Group did not identify separate operating segments and no further operating segment analysis thereof is presented.

Geographical information

(a) Revenue from external customers

Disaggregation of the Group’s revenue from contracts with customers by the geographic location is set out below:

	Year ended 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Chinese mainland	135,352	134,486	149,857
Overseas	254,717	260,006	366,122
Total revenue	<u>390,069</u>	<u>394,492</u>	<u>515,979</u>

The geographic location of each of the customers refers to the location of the e-commerce platform through which the transaction was conducted in the case of online sales, or the sale area of the distributor in the case of sales to distributors.

(b) Non-current assets

Substantially all of the Group’s non-current assets were located in Chinese mainland as at the end of each of the Relevant Periods.

Information about major customers

Revenues from transactions with single external customers (including entities under common control with those customers) amounting to 10% or more of the Group’s revenues for the years ended December 31, 2023, 2024 and 2025:

	Year ended 31 December		
	2023	2024	2025
	%	%	%
Proportion of revenue from the major customers to the total revenue of the Group			
Customer A	12	*	*
Customer B	*	15	10

Note:

* Revenue from the major customer was less than 10% in those periods presented.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue from contracts with customers is as follows:

	Year ended 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Revenue from contracts with customers			
Sale of goods	355,075	388,533	475,673
Services and others	34,994	5,959	40,306
Total	<u>390,069</u>	<u>394,492</u>	<u>515,979</u>

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Disaggregation of the Group’s revenue from contracts with customers by the timing of revenue recognition is set out below:

	Year ended 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Transfer at a point in time	383,016	392,835	509,912
Transfer over a period of time	7,053	1,657	6,067
Total	<u>390,069</u>	<u>394,492</u>	<u>515,979</u>

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

Sale of AR eyewear and other accessories

The performance obligation is satisfied upon delivery of the AR eyewear and other accessories. The Group typically require consumers and distributors to pay in full before shipment. For certain well-established large-scale distributors, the Company may grant credit terms of 30 to 60 days. Some contracts provide customers with a right of return which give rise to variable consideration subject to constraint.

Technical research and development services

Revenue from technical research and development services is recognised over time or at a point in time, and payments are generally made in accordance with the terms in the contractual agreement.

All the amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The Group has no significant unsatisfied performance obligations arising from revenue contracts that have an original expected duration of more than one year, thus management applied the practical expedient under IFRS 15 and has not disclosed the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied or partially satisfied at the end of each reporting period.

An analysis of the Group’s other income and gains is as follows:

	Year ended 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
<u>Other operating income and gains</u>			
Government grants*	9,020	7,427	7,699
Others	–	–	32
Total other operating income	9,020	7,427	7,731
<u>Other operating expenses</u>			
Foreign exchange differences	(2,274)	(3,334)	(3,899)
Others	(56)	(243)	–
Total other operating expenses	<u>(2,330)</u>	<u>(3,577)</u>	<u>(3,899)</u>
<u>Other income, net</u>			
Interest income	2,256	4,684	2,150
Gain on disposal of items of right-of-use assets	–	–	1,441
Total other income, net	<u>2,256</u>	<u>4,684</u>	<u>3,591</u>

Note:

* Government grants have been received from the local government authorities to support the Group’s business development in certain areas.

6. LOSS BEFORE TAX

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

	Notes	Year ended 31 December		
		2023	2024	2025
		RMB’000	RMB’000	RMB’000
Cost of inventories sold		283,306	303,189	318,785
Cost of services provided		33,442	4,000	15,816
Depreciation of property, plant and equipment*	13	21,569	22,730	23,556
Depreciation of right-of-use assets*	14(a)	22,112	23,335	30,865
Amortisation of intangible assets**		574	668	698
Advertising and marketing expenses		214,103	143,111	130,929

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	Notes	Year ended 31 December		
		2023	2024	2025
		RMB'000	RMB'000	RMB'000
Research and development expenses		215,896	204,187	182,939
Expenses relating to short term leases	14(c)	167	309	320
Employee benefit expense (including directors, chief executives’ and supervisors’ remuneration – Note 8)				
Salaries, bonuses, allowances and benefits in kind		197,288	157,380	151,580
Pension scheme contributions		47,653	45,615	39,422
Share-based payment expense*		5,835	5,278	3,811
Total employee benefit expense		250,776	208,272	194,813
Foreign exchange differences, net		2,274	3,334	3,899
Write-down of inventories to net realisable value***		12,181	12,952	8,390
Impairment losses on long-term asset		–	1,792	3,771
Impairment losses/(reversal of impairment losses) on financial assets.	18	1,422	(471)	580
Losses on disposal of items of property, plant and equipment		283	7	220
Gains on financial assets at fair value through profit or loss		(17,388)	(2,970)	(1,814)

Note:

- * The amount is included in “Cost of sales“, “Selling and distribution expenses“, “Administrative expenses” and “Research and development expenses” in the consolidated statement of profit or loss.
- ** The amortisation of intangible assets is included in “Administrative expenses” in the consolidated statement of profit or loss.
- *** Write-down of inventories to net realisable value are included in “Cost of sales” in the consolidated statement of profit or loss.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Interest on bank borrowings	2,128	5,716	6,489
Interest on lease liabilities	2,234	1,304	2,686
Interests on the redeemable non-controlling interests	–	7,632	4,470
Total	4,362	14,652	13,645

8. DIRECTORS’ AND CHIEF EXECUTIVES’ REMUNERATION

The remuneration of the Company’s Directors and chief executives for the Relevant Periods is summarised as follows:

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	4,855	2,379	2,826
Share-based payment expense	407	–	–
Pension scheme contributions	941	983	1,093
Total	6,203	3,362	3,919

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During and prior to the Relevant Periods, certain directors were granted restricted shares units of the Company in respect of their services to the Group, further details of which are set out in note 29 to the Historical Financial Information. The fair value of such restricted shares units, which has been recognised in the statements of profit or loss, was determined as at the date of grant and the amount included in the Historical Financial Information for the Relevant Periods is included in the above directors’ and chief executive’s remuneration disclosures.

The remuneration of each of the Company’s directors is set out below:

2023

	Fees	Salaries, bonuses, allowances and benefits in kind	Share-based payment expense	Pension scheme contributions	Total remuneration
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Executive directors:					
Dr. Xu Chi	–	2,638	–	241	2,879
Mr. Xiao Bing	–	1,025	–	241	1,266
Dr. Wu Kejian	–	658	407	241	1,306
Mr. Zhang Yu	–	534	–	218	752
Subtotal	–	4,855	407	941	6,203
Non-executive director:					
Mr. Hou Haoxiang	–	–	–	–	–
Total	–	4,855	407	941	6,203

2024

	Fees	Salaries, bonuses, allowances and benefits in kind	Share-based payment expense	Pension scheme contributions	Total remuneration
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Executive directors:					
Dr. Xu Chi	–	494	–	253	747
Mr. Xiao Bing	–	882	–	253	1,135
Dr. Wu Kejian	–	506	–	253	759
Mr. Zhang Yu	–	497	–	224	721
Subtotal	–	2,379	–	983	3,362
Non-executive director:					
Mr. Hou Haoxiang	–	–	–	–	–
Total	–	2,379	–	983	3,362

2025

	Fees	Salaries, bonuses, allowances and benefits in kind	Share-based payment expense	Pension scheme contributions	Total remuneration
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Executive directors:					
Dr. Xu Chi	–	513	–	281	794
Mr. Xiao Bing	–	827	–	260	1,087
Dr. Wu Kejian	–	660	–	260	920
Mr. Zhang Yu	–	826	–	292	1,118
Subtotal	–	2,826	–	1,093	3,919
Non-executive director:					
Mr. Hou Haoxiang	–	–	–	–	–
Total	–	2,826	–	1,093	3,919

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the Relevant Periods did not include directors and chief executives. Details of the remuneration of the 5 employees during the years ended 31 December 2023, 2024 and 2025, are as follows:

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	14,851	4,841	4,942
Share-based payment expense	3,144	2,302	1,362
Pension scheme contributions	1,418	2,160	1,686
Total	<u>19,413</u>	<u>9,303</u>	<u>7,990</u>

The numbers of highest paid employees whose remuneration fell within the following bands are as follows:

	Year ended 31 December		
	2023	2024	2025
HK\$1,500,001 to HK\$2,000,000	2	3	4
HK\$2,000,001 to HK\$2,500,000	1	2	1
HK\$3,000,001 to HK\$3,500,000	1	–	–
HK\$10,000,001 to HK\$10,500,000	1	–	–
Total	<u>5</u>	<u>5</u>	<u>5</u>

During and prior to the Relevant Periods, certain highest paid employees were granted restricted shares units of the Company in respect of their services to the Group, further details of which are set out in note 29 to the Historical Financial Information. The fair value of such restricted shares units, which has been recognised in the consolidated statement of profit or loss, was determined as at the date of grant and the amount included in the Historical Financial Information for the Relevant Periods is included in the above highest paid employees’ remuneration disclosures.

10. INCOME TAX

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

Cayman

Pursuant to the relevant rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

Hong Kong

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the Relevant Periods. The Hong Kong profits tax rate during the Relevant Periods was 16.5%. Overseas tax is calculated on the estimated assessable profits for the Relevant Periods at the rates of taxation prevailing in the respective jurisdictions.

United States

US corporate income tax consists of a federal tax at a flat rate of 21%, with additional state income taxes varying by jurisdiction, primarily from 4% to 9%.

Japanese

The Group is subject to Japanese corporate income tax at a statutory rate of 23.2%.

Chinese Mainland

Under the Enterprise Income Tax Law of the PRC (the “EIT Law”) and the Implementation Regulation of the EIT Law, the EIT rate of the Group’s PRC subsidiaries is 25% unless subject to preferential tax as set out below. Certain of the Group’s PRC subsidiaries are accredited as HNTES and were therefore entitled to a preferential income tax rate of 15% during the Relevant Periods. Such qualifications are subject to review by the relevant tax authorities in the PRC for every three years.

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Others

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Current tax	52	95	70
Deferred tax	—	—	—
Total tax charge for the year	<u>52</u>	<u>95</u>	<u>70</u>

A reconciliation of the tax charge applicable to loss before tax at the statutory rate for the PRC in which the Company and the majority of its subsidiaries are domiciled and operate to the tax charge at the effective tax rate is as follows:

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Loss before tax			
Cayman Islands	(444,042)	(333,796)	(207,991)
Hong Kong	(64,718)	(47,798)	(45,972)
Chinese Mainland	(355,377)	(314,029)	(199,170)
The United States	(10,774)	(8,649)	10,212
Japan	(4,625)	(3,782)	(12,521)
Korea	(2,221)	(461)	(854)
Loss before tax	<u>(881,757)</u>	<u>(708,515)</u>	<u>(456,296)</u>
Tax at the statutory tax rate of 25%	(220,439)	(177,129)	(114,074)
Preferential tax rates applicable to the subsidiaries in			
Chinese Mainland	49,110	44,899	32,999
Overseas tax rates	358	28,262	6,914
Expenses not deductible for tax	21,011	50,582	42,060
Income not subject to tax	17,388	2,970	1,814
Unrecognised deductible temporary differences and tax losses	154,729	70,053	46,188
Additional deductible allowance for research and development expenses	(22,105)	(19,542)	(15,831)
Tax charge at the effective tax rate	<u>52</u>	<u>95</u>	<u>70</u>

The movements in the Group’s deferred tax assets/(liabilities) during the Relevant Periods are as follows:

Deferred tax assets

	Lease liabilities	Others temporary differences	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2023	13,106	—	13,106
Credited/(charged) to profit or loss during the year, net	<u>(5,581)</u>	<u>263</u>	<u>(5,318)</u>
At 31 December 2023 and 1 January 2024	7,525	263	7,788
Credited/(charged) to profit or loss during the year, net	<u>6,608</u>	<u>1,604</u>	<u>8,212</u>
At 31 December 2024 and 1 January 2025	14,133	1,867	16,000
Credited/(charged) to profit or loss during the year, net	<u>(5,131)</u>	<u>(1,135)</u>	<u>(6,266)</u>
At 31 December 2025	<u>9,002</u>	<u>732</u>	<u>9,734</u>

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Deferred tax liabilities

	Right-of-use assets	Others temporary differences	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
At 1 January 2023	13,106	–	13,106
Charged/(credited) to profit or loss during the year, net	<u>(5,318)</u>	–	<u>(5,318)</u>
At 31 December 2023 and 1 January 2024	7,788	–	7,788
Charged/(credited) to profit or loss during the year, net	<u>8,212</u>	–	<u>8,212</u>
At 31 December 2024 and 1 January 2025	16,000	–	16,000
Charged/(credited) to profit or loss during the year, net	<u>(6,266)</u>	–	<u>(6,266)</u>
At 31 December 2025	<u>9,734</u>	–	<u>9,734</u>

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statements of financial position. The following is an analysis of the deferred tax balances of the Group for reporting purposes:

	2023	2024	2025
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Net deferred tax assets recognised in the consolidated statement of financial position	–	–	–
Net deferred tax liabilities recognised in the consolidated statement of financial position	–	–	–

Deferred tax assets have not been recognised in respect of the following items:

	2023	2024	2025
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Deductible temporary differences	162,559	160,281	151,077
Deductible tax losses	<u>1,693,542</u>	<u>2,093,735</u>	<u>2,234,264</u>
Total	<u>1,856,101</u>	<u>2,254,016</u>	<u>2,385,341</u>

Deferred tax assets have not been recognised 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 utilised.

Deductible tax losses for unrecognised deferred tax assets will expire in the following years:

	2023	2024	2025
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Expiring in one to ten years	1,185,479	1,465,615	1,563,985
Available indefinitely	<u>508,063</u>	<u>628,120</u>	<u>670,279</u>
Total	<u>1,693,542</u>	<u>2,093,735</u>	<u>2,234,264</u>

Tax losses arising in Chinese mainland will expire in one to ten years for offsetting against future taxable profits, while tax losses arising in Hong Kong and United States are available indefinitely for offsetting against future taxable profits. Deferred tax assets have not been recognised 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 utilised.

The Group is liable for withholding taxes on dividends distributed by those subsidiaries established in Chinese mainland in respect of earnings generated from 1 January 2008. The applicable rate is 5% or 10% for the Group. For dividend distributions from the subsidiaries in United States, the applicable withholding tax rate is 30%. The Group is also subject to withholding taxes on dividend distributions by subsidiaries in other jurisdictions. At 31 December 2023, 2024 and 2025, there was no significant unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of the Group’s subsidiaries as the Group has no unremitted earnings retained in the subsidiaries as at the end of each of the Relevant Periods.

11. DIVIDENDS

No dividend was declared by the Company during the Relevant Periods.

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12. LOSS PER SHARE

The calculation of the basic loss per share amounts is based on the amounts of loss for the years attributable to ordinary equity holders and Series Seed shareholders of the Company of RMB881,809,000, RMB708,610,000 and RMB456,366,000, the weighted average number of ordinary shares outstanding of 106,843,632, 106,843,632 and 106,843,632, and the weighted average number of Series Seed shares of 1,968,515, 1,968,515 and 1,968,515 for the years ended 31 December 2023, 2024 and 2025, respectively.

No adjustment has been made to the basic loss per share amounts presented for the Relevant Periods in respect of a dilution as the impact of the preferred shares, warrants and convertible notes outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

13. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold improvements	Moulds and production equipment	Office, electronic equipment and others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2023				
At 1 January 2023:				
Cost	46,540	24,250	25,192	95,982
Accumulated depreciation and impairment	(5,199)	(6,628)	(10,384)	(22,211)
Net carrying amount	<u>41,341</u>	<u>17,622</u>	<u>14,808</u>	<u>73,771</u>
At 1 January 2023, net of accumulated depreciation and impairment				
depreciation and impairment	41,341	17,622	14,808	73,771
Additions	9,832	9,072	5,365	24,269
Disposals	–	(273)	(10)	(283)
Depreciation provided during the year	(10,703)	(4,413)	(6,453)	(21,569)
At 31 December 2023, net of accumulated depreciation and impairment	<u>40,470</u>	<u>22,008</u>	<u>13,710</u>	<u>76,188</u>
At 31 December 2023:				
Cost	56,372	33,049	30,547	119,968
Accumulated depreciation and impairment	(15,902)	(11,041)	(16,837)	(43,780)
Net carrying amount	<u>40,470</u>	<u>22,008</u>	<u>13,710</u>	<u>76,188</u>
	Leasehold improvements	Moulds and production equipment	Office, electronic equipment and others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2024				
At 1 January 2024:				
Cost	56,372	33,049	30,547	119,968
Accumulated depreciation and impairment	(15,902)	(11,041)	(16,837)	(43,780)
Net carrying amount	<u>40,470</u>	<u>22,008</u>	<u>13,710</u>	<u>76,188</u>
At 1 January 2024, net of accumulated depreciation and impairment				
depreciation and impairment	40,470	22,008	13,710	76,188
Additions	66	3,876	2,430	6,372
Disposals	–	–	(7)	(7)
Depreciation provided during the year	(11,303)	(4,656)	(6,771)	(22,730)
At 31 December 2023, net of accumulated depreciation and impairment	<u>29,233</u>	<u>21,228</u>	<u>9,362</u>	<u>59,823</u>
At 31 December 2024:				
Cost	56,438	36,925	32,970	126,333
Accumulated depreciation and impairment	(27,205)	(15,697)	(23,608)	(66,510)
Net carrying amount	<u>29,233</u>	<u>21,228</u>	<u>9,362</u>	<u>59,823</u>

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	Leasehold improvements	Moulds and production equipment	Office, electronic equipment and others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2025:				
At 1 January 2025				
Cost	56,438	36,925	32,970	126,333
Accumulated depreciation and impairment	(27,205)	(15,697)	(23,608)	(66,510)
Net carrying amount	<u>29,233</u>	<u>21,228</u>	<u>9,362</u>	<u>59,823</u>
At 1 January 2025, net of accumulated depreciation and impairment	29,233	21,228	9,362	59,823
Additions	8,587	5,199	1,641	15,427
Disposals	–	–	(220)	(220)
Depreciation provided during the year	(12,271)	(5,832)	(5,453)	(23,556)
At 31 December 2025, net of accumulated depreciation and impairment	<u>25,549</u>	<u>20,595</u>	<u>5,330</u>	<u>51,474</u>
At 31 December 2025:				
Cost	65,025	42,124	34,391	141,540
Accumulated depreciation and impairment	(39,476)	(21,529)	(29,061)	(90,066)
Net carrying amount	<u>25,549</u>	<u>20,595</u>	<u>5,330</u>	<u>51,474</u>

14. LEASES

The Group as a lessee

The Group has lease contracts for buildings for its offices and plant for its operations, which generally have lease terms between 1 and 5 years.

(a) Right-of-use assets

The carrying amounts of right-of-use assets and the movements during the Relevant Periods are as follows:

	Offices	Plant	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2023	41,237	11,187	52,424
Additions	838	–	838
Depreciation charge	(15,051)	(7,061)	(22,112)
As at 31 December 2023 and 1 January 2024	27,024	4,126	31,150
Additions	310	62,713	63,023
Lease modification and termination	(6,842)	–	(6,842)
Depreciation charge	(11,412)	(11,923)	(23,335)
As at 31 December 2024 and 1 January 2025	9,080	54,916	63,996
Additions	33,572	–	33,572
Lease modification and termination	–	(27,771)	(27,771)
Depreciation charge	(15,379)	(15,486)	(30,865)
As at 31 December 2025	<u>27,273</u>	<u>11,659</u>	<u>38,932</u>

(b) Lease liabilities

The carrying amounts of lease liabilities and the movements during the Relevant Periods are as follows:

	Total
	<i>RMB'000</i>
Carrying amount as at 1 January 2023	55,297
New leases	838
Accretion of interest recognised during the year	2,234
Payments	(28,270)
Carrying amount as at 31 December 2023 and 1 January 2024	<u>30,099</u>

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	<u>Total</u>
	<i>RMB’000</i>
New leases	63,023
Accretion of interest recognised during the year	1,304
Payments	(30,259)
Lease modification and termination	(7,636)
Carrying amount as at 31 December 2024 and 1 January 2025	<u>56,531</u>
New leases	33,572
Accretion of interest recognised during the year	2,686
Payments	(27,569)
Lease modification and termination	(29,212)
Carrying amount as at 31 December 2025	<u>36,008</u>

	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Carrying amount at 31 December			
Analysed into:			
Current portion	14,871	23,279	18,423
Non-current portion	15,228	33,252	17,585
Total	<u>30,099</u>	<u>56,531</u>	<u>36,008</u>

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

	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Interest on lease liabilities	2,234	1,304	2,686
Depreciation charge of right-of-use assets	22,112	23,335	30,865
Expense relating to:			
Short-term leases	167	309	320
Total amount recognised in profit or loss	<u>24,513</u>	<u>24,948</u>	<u>33,871</u>

The total cash outflows for leases are disclosed in note 34 to the Historical Financial Information.

15. INVESTMENTS IN SUBSIDIARIES

The Company

	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Investments in subsidiaries (i)			
– Equity investments	3,541	3,541	3,541
– Amounts due from subsidiaries	1,765,500	1,791,190	1,828,199
Deemed investments relating to Share-based payments (ii)	68,612	73,891	77,702
Total	<u>1,837,653</u>	<u>1,868,622</u>	<u>1,909,442</u>

(i) The Company invested US\$500,000, US\$500,000, US\$500,000, share capital to its directly-owned subsidiary as at 31 December 2023, 2024 and 2025, respectively. The remaining are receivables due from its subsidiaries that the Company has determined not requiring repayment from these subsidiaries. These balances are in substance part of the Company’s net investment in these subsidiaries.

(ii) The Company granted Restricted Share Units (“RSUs”) directly to the employees of its subsidiaries and did not charge the relevant costs to the subsidiaries. In the consolidated financial statements, this transaction is treated as an equity-settled share-based payment expenses. In the separate financial statements of the Company, such amounts are recorded as part of the investments in the subsidiaries.

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16. FINANCIAL INSTRUMENTS

The Group

Financial assets at fair value through profit or loss

	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<u>Current</u>			
Wealth management products	124,852	18,596	800
<u>Non-current</u>			
Preferred shares investments in an unlisted entity	3,038	2,609	3,838
Total	<u>127,890</u>	<u>21,205</u>	<u>4,638</u>

The wealth management products issued by banks were 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 preferred shares investments in an unlisted entity are ordinary shares with preferential rights. The Group has the rights to require the investees to redeem all of the shares held by the Group at guaranteed predetermined amount upon redemption events which are out of control of issuers. Hence, these investments are accounted for as debt instruments and are measured at fair value through profit or loss.

Other liabilities

	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<u>Current</u>			
Other liabilities	—	—	151,335
<u>Non-current</u>			
Other liabilities	—	154,782	7,918
Total	<u>—</u>	<u>154,782</u>	<u>159,253</u>

In 2024, the Group established two subsidiaries, Matrixed Creative Vision (kunshan) Technology Co., Ltd. 閃耀創視(昆山)科技有限公司 (“Matrixed Creative Vision Kunshan”) and Vivid Future (changsha) Technology Co., Ltd. 耀動未來(長沙)科技有限公司) with other non-controlling shareholders to expand the Group’s business. The Group held 51% and 70% of the equity interests in the two subsidiaries, respectively. Pursuant to the relevant agreements, the Group had an obligation to repurchase the remaining 49% and 30% equity interests from the non-controlling shareholders, respectively. In December 2025, the Group entered into an agreement with the non-controlling shareholder of Matrixed Creative Vision Kunshan for the repurchase of the 49% equity interests in Matrixed Creative Vision Kunshan, at a consideration of RMB151,335,000 to be completed before April 2026. Therefore, the related liability was reclassified from non-current to current as of 31 December 2025.

The Company

Financial assets at fair value through profit or loss

	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<u>Non-current</u>			
Preferred shares investments in an unlisted entity	3,038	2,609	3,838
Total	<u>3,038</u>	<u>2,609</u>	<u>3,838</u>

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17. INVENTORIES

The Group

	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	102,403	89,598	99,622
Work in progress	37	40	37
Finished goods	112,592	115,183	127,788
Subtotal	<u>215,032</u>	<u>204,821</u>	<u>227,447</u>
Less: provision	(25,512)	(38,464)	(46,854)
Total	<u>189,520</u>	<u>166,357</u>	<u>180,593</u>

18. TRADE RECEIVABLES

The Group

	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	60,293	19,764	23,112
Impairment	(4,822)	(4,307)	(4,865)
Net carrying amount	<u>55,471</u>	<u>15,457</u>	<u>18,247</u>

The Group typically require consumers and distributors to pay in full before shipment. For certain well-established large-scale distributors, the Company may grant credit terms of 30 to 60 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

As of 31 December 2023, 2024, and 2025, three, two, three customers accounted for more than 10% of trade receivables each.

An aging analysis of the trade receivables as at the year end, based on the invoice date and net of impairment, is as follows:

	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 12 months	55,471	15,224	18,039
13 to 24 months	–	207	128
25 to 36 months	–	26	80
Total	<u>55,471</u>	<u>15,457</u>	<u>18,247</u>

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

	31 December	31 December	31 December
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
At beginning of year	3,423	4,822	4,307
Impairment losses (<i>Note 6</i>)	1,422	(471)	580
Exchange adjustment	(23)	(44)	(22)
At end of year	<u>4,822</u>	<u>4,307</u>	<u>4,865</u>

An impairment analysis is performed at the end of each of the Relevant Periods using a provision matrix to measure expected credit losses. The provision rates are based on aging for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the end of each of the Relevant Periods about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than three years and are not subject to enforcement activity. In addition, when there exists an indicator of significant increase in credit risk in relation to a particular debtor, an impairment analysis is performed in respect of the corresponding outstanding receivable balance on an individual debtor basis.

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 2025:

	Aging				Total
	Less than 12 months	13 to 24 months	25 to 36 months	Over 36 months	
Expected credit loss rate	6%	76%	95%	100%	21%
Gross carrying amount (RMB’000)	19,191	535	1,741	1,645	23,112
Expected credit losses (RMB’000)	1,152	407	1,661	1,645	4,865

As at 31 December 2024:

	Aging				Total
	Less than 12 months	13 to 24 months	25 to 36 months	Over 36 months	
Expected credit loss rate	6%	89%	96%	100%	22%
Gross carrying amount (RMB’000)	16,238	1,877	623	1,026	19,764
Expected credit losses (RMB’000)	1,014	1,670	597	1,026	4,307

As at 31 December 2023:

	Aging				Total
	Less than 12 months	13 to 24 months	25 to 36 months	Over 36 months	
Expected credit loss rate	5%	100%	100%	–	8%
Gross carrying amount (RMB’000)	58,389	660	1,244	–	60,293
Expected credit losses (RMB’000)	2,918	660	1,244	–	4,822

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

The Group

	31 December	31 December	31 December
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
<u>Current portion</u>			
Prepayments	53,262	35,268	32,885
Other receivables			
Loans to employees	21,271	7,329	5,600
Deposits	1,207	7,288	1,271
Amount due from payment platforms	26,558	17,172	18,688
Tax refund	7,151	4,844	2,638
Rights of return assets	7,272	10,073	6,735
Input VAT	24,395	35,993	32,953
Others	4,932	4,094	3,919
Subtotal	<u>146,048</u>	<u>122,061</u>	<u>104,689</u>

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	31 December	31 December	31 December
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<u>Non-current portion</u>			
Deposits	6,897	8,051	7,075
Prepayments to equipment	2,131	2,911	3,680
Others*	1,043	37,134	30,240
Subtotal	<u>10,071</u>	<u>48,096</u>	<u>40,995</u>
Total	<u>156,119</u>	<u>170,157</u>	<u>145,684</u>

The balances as of 31 December 2024 and 2025 mainly represent lease-hold improvement for a plant. The lease arrangement was terminated in December 2025 and the carry amount of the lease-hold improvement was written down to the amount expected to be recover from the lessor for the disposal.

20. CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND RESTRICTED CASH

The Group

	31 December	31 December	31 December
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<u>Cash and cash equivalents</u>	181,094	204,732	63,634
Time deposits	17,974	–	–
<u>Pledged deposits and restricted cash:</u>			
Restricted cash received from share holders	32,240	–	–
Pledged for notes payable	13,090	44,457	37,383
Restricted for litigations	–	3,699	–
Pledged for bank borrowings	–	1,797	–
Restricted in inactive accounts	7,083	–	6
Subtotal	<u>52,413</u>	<u>49,953</u>	<u>37,389</u>
Total cash and cash balances	<u>251,481</u>	<u>254,685</u>	<u>101,023</u>

At as 31 December 2023, 2024 and 2025, the cash and bank balances of the Group denominated in RMB amounted to RMB55,331,000, RMB174,142,000 and RMB44,804,000, respectively. The RMB is not freely convertible into other currencies, however, under the Chinese mainland’s Foreign Exchange Control Regulations and Administration of Settlement, and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

Pledged deposits and restricted cash of RMB52,413,000, RMB49,953,000 and RMB37,389,000 at 31 December 2023, 2024, and 2025, respectively, was primarily included amounts pledged as collateral for notes payable, restricted due to pending litigation, pledged for bank borrowings, and held in inactive accounts.

The Company

	31 December	31 December	31 December
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash at banks	–	370	42
	=	=	=

21. TRADE AND NOTES PAYABLES

The Group

	31 December	31 December	31 December
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	73,835	62,505	103,673
Notes Payables	60,968	109,524	58,890
Total	<u>134,803</u>	<u>172,029</u>	<u>162,563</u>

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

	31 December	31 December	31 December
	2023	2024	2025
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Within 12 months	130,734	159,252	137,646
13 to 24 months	3,449	9,905	13,395
25 to 36 months	620	2,295	8,978
Over 36 months	–	577	2,544
Total	<u>134,803</u>	<u>172,029</u>	<u>162,563</u>

The trade payables are non-interest-bearing and are normally settled on terms 60 to 90 days. The notes payables are usually due in 6 months from issuance date.

22. OTHER PAYABLES AND ACCRUALS

The Group

	31 December	31 December	31 December
	2023	2024	2025
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Receipts from customers	4,458	7,192	15,196
Warranty provision	1,143	2,880	3,743
Refund liability	9,860	14,601	11,566
Accruals	35,971	64,816	42,397
Due to the founder shareholder	8,493	9,861	10,240
Payroll and social insurance payables	13,759	12,072	19,748
Tax payables	3,371	1,694	801
Total	<u>77,055</u>	<u>113,116</u>	<u>103,691</u>

All other payables and accruals are unsecured, non-interest-bearing and repayable on demand. The carrying amounts of financial liabilities included in other payables and accruals as at the end of each of the Relevant Periods approximated to their fair values due to their short-term maturities.

The disclosures of due to the related parties are included in note 31 to the Historical Financial Information.

The Company

	31 December	31 December	31 December
	2023	2024	2025
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Accruals	18	69	1,406
Total	<u>18</u>	<u>69</u>	<u>1,406</u>

23. INTEREST-BEARING BANK BORROWINGS

	31 December 2023			31 December 2024			31 December 2025		
	Effective interest rate	Maturity	<i>RMB’000</i>	Effective interest rate	Maturity	<i>RMB’000</i>	Effective interest rate	Maturity	<i>RMB’000</i>
	(%)			(%)			(%)		
Current									
Bank loans – secured	2.7-3.85	2024	162,026	1.2-3.35	2025	153,779	2.7-3.85	2026	128,933
Non-current									
Bank loans – secured	–	–	–	–	–	–	3.25	2027	36,111
Total			<u>162,026</u>			<u>153,779</u>			<u>165,044</u>

The Group’s interest-bearing bank borrowings are guaranteed or secured by the related parties with in the Group and the founder shareholder.

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24. COMMITMENTS

There was no material commitments as at the end of each year for the Relevant Periods.

25. DEFERRED INCOME

The Group

	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Government grant			
At beginning of year	29,797	24,364	20,405
Grants received	2,305	–	–
Credited to profit or loss	(7,738)	(3,959)	(4,089)
At end of year	<u>24,364</u>	<u>20,405</u>	<u>16,316</u>

26. PREFERRED SHARES, WARRANTS AND CONVERTIBLE NOTES

The Group and the Company

The details of the balances are set out in the table below:

		<u>31 December</u>	<u>31 December</u>	<u>31 December</u>
	<i>Notes</i>	<u>2023</u>	<u>2024</u>	<u>2025</u>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Preferred shares	<i>(a)</i>	2,168,751	2,504,735	2,702,912
Warrants	<i>(b)</i>	142,320	172,102	191,530
Convertible notes	<i>(c)</i>	–	–	30,000
Total		<u>2,311,071</u>	<u>2,676,837</u>	<u>2,924,442</u>

(a) Preferred shares

As at 31 December 2025, the Group has completed the issuance of the following preferred shares to certain investors.

<u>Name</u>	<u>Number of shares</u>	<u>Date of issuance</u>
Series Angel Preferred Shares	4,999,998	2017/9/30
Series A Preferred Shares	18,333,334	2018/8/21
Series A+ Preferred Shares	15,934,919	2019/3/12
Series B Preferred Shares	34,819,352	2020/9/11
Series B-1 Preferred Shares	10,001,818	2021/4/12
Series C Preferred Shares	55,349,399	2021/9/17
Series C+ Preferred Shares	20,211,613	2022/3/9
Series D Preferred Shares	3,706,940	2025/3/13
	<u>163,357,373</u>	

The Group does not bifurcate any embedded derivatives from the host instruments and designates the entire instruments as financial liabilities at fair value through profit or loss with the changes in the fair value recorded in the consolidated statements of profit or loss.

The movements of preferred shares during the Relevant Periods are as follows:

	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year	1,731,229	2,168,751	2,504,735
Issuance of Series D Preferred Shares	–	–	80,000
Fair value changes	405,882	300,653	178,986
Exchange realignment	31,640	35,331	(60,809)
At end of year	<u>2,168,751</u>	<u>2,504,735</u>	<u>2,702,912</u>

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(i) *The rights of the holders of preferred shares*

Conversion rights

The holders of the preferred shares shall have the rights described below with respect to the conversion of the preferred shares into ordinary shares:

Unless converted earlier pursuant to the provisions with respect to automatic conversion as set out below, each preferred share may, at the option of the holder thereof, be converted at any time after the date of issuance of such preferred shares into ordinary shares based on the applicable then-effective conversion price.

Each series D/C+/C/A+/A/Angel/Seed preferred share shall automatically be converted into ordinary shares based on the applicable then-effective conversion price in effect in the event that (i) a majority of each series preferred share consent to such conversion or (ii) upon the closing of the [REDACTED] of ordinary shares of the Company (“[REDACTED]”).

Each series B-1/B preferred share shall automatically be converted into ordinary shares based on the applicable then-effective conversion price in effect in the event that (i) at least seventy-five percent of the total number of the issued and outstanding series B and series B-1 preferred shares (voting as a single class) consent to such conversion or (ii) upon the closing of [REDACTED].

Subject to the provisions of the articles of association, the number of ordinary shares to which a preferred shareholder shall be entitled to receive upon the conversion of any preferred share shall be the quotient of the purchase price divided by the then-effective conversion price (the “Conversion Price”), no less than par value. The Conversion Price of each series preferred shares shall initially be the corresponding series preferred shares purchase price, resulting in an initial conversion ratio for preferred shares to ordinary shares of 1:1, and shall be adjusted from time to time, no less than par value.

Redemption rights

At any time and from time to time on or after the earlier of (i) 12 October 2027, provided that the Company has not completed a [REDACTED] or the trade sale, or (ii) the date on which there occurs any material breach by any covenantor of any of its respective representations, warranties, covenants or undertakings under the transaction documents (if applicable) or any applicable Laws, (iii) the date on which any of the founder parties or the Group Companies commits any fraud or other illegal or dishonesty conducts which has resulted or will result in any material damage or loss to the Group Company, or (iv) the request for redemption by any other shareholders, and subject to the applicable laws of the Cayman Islands, at the request of any series D preferred shareholder, series C+ preferred shareholder, any series C preferred shareholder, any series B/B-1 preferred shareholder, any series A+ preferred shareholder, any series A preferred shareholder or any series angel preferred shareholder, the Company shall redeem all or any portion of the series D preferred share, series C+ preferred share, the series C preferred share, series B preferred share, the series B-1 preferred share, the series A+ preferred shares, the series A preferred shares or the series Angel preferred shares (as the case may be) as requested by any applicable redeeming preferred shareholder.

“Trade sale” means any of the following transactions: (i) the merger or acquisition of any Group Company (whether by a sale of equity, merger, consolidation, amalgamation or scheme of arrangement) in which in excess of 50% of such Group Company’s voting power outstanding before such transaction is transferred; or (ii) the sale or other disposition (including liquidation and dissolution) of more than fifty percent (50%) of the Equity Securities of any Group Company, all or substantially all of the assets of any Group Company or the exclusive licensing of all or substantially all of any Group Company’s Intellectual Property.

The redemption price shall be equal to the sum of (a) the issue price of the relevant preferred shares, plus (b) simple interest at a rate of 8% per annum, calculated from the corresponding issue date (inclusive) of such preferred shares to the date on which the redemption price is paid in full.

Liquidation preference

Prior and in preference to any distribution of any of the assets of the Company (and, if applicable, any proceeds, whether in cash or properties, resulting from a liquidation event) to the ordinary shareholders and each series of preferred shareholders shall be entitled to receive for each issued and outstanding share of such series held by it, the greater of the following amounts, (i) an amount equal to one hundred and fifty percent (150%) of the original purchase price of such series of preferred share, plus all declared but unpaid dividends, (ii) an amount equal to the original issue price of such series of preferred share, accrued with simple interest at a rate of 10% per annum from the original issue date of such series, plus all declared but unpaid dividends; (iii) the amount such holder would receive if the Company’s assets (and, if applicable, any proceeds, whether in cash or properties, resulting from a liquidation event) were distributed ratably to all holders of ordinary shares and preferred shares on an as-converted basis. Such distributions shall be made sequentially in the following order of priority: (1) Series D; (2) Series C+; (3) Series C; (4) Series B/B-1; (5) Series A+; (6) Series A; (7) Series Angel.

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Anti-dilution adjustments

If at any time, the Company shall issue or sell new shares for a per-share consideration less than the applicable then-effective Conversion Price of any preferred shares, then and in such event, the Conversion Price for preferred shares shall be reduced, concurrently with such issue, to a price determined in accordance with the formula described in the articles of association.

Dividend rights

Except for a distribution pursuant to liquidation rights above, all dividends or distributions, whether in cash, in property, or in any other shares of the Company, shall be declared pro rata among the ordinary shares, the Series Seed preferred shares, the Series Angel preferred shares, the Series A preferred shares, the Series A+ preferred shares, the Series B preferred shares, the Series B-1 preferred shares, the Series C preferred shares, the Series C+ preferred shares and the Series D preferred shares on an as-converted basis, when and if any dividends or distributions are declared by the directors.

Modifications of key features of the preferred shares

Subsequent to the end of the Relevant Periods, according to the Termination and Waiver Agreement entered into on 23 March 2026, certain key features of the preferred shares are amended. In particular, the redemption rights shall cease to be exercisable immediately prior to the first submission of the [REDACTED] to the Hong Kong Stock Exchange; provided that the redemption rights shall automatically be restored and exercisable and in full force and effect upon the earliest to occur of (a) the termination and withdrawal of such [REDACTED] by the Company; (b) the Company’s [REDACTED] is rejected by [REDACTED] regulatory authority or the stock exchange; or The [REDACTED] has not been approved by the stock exchange competent securities regulation authority (if applicable) by March 31, 2028. And the liquidation rights will be terminated on the consummation of a [REDACTED].

(ii) *Fair value of the preferred shares*

The Group applied the discounted cash flow method to determine the underlying equity value of the Company and then equity value allocation model based on an option pricing model, was adopted to determine the fair value of the preferred shares. The following table lists the key inputs used:

	2023	2024	2025
	%	%	%
Discount rate	19	18	17
Risk-free interest rate	3.99	4.25	3.53
DLOM	20	15	10
Volatility	49	46	47

Discount rate (post-tax) was estimated by weighted average cost of capital as at each valuation date. The Group estimated the risk-free interest rate based on the yield of United States treasury bills, where applicable. For periods where no treasury bill with maturity exactly matching the time horizon from the respective valuation dates to the expected liquidation dates was available, the Group applied a linear interpolation method to derive the appropriate yield. The DLOM was estimated based on the option-pricing method. Under option-pricing method, the cost of put option, which can hedge the price change before the privately held share can be sold, was considered as a basis to determine the lack of marketability discount. Volatility was estimated based on annualised standard deviation of the daily return embedded in historical stock prices of comparable companies with a time horizon close to the expected term. In addition to the assumptions adopted above, the Company’s projections of future performance were also factored into the determination of the fair value of preferred shares on each valuation date.

(b) **Warrants**

The Group does not bifurcate any embedded derivatives from the host instruments and designates the entire instruments as financial liabilities at fair value through profit or loss with the changes in the fair value recorded in the consolidated statements of profit or loss.

The movements of the warrants during the Relevant Periods are as follows:

	31 December 2023	31 December 2024	31 December 2025
	RMB’000	RMB’000	RMB’000
At beginning of year	107,505	142,320	172,102
Fair value changes	32,808	27,388	23,600
Exchange realignment	2,007	2,394	(4,172)
At end of year	<u>142,320</u>	<u>172,102</u>	<u>191,530</u>

(i) *The preferred rights of the holders of warrants*

The rights of warrants are same as those of the corresponding series preferred share. The warrants can be converted into the corresponding series preferred shares upon the completion of share registration.

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(ii) Fair value of the warrants

The Group applied the discounted cash flow method to determine the underlying equity value of the Company, and then equity value allocation model based on an option pricing model, was adopted to determine the fair value of the warrants. The following table lists the key inputs used:

	2023	2024	2025
	%	%	%
Discount rate	19.00	18.00	17.00
Risk-free interest rate	3.99	4.25	3.53
DLOM	20.00	15.00	10.00
Volatility	49.00	46.00	47.00

Discount rate (post-tax) was estimated by weighted average cost of capital as at each valuation date. The Group estimated the risk-free interest rate based on the yield of United States treasury bills, where applicable. For periods where no treasury bill with a maturity exactly matching the time horizon from the respective valuation dates to the expected liquidation dates was available, the Group applied a linear interpolation method to derive the appropriate yield. The DLOM was estimated based on the option-pricing method. Under option-pricing method, the cost of put option, which can hedge the price change before the privately held share can be sold, was considered as a basis to determine the lack of marketability discount. Volatility was estimated based on annualised standard deviation of the daily return embedded in historical stock prices of comparable companies with a time horizon close to the expected term. In addition to the assumptions adopted above, the Company’s projections of future performance were also factored into the determination of the fair value of warrants on each valuation date.

(c) Convertible notes

In December 2025, the Group issued several convertible notes with a total principal amount of RMB30,000,000, to certain investors.

The convertible notes can be converted into Series D Preferred Shares of the Company after the investors obtaining regulatory approvals.

Since the convertible notes were issued in December of 2025, there was no fair value change recorded as of 31 December 2025.

27. SHARE CAPITAL

The Company was incorporated with an authorised share capital of USD50,000 divided into 500,000,000 ordinary shares, with a par value of USD0.0001 each. In 2018, the Company issued 1,968,515 Series Seed Shares to Series Seed shareholders, at a consideration of USD62 thousand. The Series Seed Shares are not redeemable and are convertible into ordinary shares on a one-to-one basis. A summary of the Company’s issued and fully paid ordinary shares and Series Seed Shares during the Relevant Periods is as follows:

	31 December 2023	31 December 2024	31 December 2025
	RMB’000	RMB’000	RMB’000
Issued and fully paid:			
106,843,632 ordinary shares	75	75	75
1,968,515 Series Seed Shares	400	400	400
	<u> </u>	<u> </u>	<u> </u>

28. RESERVES

The amounts of the Group’s reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity of the Historical Financial Information.

(a) Share-based payment reserve

The share-based payment reserve represents the equity-settled share awards as set out in note 29 to the Historical Financial Information.

(b) Other reserve

The amounts of the Group’s other reserves and the movements therein for the current and prior years are presented in the consolidated statements of changes in equity of the Historical Financial Information.

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29. SHARE-BASED PAYMENTS

The shareholder of the Company granted restricted shares units (“RSUs”) to employees and directors. The RSUs were granted at a price of zero. Most RSUs granted vest over a four-year period. Except for service conditions, there are no other vesting conditions for all the RSUs granted, and the unvested portion of RSUs shall be forfeited if the employee’s employment or service terminates.

The Group does not have a past practice of cash settlement for these RSUs. The Group accounts for the share based payments as an equity-settled compensation.

The following RSUs were outstanding during the Relevant Periods:

	For the year ended 31 December 2023		For the year ended 31 December 2024		For the year ended 31 December 2025	
	Number of shares '000	Weighted average grant date fair value per RSU	Number of shares '000	Weighted average grant date fair value per RSU	Number of shares '000	Weighted average grant date fair value per RSU
At the beginning of the year	29,744	0.4218	28,900	0.4487	26,525	0.4459
Granted during the year . Forfeited during the year	1,794	1.2507	1,022	1.5021	1,657	1.7332
Repurchased during the year	(2,638)	0.6915	(1,527)	1.3036	(1,399)	1.2267
	–	–	(1,870)	0.3662	–	–
At the end of the year . .	<u>28,900</u>	<u>0.4487</u>	<u>26,525</u>	<u>0.4459</u>	<u>26,783</u>	<u>0.4847</u>

At the end of the reporting period, the Company had 18,038,270 RSUs vested and outstanding.

The Group applied the discounted cash flow method or recent financing method to determine the fair value of the Company and then equity value allocation model based on an option pricing model, was adopted to determine the RSUs. The following table lists the key inputs used:

	2023	2024	2025
	%	%	%
Discount rate	19.00	18.00	17.00
Risk-free interest rate	3.99	4.25	3.93
DLOM	20.00	15.00	10.00
Volatility	49.00	46.00	47.00

Forfeiture rates are estimated based on historical experience and future expectations of employee turnover rates and are periodically reviewed by management. For the years ended 31 December 2023, 2024 and 2025, the Group recognised share award expenses of RMB5,835,000, RMB5,278,000 and RMB3,811,000, respectively.

In March 2026, the Company adopted a share incentive plan (“the 2026 Share Incentive Plan”), to grant options to eligible participants. The 2026 Share Incentive Plan became effective in March 2026, and each option shall be expired in not more than 10 years after its date of grant. RSUs previously granted by the shareholder were replaced with options to be granted by the Company under the 2026 Share Incentive Plan, with such options intended to reflect, in overall effect, the economic terms and vesting arrangements of the corresponding RSUs.

30. NOTES TO THE CONSOLIDATED STATEMENTS 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 RMB838,000, RMB63,023,000 and RMB33,572,000, respectively, in respect of lease arrangements for buildings.

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(b) Changes in liabilities arising from financing activities

(i) Lease liabilities

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
At beginning of year	55,297	30,099	56,531
Termination of leases	–	(7,636)	(29,212)
New leases	838	63,023	33,572
Interest expenses	2,234	1,304	2,686
Changes from financing cash flows	(28,270)	(30,259)	(27,569)
At end of year	<u>30,099</u>	<u>56,531</u>	<u>36,008</u>

(ii) Interest-bearing bank borrowings

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
At beginning of year	–	162,026	153,779
Changes from financing cash flows	162,026	(8,247)	11,265
At end of year	<u>162,026</u>	<u>153,779</u>	<u>165,044</u>

(iii) Other liabilities

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
At beginning of year	–	–	154,782
Interest expenses	–	7,632	4,471
Changes from financing cash flows	–	147,150	–
At end of year	<u>–</u>	<u>154,782</u>	<u>159,253</u>

(iv) Preferred shares, warrants and convertible notes

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
At beginning of year	1,838,734	2,311,071	2,676,837
Changes from financing cash flows	–	–	110,000
Fair value changes of preferred shares, warrants and convertible notes	438,690	328,041	202,586
Exchange realignment	33,647	37,725	(64,981)
At end of year	<u>2,311,071</u>	<u>2,676,837</u>	<u>2,924,442</u>

(c) Total cash outflows for leases

The total cash outflows for leases included in the consolidated statements of cash flows are as follows:

	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Within financing activities	<u>(28,270)</u>	<u>(30,259)</u>	<u>(23,695)</u>

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31. RELATED PARTY TRANSACTIONS

(a) Names and relationships with related parties:

The directors of the Company are of the view that the following parties were significant related parties of the Group that had transactions or balances with the Group during the Relevant Periods.

Name of the related parties	Relationship
Dr. Xu Chi	the founder shareholder and director of the Company

(b) Outstanding balances with related parties:

The Group had the following outstanding balances with related parties as at the end of each of the Relevant Periods:

	31 December	31 December	31 December
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Due to related parties (non-trade)			
Other payables and accruals			
Dr. Xu Chi	8,493	9,861	10,240

Prior to and during the Relevant Periods, the founder paid certain operating expenses on behalf of the Company. The outstanding balances of other payables with the founder shareholder are non-trade in nature, and these balances are unsecured, interest-free and are repayable on demand. [The Company has subsequently settled the balance with the founder shareholder in March 2026.]

(c) Compensation of key management personnel (including share-based payments) of the Group

	Year ended 31 December		
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Short-term employee benefits	5,796	3,362	3,919
Share-based payment expenses	407	–	–
Total	<u>6,203</u>	<u>3,362</u>	<u>3,919</u>

Further details of directors’ and the chief executive’s emoluments are included in note 8 to the Historical Financial Information.

32. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 31 December 2023:			
Investments at fair value through profit or loss	3,038	–	3,038
Trade receivables	–	55,471	55,471
Prepayments, other receivables and other assets	–	49,036	49,036
Financial assets at fair value through profit or loss	124,852	–	124,852
Time deposits	–	17,974	17,974
Pledged deposits and restricted cash	–	52,413	52,413
Cash and cash equivalents	–	181,094	181,094
Total	<u>127,890</u>	<u>355,988</u>	<u>483,878</u>

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	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As at 31 December 2024:			
Investments at fair value through profit or loss	2,609	–	2,609
Trade receivables	–	15,457	15,457
Prepayments, other receivables and other assets	–	31,789	31,789
Financial assets at fair value through profit or loss	18,596	–	18,596
Pledged deposits and restricted cash	–	49,953	49,953
Cash and cash equivalents	–	204,732	204,732
Total	<u>21,205</u>	<u>301,931</u>	<u>323,136</u>
As at 31 December 2025:			
Investments at fair value through profit or loss	3,838	–	3,838
Trade receivables	–	18,247	18,247
Prepayments, other receivables and other assets	–	25,559	25,559
Financial assets at fair value through profit or loss	800	–	800
Pledged deposits and restricted cash	–	37,389	37,389
Cash and cash equivalents	–	63,634	63,634
Total	<u>4,638</u>	<u>144,829</u>	<u>149,467</u>

Financial liabilities

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As at 31 December 2023:			
Bank borrowings	–	162,026	162,026
Trade and notes payables	–	134,803	134,803
Financial liabilities included in other payables	–	12,951	12,951
Preferred shares and, warrants and convertible notes	2,311,071	–	2,311,071
Total	<u>2,311,071</u>	<u>309,780</u>	<u>2,620,851</u>
As at 31 December 2024:			
Bank borrowings	–	153,779	153,779
Trade and notes payables	–	172,029	172,029
Financial liabilities included in other payables	–	17,053	17,053
Other liabilities	–	154,782	154,782
Preferred shares and, warrants and convertible notes	2,676,837	–	2,676,837
Total	<u>2,676,837</u>	<u>497,643</u>	<u>3,174,480</u>
As at 31 December 2025:			
Bank borrowings	–	165,044	165,044
Trade and notes payables	–	162,563	162,563
Financial liabilities included in other payables	–	25,436	25,436
Other liabilities	–	159,253	159,253
Preferred shares and, warrants and convertible notes	2,924,442	–	2,924,442
Total	<u>2,924,442</u>	<u>512,296</u>	<u>3,436,738</u>

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33. 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:

	Carrying amounts			Fair values		
	2023	2024	2025	2023	2024	2025
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Financial assets						
Investments at fair value through profit or loss	3,038	2,609	3,838	3,038	2,609	3,838
Financial assets at fair value through profit or loss	124,852	18,596	800	124,852	18,596	800
Financial liabilities						
Preferred shares, warrants and convertible notes	2,311,071	2,676,837	2,924,442	2,311,071	2,676,837	2,924,442

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

The Group’s senior management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At the end of each of the Relevant Periods, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the senior management.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of non-current portion of financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables, interest-bearing bank borrowings and other liabilities have been estimated by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The wealth management products is categorized into level 2, and fair value is determined based on the unit price provided on the counterparty bank or financial institution. The published unit price is the unit price at which a holder could redeem the fund units at the end of each reporting period presented.

The fair values of equity investments with preferred rights have been estimated using three different methods. The first method is market approach based on assumptions that are not supported by observable market prices or rates. Under market approach, the valuation requires that directors to determine comparable public companies (peers) based on industry and size and to calculate an enterprise price-to-sales (“Price/Sales”) multiple for each comparable companies identified. The multiple is calculated by dividing the enterprise value of the comparable company by the sales amount. The multiple is then discounted for considerations such as illiquidity. The second method is discounted cash flow method, which requires the directors to estimate the discount rate. The directors believe that the estimated fair values resulting from Price/Sales multiple and discounted cash flow income approach, which are recorded in the consolidated statements of financial position, and the related change in fair value, which is recorded in profit or loss, are reasonable and are the most appropriate values. The third method is recent transaction method, which requires the directors to estimate the DLOM and volatility.

The details of the methods and assumptions used to estimate the fair values of the preferred shares, warrants and convertible notes are set out in note 26 to the Historical Financial Information.

(a) Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group’s financial instruments;

Assets measured at fair value:

	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	
As at 31 December 2023				
Financial assets:				
Investments at fair value through profit or loss	–	–	3,038	3,038
Financial assets at fair value through profit or loss	–	124,852	–	124,852
Total financial assets	–	124,852	3,038	127,890

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	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	
As at 31 December 2024				
Financial assets:				
Investments at fair value through profit or loss	-	-	2,609	2,609
Financial assets at fair value through profit or loss	-	18,596	-	18,596
Total financial assets	-	18,596	2,609	21,205
As at 31 December 2025				
Financial assets:				
Investments at fair value through profit or loss	-	-	3,838	3,838
Financial assets at fair value through profit or loss	-	800	-	800
Total financial assets	-	800	3,838	4,638

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

Investments at fair value through profit or loss	31 December	31 December	31 December
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
At beginning of year	2,744	3,038	2,609
Fair value (losses)/gains recognised in profit or loss	294	(429)	1,229
At the end of year	3,038	2,609	3,838

Liabilities measured at fair value:

	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	
As at 31 December 2023				
Preferred shares, warrants and convertible notes	-	-	2,311,071	2,311,071
As at 31 December 2024				
Preferred shares, warrants and convertible notes	-	-	2,676,837	2,676,837
As at 31 December 2025				
Preferred shares, warrants and convertible notes	-	-	2,924,442	2,924,442

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The movements in fair value measurements within Level 3 during the Relevant Period are set out in note 26 to the Historical Financial Information:

(b) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs of major financial assets and liabilities used in Level 3 fair value measurements of major financial assets:

	Valuation technique	Significant unobservable input	Range	Increase/(decrease) in input %	Increase/(decrease) in fair value RMB’000
As at 31 December 2023					
Preferred shares, warrants and convertible notes	Discounted cash flow and equity value allocation model	Discount rate	19	±1%	(32,665) 38,107
		DLOM	20	±5%	(17,724) 18,373
As at 31 December 2024					
Preferred shares, warrants and convertible notes	Discounted cash flow and equity value allocation model	Discount rate	18	±1%	(40,897) 47,580
		DLOM	15	±5%	(19,372) 19,327
As at 31 December 2025					
Preferred shares, warrants and convertible notes	Discounted cash flow and equity value allocation model	Discount rate	17	±1%	(42,574) 49,375
		DLOM	10	±5%	(20,212) 20,875

(c) Valuation processes

The Group’s finance department is responsible for determining the policies and procedures for the fair value measurement of financial instruments. For equity investments with preferred rights, the Group engages independent external valuation experts to determine their fair value. The valuation is reviewed and approved by the finance department.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group’s principal financial instruments, comprise financial assets at fair value through profit or loss, and cash and cash equivalents. 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 receivables, financial assets included in prepayments, other receivables and other assets, trade payables, financial liabilities included in other payables and accruals and bank borrowings, which arise directly from its operations.

The main risks arising from the Group’s financial instruments are 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 summarised below.

Foreign currency risk

The Group primarily operates in the Chinese mainland, and the main transactions are denominated in RMB. The Group’s exposure to foreign currency risk arising from recognised foreign currency assets or liabilities and future foreign currency transactions is mainly denominated in USD and JPY. The scale of its foreign currency transactions, assets and liabilities is monitored on an ongoing basis, in order to minimise the risk.

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The following table demonstrates the sensitivity at the end of each reporting period to a reasonably possible change in the USD and JPY exchange rate of the Group’s equity due to changes in the currency translation.

	Changes in exchange rate	Increase/(decrease) in profit for the year
	%	RMB’000
31 December 2023		
If RMB strengthens against the USD	-5%	3,490
If RMB weakens against the USD	5%	(3,490)
If RMB strengthens against the JPY	-5%	790
If RMB weakens against the JPY	5%	(790)
31 December 2024		
If RMB strengthens against the USD	-5%	638
If RMB weakens against the USD	5%	(638)
If RMB strengthens against the JPY	-5%	205
If RMB weakens against the JPY	5%	(205)
31 December 2025		
If RMB strengthens against the USD	-5%	706
If RMB weakens against the USD	5%	(706)
If RMB strengthens against the JPY	-5%	60
If RMB weakens against the JPY	5%	(60)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group’s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group’s exposure to bad debts is not significant.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the 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	
Trade receivables	–	–	–	60,293	60,293
Financial assets included in prepayments, other receivables and other assets	–	–	–	–	–
– Normal*	49,036	–	–	–	49,036
– Doubtful*	–	–	–	–	–
Cash and cash equivalents	181,094	–	–	–	181,094
Time deposits	17,974	–	–	–	17,974
Pledged deposits and restricted cash	52,413	–	–	–	52,413
Total	300,517	–	–	60,293	360,810

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	
Trade receivables	–	–	–	19,764	19,764
Financial assets included in prepayments, other receivables and other assets	–	–	–	–	–
– Normal*	31,789	–	–	–	31,789
– Doubtful*	–	–	–	–	–
Cash and cash equivalents	204,732	–	–	–	204,732
Pledged deposits and restricted cash	49,953	–	–	–	49,953
Total	286,474	–	–	19,764	306,238

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As at 31 December 2025

	12-month ECLs		Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	–	–	–	23,112	23,112
Financial assets included in prepayments, other receivables and other assets	–	–	–	–	–
– Normal*	25,559	–	–	–	25,559
– Doubtful*	–	–	–	–	–
Cash and cash equivalents	63,634	–	–	–	63,634
Pledged deposits and restricted cash	37,389	–	–	–	37,389
Total	<u>126,582</u>	<u>–</u>	<u>–</u>	<u>23,112</u>	<u>149,694</u>

* The credit quality of the financial assets included in prepayments, other receivables and other 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 receivables is disclosed in note 18 to the Historical Financial Information.

Liquidity risk

Cash flow forecast is performed by each subsidiary of the Group and aggregated by the Group’s finance department in its headquarters. The Group’s finance department at its headquarters monitors rolling forecasts of the Group’s short-term and long-term liquidity requirements to ensure it has sufficient cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institutions so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

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

As at 31 December 2023

	Within one year	One to five years	Total
	RMB'000	RMB'000	RMB'000
Trade and notes payables	134,803	–	134,803
Other payables and accruals	12,951	–	12,951
Interest-bearing bank borrowings	163,259	–	163,259
Lease liabilities	14,871	15,228	30,099
Total	<u>325,884</u>	<u>15,228</u>	<u>341,112</u>

As at 31 December 2024

	Within one year	One to five years	Total
	RMB'000	RMB'000	RMB'000
Trade and notes payables	172,029	–	172,029
Other payables and accruals	17,053	–	17,053
Interest-bearing bank borrowings	155,288	–	155,288
Other liabilities	–	154,782	154,782
Lease liabilities	23,279	33,252	56,531
Total	<u>367,649</u>	<u>188,034</u>	<u>555,683</u>

As at 31 December 2025

	Within one year	One to five years	Total
	RMB'000	RMB'000	RMB'000
Trade and notes payables	162,563	–	162,563
Other payables and accruals	25,436	–	25,436
Interest-bearing bank borrowings	130,688	37,328	168,015
Other liabilities	159,253	–	159,253
Lease liabilities	18,894	18,550	37,444
Total	<u>496,834</u>	<u>55,878</u>	<u>552,711</u>

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(b) Capital management

The primary objectives of the Group’s capital management are to safeguard the Group’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain a healthy capital structure by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to make a balance between equity and debt financing, and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares, obtain new bank facilities, or sell assets to reduce debts.

The Group is not subject to any externally imposed capital requirements.

35. EVENTS AFTER THE RELEVANT PERIODS

Subsequently in January and February 2026, the Group issued several convertible notes with a total principal amount of RMB150,000,000, to certain investors. The convertible notes can be converted into Series D Preferred Shares of the Company after the investors obtaining regulatory approvals.

36. SUBSEQUENT FINANCIAL STATEMENTS

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