

## APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP

The following is the text of a report set out on pages [IB-1 to IB-●], received from Source Photonics’ reporting accountants, Confucius International CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of Source Photonics and to the joint Sponsors pursuant to the requirements of HKSIR 200, Accountants’ Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.



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Certified Public Accountants

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### ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SOURCE PHOTONICS HOLDINGS (CAYMAN) LIMITED AND UBS SECURITIES HONG KONG LIMITED, HAITONG INTERNATIONAL CAPITAL LIMITED, GF CAPITAL (HONG KONG) LIMITED AND CITIC SECURITIES (HONG KONG) LIMITED

#### Introduction

We report on the historical financial information of Source Photonics Holdings (Cayman) Limited (“Source Photonics”) and its subsidiaries (together, the “Source Photonics Group”) set out on pages IB-[●] to IB-[●], which comprises the consolidated statements of financial position of the Source Photonics Group and the statements of financial position of Source as at December 31, 2023, 2024 and September 30, 2025, the consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended December 31, 2023, 2024 and the nine months ended September 30, 2025 (the “Track Record Period”) and material accounting policy information and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages IB-[●] to IB-[●] forms an integral part of this report, which has been prepared for inclusion in the document of Suzhou Dongshan Precision Manufacturing Co., Ltd. (the “Company”) dated [●] (the “Document”) in connection with the initial [REDACTED] of H shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

#### Directors’ Responsibility for the Historical Financial Information

The directors of Source Photonics are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

#### Reporting Accountants’ Responsibility

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether

## **APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

due to fraud or error. In making those risk assessments, the reporting accountants considers internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 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.

### **Opinion**

In our opinion, the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of Source Photonics and the Source Photonics Group’s financial position as at December 31, 2023, 2024 and September 30, 2025, of the Source Photonics Group’s financial performance and cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

### **Review of stub period comparative financial information**

We have reviewed the stub period comparative financial information of Source Photonics Group which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the nine months ended September 30, 2024 and other explanatory information (the “Stub Period Comparative Financial Information”).

The directors of Source Photonics are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

### **Report on Matters under the Rules Governing the [REDACTED] of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) 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 IB-[●] have been made.

#### ***Dividends***

We refer to Note 13 to the Historical Financial Information which contains information about the dividends paid by the Source Photonics in respect of the Track Record Period.

#### **[Confucius International CPA Limited]**

*Certified Public Accountants*

Hong Kong

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## APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP

### I HISTORICAL FINANCIAL INFORMATION OF THE SOURCE PHOTONICS GROUP

#### Preparation of Historical Financial Information

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

The consolidated financial statements of the Source Photonics Group for the Track Record Period, on which the Historical Financial Information is based, were audited by Confucius International CPA Limited in accordance with Hong Kong Standards on Auditing issued by HKICPA (“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.

#### CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Notes	Year ended December 31		Nine months ended September 30	
		2023 RMB’000	2024 RMB’000	2024 RMB’000	2025 RMB’000
Revenue	6	1,305,145	2,945,332	1,890,076	3,627,515
Cost of sales	9	(1,056,746)	(2,066,249)	(1,400,986)	(2,617,681)
<b>Gross profit</b>		<b>248,399</b>	<b>879,083</b>	<b>489,090</b>	<b>1,009,834</b>
General and administrative expenses	9	(112,924)	(168,201)	(71,345)	(122,297)
Selling and marketing expenses	9	(29,762)	(41,027)	(27,525)	(32,556)
Research and development expenses	9	(108,930)	(159,686)	(80,560)	(156,072)
Net impairment losses on financial assets		(891)	(1,284)	(198)	(1,364)
Other income	7	20,437	17,168	7,401	14,240
Other gains/(losses), net	8	(50,195)	634,848	616,616	(129,571)
<b>Operating profit</b>		<b>(33,866)</b>	<b>1,160,901</b>	<b>933,479</b>	<b>582,214</b>
Finance income	11	863	710	824	5,469
Finance costs	11	(52,948)	(28,389)	(20,002)	(26,888)
Finance costs, net	11	(52,085)	(27,679)	(19,178)	(21,419)
<b>Profit/(loss) before income tax</b>		<b>(85,951)</b>	<b>1,133,222</b>	<b>914,301</b>	<b>560,795</b>
Income tax expense	12	(4,418)	(82,768)	(33,992)	(85,539)
<b>Profit/(loss) for the year/period</b>		<b>(90,369)</b>	<b>1,050,454</b>	<b>880,309</b>	<b>475,256</b>
Attributable to:					
- Owners of Source Photonics		(89,231)	1,051,817	880,960	476,205
- Non-controlling interests		(1,138)	(1,363)	(651)	(949)

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**I HISTORICAL FINANCIAL INFORMATION OF THE SOURCE PHOTONICS GROUP (Continued)**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Year ended		Nine months ended	
	December 31		September 30	
	<u>2023</u>	<u>2024</u>	<u>2024</u>	<u>2025</u>
<i>Notes</i>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
			<i>(Unaudited)</i>	
<b>Profit/(loss) for the year/period</b> .....	<u><b>(90,369)</b></u>	<u><b>1,050,454</b></u>	<u><b>880,309</b></u>	<u><b>475,256</b></u>
<b>Other comprehensive income/(loss)</b>				
<i>Items that may not be reclassified to profit or loss in subsequent periods, net of tax:</i>				
- Remeasurement of defined benefit plan, net of tax .....	175	617	(77)	148
- Currency translation differences of foreign operations .....	(37,340)	(4,577)	(12,367)	6,345
<i>Items that may be reclassified to profit or loss in subsequent periods, net of tax:</i>				
- Currency translation differences of foreign operations .....	(15,032)	(46,579)	(13,964)	33,654
<b>Other comprehensive income/(loss) for the year/period, net of tax</b> .....	<u><b>(52,197)</b></u>	<u><b>(50,539)</b></u>	<u><b>(26,408)</b></u>	<u><b>40,147</b></u>
Attributable to:				
- Owners of Source Photonics .....	(52,197)	(50,539)	(26,408)	40,147
- Non-controlling interests .....	—	—	—	—
<b>Total comprehensive income/(loss) for the year/period</b> .....	<u><b>(142,566)</b></u>	<u><b>999,915</b></u>	<u><b>853,901</b></u>	<u><b>515,403</b></u>
Attributable to:				
- Owners of Source Photonics .....	(141,428)	1,001,278	854,552	516,352
- Non-controlling Interests .....	(1,138)	(1,363)	(651)	(949)

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**I HISTORICAL FINANCIAL INFORMATION OF THE SOURCE PHOTONICS GROUP (Continued)**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	Notes	As at December 31		As at
				September 30
		2023	2024	2025
		RMB'000	RMB'000	RMB'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	16	517,278	700,223	956,486
Right-of-use assets	17	118,668	105,224	95,382
Intangible assets	18	133,500	145,969	117,685
Deferred tax assets	20	37,293	13,002	6,344
Prepayments and other receivables	22	52,268	18,539	127,662
Other non-current assets	23	2,199	2,961	3,147
<b>Total non-current assets</b>		<b>861,206</b>	<b>985,918</b>	<b>1,306,706</b>
<b>Current assets</b>				
Inventories	24	525,622	844,157	1,248,206
Prepayments and other receivables	22	33,703	62,136	74,504
Trade receivables	21	478,814	873,915	1,373,810
Financial assets at fair value through profit or loss	25	81,000	14,020	12,035
Notes receivables at fair value through other comprehensive income	14	28,217	6,022	4,918
Restricted cash and term deposits	26	50,388	40,344	53,861
Cash and cash equivalents	26	213,914	252,047	275,731
Other current assets	23	9,306	22,422	19,837
<b>Total current assets</b>		<b>1,420,964</b>	<b>2,115,063</b>	<b>3,062,902</b>
<b>Total assets</b>		<b>2,282,170</b>	<b>3,100,981</b>	<b>4,369,608</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings	27	11,766	–	10,000
Lease liabilities	17	126,323	107,039	97,738
Deferred tax liabilities	20	–	5,435	17,559
Convertible bonds	25	–	–	422,675
Deferred income	31	28,145	25,848	23,643
<b>Total non-current liabilities</b>		<b>166,234</b>	<b>138,322</b>	<b>571,615</b>
<b>Current liabilities</b>				
Borrowings	27	581,045	461,575	558,618
Trade payables	28	517,025	916,370	1,493,304
Contract liabilities	6	117	1,232	259
Lease liabilities	17	20,391	20,722	15,651
Current income tax liabilities		5,583	29,577	151,931
Convertible bonds	25	321,304	374,483	–
Other financial liabilities at fair value through profit or loss	25	2,625,085	–	–
Accruals and other payables	29	63,776	173,100	94,993
Provisions	30	3,215	2,353	2,776
<b>Total current liabilities</b>		<b>4,137,541</b>	<b>1,979,412</b>	<b>2,317,532</b>
<b>Total liabilities</b>		<b>4,303,775</b>	<b>2,117,734</b>	<b>2,889,147</b>
<b>EQUITY</b>				
<b>Equity attributable to owner of Source Photonics</b>				
Share capital	32	65	65	65
Other reserves	35	398,801	2,353,199	2,375,157
Accumulated losses	34	(2,429,403)	(1,377,586)	(901,381)
		(2,030,537)	975,678	1,473,841
Non-controlling interests		8,932	7,569	6,620
<b>TOTAL EQUITY</b>		<b>(2,021,605)</b>	<b>983,247</b>	<b>1,480,461</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,282,170</b>	<b>3,100,981</b>	<b>4,369,608</b>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**I HISTORICAL FINANCIAL INFORMATION OF THE SOURCE PHOTONICS GROUP (Continued)**

**COMPANY’S STATEMENTS OF FINANCIAL POSITION**

	Notes	As at December 31		As at
		2023	2024	September 30
		RMB’000	RMB’000	2025
				RMB’000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Investments in subsidiaries . . . . .	15	747,883	755,036	755,036
<b>Total non-current assets . . . . .</b>		<b>747,883</b>	<b>755,036</b>	<b>755,036</b>
<b>Current assets</b>				
Other receivables . . . . .	22	55,268	60,229	60,595
Cash and cash equivalents . . . . .		–	–	95
<b>Total current assets . . . . .</b>		<b>55,268</b>	<b>60,229</b>	<b>60,690</b>
<b>Total assets . . . . .</b>		<b>803,151</b>	<b>815,265</b>	<b>815,726</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Borrowings . . . . .	27	102,174	–	–
Other financial liabilities at fair value through profit or loss . . . . .	25	2,625,010	–	–
Accruals and other payables . . . . .	29	199,389	305,205	293,130
<b>Total current liabilities . . . . .</b>		<b>2,926,573</b>	<b>305,205</b>	<b>293,130</b>
<b>Total liabilities . . . . .</b>		<b>2,926,573</b>	<b>305,205</b>	<b>293,130</b>
<b>EQUITY</b>				
- Share capital . . . . .	32	65	65	65
- Other reserves . . . . .	35	103,098	2,087,878	2,094,223
- Accumulated losses . . . . .	34	(2,226,585)	(1,577,883)	(1,571,692)
<b>TOTAL EQUITY . . . . .</b>		<b>(2,123,422)</b>	<b>510,060</b>	<b>522,596</b>
<b>TOTAL LIABILITIES AND EQUITY . . . . .</b>		<b>803,151</b>	<b>815,265</b>	<b>815,726</b>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**I HISTORICAL FINANCIAL INFORMATION OF THE SOURCE PHOTONICS GROUP (Continued)**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Attributable to owners of Source Photonics				Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Other Reserves RMB'000	Accumulated losses RMB'000	Sub-total RMB'000		
<b>Balance at January 1, 2023</b> .....	<b>65</b>	<b>424,469</b>	<b>(2,340,172)</b>	<b>(1,915,638)</b>	<b>10,070</b>	<b>(1,905,568)</b>
Loss for the year .....	–	–	(89,231)	(89,231)	(1,138)	(90,369)
Other comprehensive loss .....	–	(52,197)	–	(52,197)	–	(52,197)
<b>Total comprehensive loss for the year</b> .....	–	<b>(52,197)</b>	<b>(89,231)</b>	<b>(141,428)</b>	<b>(1,138)</b>	<b>(142,566)</b>
Share-based compensation expenses	–	26,529	–	26,529	–	26,529
<b>Balance at December 31, 2023</b> .....	<b>65</b>	<b>398,801</b>	<b>(2,429,403)</b>	<b>(2,030,537)</b>	<b>8,932</b>	<b>(2,021,605)</b>
<b>Balance at January 1, 2024</b> .....	<b>65</b>	<b>398,801</b>	<b>(2,429,403)</b>	<b>(2,030,537)</b>	<b>8,932</b>	<b>(2,021,605)</b>
Profit/(loss) for the year .....	–	–	1,051,817	1,051,817	(1,363)	1,050,454
Other comprehensive loss .....	–	(50,539)	–	(50,539)	–	(50,539)
<b>Total comprehensive income/(loss) for the year</b> .....	–	<b>(50,539)</b>	<b>1,051,817</b>	<b>1,001,278</b>	<b>(1,363)</b>	<b>999,915</b>
Modification of terms in Preferred Shares (Note 25) .....	–	1,989,251	–	1,989,251	–	1,989,251
Share-based compensation expenses .....	–	7,153	–	7,153	–	7,153
Deemed contribution (Note 35) .....	–	8,533	–	8,533	–	8,533
<b>Balance at December 31, 2024</b> .....	<b>65</b>	<b>2,353,199</b>	<b>(1,377,586)</b>	<b>975,678</b>	<b>7,569</b>	<b>983,247</b>

APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP

I HISTORICAL FINANCIAL INFORMATION OF THE SOURCE PHOTONICS GROUP (Continued)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)

	Attributable to owners of Source Photonics				Non-controlling interests	Total equity
	Share capital	Other Reserves	Accumulated losses	Sub-total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>(Unaudited)</i>						
<b>Balance at January 1, 2024</b>	<b>65</b>	<b>398,801</b>	<b>(2,429,403)</b>	<b>(2,030,537)</b>	<b>8,932</b>	<b>(2,021,605)</b>
Profit/(loss) for the period	—	—	880,960	880,960	(651)	880,309
Other comprehensive loss	—	(26,408)	—	(26,408)	—	(26,408)
<b>Total comprehensive income/(loss) for the period</b>	<b>—</b>	<b>(26,408)</b>	<b>880,960</b>	<b>854,552</b>	<b>(651)</b>	<b>853,901</b>
Modification of terms in Preferred Shares (Note 25)	—	1,989,251	—	1,989,251	—	1,989,251
Share-based compensation expenses	—	7,153	—	7,153	—	7,153
Deemed contribution (Note 35)	—	8,533	—	8,533	—	8,533
<b>Balance at September 30, 2024</b>	<b>65</b>	<b>2,377,330</b>	<b>(1,548,443)</b>	<b>828,952</b>	<b>8,281</b>	<b>837,233</b>
<b>Balance at January 1, 2025</b>	<b>65</b>	<b>2,353,199</b>	<b>(1,377,586)</b>	<b>975,678</b>	<b>7,569</b>	<b>983,247</b>
Profit/(loss) for the period	—	—	476,205	476,205	(949)	475,256
Other comprehensive income	—	40,147	—	40,147	—	40,147
<b>Total comprehensive income/(loss) for the period</b>	<b>—</b>	<b>40,147</b>	<b>476,205</b>	<b>516,352</b>	<b>(949)</b>	<b>515,403</b>
Disposal of subsidiaries under common control (Note 38)	—	(18,189)	—	(18,189)	—	(18,189)
<b>Balance at September 30, 2025</b>	<b>65</b>	<b>2,375,157</b>	<b>(901,381)</b>	<b>1,473,841</b>	<b>6,620</b>	<b>1,480,461</b>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**I HISTORICAL FINANCIAL INFORMATION OF THE SOURCE PHOTONICS GROUP (Continued)**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<i>Notes</i>	<b>Year ended December 31</b>		<b>Nine months ended September 30</b>	
		<b>2023</b>	<b>2024</b>	<b>2024</b>	<b>2025</b>
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
					<i>(Unaudited)</i>
<b>Cash flows from operating activities</b>					
Cash generated from operations . . . . .	37(a)	90,731	351,786	200,756	470,441
Interest received . . . . .		863	710	1,445	5,469
Income tax paid . . . . .		(13,810)	(33,660)	(12,478)	(66,756)
<b>Net cash generated from operating activities . . . . .</b>		<b>77,784</b>	<b>318,836</b>	<b>189,723</b>	<b>409,154</b>
<b>Cash flows from investing activities</b>					
Withdraw of wealth management products . . . . .		–	290,500	276,000	40,000
Proceeds from investment income . . . . .		–	608	512	84
Proceeds from disposal of property, plant and equipment, intangible assets and other non-current assets . . . . .		2,953	–	–	–
Government grant received in relation to assets . . . . .		15,440	–	–	–
Proceeds from wealth management products interests . . . . .		1,505	1,706	787	1,191
Payments for purchase of property, plant and equipment, intangible assets and other non-current assets . . . . .		(125,233)	(264,690)	(177,981)	(400,387)
Placement of wealth management products . . . . .		(81,000)	(223,500)	(209,500)	(38,000)
Net outflow of cash resulting from the disposal of subsidiaries . . . . .		–	–	–	(3,076)
<b>Net cash used in investing activities . . . . .</b>		<b>(186,335)</b>	<b>(195,376)</b>	<b>(110,182)</b>	<b>(400,188)</b>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**I HISTORICAL FINANCIAL INFORMATION OF THE SOURCE PHOTONICS GROUP (Continued)**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

	<b>Year ended December 31</b>		<b>Nine months ended September 30</b>	
	<b>2023</b>	<b>2024</b>	<b>2024</b>	<b>2025</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
			<i>(Unaudited)</i>	
<b>Cash flows from financing activities</b>				
Proceeds from issuance of convertible bonds . . . . .	356,068	177,563	177,563	360,000
Payments for repurchase of convertible bonds . . . . .	(35,459)	(142,246)	(142,246)	(357,746)
Proceeds from borrowings . . . . .	998,020	714,457	481,116	797,238
Repayments of borrowings . . . . .	(1,037,623)	(833,071)	(642,196)	(687,466)
Principal elements of lease payments . . . . .	(20,419)	(20,763)	(15,132)	(13,995)
Interests paid . . . . .	(42,629)	(26,665)	(23,219)	(53,982)
Movements of restricted cash . . . . .	(22,943)	19,146	19,057	(202)
<b>Net cash generated from/(used in) financing activities . . . . .</b>	<b>195,015</b>	<b>(111,579)</b>	<b>(145,057)</b>	<b>43,847</b>
<b>Net increase/(decrease) in cash and cash equivalents . . . . .</b>	<b>86,464</b>	<b>11,881</b>	<b>(65,516)</b>	<b>52,813</b>
Cash and cash equivalents at beginning of the year . . . . .	186,812	213,914	213,914	252,047
Effects of exchange rate changes on cash and cash equivalents . . . . .	(59,362)	26,252	(6,747)	(29,129)
<b>Cash and cash equivalents at the end of the year/period . . . . .</b>	<b>213,914</b>	<b>252,047</b>	<b>141,651</b>	<b>275,731</b>
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## **APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

### **II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**

#### **1. GENERAL INFORMATION**

Source Photonics Holdings (Cayman) Limited (“Source Photonics”) was incorporated in the Cayman Islands on November 7, 2010 as an exempted company with limited liability. The address of Source Photonics’ registered office is Offices of Maples Corporate Services Limited, PO Box 309, Uglund House, Grand Cayman, KY1-1104, Cayman Islands.

Source Photonics’ is an investment holding company and its subsidiaries are principally engaged in the R&D, production and sales of products such as optical chips, optical components and optical modules.

Source Photonics’ subsidiaries during the Track Record Period are set out in Note 15.

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

The statutory consolidated financial statements of the Source Photonics Group for the years ended December 31, 2023, 2024 and nine months ended September 30, 2025 prepared in accordance with the relevant accounting principles in the PRC were audited by Grant Thornton (Special General Partnership) (致同會計師事務所(特殊普通合夥)) and Pan-China Certified Public Accountants LLP (天健會計師事務所(特殊普通合夥)), respectively, both of which was the certified public accountants registered in the PRC.

#### **2. BASIS OF PREPARATION**

The Historical Financial Information of the Source Photonics Group have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRS Accounting Standards”) issued by the International Accounting Standards Board (“IASB”). The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities measured at fair value through profit or loss (“FVTPL”) and financial assets measured at other comprehensive income (“FVOCI”).

The preparation of the Historical Financial Information in conformity with IFRS Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Source Photonics Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4 below.

New standards, amendments and interpretations to the existing standards that are effective during the Track Record Period have been adopted by the Source Photonics Group consistently throughout the years presented, unless prohibited by the relevant standard to apply retrospectively.

Other than those material accounting policies information as disclosed elsewhere in this Historical Financial Information, a summary of the other accounting policies information has been set out in Note 41 to this Historical Financial Information.

## APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP

### II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

#### 2. BASIS OF PREPARATION (Continued)

##### 2.1 New Standards and Amendments to Standards Not Yet Adopted

Standards and amendments to standards that have been issued but not yet effective and not been early adopted by the Source Photonics Group during the Track Record Period are as follows:

Standards and amendments	Effective for accounting periods beginning on or after
Amendments to IFRS 10 and IAS 28 ‘Sale or Contribution of Assets between an Investor and its Associate or Joint Venture’	To be determined
Amendments to IFRS 9 and IFRS 7 ‘Amendments to the Classification and Measurement of Financial Instruments’	January 1, 2026
Amendments to IFRS 9 and IFRS 7 ‘Contracts Referencing Nature-dependent Electricity’	January 1, 2026
Annual Improvements – Volume 11 IFRS accounting standards	January 1, 2026
IFRS18 ‘Presentation and Disclosure in Financial Statements’	January 1, 2027
IFRS 19 ‘Subsidiaries without Public Accountability: Disclosures’	January 1, 2027
IFRS 21 Translation to a Hyper inflationary Presentation Currency	January 1, 2027

Except for the impact of IFRS18 mentioned below, other new/amended standards are either not relevant to the Source Photonics Group or not expected to have a material impact on the Source Photonics Group’s consolidated financial statements when they become effective.

##### IFRS18 Presentation and Disclosure in Financial Statements

IFRS18 “Presentation and Disclosure in Financial Statements”, which sets out requirements on presentation and disclosures in financial statements, will replace IAS 1 “Presentation of Financial Statements”. This new IFRS Accounting Standard, while carrying forward many of the requirements in IAS 1, introduces new requirements to present specified categories and defined subtotals in the statement of profit or loss; provide disclosures on management-defined performance measures in the notes to the financial statements and improve aggregation and disaggregation of information to be disclosed in the financial statements. In addition, some IAS 1 paragraphs have been moved to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” and IFRS 7 “Financial Instruments: Disclosures”. Minor amendments to IAS 7 “Statement of Cash Flows” and IAS 33 “Earnings per Share” are also made.

IFRS18 will be effective for annual periods beginning on or after January 1, 2027, with early application permitted. The application of IFRS18 is not expected to have significant impact on the Source Photonics Group’s financial position and performance, but may affect the presentation of the statement of profit or loss and disclosures in the future financial statements.

#### 3. FINANCIAL RISK MANAGEMENT

The Source Photonics Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Source Photonics Group’s

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

overall risk management seeks a balance between risk and return, minimizes the adverse impact of risk on the Source Photonics Group’s finance performance and maximizes the interests of shareholders and other equity investors. Based on this risk management objective, the basic strategy of the Source Photonics Group’s risk management is to identify and analyze the various risks faced by the Source Photonics Group, establish appropriate risk tolerance thresholds and timely and reliably supervise various risks to control them within a limited range.

**3.1 Market Risk**

*(a) Foreign Exchange Risk*

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the respective functional currency of Source Photonics and its subsidiaries. The Source Photonics Group manages its foreign exchange risk by performing regular reviews of the Source Photonics Group’s net foreign exchange exposures and tries to minimize these exposures through buying and selling foreign currencies at market rate, wherever possible.

As at December 31, 2023, 2024 and September 30, 2025, the Source Photonics Group’s major financial assets/liabilities exposed to foreign exchange risk, representing those financial assets/liabilities denominated in United States dollar (“USD”) and included in a Source Photonics Group entity with different functional currency:

	<u>As at December 31</u>		<u>As at September 30</u>	
	<u>2023</u>	<u>2024</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Financial assets denominated in:				
USD .....	63,839	110,932	97,167	131,108
Others .....	<u>323</u>	<u>729</u>	<u>615</u>	<u>470</u>

	<u>As at December 31</u>		<u>As at September 30</u>	
	<u>2023</u>	<u>2024</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Financial liabilities denominated in:				
USD .....	205,047	181,063	184,693	249,603
Others .....	<u>174</u>	<u>504</u>	<u>440</u>	<u>9</u>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

**3.1 Market Risk (Continued)**

*(a) Foreign Exchange Risk (Continued)*

As shown in the table above, the Source Photonics Group is primarily exposed to changes in USD exchange rates. The sensitivity of profit or loss to changes in the exchange rates arises mainly from USD denominated financial instruments is as below:

	<u>Year ended December 31</u>		<u>Nine months ended September 30</u>	
	<u>2023</u>	<u>2024</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
			<i>(Unaudited)</i>	
USD exchange rate -				
Increase 5% .....	(7,060)	(3,507)	(4,376)	(5,925)
Decrease 5% .....	7,060	3,507	4,376	5,925

Other foreign currencies of changes have no significant impact on foreign exchange risk.

*(b) Interest Rate Risk*

The Source Photonics Group’s interest rate risk primarily arises from interest-bearing borrowings. Borrowings issued at floating rates expose the Source Photonics Group to cash flow interest rate risk and borrowings issued at fixed rates expose the Source Photonics Group to fair value interest rate risk. The Source Photonics Group determines the proportion of borrowings issued at floating rates and fixed rates based on the market environment and maintains an appropriate combination of financial instruments through regular review and monitoring.

As at December 31, 2023, 2024 and September 30, 2025, total borrowings of the Source Photonics Group which were bearing at floating rates amounted to approximately RMB 165,025,000, RMB 10,000,000 and nil, respectively.

If interest rate had been 50 basis points higher or lower with all other variables held constant, the profit before tax would decrease/increase approximately RMB 825,000, RMB 50,000 and nil for the years ended December 31, 2023, 2024 and nine months ended September 30, 2025, respectively.

Considering the repricing or maturity date, the fair value interest rate risk arises from borrowings and bank balances carried at fixed rates is not significant for the Source Photonics Group.

**3.2 Credit Risk**

Credit risk arises from cash and cash equivalents, restricted cash and term deposits, as well as trade and notes receivables, other receivables and FVOCI. The carrying amount of each class of the above financial assets represents the Source Photonics Group’s maximum exposure to credit risk in relation to the corresponding class of financial assets.

## APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP

### II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

#### 3. FINANCIAL RISK MANAGEMENT (Continued)

##### 3.2 Credit Risk (Continued)

###### (a) Risk Management

To manage this risk, cash and cash equivalents as well as restricted cash and term deposits are mainly placed with reputable financial institutions which are all high-credit-quality financial institutions.

To manage risk from trade and notes receivables as well as other receivables and FVOCI, the Source Photonics Group has policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of the counterparties. It also has continuous monitoring procedures to ensure the collection of the receivables as scheduled and follow up action is taken to recover overdue debts, if any.

###### (b) Impairment of Financial Assets

The Source Photonics Group has four types of financial assets that are subject to the expected credit loss model:

- Cash and cash equivalents, restricted cash and term deposits;
- Trade receivables;
- Notes Receivables at FVOCI, and
- Other receivables.

###### Credit risk of cash and cash equivalents and restricted cash and term deposits

Cash and cash equivalents and restricted cash and term deposits are mainly placed with high-credit rating financial institutions. There has been no recent history of default in relation to these financial institutions. The expected credit loss was immaterial as at December 31, 2023, 2024 and September 30, 2025.

###### Credit risk of trade receivables

###### (i) Trade receivables

The Source Photonics Group applies the IFRS 9 simplified approach to measure expected credit loss (“ECL”) which uses a lifetime expected loss allowance for all trade receivables.

To measure ECL, trade receivables have been grouped based on shared credit risk characteristics and aging.

The Source Photonics Group also made individual assessment on the recoverability of its trade receivables for certain customers based on historical settlement records.

The historical loss rates are calculated based on the historical payment profiles of customers and the corresponding historical incurred credit losses. The historical loss rates are adjusted to reflect the forward-looking information on macroeconomic factors as well as the credit rating analysis of respective customers and other external data which have impacts to the ability of the customers to settle the receivables. The Source Photonics Group has identified the Gross Domestic Product (“GDP”) of the countries in which it sells its goods to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

**3.2 Credit Risk (Continued)**

*(b) Impairment of Financial Assets (Continued)*

*(i) Trade receivables (Continued)*

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include the failure of a debtor to engage in a repayment plan with the Source Photonics Group and other indicators of severe financial difficulties.

Trade Receivables

On that basis, the loss allowance as at December 31, 2023, 2024 and September 30, 2025 were determined as follows for trade receivables:

As at December 31, 2023, the loss allowance of individually impaired trade receivables is determined as follows:

**Assess individually:**

	<u>Gross carrying amount</u>	<u>ECL rate</u>	<u>Loss allowance</u>	<u>Reason</u>
	<i>RMB’000</i>		<i>RMB’000</i>	
Trade receivables . . . . .	<u>1,367</u>	<u>100.00%</u>	<u>1,367</u>	Financial difficulty

As at December 31, 2024, the loss allowance of individually impaired trade receivables is determined as follows:

**Assess individually:**

	<u>Gross carrying amount</u>	<u>ECL rate</u>	<u>Loss allowance</u>	<u>Reason</u>
	<i>RMB’000</i>		<i>RMB’000</i>	
Trade receivables . . . . .	<u>1,380</u>	<u>100.00%</u>	<u>1,380</u>	Financial difficulty

As at September 30, 2025, the loss allowance of individually impaired trade receivables is determined as follows:

**Assess individually:**

	<u>Gross carrying amount</u>	<u>ECL rate</u>	<u>Loss allowance</u>	<u>Reason</u>
	<i>RMB’000</i>		<i>RMB’000</i>	
Trade receivables . . . . .	<u>1,369</u>	<u>100.00%</u>	<u>1,369</u>	Financial difficulty

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

**3.2 Credit Risk (Continued)**

*(b) Impairment of Financial Assets (Continued)*

*(i) Trade receivables (Continued)*

As at December 31, 2023, 2024 and September 30, 2025, the loss allowance of grouped impaired trade receivables are determined as follows:

**Assessed based on grouping:**

	<u>Within 1 year</u>	<u>1 to 2 years</u>	<u>Over 2 years</u>	<u>Total</u>
<b>As at December 31, 2023</b>				
Expected loss rate . . . . .	0.22%	38.55%	100.00%	
Gross carrying amount (RMB’000) . . . . .	479,737	249	31	480,017
Loss allowance provision (RMB’000) . . . . .	<u>1,076</u>	<u>96</u>	<u>31</u>	<u>1,203</u>
<b>As at December 31, 2024</b>				
Expected loss rate . . . . .	0.08%	55.27%	100.00%	
Gross carrying amount (RMB’000) . . . . .	873,220	3,105	–	876,325
Loss allowance provision (RMB’000) . . . . .	<u>694</u>	<u>1,716</u>	<u>–</u>	<u>2,410</u>
<b>As at September 30, 2025</b>				
Expected loss rate . . . . .	0.19%	23.68%	100.00%	
Gross carrying amount (RMB’000) . . . . .	1,373,013	4,543	8	1,377,564
Loss allowance provision (RMB’000) . . . . .	<u>2,670</u>	<u>1,076</u>	<u>8</u>	<u>3,754</u>

The management of the Source Photonics Group determined the ECL rates for portfolio of trade receivables with reference to past-due status of such balances by estimating their default rates taking into account the historical information and forward-looking information.

As at the end of each Track Record Period, the Source Photonics Group assessed the historical observed default rates and the forward-looking estimates, respectively. The management of the Source Photonics Group reviewed the portfolio of customers contributing the trade receivables balances for the respective past-due time band throughout the Track Record Period and noted that the majority of the balances of the respective past-due time band were due from similar portfolio of customers. Furthermore, the Source Photonics Group assessed these customers’ financial condition, past settlement history, business relationship with the Source Photonics Group and other factors such as current market conditions and industry information, and considered that the credit risk for the same portfolio of customers remains approximately the same throughout the Track Record Period.

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

**3.2 Credit Risk (Continued)**

*(b) Impairment of Financial Assets (Continued)*

*(i) Trade receivables (Continued)*

The loss allowances for trade receivables for the years ended December 31, 2023, 2024 and nine months ended September 30, 2024 and 2025 reconcile to the opening loss allowances are as follows:

	Year ended December 31		Nine months ended September 30	
	2023	2024	2024	2025
	RMB’000	RMB’000	RMB’000	RMB’000
Opening loss allowance . . . . .	1,707	2,570	2,570	3,790
Loss allowance recognized, net . . . . .	845	1,272	183	1,360
Currency translation differences . . . . .	18	(52)	(38)	(27)
<b>Closing loss allowance . . . . .</b>	<b>2,570</b>	<b>3,790</b>	<b>2,715</b>	<b>5,123</b>

*(ii) Notes Receivables at FVOCI*

The Source Photonics Group measured provisions for impairment of notes receivables based on the lifetime ECL and assessed that there was no significant credit risk associated with its bank acceptance notes issued by large-sized banks as the Source Photonics Group did not expect that there would be any significant losses from non-performance by these reputable banks.

*(iii) Other Receivables*

Other receivables at the end of each of the periods are mainly comprised of deposits, export tax refund and others. The Source Photonics Group considers the probability of default upon initial recognition of the assets and whether there has been significant increase in credit risk on an ongoing basis throughout Track Record Period. To assess whether there is a significant increase in credit risk, the Source Photonics Group compares risk of a default occurring on the assets as of the reporting date with the risk of default as of the date of initial recognition. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant impact on the debtor’s ability to meet its obligations;
- external credit rating of the counterparty;
- actual or expected significant adverse changes in the operating results of the debtor; and
- significant changes in the expected performance and behavior of the debtor, including changes in the payment status of debtor.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 365 days past due in making a contractual payment.

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

**3.2 Credit Risk (Continued)**

*(b) Impairment of Financial Assets (Continued)*

*(iii) Other Receivables (Continued)*

If the credit risk of the asset is in line with original expectations, the Source Photonics Group categorizes the asset as performing and recognizes 12 months expected credit losses (Stage 1). If a significant credit risk of the asset has occurred compared to original expectations or the credit is impaired, the asset is categorized as underperforming or non-performing and lifetime expected credit losses are recognized (Stages 2 and 3):

Set out below is the information about credit risk exposure on the Source Photonics Group’s other receivables:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As at December 31, 2023				
Expected loss rate .....	0.22%	–	100.00%	
Gross carrying amount .....	23,563	–	142	23,705
Loss allowance .....	<u>52</u>	<u>–</u>	<u>142</u>	<u>194</u>
As at December 31, 2024				
Expected loss rate .....	0.04%	–	100.00%	
Gross carrying amount .....	39,832	–	192	40,024
Loss allowance .....	<u>15</u>	<u>–</u>	<u>192</u>	<u>207</u>
As at September 30, 2025				
Expected loss rate .....	0.39%	–	–	
Gross carrying amount .....	53,358	–	–	53,358
Loss allowance .....	<u>210</u>	<u>–</u>	<u>–</u>	<u>210</u>

The loss allowances for other receivables for the years ended December 31, 2023, 2024 and nine months ended September 30, 2024 and 2025 reconcile to the opening loss allowances are as follows:

	<u>Year ended December 31</u>		<u>Nine months ended</u>	
	<u>2023</u>	<u>2024</u>	<u>September 30</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
			<i>(Unaudited)</i>	
Opening loss allowance .....	147	194	194	207
Loss allowance recognized, net .....	46	12	15	4
Currency translation differences .....	1	1	(1)	(1)
<b>Closing loss allowance .....</b>	<b><u>194</u></b>	<b><u>207</u></b>	<b><u>208</u></b>	<b><u>210</u></b>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

**3.3 Liquidity Risk**

The Source Photonics Group intends to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the policy of the Source Photonics Group is to regularly monitor the Source Photonics Group’s liquidity risk and to maintain adequate liquid assets such as cash and cash equivalents and term deposits or to retain adequate financing arrangements to meet the Source Photonics Group’s liquidity requirements.

The tables below analyze the Source Photonics Group’s financial liabilities that will be settled into relevant maturity groupings based on the remaining period at each balance sheet date to their contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due for the corresponding period equal their carrying balances as the impact of discounting is not significant.

	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>Over 5 years</u>	<u>Total</u>	<u>Total carrying amount</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>As at December 31, 2023</b>						
Trade payables . . . . .	517,025	–	–	–	517,025	517,025
Accruals and other payables (excluding non-financial liabilities) . . . . .	11,911	–	–	–	11,911	11,911
Lease liabilities . . . . .	26,514	26,198	55,071	70,525	178,308	146,714
Other financial liabilities at fair value through profit or loss (FVTPL) . . . . .	2,625,085	–	–	–	2,625,085	2,625,085
Convertible bonds . . . . .	327,107	–	–	–	327,107	321,304
Borrowings . . . . .	590,336	11,288	–	–	601,624	592,811
	<u><b>4,097,978</b></u>	<u><b>37,486</b></u>	<u><b>55,071</b></u>	<u><b>70,525</b></u>	<u><b>4,261,060</b></u>	<u><b>4,214,850</b></u>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

**3.3 Liquidity Risk (Continued)**

	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>Over 5 years</u>	<u>Total</u>	<u>Total carrying amount</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>As at December 31, 2024</b>						
Trade payables . . . . .	916,370	–	–	–	916,370	916,370
Accruals and other payables (excluding non-financial liabilities) . . . . .	14,011	–	–	–	14,011	14,011
Lease liabilities . . . . .	26,471	20,389	53,303	53,276	153,439	127,761
Convertible bonds . . . . .	387,953	–	–	–	387,953	374,483
Borrowings . . . . .	469,381	–	–	–	469,381	461,575
	<u><b>1,814,186</b></u>	<u><b>20,389</b></u>	<u><b>53,303</b></u>	<u><b>53,276</b></u>	<u><b>1,941,154</b></u>	<u><b>1,894,200</b></u>

	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>Over 5 years</u>	<u>Total</u>	<u>Total carrying amount</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>As at September 30, 2025</b>						
Trade payables . . . . .	1,493,304	–	–	–	1,493,304	1,493,304
Accruals and other payables (excluding non-financial liabilities) . . . . .	15,848	–	–	–	15,848	15,848
Lease liabilities . . . . .	21,063	18,534	60,660	34,896	135,153	113,389
Convertible bonds . . . . .	21,600	361,800	–	–	383,400	422,675
Borrowings . . . . .	568,846	10,027	–	–	578,873	568,618
	<u><b>2,120,661</b></u>	<u><b>390,361</b></u>	<u><b>60,660</b></u>	<u><b>34,896</b></u>	<u><b>2,606,578</b></u>	<u><b>2,613,834</b></u>

The interest rate of borrowings and lease liabilities are disclosed in Note 27 and Note 17, respectively.

**3.4 Capital Management**

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

The Source Photonics Group manages its capital structure in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Source Photonics Group may issue new shares, sell assets to reduce debt or raise additional funding from shareholders or banks as and when necessary. The Source Photonics Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2023, 2024 and nine months ended September 30, 2024 and 2025.

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

**3.4 Capital Management (Continued)**

The Source Photonics Group monitors capital on the basis of the debt to asset ratio as at December 31, 2023, 2024 and September 30, 2025 are as follows:

	<u>As at December 31</u>		<u>As at</u> <u>September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Total assets .....	2,282,170	3,100,981	4,369,608
Total liabilities .....	4,303,775	2,117,734	2,889,147
Debt to asset ratio .....	<u>188.58%</u>	<u>68.29%</u>	<u>66.12%</u>

**3.5 Fair Value Estimation**

**(a) Determination of Fair Value and the Fair Value Hierarchy of Financial Instruments**

This note provides information on how the Source Photonics Group determines the fair values of various financial assets and liabilities.

For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

**3.5 Fair Value Estimation (Continued)**

*(a) Determination of Fair Value and the Fair Value Hierarchy of Financial Instruments (Continued)*

The Source Photonics Group

**As at December 31, 2023**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Financial assets</b>				
Financial assets at fair value through profit or loss (FVTPL)				
- Wealth management products . . . . .	–	81,000	–	81,000
Financial assets at fair value through other comprehensive income (FVOCI)				
- Notes receivables at FVOCI . . . . .	–	–	28,217	28,217
<b>Total financial assets . . . . .</b>	<b>–</b>	<b>81,000</b>	<b>28,217</b>	<b>109,217</b>
<b>Financial liabilities</b>				
- Derivative financial liabilities . . . . .	–	75	–	75
- Convertible bonds . . . . .	–	–	321,304	321,304
- Preferred shares . . . . .	–	–	2,625,010	2,625,010
<b>Total financial liabilities . . . . .</b>	<b>–</b>	<b>75</b>	<b>2,946,314</b>	<b>2,946,389</b>

**As at December 31, 2024**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Financial assets</b>				
Financial assets at fair value through profit or loss (FVTPL)				
- Wealth management products . . . . .	–	14,020	–	14,020
Financial assets at fair value through other comprehensive income (FVOCI)				
- Notes receivables at FVOCI . . . . .	–	–	6,022	6,022
<b>Total financial assets . . . . .</b>	<b>–</b>	<b>14,020</b>	<b>6,022</b>	<b>20,042</b>
<b>Financial liabilities</b>				
- Convertible bonds . . . . .	–	–	374,483	374,483
<b>Total financial liabilities . . . . .</b>	<b>–</b>	<b>–</b>	<b>374,483</b>	<b>374,483</b>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

**3.5 Fair Value Estimation (Continued)**

*(a) Determination of Fair Value and the Fair Value Hierarchy of Financial Instruments (Continued)*

As at September 30, 2025

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Financial assets</b>				
Financial assets at fair value through profit or loss (FVTPL)				
- Wealth management products .....	—	12,035	—	12,035
Financial assets at fair value through other comprehensive income (FVOCI)				
- Notes receivables at FVOCI .....	—	—	4,918	4,918
<b>Total financial assets .....</b>	<b>—</b>	<b>12,035</b>	<b>4,918</b>	<b>16,953</b>
<b>Financial liabilities</b>				
- Convertible bonds .....	—	—	422,675	422,675
<b>Total financial liabilities .....</b>	<b>—</b>	<b>—</b>	<b>422,675</b>	<b>422,675</b>

(i) The timing of transfers is determined at the date of the event or change in circumstances that caused the transfers. During the Track Record Period, there was no transfer between Level 1 and Level 2.

*(b) The Source Photonics Group’s Valuation Process*

For the financial assets and financial liabilities, including level 3 fair values, the Source Photonics Group’s finance department performs the valuations for financial reporting purpose. The finance department reports the valuation results to the management.

*(c) Transfers between levels in the hierarchy*

For the years ended December 31, 2023, 2024 and nine months ended September 30, 2024 and 2025, there were no transfers into or out of Level 3 fair value measurements of the Source Photonics Group’s financial instruments.

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

**3.5 Fair Value Estimation (Continued)**

(d) *The reconciliation of Level 3 assets and liabilities are analyzed below*

	<b>Financial assets at FVOCI – Notes receivables</b>			
	<b>Year ended December 31</b>		<b>Nine months ended September 30</b>	
	<b>2023</b>	<b>2024</b>	<b>2024</b>	<b>2025</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
			<i>(Unaudited)</i>	
Opening balance . . . . .	25,259	28,217	28,217	6,022
Additions/(disposals):				
Notes receivables at FVOCI . . . . .	2,958	(22,195)	(28,012)	(1,104)
Closing balance . . . . .	<b>28,217</b>	<b>6,022</b>	<b>205</b>	<b>4,918</b>

	<b>Financial liabilities at FVTPL - Convertible bonds</b>			
	<b>Year ended December 31</b>		<b>Nine months ended September 30</b>	
	<b>2023</b>	<b>2024</b>	<b>2024</b>	<b>2025</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
			<i>(Unaudited)</i>	
Opening balance . . . . .	–	321,304	321,304	374,483
Issuance of convertible bond . . . . .	356,068	177,563	177,563	360,000
Settlement of convertible bond . . . . .	(35,459)	(142,246)	(142,246)	(385,499)
Changes in fair value through profit or loss : . . . . .	695	17,862	12,489	73,691
Closing balance . . . . .	<b>321,304</b>	<b>374,483</b>	<b>369,110</b>	<b>422,675</b>

	<b>Financial liabilities at FVTPL- Preferred shares</b>			
	<b>Year ended December 31</b>		<b>Nine months ended September 30</b>	
	<b>2023</b>	<b>2024</b>	<b>2024</b>	<b>2025</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
			<i>(Unaudited)</i>	
Opening balance . . . . .	2,513,748	2,625,010	2,625,010	–
Issuance of Series A, Series B and Series C preferred shares (Note 25) . . . . .	3	–	–	–
Modification of terms in Preferred Shares (Note 25) . . . . .	–	(1,989,251)	(1,989,251)	–
Changes in fair value through profit or loss/Gain on modification of terms in Preferred Shares . . . . .	68,283	(648,126)	(648,126)	–
Foreign currency translation differences . . . . .	42,976	12,367	12,367	–
Closing balance . . . . .	<b>2,625,010</b>	<b>–</b>	<b>–</b>	<b>–</b>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

**3.5 Fair Value Estimation (Continued)**

**(e) Valuation Inputs and Relationships to Fair Value**

Description	Fair value		Valuation techniques	Significant unobservable Input(s)	Relation of unobservable input(s) to fair values			
	As at							
	As at December 31	September 30						
	2023	2024	2025	2023	2024	2025		
	RMB'000	RMB'000	RMB'000					
Notes receivables at FVOCI .....	28,217	6,022	4,918	Discount rate	3.40%-5.61%	3.50%-3.70%	0.41%-2.50%	An increase in discount rate would result in decrease in fair value, and vice versa.
Convertible Bond .....	321,304	374,483	422,675	Discount rate	5.80%	4.76%	3.00%	An increase in discount rate would result in decrease in fair value, and vice versa.
Other financial liabilities at fair value through profit or loss-Preferred Shares .....	2,625,010	N/A	N/A	Discount rate	11.80%	N/A	N/A	An increase in discount rate would result in decrease in fair value, and vice versa.

## **APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

### **II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

#### **3. FINANCIAL RISK MANAGEMENT (Continued)**

##### **3.5 Fair Value Estimation (Continued)**

###### *(e) Valuation Inputs and Relationships to Fair Value (Continued)*

Other than described above, there were no significant unobservable inputs that materially affect its fair values.

Sensitivity analysis is performed by the management to assess the exposure of the Source Photonics Group’s financial results to fair value changes of Convertible Bond and FVOCI at the end of each Track Record Period.

If the discount rate of the Note receivable at FVOCI held by Source Photonics Group had been 0.5% higher/lower, the fair values of the Note receivable at FVOCI held by the Source Photonics Group as at December 31, 2023, 2024 and September 30, 2025 would have been approximately RMB73,000, RMB23,000 and RMB7,000 lower, or RMB74,000, RMB24,000 and RMB7,000 higher respectively.

If the discount rate of the Convertible Bond at FVTPL had been 0.5% higher/lower, the fair values of the Convertible Bond at FVTPL as at December 31, 2023, 2024 and September 30, 2025 would have been approximately RMB1,705,000, RMB428,000 and RMB1,978,000 lower, or RMB 1,723,000, RMB430,000 and RMB1,998,000 higher respectively.

If the discount rate of the Financial liabilities at FVTPL had been 0.5% higher/lower, the fair values of the Preferred shares at FVTPL as at December 31, 2023, 2024 and September 30, 2025 would have been approximately RMB1,219,000, nil and nil lower or RMB6,028,000, nil and nil higher respectively.

#### **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The Source Photonics Group continually evaluates the critical accounting estimates and key judgements applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are outlined below:

##### *(a) Allowance for Expected Credit Loss of Receivables*

Except for certain trade receivables from customers with specific credit risk that management adopts an individual impairment assessment approach, the Source Photonics Group uses a provision matrix to calculate ECLs for trade receivables. The loss allowances for receivables are based on assumptions about risk of default and expected loss rates to determine the expected loss. The Source Photonics Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation. The historical loss rates are adjusted to reflect the forward-looking information on macroeconomic factors as well as the credit rating analysis of respective customers and other external data which have impacts to the ability of the customers to settle the receivables.

The Source Photonics Group takes into account different macroeconomic scenarios in considering forward-looking information in Chinese mainland and abroad. The Source Photonics Group regularly monitors and reviews the key macroeconomic assumptions and parameters related to the calculation of expected credit losses. The Source Photonics Group has identified the Gross Domestic Product (“GDP”) of the countries in which it sells its goods to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

## **APPENDIX IB ACCOUNTANTS' REPORT OF THE SOURCE PHOTONICS GROUP**

### **II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

#### **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)**

##### ***(b) Estimated Net Realizable Value of Inventories***

In accordance with the Source Photonics Group's accounting policy, the Source Photonics Group estimates net realizable value of inventories based on specific facts and circumstances. For different types of inventories, it requires the estimation on selling prices, costs of conversion, selling expenses and the related tax expense to calculate the net realizable amount of inventories. For inventories held for executed sales contracts, management estimates the net realizable amount based on the contracted price. For raw materials and work-in-progress, management has established a model in estimating the net realizable amount at which the inventories can be realizable in the normal course of business after considering the manufacturing cycles, production capacity and forecasts, estimated future conversion costs and selling prices. Management also takes into account the price or cost fluctuations and other related matters occurring after the end of the year which reflect conditions that existed at the end of each year.

It is reasonably possible that if there is a significant change in circumstances including the Source Photonics Group's business and the external environment, outcomes would be significantly affected.

##### ***(c) Property, Plant and Equipment and Intangible Assets – Estimated Useful Lives and Residual Values***

The Source Photonics Group determines the estimated useful lives and residual values (if applicable) and consequently the related depreciation/amortization charges for its property, plant and equipment and intangible assets (excluding freehold land and goodwill). These estimates are based on the historical experience, anticipated change of technology, market condition and the actual consumptions of related assets. The depreciation/amortization charge will increase when useful lives are less than previously estimated. In addition, technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in change in useful lives and residual values and therefore change in depreciation/amortization expense in future periods.

##### ***(d) Income Tax and Deferred Taxation***

Estimation and judgement are required in determining the amount of the provision for income tax. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recognized, such differences will impact on the income tax and deferred taxation provisions in the period in which such determination is made.

Deferred tax assets are recognized for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary difference can be utilized. Significant estimation is required in determining the recoverability of deferred tax assets.

In the event that future tax rules and regulations or related circumstances change, adjustments to current and deferred taxation may be necessary which would impact on the Source Photonics Group's results or financial position.

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**5. OPERATING SEGMENT INFORMATION**

**Description of Segments and Principal Activities**

Operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision maker (“CODM”). The executive directors assess the financial performance and position of the Source Photonics Group and make strategic decisions. The executive directors, which has been identified as being the CODM, consists of the executive director, the chief financial officer and the managers for each business unit. The CODM reviews the Source Photonics Group’s internal reporting in order to assess performance, allocate resources, and determine the operating segment based on these reports.

For management purposes, the Source Photonics Group operates as a single business unit organised by products, with one operating segment that principally engages in the provision of optical module-related products.

**Geographical Information**

	As at December 31		As at September 30
	2023	2024	2025
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Non-current assets (exclude financial investments (other than equity-accounted investees), deferred tax assets)			
-Chinese mainland . . . . .	454,331	596,927	894,191
-Overseas . . . . .	367,516	375,989	406,171
	<b><u>821,847</u></b>	<b><u>972,916</u></b>	<b><u>1,300,362</u></b>

**6. REVENUE**

**(a) Disaggregation of revenue by the products’ application**

	Year ended December 31				Nine months ended September 30			
	2023		2024		2024		2025	
	Revenue	Cost	Revenue	Cost	Revenue	Cost	Revenue	Cost
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
					<i>(Unaudited) (Unaudited)</i>			
Telecom . . . . .	826,037	663,585	971,225	743,653	673,315	534,672	599,577	491,864
Data centers . . . . .	460,061	389,792	1,940,435	1,310,712	1,194,932	858,404	3,007,239	2,116,332
Others (i) . . . . .	19,047	3,369	33,672	11,884	21,829	7,910	20,699	9,485
	<b><u>1,305,145</u></b>	<b><u>1,056,746</u></b>	<b><u>2,945,332</u></b>	<b><u>2,066,249</u></b>	<b><u>1,890,076</u></b>	<b><u>1,400,986</u></b>	<b><u>3,627,515</u></b>	<b><u>2,617,681</u></b>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**6. REVENUE (Continued)**

**(a) Disaggregation of revenue by the products’ application (Continued)**

(i) Others mainly consist of income from the sale of materials.

	<u>Year ended December 31</u>		<u>Nine months ended September 30</u>	
	<u>2023</u>	<u>2024</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
			<i>(Unaudited)</i>	
Recognized at a point in time . . . . .	<u>1,305,145</u>	<u>2,945,332</u>	<u>1,890,076</u>	<u>3,627,515</u>

The major customers which contributed more than 10% of total revenue of the Source Photonics Group for the years ended December 31, 2023, 2024 and nine months ended September 30, 2024 and 2025 are listed as below:

	<u>Year ended December 31</u>				<u>Nine months ended September 30</u>			
	<u>2023</u>		<u>2024</u>		<u>2024</u>		<u>2025</u>	
	<i>RMB’000</i>	<i>%</i>	<i>RMB’000</i>	<i>%</i>	<i>RMB’000</i>	<i>%</i>	<i>RMB’000</i>	<i>%</i>
					<i>(Unaudited) (Unaudited)</i>			
Customer A . . . . .	–	–	–	–	–	–	–	–
Customer B . . . . .	139,786	10.71	–	–	–	–	–	–
Customer C . . . . .	–	–	431,615	14.65	261,255	13.82	1,072,176	29.56
Customer D . . . . .	–	–	317,007	10.76	218,156	11.54	–	–

**(b) Geographical Information**

Source Photonics is domiciled in Chinese mainland. The amount of the Source Photonics Group’s revenue from contracts with customers by location is shown in the table below:

	<u>Year ended December 31</u>		<u>Nine months ended September 30</u>	
	<u>2023</u>	<u>2024</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
			<i>(Unaudited)</i>	
Chinese mainland . . . . .	505,583	985,992	716,495	1,228,207
Overseas . . . . .	799,562	1,959,340	1,173,581	2,399,308
	<u>1,305,145</u>	<u>2,945,332</u>	<u>1,890,076</u>	<u>3,627,515</u>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**6. REVENUE (Continued)**

**(c) Contract Liabilities**

During the Track Record Period, the additions to the contract liabilities were primarily due to cash collections in advance of fulfilling performance obligations, while the reductions to the contract liabilities were primarily due to the recognition of revenues upon fulfillment of performance obligations.

	<b>As at December 31</b>		<b>As at September 30</b>
	<b>2023</b>	<b>2024</b>	<b>2025</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Contract liabilities . . . . .	117	1,232	259

As at January 1, 2023, the Source Photonics Group’s contract liabilities from customers amounted to approximately RMB 217,000.

The following table shows how much of the revenue, which was included in the contract liabilities at the beginning of the period, recognized during the Track Record Period relates to carried-forward contract liabilities:

	<b>Year ended December 31</b>		<b>Nine months ended September 30</b>
	<b>2023</b>	<b>2024</b>	<b>2025</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Revenue recognized that was included in the beginning balance . . . . .	154	87	1,232

Management expects that approximately RMB259,000 of the unsatisfied obligation as at September 30, 2025 will be recognized as revenue during the next year.

**(d) Accounting Policies and Significant Judgements for Revenue Recognition**

The Source Photonics Group recognizes revenue when (or as) a performance obligation is satisfied, i.e., when control of the goods or services underlying the particular performance obligation is transferred to the customer.

If control of the goods and services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods and services.

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

If a customer pays consideration or Source Photonics has a right to an amount of consideration that is unconditional, before Source Photonics transfers goods or services to the customer, Source Photonics

## **APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

### **II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

#### **6. REVENUE (Continued)**

##### **(d) Accounting Policies and Significant Judgements for Revenue Recognition (Continued)**

presents the contract liability when the payment is made. A contract liability is Source Photonics’ obligation to transfer goods or services to a customer for which Source Photonics has received consideration (or an amount of consideration is due) from the customer.

The Source Photonics Group generally offers assurance-type warranties to customers and such warranties are not considered a distinct performance obligation to customers. The Source Photonics Group accounts for the warranty in accordance with IAS 37 and the estimated warranty cost was not material for the Track Record Period (Note 30).

The credit period granted to customers by the Source Photonics Group is determined based on their credit risk characteristics, which is consistent with industry practice, and there is no significant financing component.

#### **Products revenue**

The Source Photonics Group primarily engaged in production and sales of optical transceiver components, optical devices, modules, and chips used in data centers, optical transmission, wireless networks, and access networks.

Revenue from domestic product sales under the VMI (Vendor-Managed Inventory) model, is recognized at a point in time when the customer actually picks up and uses the goods, because it is only at this point that the customer obtains the ability to direct the use of the goods (such as the right to sell, process or otherwise dispose of the goods at its own discretion) and assumes the significant risks and rewards of ownership of the goods, including the risks of price fluctuations, obsolescence, damage or loss of the relevant goods.

Revenue from domestic product sales (excluding the VMI model) is recognized at a point in time when the Source Photonics Group has delivered the products to the location specified in the sales contract, the buyer has confirmed acceptance of the products, and both parties have signed the delivery order. Upon such acceptance, the customer gains the right to sell the products at its discretion and assumes the risks associated with the products, including price fluctuations, obsolescence, and loss.

Revenue from overseas sales of products is recognized at a point in time when control of the goods transfers to the customer. The specific point of revenue recognition for overseas sales varies based on the Incoterms agreed in the sales contract, with each term dictating the stage at which control, along with associated risks and rewards, transfer to the customer, as detailed below:

- For EXW (Ex Works) terms: revenue is recognized when the goods are made available to the customer at Source Photonics’ premises. At this stage, the customer obtains unconditional access to the goods, gains the ability to direct their use (e.g., arrange transportation, resell, or process the goods at its own discretion), and assumes all significant risks and rewards of ownership—including risks of damage, loss, or price fluctuations of the goods from Source Photonics’ premises onwards.
- For FOB (Free on Board), CIF (Cost, Insurance and Freight), and FCA (Free Carrier) terms: revenue is recognized at a point in time once Source Photonics has completed customs declaration formalities for export and obtained the bill of lading. This stage is deemed the transfer of control because, upon customs clearance and shipment, the customer obtains the right to take title to the

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**6. REVENUE (Continued)**

**(d) Accounting Policies and Significant Judgements for Revenue Recognition (Continued)**

goods (evidenced by documents such as the bill of lading), gains the ability to direct the subsequent transportation and disposal of the goods, and bears significant risks and rewards—including risks of loss during transit, price fluctuations, and obsolescence of the goods.

- For DAP (Delivered at Place) and DDP (Delivered Duty Paid) terms: revenue is recognized at a point in time when the customer has received and signed for the goods at the named destination specified in the contract. At this point, the customer has fully taken possession of the goods, obtained the ability to direct their use (e.g., resell, store, or process) and obtain substantially all of the remaining economic benefits from the goods, while also assuming all significant risks and rewards incidental to ownership.

**7. OTHER INCOME**

	<b>Year ended December 31</b>		<b>Nine months ended September 30</b>	
	<b>2023</b>	<b>2024</b>	<b>2024</b>	<b>2025</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Government grants . . . . .	18,726	15,383	6,534	12,962
Others . . . . .	<u>1,711</u>	<u>1,785</u>	<u>867</u>	<u>1,278</u>
	<u><b>20,437</b></u>	<u><b>17,168</b></u>	<u><b>7,401</b></u>	<u><b>14,240</b></u>

*(Unaudited)*

**8. OTHER GAINS/(LOSSES), NET**

	<b>Year ended December 31</b>		<b>Nine months ended September 30</b>	
	<b>2023</b>	<b>2024</b>	<b>2024</b>	<b>2025</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Net foreign exchange gains/(losses) . . . . .	18,791	20,603	(11,841)	(9,903)
Fair value changes on financial liabilities at FVTPL . . . . .	(70,112)	(21,032)	(15,650)	(73,691)
Fair value changes on financial assets at FVTPL . . . . .	1,420	20	–	35
Gain on modification of terms in Preferred Shares . . . . .	–	648,126	648,126	–
Net losses on disposal of property, plant and equipment and other long-term assets . . . . .	(432)	(10,757)	(4,857)	(4,552)
Gains from financial assets at FVTPL during holding period . . . . .	194	610	154	84
Compensation expense in connection with convertible bond . . . . .	–	–	–	(41,558)
Other items . . . . .	<u>(56)</u>	<u>(2,722)</u>	<u>684</u>	<u>14</u>
	<u><b>(50,195)</b></u>	<u><b>634,848</b></u>	<u><b>616,616</b></u>	<u><b>(129,571)</b></u>

*(Unaudited)*

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**9. EXPENSE BY NATURE**

Expenses included in cost of revenue, general and administrative expenses, selling and marketing expenses and research and development expenses are analyzed as follows:

	<b>Year ended December 31</b>		<b>Nine months ended</b>	
	<b>2023</b>	<b>2024</b>	<b>September 30</b>	
	<i>RMB’000</i>	<i>RMB’000</i>	<i>2024</i>	<i>2025</i>
			<i>(Unaudited)</i>	
Raw materials and consumables used . . . . .	784,311	1,743,414	1,136,425	2,212,107
Employee benefits expenses . . . . .	301,379	434,138	262,568	410,149
Depreciation and amortization . . . . .	106,294	115,127	79,407	119,377
Utility costs . . . . .	22,344	30,072	17,350	28,286
Inventory impairment . . . . .	7,861	16,618	7,339	22,798
Transportation costs . . . . .	6,506	18,554	11,310	25,673
Maintenance expenses . . . . .	6,013	10,620	6,862	16,763
Agency expenses . . . . .	23,876	7,354	6,842	12,597
Auditor’s services . . . . .	814	814	814	814
Other expenses (i) . . . . .	48,964	58,452	51,499	80,042
	<b><u>1,308,362</u></b>	<b><u>2,435,163</u></b>	<b><u>1,580,416</u></b>	<b><u>2,928,606</u></b>

(i) Other expenses primarily include taxes and surcharges, short-term rental fees, bank service fees, office administrative expenses and traveling expenses, etc.

**10. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTOR’S REMUNERATION)**

	<b>Year ended December 31</b>		<b>Nine months ended</b>	
	<b>2023</b>	<b>2024</b>	<b>September 30</b>	
	<i>RMB’000</i>	<i>RMB’000</i>	<i>2024</i>	<i>2025</i>
			<i>(Unaudited)</i>	
Salaries, wages and bonuses . . . . .	217,330	346,148	212,104	348,544
Share-based compensation expenses . . . . .	26,529	7,153	7,153	–
Housing fund, medical insurance and other social insurance . . . . .	28,114	43,439	22,450	32,057
Pension costs . . . . .	22,312	31,000	15,603	22,421
Other employee benefits . . . . .	7,094	6,398	5,258	7,127
	<b><u>301,379</u></b>	<b><u>434,138</u></b>	<b><u>262,568</u></b>	<b><u>410,149</u></b>

(i) The Source Photonics Group is required to make contributions for its employees in the PRC to the state-sponsored retirement plan at a certain rate based on the qualified salaries of the individual employees. The PRC government is responsible for the pension liability of the retired employees.

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**11. FINANCE COSTS, NET**

	<b>Year ended December 31</b>		<b>Nine months ended</b>	
	<b>2023</b>	<b>2024</b>	<b>September 30</b>	
	<i>RMB’000</i>	<i>RMB’000</i>	<i>2024</i>	<i>2025</i>
			<i>(Unaudited)</i>	
<b>Finance income:</b>				
Interest income .....	863	710	824	5,469
<b>Finance costs:</b>				
Interest expenses on lease liabilities .....	(4,836)	(4,821)	(4,073)	(4,472)
Interest expenses on borrowings .....	(41,924)	(20,411)	(14,719)	(22,112)
Net exchange losses on foreign currency borrowings .....	(6,188)	(3,157)	(1,210)	(304)
<b>Finance costs total</b> .....	<b>(52,948)</b>	<b>(28,389)</b>	<b>(20,002)</b>	<b>(26,888)</b>
<b>Finance costs, net</b> .....	<b>(52,085)</b>	<b>(27,679)</b>	<b>(19,178)</b>	<b>(21,419)</b>

**12. INCOME TAX EXPENSE**

The income tax expense of the Source Photonics Group during the Track Record Period are analyzed as follows:

	<b>Year ended December 31</b>		<b>Nine months ended</b>	
	<b>2023</b>	<b>2024</b>	<b>September 30</b>	
	<i>RMB’000</i>	<i>RMB’000</i>	<i>2024</i>	<i>2025</i>
			<i>(Unaudited)</i>	
Current income tax on profits for the year/period .....	5,519	53,042	15,846	66,786
Deferred income tax .....	(1,101)	29,726	18,146	18,753
	<b>4,418</b>	<b>82,768</b>	<b>33,992</b>	<b>85,539</b>

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

*(a)* PRC Corporate Income Tax

In accordance with the relevant regulations of the Enterprise Income Tax laws (the “EIT Law”) of the PRC, the applicable statutory tax rate of the PRC subsidiaries is 25% unless those subject to tax exemption set out below.

During the Track Record Period, certain subsidiaries of the Source Photonics Group have obtained High and New Technology Enterprises certification (“HNTE”) and hence they are entitled to a preferential corporate income tax rate of 15% for a valid period of 3 years.

## APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP

### II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

#### 12. INCOME TAX EXPENSE (Continued)

##### (b) Taiwan Corporate Income Tax

The profit tax for profit-seeking enterprises in Taiwan is calculated based on the estimated assessable profits, with an applicable tax rate of 20%.

##### (c) Macao Corporate Income Tax

The profit tax for profit-seeking enterprises in the Macao region is calculated based on the estimated assessable profits, with an applicable tax rate of 12%.

##### (d) U.S. Corporate Income Tax

The corporate income tax (with the nature of profit tax) in the United States adopts a hierarchical taxation model of federal and state levels. The federal tax rate is 21%, and the state tax rate is 8.84%. If a company incurs a loss in the current year, it only needs to pay a state tax of \$800.

##### (e) OECD Pillar Two Model Rules

Amendments to IAS 12 “International Tax Reform - Pillar Two Model Rules” were issued on May 23, 2023 which are effective upon issuance and require retrospective application. The amendments provide a temporary exception from deferred tax accounting for the income tax arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organization for Economic Cooperation and Development (“OECD”).

The Source Photonics Group is within the scope of global minimum tax (“GMT”) under the OECD Pillar Two model rules (“Pillar Two”). Subject to tax legislation enacting Pillar Two being passed in the jurisdictions where Source Photonics and its subsidiaries operate, the Source Photonics Group is liable to pay a top-up tax for any deficiency between the minimum tax rate of 15% and the effective tax rate per respective jurisdiction. The Source Photonics Group applies the IAS 12 exception to recognition and disclosure information about deferred tax assets and liabilities relating to Pillar Two income taxes.

For those jurisdictions where the Pillar Two legislation was enacted but not effective at the reporting date, the Source Photonics Group has no related current tax exposure. However, certain subsidiaries of Source Photonics are located in jurisdictions where Pillar Two legislation was effective, and the Source Photonics Group’s assessment indicates that there is no material related current tax exposure in these jurisdictions during Track Record Period.

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**12. INCOME TAX EXPENSE (Continued)**

The income tax on the Source Photonics Group’s profit before income tax differs from the theoretical amount that would arise using the enacted tax rate applicable to profits of the subsidiaries as follows:

	<u>Year ended December 31</u>		<u>Nine months ended September 30</u>	
	<u>2023</u>	<u>2024</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Profit/(loss) before income tax</b> . . . . .	<b>(85,951)</b>	<b>1,133,222</b>	<b>914,301</b>	<b>560,795</b>
Calculated at the PRC taxation rate of Source Photonics (25%) . . . . .	(21,487)	283,306	228,575	140,199
Effect of different tax rates applicable to subsidiaries (i) . . . . .	27,939	(203,847)	(186,238)	(49,278)
Non-deductible expenses for tax purposes . . . . .	5,863	12,971	3,198	6,308
Unused tax losses and temporary differences not recognized as deferred tax assets (ii) . . . . .	183	177	103	2,082
Super deduction for research and development expenses (iii) . . . . .	(7,784)	(14,339)	(11,756)	(16,525)
Previously unrecognized tax losses and used to reduce deferred tax expense . . . . .	(1,574)	(2,060)	(1,442)	-
Others . . . . .	1,278	6,560	1,552	2,753
	<u><b>4,418</b></u>	<u><b>82,768</b></u>	<u><b>33,992</b></u>	<u><b>85,539</b></u>

- (i) Reconciling differences are attributable to variations between the statutory tax rates applicable to certain subsidiaries and the parent Company’s 25% rate.
- (ii) Deferred income tax assets relating to these unused tax losses are not recognized as the management considers it is uncertain to utilize these unrecognized tax credits prior to their expiry dates mainly based on considerations of future profitability.
- (iii) According to the relevant laws and regulations promulgated by the State Taxation Administration of the PRC, enterprises engaging in research and development activities are entitled to claim 200% of it for the remaining period, so incurred as tax deductible expenses when determining their assessable profits for that year (“Super-deduction”). The Source Photonics Group has made its best estimation for the Super-deduction to be claimed for the Source Photonics Group’s entities in ascertaining their assessable profits for the years ended December 31, 2023, 2024 and nine months ended September 30, 2025. In addition, in Taiwan region of China, if research and development (R&D) projects comply with the local regulatory requirements, 15% of the applied amount can be directly offset against the current year’s tax liability.

**13. DIVIDENDS**

No dividend has been paid or declared by Source Photonics during the Track Record Period.

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**14. NOTES RECEIVABLES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

The Source Photonics Group

	<u>As at December 31</u>		<u>As at</u>
	<u>2023</u>	<u>2024</u>	<u>September 30</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Current:</b>			
- Notes receivables at FVOCI (i) .....	<u>28,217</u>	<u>6,022</u>	<u>4,918</u>

(i) Notes receivables at FVOCI

These notes receivables were classified and measured at fair value through other comprehensive income as they are held within a business model with the objective of both collecting contractual cash flows and selling.

The Source Photonics Group

	<u>As at December 31</u>		<u>As at</u>
	<u>2023</u>	<u>2024</u>	<u>September 30</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Carrying amount of notes receivables at FVOCI .....	<u>28,217</u>	<u>6,022</u>	<u>4,918</u>

APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

15. SUBSIDIARIES

During the Track Record Period, Source Photonics’ primary subsidiaries are as follows:

	Name of subsidiary	Place of incorporation and type of legal entity	Share capital registered/ paid-up capital As at December 31	Equity interest held by Source Photonics						Principal activities
				As at December 31		2024		2025		
				Direct	Indirect	Direct	Indirect	Direct	Indirect	
1	Source Photonics Santa Clara, LLC	USA, limited liability company	USD 64	-	100%	-	-	-	-	Business and Investment
2	Source Photonics Holdings (Cayman) Limited	Cayman, limited liability company	USD 50	-	100%	-	-	-	100%	Business and Investment
3	Source Photonics Taiwan, Inc.	PRC Taiwan, limited liability company	TWD 450,000	-	100%	-	-	-	100%	R&D, production, and sales of optical chips and optical modules
4	Source Photonics (Shenzhen) Company Limited (索爾思光電(深圳)有限公司)	PRC Shenzhen, limited liability company	USD 30,000	-	100%	-	-	-	100%	Domestic sales of optical modules
5	Source Photonics (Chengdu) Company Limited (索爾思光電(成都)有限公司)	PRC Chengdu, limited liability company	USD 104,675	-	100%	-	-	-	100%	R&D, production, and sales of optical modules
6	Source Photonics (Macau) Commercial Offshore Limited	PRC Macau, limited liability company	MOP 100,000	-	100%	-	-	-	100%	Overseas sales of optical modules
7	Jiangsu Source Communication Technology Co., Ltd. (江蘇索爾思通信科技有限公司)	PRC Changzhou, limited liability company	USD 23,662	-	90%	-	-	-	90%	R&D, production, and sales of optical chips and optical modules

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**15. SUBSIDIARIES (Continued)**

The statutory auditors of the above subsidiaries of the Source Photonics Group during the Track Record Period are set out below:

	Name of subsidiary	Name of statutory auditors		
		2023	2024	2025
1	Source Photonics Santa Clara, LLC (i)	—	—	—
2	Source Photonics Holdings (Cayman) Limited (i)	—	—	—
3	Source Photonics Taiwan, Inc.	BDO Taiwan	BDO Taiwan	BDO Taiwan
4	Source Photonics (Shenzhen) Company Limited	Grant Thornton (Special General Partnership)	Grant Thornton (Special General Partnership)	Pan-China Certified Public Accountants LLP
5	Source Photonics (Chengdu) Company Limited	Grant Thornton (Special General Partnership)	Grant Thornton (Special General Partnership)	Pan-China Certified Public Accountants LLP
6	Source Photonics (Macau) Commercial Offshore Limited (i)	—	—	Keng Ou Certified Public Accountants
7	Jiangsu Source Communication Technology Co., Ltd.	Grant Thornton (Special General Partnership)	Grant Thornton (Special General Partnership)	Pan-China Certified Public Accountants LLP

(i) The entity has not appointed an auditor to issue statutory financial statements for the years ended December 31, 2023, 2024 and nine months ended September 30, 2025.

Source Photonics

Investments in subsidiaries

	As at December 31		As at September 30	
	2023	2024	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000
Investments in subsidiaries	747,883	755,036	755,036	755,036

APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

16. PROPERTY, PLANT AND EQUIPMENT

The Source Photonics Group

	Office equipment	Electronic equipment	Machinery equipment	Motor vehicles	Other equipment	Construction in progress	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At January 1, 2023</b>								
Cost . . . . .	4,640	36,056	906,571	796	20,131	22,551	98,021	1,088,766
Accumulated depreciation . . . . .	(4,095)	(30,170)	(434,223)	(770)	(14,950)	—	(64,071)	(548,279)
<b>Carrying amounts . . . . .</b>	<b>545</b>	<b>5,886</b>	<b>472,348</b>	<b>26</b>	<b>5,181</b>	<b>22,551</b>	<b>33,950</b>	<b>540,487</b>
Opening carrying amounts . . . . .	545	5,886	472,348	26	5,181	22,551	33,950	540,487
Additions . . . . .	1,531	308	5,852	—	5,926	37,873	3,058	54,548
Transfers from construction in progress . . . . .	—	—	31,270	—	—	(31,270)	—	—
Disposals . . . . .	(3)	(30)	(10,385)	—	(3,634)	—	—	(14,052)
Currency translation differences . . . . .	—	62	5,223	—	83	158	271	5,797
Depreciation charges . . . . .	(208)	(2,538)	(58,189)	—	(2,657)	—	(5,910)	(69,502)
<b>Closing carrying amounts . . . . .</b>	<b>1,865</b>	<b>3,688</b>	<b>446,119</b>	<b>26</b>	<b>4,899</b>	<b>29,312</b>	<b>31,369</b>	<b>517,278</b>
<b>At December 31, 2023</b>								
Cost . . . . .	6,104	36,136	938,720	796	22,374	29,312	102,112	1,135,554
Accumulated depreciation . . . . .	(4,239)	(32,448)	(492,601)	(770)	(17,475)	—	(70,743)	(618,276)
<b>Carrying amounts . . . . .</b>	<b>1,865</b>	<b>3,688</b>	<b>446,119</b>	<b>26</b>	<b>4,899</b>	<b>29,312</b>	<b>31,369</b>	<b>517,278</b>

APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Source Photonics Group (Continued)

	Office equipment	Electronic equipment	Machinery equipment	Motor vehicles	Other equipment	Construction in progress	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At January 1, 2024</b>								
Cost	6,104	36,136	938,720	796	22,374	29,312	102,112	1,135,554
Accumulated depreciation	(4,239)	(32,448)	(492,601)	(770)	(17,475)	—	(70,743)	(618,276)
<b>Carrying amounts</b>	<b>1,865</b>	<b>3,688</b>	<b>446,119</b>	<b>26</b>	<b>4,899</b>	<b>29,312</b>	<b>31,369</b>	<b>517,278</b>
Opening carrying amounts	1,865	3,688	446,119	26	4,899	29,312	31,369	517,278
Additions	1,766	6,642	73,430	387	3,398	184,714	6,775	277,112
Transfers from construction in progress	—	—	179,732	—	—	(179,732)	—	—
Disposals	(15)	(231)	(13,371)	(13)	—	—	—	(13,630)
Currency translation differences	(1,603)	21	(80)	—	(168)	(72)	1,032	(870)
Depreciation charges	(267)	(1,788)	(69,561)	(55)	(1,711)	—	(6,285)	(79,667)
<b>Closing carrying amounts</b>	<b>1,746</b>	<b>8,332</b>	<b>616,269</b>	<b>345</b>	<b>6,418</b>	<b>34,222</b>	<b>32,891</b>	<b>700,223</b>
<b>At December 31, 2024</b>								
Cost	5,969	37,256	1,099,674	931	24,605	34,222	107,574	1,310,231
Accumulated depreciation	(4,223)	(28,924)	(483,405)	(586)	(18,187)	—	(74,683)	(610,008)
<b>Carrying amounts</b>	<b>1,746</b>	<b>8,332</b>	<b>616,269</b>	<b>345</b>	<b>6,418</b>	<b>34,222</b>	<b>32,891</b>	<b>700,223</b>

APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Source Photonics Group (Continued)

	Office equipment	Electronic equipment	Machinery equipment	Motor vehicles	Other equipment	Construction in progress	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>(Unaudited)</i>								
<b>At January 1, 2024</b>								
Cost	6,104	36,136	938,720	796	22,374	29,312	102,112	1,135,554
Accumulated depreciation	(4,239)	(32,448)	(492,601)	(770)	(17,475)	—	(70,743)	(618,276)
<b>Carrying amounts</b>	<b>1,865</b>	<b>3,688</b>	<b>446,119</b>	<b>26</b>	<b>4,899</b>	<b>29,312</b>	<b>31,369</b>	<b>517,278</b>
Opening carrying amounts	1,865	3,688	446,119	26	4,899	29,312	31,369	517,278
Additions	—	—	—	—	—	205,796	5,852	211,648
Transfers from construction in progress	—	1,461	166,079	396	1,559	(169,495)	—	—
Disposals	(15)	(71)	(10,464)	(13)	—	—	—	(10,563)
Currency translation differences	—	(87)	(17,198)	(9)	(280)	64	(1,543)	(19,053)
Depreciation charges	(61)	(1,265)	(49,319)	(37)	(1,323)	—	(4,281)	(56,286)
<b>Closing carrying amounts</b>	<b>1,789</b>	<b>3,726</b>	<b>535,217</b>	<b>363</b>	<b>4,855</b>	<b>65,677</b>	<b>31,397</b>	<b>643,024</b>
<b>At September 30, 2024</b>								
Cost	5,814	35,622	1,024,687	931	22,905	65,677	105,368	1,261,004
Accumulated depreciation	(4,025)	(31,896)	(489,470)	(568)	(18,050)	—	(73,971)	(617,980)
<b>Carrying amounts</b>	<b>1,789</b>	<b>3,726</b>	<b>535,217</b>	<b>363</b>	<b>4,855</b>	<b>65,677</b>	<b>31,397</b>	<b>643,024</b>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**16. PROPERTY, PLANT AND EQUIPMENT (Continued)**

The Source Photonics Group (Continued)

	Office equipment	Electronic equipment	Machinery equipment	Motor vehicles	Other equipment	Construction in progress	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At January 1, 2025</b>								
Cost .....	5,969	37,256	1,099,674	931	24,605	34,222	107,574	1,310,231
Accumulated depreciation .....	(4,223)	(28,924)	(483,405)	(586)	(18,187)	—	(74,683)	(610,008)
<b>Carrying amounts .....</b>	<b>1,746</b>	<b>8,332</b>	<b>616,269</b>	<b>345</b>	<b>6,418</b>	<b>34,222</b>	<b>32,891</b>	<b>700,223</b>
Opening carrying amounts .....	1,746	8,332	616,269	345	6,418	34,222	32,891	700,223
Additions .....	118	4,502	99,599	360	1,444	285,323	20,471	411,817
Transfers from construction in progress .....	—	—	152,373	—	—	(152,373)	—	—
Disposals .....	(24)	45	(78,514)	—	—	—	—	(78,493)
Disposal of subsidiaries (Note 38) .....	—	(89)	(3,817)	—	—	—	(350)	(4,256)
Currency translation differences .....	—	358	13,424	—	403	247	712	15,144
Depreciation charges .....	(166)	(1,817)	(79,548)	(76)	(1,290)	—	(5,052)	(87,949)
<b>Closing carrying amounts .....</b>	<b>1,674</b>	<b>11,331</b>	<b>719,786</b>	<b>629</b>	<b>6,975</b>	<b>167,419</b>	<b>48,672</b>	<b>956,486</b>
<b>At September 30, 2025</b>								
Cost .....	5,618	33,260	1,231,717	1,291	27,600	167,419	128,389	1,595,294
Accumulated depreciation .....	(3,944)	(21,929)	(511,931)	(662)	(20,625)	—	(79,717)	(638,808)
<b>Carrying amounts .....</b>	<b>1,674</b>	<b>11,331</b>	<b>719,786</b>	<b>629</b>	<b>6,975</b>	<b>167,419</b>	<b>48,672</b>	<b>956,486</b>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**

**16. PROPERTY, PLANT AND EQUIPMENT (Continued)**

(a) *Property, plant, and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.*

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements, the shorter of lease term as follows:

Machinery equipment	5-12 years
Electronic equipment	5 years
Office equipment and others	5 years
Motor vehicles	5 years
Leasehold improvements	Shorter of their useful lives and lease terms

See Note 41 for the other accounting policies relevant to property, plant and equipment.

(b) *Depreciation of the Source Photonics Group’s property, plant and equipment has been recognized as follows:*

	<u>Year ended December 31</u>		<u>Nine months ended September 30</u>	
	<u>2023</u>	<u>2024</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
			<i>(Unaudited)</i>	
Cost of revenue . . . . .	57,932	66,785	43,832	68,962
General and administrative expenses . . . . .	3,073	2,705	2,395	6,874
Research and development expenses . . . . .	7,375	8,667	8,070	9,671
Selling and marketing expenses . . . . .	198	193	145	150
Inventories . . . . .	924	1,317	1,844	2,292
	<u>69,502</u>	<u>79,667</u>	<u>56,286</u>	<u>87,949</u>

**17. LEASE**

**17.1 The Source Photonics Group and Source Photonics as the lessee**

(a) *Amounts Recognized in the Consolidated Statements of Financial Position*

The Source Photonics Group

	<u>As at December 31</u>		<u>As at September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Right-of-use assets</b>			
Buildings . . . . .	118,414	105,090	95,369
Land use right . . . . .	105	50	13
Others . . . . .	149	84	—
	<u>118,668</u>	<u>105,224</u>	<u>95,382</u>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**17. LEASE (Continued)**

**17.1 The Source Photonics Group and Source Photonics as the lessee (Continued)**

*(a) Amounts Recognized in the Consolidated Statements of Financial Position (Continued)*

The Source Photonics Group (Continued)

	<u>As at December 31</u>		<u>As at September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Lease liabilities</b>			
Current .....	20,391	20,722	15,651
Non-current .....	126,323	107,039	97,738
	<u><b>146,714</b></u>	<u><b>127,761</b></u>	<u><b>113,389</b></u>

(i) Additions to the right-of-use assets during the years ended December 31, 2023, 2024 and nine months ended September 30, 2024 and 2025 were approximately RMB 198,000, RMB 3,596,000, RMB 3,659,000 and nil, respectively.

(b) The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in Source Photonics Group, the lessee’s incremental borrowing rate is used. The discount rate used during the years ended December 31, 2023, 2024 and nine months ended September 30, 2024 and 2025 were ranged from 4.50%—4.79%, 4.50%—4.79%, 4.50%—4.79% and 3.00%—4.79%, respectively.

*(c) Depreciation charges of right-of-use assets have been recognized as follows:*

The consolidated statements of profit or loss and the consolidated statements of cash flow contain the following amounts relating to leases:

	<u>Year ended December 31</u>		<u>Nine months ended</u>	
	<u>2023</u>	<u>2024</u>	<u>September 30</u>	<u>September 30</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Depreciation charge of right-of-use assets:				
Land use right .....	56	51	38	39
Buildings .....	15,611	14,177	11,376	11,313
Others .....	144	67	50	50
	<u><b>15,811</b></u>	<u><b>14,295</b></u>	<u><b>11,464</b></u>	<u><b>11,402</b></u>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**17. LEASE (Continued)**

**17.1 The Source Photonics Group and Source Photonics as the lessee (Continued)**

(c) *Depreciation charges of right-of-use assets have been recognized as follows (Continued):*

	<u>Year ended December 31</u>		<u>Nine months ended September 30</u>	
	<u>2023</u>	<u>2024</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
			<i>(Unaudited)</i>	
Interest expense (included in finance cost) . . .	4,836	4,821	4,073	4,472
Expense relating to short-term and low value leases not included in lease liabilities . . . . .	<u>2,356</u>	<u>3,632</u>	<u>2,602</u>	<u>3,510</u>
	<u><b>7,192</b></u>	<u><b>8,453</b></u>	<u><b>6,675</b></u>	<u><b>7,982</b></u>

The total cash outflows for lease payments during the years ended December 31, 2023, 2024 and nine months ended September 30, 2024 and 2025 were approximately RMB 29,592,000, RMB 30,661,000, RMB 22,742,000 and RMB 15,298,000, respectively.

As a lessee, the Source Photonics Group mainly leases buildings, office equipment and motor vehicles. Lease contracts typically have fixed terms, ranging from 3 to 5 years for office equipment, motor vehicles and 3 to 15 years for buildings. They are stated at cost less accumulated depreciation and accumulated impairment losses.

See Note 41 for the other accounting policies relevant to lease.

**17.2 The Source Photonics Group as the lessor**

**(a) Operating Lease**

**(i) Lease Income**

The Source Photonics Group

	<u>Year ended December 31</u>		<u>Nine months ended September 30</u>	
	<u>2023</u>	<u>2024</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
			<i>(Unaudited)</i>	
Lease income . . . . .	<u>161</u>	<u>140</u>	<u>116</u>	<u>55</u>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**17.2 The Source Photonics Group as the lessor (Continued)**

**(a) Operating Lease (Continued)**

(ii) *Undiscounted lease payments to be received arising from non-cancellable leases based on the lease contract signed with lessee*

	<u>As at December 31</u>		<u>As at September 30</u>	
	<u>2023</u>	<u>2024</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
			<i>(Unaudited)</i>	
Within 1 year . . . . .	2,760	1,863	1,971	–
1 to 2 years . . . . .	1,836	–	335	–
	<u>4,596</u>	<u>1,863</u>	<u>2,306</u>	<u>–</u>

**18. INTANGIBLE ASSETS**

	<u>Software</u>	<u>Patent right</u>	<u>Patent technology</u>	<u>Development expenditure</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>At January 1, 2023</b>					
Cost . . . . .	50,695	46,314	68,731	43,772	209,512
Accumulated amortization . . . . .	<u>(45,970)</u>	<u>(39,698)</u>	<u>(14,692)</u>	–	<u>(100,360)</u>
Carrying amounts . . . . .	<u>4,725</u>	<u>6,616</u>	<u>54,039</u>	<u>43,772</u>	<u>109,152</u>
<b>Year ended December 31, 2023</b>					
Opening carrying amounts . . . . .	4,725	6,616	54,039	43,772	109,152
Additions . . . . .	656	–	80	44,660	45,396
Transfers from Research and Development . . . . .	–	–	7,473	(7,473)	–
Disposals . . . . .	–	–	–	–	–
Amortization charges . . . . .	<u>(1,054)</u>	<u>(6,718)</u>	<u>(14,355)</u>	–	<u>(22,127)</u>
Foreign currency translation differences . . . . .	<u>62</u>	<u>102</u>	<u>521</u>	<u>394</u>	<u>1,079</u>
<b>Closing carrying amounts . . . . .</b>	<u><b>4,389</b></u>	<u><b>–</b></u>	<u><b>47,758</b></u>	<u><b>81,353</b></u>	<u><b>133,500</b></u>
<b>At December 31, 2023</b>					
Cost . . . . .	52,089	47,100	76,964	81,353	257,506
Accumulated amortization . . . . .	<u>(47,700)</u>	<u>(47,100)</u>	<u>(29,206)</u>	–	<u>(124,006)</u>
Carrying amounts . . . . .	<u>4,389</u>	<u>–</u>	<u>47,758</u>	<u>81,353</u>	<u>133,500</u>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**18. INTANGIBLE ASSETS (Continued)**

	<u>Software</u> <i>RMB’000</i>	<u>Patent right</u> <i>RMB’000</i>	<u>Patent technology</u> <i>RMB’000</i>	<u>Development expenditure</u> <i>RMB’000</i>	<u>Total</u> <i>RMB’000</i>
<b>At January 1, 2024</b>					
Cost .....	52,089	47,100	76,964	81,353	257,506
Accumulated amortization .....	<u>(47,700)</u>	<u>(47,100)</u>	<u>(29,206)</u>	<u>–</u>	<u>(124,006)</u>
Carrying amounts .....	<u>4,389</u>	<u>–</u>	<u>47,758</u>	<u>81,353</u>	<u>133,500</u>
<b>Year ended December 31, 2024</b>					
Opening carrying amounts .....	4,389	–	47,758	81,353	133,500
Additions .....	941	–	–	44,199	45,140
Transfers from Research and Development .....	–	–	71,664	(71,664)	–
Disposals .....	–	–	(168)	–	(168)
Amortization charges .....	(1,025)	–	(21,705)	–	(22,730)
Impairment loss recognized .....	–	–	(2,306)	–	(2,306)
Foreign currency translation differences .....	<u>332</u>	<u>–</u>	<u>(360)</u>	<u>(7,439)</u>	<u>(7,467)</u>
<b>Closing carrying amounts .....</b>	<b><u>4,637</u></b>	<b><u>–</u></b>	<b><u>94,883</u></b>	<b><u>46,449</u></b>	<b><u>145,969</u></b>
<b>At December 31, 2024</b>					
Cost .....	51,771	47,803	147,203	46,449	293,226
Accumulated amortization .....	(47,134)	(47,803)	(50,014)	–	(144,951)
Accumulated impairment .....	<u>–</u>	<u>–</u>	<u>(2,306)</u>	<u>–</u>	<u>(2,306)</u>
Carrying amounts .....	<u>4,637</u>	<u>–</u>	<u>94,883</u>	<u>46,449</u>	<u>145,969</u>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**18. INTANGIBLE ASSETS (Continued)**

	<u>Software</u>	<u>Patent right</u>	<u>Patent technology</u>	<u>Development expenditure</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<i>(Unaudited)</i>					
<b>At January 1, 2024</b>					
Cost .....	52,089	47,100	76,964	81,353	257,506
Accumulated amortization .....	(47,700)	(47,100)	(29,206)	–	(124,006)
Carrying amounts .....	<u>4,389</u>	<u>–</u>	<u>47,758</u>	<u>81,353</u>	<u>133,500</u>
<b>Nine months ended</b>					
<b>September 30, 2024</b>					
Opening carrying amounts .....	4,389	–	47,758	81,353	133,500
Additions .....	966	–	–	32,885	33,851
Transfers from Research and Development .....	–	–	18,276	(18,276)	–
Disposals .....	–	–	–	–	–
Amortization charges .....	(739)	–	(12,946)	–	(13,685)
Foreign currency translation differences .....	(53)	–	729	(772)	(96)
Closing carrying amounts .....	<u>4,563</u>	<u>–</u>	<u>53,817</u>	<u>95,190</u>	<u>153,570</u>
<b>At September 30, 2024</b>					
Cost .....	52,546	46,642	96,043	95,190	290,421
Accumulated amortization .....	(47,983)	(46,642)	(42,226)	–	(136,851)
Carrying amounts .....	<u>4,563</u>	<u>–</u>	<u>53,817</u>	<u>95,190</u>	<u>153,570</u>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**18. INTANGIBLE ASSETS (Continued)**

	<u>Software</u>	<u>Patent right</u>	<u>Patent technology</u>	<u>Development expenditure</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>At January 1, 2025</b>					
Cost .....	51,771	47,803	147,203	46,449	293,226
Accumulated amortization .....	(47,134)	(47,803)	(50,014)	–	(144,951)
Accumulated impairment .....	–	–	(2,306)	–	(2,306)
Carrying amounts .....	<u>4,637</u>	<u>–</u>	<u>94,883</u>	<u>46,449</u>	<u>145,969</u>
<b>Nine months ended</b>					
<b>September 30, 2025</b>					
Opening carrying amounts .....	4,637	–	94,883	46,449	145,969
Additions .....	1,200	–	–	34,022	35,222
Transfers from Research and Development .....	–	–	11,151	(11,151)	–
Disposal of subsidiaries .....	(1,823)	–	(10,467)	(7,681)	(19,971)
Disposals .....	–	–	(9,590)	–	(9,590)
Amortization changes .....	(1,049)	–	(21,709)	–	(22,758)
Impairment loss recognized .....	–	–	(13,618)	–	(13,618)
Foreign currency translation differences .....	62	–	2,103	266	2,431
Closing carrying amounts .....	<u>3,027</u>	<u>–</u>	<u>52,753</u>	<u>61,905</u>	<u>117,685</u>
<b>At September 30, 2025</b>					
Cost .....	13,773	47,176	128,802	61,905	251,656
Accumulated amortization .....	(10,746)	(47,176)	(60,394)	–	(118,316)
Accumulated impairment .....	–	–	(15,655)	–	(15,655)
Carrying amounts .....	<u>3,027</u>	<u>–</u>	<u>52,753</u>	<u>61,905</u>	<u>117,685</u>

(a) Amortization expenses have been recognized as follows:

	<u>Year ended</u>		<u>Nine months ended</u>	
	<u>December 31</u>		<u>September 30</u>	
	<u>2023</u>	<u>2024</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Cost of revenue .....	3,251	842	631	2,799
General and administrative expenses .....	13,796	20,680	12,149	14,963
Research and development expenses .....	5,028	1,191	893	4,837
Inventories .....	52	17	12	159
	<u>22,127</u>	<u>22,730</u>	<u>13,685</u>	<u>22,758</u>

**APPENDIX IB ACCOUNTANTS' REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**18. INTANGIBLE ASSETS (Continued)**

**(b) Amortization Methods and Periods**

*(i) Software*

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire the specific software.

*(ii) Patent right*

Separately acquired patent rights are shown at historical cost. They have limited useful lives and are subsequently carried at cost less accumulated amortization and impairment losses.

*(iii) Patent technology*

Patent technology is shown at historical cost. It have limited useful lives and are subsequently carried at cost less accumulated amortization and impairment losses.

The Source Photonics Group amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

Software	5 years
Patent rights	10 years
Patent technology	5 years

**(c) Research and Development**

Research expenditure is recognized as an expense as incurred. Development Costs incurred on development projects (relating to the design and testing of new and improved products) are recognized as intangible assets when the following criteria are met:

- It is technically feasible to complete the product so that it will be available for use;
- Management intends to complete the product and use or sell it;
- There is an ability to use or sell the product;
- It can be demonstrated how the product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the product are available; and
- The expenditure attributable to the product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Capitalized development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**18. INTANGIBLE ASSETS (Continued)**

*(c) Research and Development (Continued)*

The specific capitalization conditions for R&D projects are as follows: Source Photonics enters the development phase upon project approval and receipt of the EVT (Engineering Verification Test) report, which indicates that the product design scheme and key components are basically finalized and an engineering prototype has been formed. The development expenditures are then transferred to intangible assets for accounting purposes when a resolution for mass production is approved.

*(d) Impairment Tests for Patent technology*

For the nine months ended September 30, 2025, the Source Photonics Group recognised an impairment provision of RMB13.6 million in respect of certain patent technology. The impairment was mainly attributable to termination of relevant projects, weaker market demand, intensified competition and lower-than-expected future cash flows.

Management of Source Photonics identified indicators of impairment and engaged an independent valuer to conduct an impairment assessment on the related assets as at September 30, 2025.

The valuer performed the assessment by reference to the cash-generating unit (“CGU”) to which the patent technology belonged. The carrying amount of the CGU was compared with its recoverable amount, being the higher of value-in-use (“VIU”) and fair value less costs of disposal (“FVLCOD”). Based on the assessment, the recoverable amount was determined to be value-in-use.

As a result of the cessation of related product development and commercialization activities, no economic benefits are expected to be derived from the patent technology. Accordingly, the recoverable amount of the related assets was assessed as nil, and Source Photonics Group recognised a full impairment provision against their carrying amount.

*(e) Impairment Tests for Development Expenditure*

Development Expenditure is not subject to amortization and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that they might be impaired. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets.

The following table sets out the key assumptions, where the Source Photonics Group used five-year period as the projection period for the cash flow forecast.

Development Expenditure	Year ended December 31		Nine months ended
	2023	2024	September 30
Revenue annual growth rates . . . . .	0% to 127.4%	0% to 26.5%	0% to 13.0%
Perpetual annual growth rates . . . . .	0.0%	0.0%	0.0%
Pre-tax discount rates . . . . .	16.4%	16.7%	16.7%

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**18. INTANGIBLE ASSETS (Continued)**

*(e) Impairment Tests for Development Expenditure (Continued)*

Management has determined the values assigned to each of the above key assumptions as follows:

<u>Assumption</u>	<u>Approach used to determine values</u>
Revenue annual growth rates . . . . .	Revenue annual growth rate is estimated over the five-year forecast period. The management of the Source Photonics Group used a five-year period as the projection period for the cash flow forecast, which was in line with the period length used in the corresponding strategic planning and long-term budgeting purpose.
Perpetual annual growth rates . . . . .	This is the weighted average growth rate used to extrapolate cash flows beyond the forecast period. The rates are determined after making reference to long term inflation rate of the countries in which they operate. The perpetual annual growth rates remained stable which was due to the fact that the long-term inflation rates of the relevant countries were relatively stable during the Track Record Period.
Pre-tax discount rates . . . . .	Estimated by using the weighted average cost of capital (“WACC”) method. The WACC was calculated by referring to public market data including risk free rate, market return, beta of comparable public companies etc. and the specific risk of the business.

**Impact of possible changes in key assumptions**

Based on management’s assessment on the recoverable amounts, the headroom is as follows:

	<u>Year ended</u>		<u>Nine months ended</u>
	<u>December 31</u>		<u>September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Development Expenditure . . . . .	315,884	372,666	571,157

The recoverable amounts would equal their carrying amounts if the key assumptions were to change as follows:

	<u>Year ended</u>		<u>Nine months ended</u>
	<u>December 31</u>		<u>September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
Revenue annual growth rates . . . . .	30.50%	37.06%	42.00%
Pre-tax discount rates . . . . .	94.00%	183.30%	249.00%

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**18. INTANGIBLE ASSETS (Continued)**

*(e) Impairment Tests for Development Expenditure (Continued)*

Sensitivity analysis has been performed based on the assumptions that revenue annual growth rates and pre-tax discount rates has been changed. Had the estimated key assumptions during the forecast period been changed as shown below, while other parameters remain constant, the headroom would be as follows:

	<u>Year ended</u> <u>December 31</u>		<u>Nine months ended</u> <u>September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Average revenue annual growth rate decreased by 1% . . .	442,037	510,354	565,157
Pre-tax discount rate increased by 1% . . . . .	445,037	514,354	569,157

**19. FINANCIAL INSTRUMENTS BY CATEGORY**

The detail information of financial instruments by category during the Track Record Period is as below:

The Source Photonics Group

	<u>As at December 31</u>		<u>As at</u> <u>September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Financial assets</b>			
Financial assets measured at fair value:			
Notes receivables at FVOCI (Note 14) . . . . .	28,217	6,022	4,918
Financial assets at FVTPL (Note 25) . . . . .	81,000	14,020	12,035
	<u><b>109,217</b></u>	<u><b>20,042</b></u>	<u><b>16,953</b></u>
Financial assets measured at amortized cost:			
Trade receivables (Note 21) . . . . .	478,814	873,915	1,373,810
Restricted cash and term deposits (Note 26) . . . . .	50,388	40,344	53,861
Cash and cash equivalents (Note 26) . . . . .	213,914	252,047	275,731
Other receivables (Note 22) . . . . .	23,511	39,818	53,148
	<u><b>766,627</b></u>	<u><b>1,206,124</b></u>	<u><b>1,756,550</b></u>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**19. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)**

The Source Photonics Group (Continued)

	<u>As at December 31</u>		<u>As at</u>
	<u>2023</u>	<u>2024</u>	<u>September 30</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Financial liabilities</b>			
Financial liabilities measured at fair value:			
Convertible bonds (Note 25) . . . . .	321,304	374,483	422,675
Other financial liabilities at FVTPL (Note 25) . . . . .	<u>2,625,085</u>	<u>—</u>	<u>—</u>
	<b><u>2,946,389</u></b>	<b><u>374,483</u></b>	<b><u>422,675</u></b>
Financial liabilities measured at amortized cost:			
Trade payables (Note 28) . . . . .	517,025	916,370	1,493,304
Accruals and other payables (excluding non-financial liabilities) (Note 29) . . . . .	11,911	14,011	15,848
Lease liabilities (Note 17) . . . . .	146,714	127,761	113,389
Borrowings (Note 27) . . . . .	<u>592,811</u>	<u>461,575</u>	<u>568,618</u>
	<b><u>1,268,461</u></b>	<b><u>1,519,717</u></b>	<b><u>2,191,159</u></b>

Source Photonics

	<u>As at December 31</u>		<u>As at</u>
	<u>2023</u>	<u>2024</u>	<u>September 30</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Financial assets</b>			
Financial assets measured at amortized cost:			
Cash and cash equivalents . . . . .	—	—	95
Other receivables (Note 22) . . . . .	<u>55,268</u>	<u>60,229</u>	<u>60,595</u>
	<b><u>55,268</u></b>	<b><u>60,229</u></b>	<b><u>60,690</u></b>
<b>Financial liabilities</b>			
Financial liabilities measured at fair value:			
Other financial liabilities at FVTPL (Note 25) . . . . .	<b><u>2,625,010</u></b>	<u>—</u>	<u>—</u>
Financial liabilities measured at amortized cost:			
Accruals and other payables (excluding non-financial liabilities) (Note 29) . . . . .	199,389	305,205	293,130
Borrowings (Note 27) . . . . .	<u>102,174</u>	<u>—</u>	<u>—</u>
	<b><u>301,563</u></b>	<b><u>305,205</u></b>	<b><u>293,130</u></b>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**20. DEFERRED TAX**

Deferred tax assets and liabilities are offset when there is a legally enforceable right of offsetting and when the deferred income taxes relate to the same authority. The net amounts of deferred tax assets and liabilities after offsetting are as follows:

	<u>As at December 31</u>		<u>As at</u> <u>September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Gross deferred tax assets . . . . .	78,624	55,456	56,750
Offsetting against deferred tax liabilities . . . . .	<u>(41,331)</u>	<u>(42,454)</u>	<u>(50,406)</u>
<b>Net deferred tax assets . . . . .</b>	<b><u>37,293</u></b>	<b><u>13,002</u></b>	<b><u>6,344</u></b>
Gross deferred tax liabilities . . . . .	41,331	47,889	67,965
Offsetting against deferred tax assets . . . . .	<u>(41,331)</u>	<u>(42,454)</u>	<u>(50,406)</u>
<b>Net deferred tax liabilities . . . . .</b>	<b><u>–</u></b>	<b><u>5,435</u></b>	<b><u>17,559</u></b>

APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

20. DEFERRED TAX (Continued)

The movements in deferred tax assets and liabilities before offsetting are as follows:

(a) *Deferred Tax Assets*

	Tax losses	Loss allowance and impairment provision	Government grants	Amortization of Intangible Assets	Accrued expenses	Lease liabilities	Provisions for warranties and other expenses	Changes in the Fair Value of Defined Benefit Plans	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2023	12,240	29,097	2,154	4,876	474	24,874	587	3,692	77,994
Credited/(charged) to profit or loss (Note 12)	4,329	(4,014)	2,068	(350)	(35)	(2,768)	241	1,159	630
<b>At December 31, 2023</b>	<b>16,569</b>	<b>25,083</b>	<b>4,222</b>	<b>4,526</b>	<b>439</b>	<b>22,106</b>	<b>828</b>	<b>4,851</b>	<b>78,624</b>
At January 1, 2024	16,569	25,083	4,222	4,526	439	22,106	828	4,851	78,624
Credited/(charged) to profit or loss (Note 12)	(16,038)	(2,213)	(345)	(324)	175	(2,063)	289	(2,649)	(23,168)
<b>At December 31, 2024</b>	<b>531</b>	<b>22,870</b>	<b>3,877</b>	<b>4,202</b>	<b>614</b>	<b>20,043</b>	<b>1,117</b>	<b>2,202</b>	<b>55,456</b>
<i>(Unaudited)</i>									
At January 1, 2024	16,569	25,083	4,222	4,526	439	22,106	828	4,851	78,624
Credited/(charged) to profit or loss (Note 12)	(7,500)	(2,238)	(186)	131	4,548	(1,302)	119	(4,851)	(11,279)
<b>At September 30, 2024</b>	<b>9,069</b>	<b>22,845</b>	<b>4,036</b>	<b>4,657</b>	<b>4,987</b>	<b>20,804</b>	<b>947</b>	<b>-</b>	<b>67,345</b>
At January 1, 2025	531	22,870	3,877	4,202	614	20,043	1,117	2,202	55,456
Credited/(charged) to profit or loss (Note 12)	3,042	2,078	(331)	185	-	(1,366)	(112)	(2,202)	1,294
<b>At September 30, 2025</b>	<b>3,573</b>	<b>24,948</b>	<b>3,546</b>	<b>4,387</b>	<b>614</b>	<b>18,677</b>	<b>1,005</b>	<b>-</b>	<b>56,750</b>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**20. DEFERRED TAX (Continued)**

*(b) Deferred Tax Liabilities*

	Changes in the Fair Value of Defined Benefit Plans	Right-of-use assets	Accumulated Depreciation of Fixed Assets	Unrealized Foreign Exchange Gain or Loss	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
At January 1, 2023 . . . . .	392	21,785	19,625	–	41,802
Credited/(charged) to profit or loss (Note 12) . . . . .	<u>48</u>	<u>(2,719)</u>	<u>2,200</u>	<u>–</u>	<u>(471)</u>
<b>At December 31, 2023 . . . . .</b>	<b><u>440</u></b>	<b><u>19,066</u></b>	<b><u>21,825</u></b>	<b><u>–</u></b>	<b><u>41,331</u></b>
At January 1, 2024 . . . . .	440	19,066	21,825	–	41,331
Credited/(charged) to profit or loss (Note 12) . . . . .	<u>152</u>	<u>(1,924)</u>	<u>8,330</u>	<u>–</u>	<u>6,558</u>
<b>At December 31, 2024 . . . . .</b>	<b><u>592</u></b>	<b><u>17,142</u></b>	<b><u>30,155</u></b>	<b><u>–</u></b>	<b><u>47,889</u></b>
<i>(Unaudited)</i>					
At January 1, 2024 . . . . .	440	19,066	21,825	–	41,331
Credited/(charged) to profit or loss (Note 12) . . . . .	(1)	(1,039)	7,907	–	6,867
Charged to other comprehensive income . . .	<u>(19)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(19)</u>
<b>At September 30, 2024 . . . . .</b>	<b><u>420</u></b>	<b><u>18,027</u></b>	<b><u>29,732</u></b>	<b><u>–</u></b>	<b><u>48,179</u></b>
At January 1, 2025 . . . . .	592	17,142	30,155	–	47,889
Credited/(charged) to profit or loss (Note 12) . . . . .	–	(1,328)	16,800	4,575	20,047
Credited/(charged) to other comprehensive income . . .	37	–	–	–	37
Foreign exchange differences . . . . .	<u>–</u>	<u>–</u>	<u>–</u>	<u>(8)</u>	<u>(8)</u>
<b>At September 30, 2025 . . . . .</b>	<b><u>629</u></b>	<b><u>15,814</u></b>	<b><u>46,955</u></b>	<b><u>4,567</u></b>	<b><u>67,965</u></b>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**20. DEFERRED TAX (Continued)**

*(c) Deferred Tax Assets Not Recognized*

The Source Photonics Group has not recognized deferred tax assets in respect of the items below, which were not likely to generate taxable profit:

	<u>As at December 31</u>		<u>As at September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Tax losses .....	28,667	15,163	17,450
Temporary differences .....	41,775	22,242	24,065
	<u><b>70,442</b></u>	<u><b>37,405</b></u>	<u><b>41,515</b></u>

The tax losses not recognized deferred tax assets can be carried forward in future years. As at December 31, 2023, 2024 and September 30, 2025, the following table shows unused tax losses based on its expected expiry date:

	<u>As at December 31</u>		<u>As at September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
2024 .....	17,920	—	—
2025 .....	—	—	—
2026 .....	—	—	—
2027 .....	—	—	—
2028 .....	570	580	580
2029 .....	1,059	1,076	1,076
2030 .....	1,369	1,391	1,391
2031 .....	—	—	—
2032 .....	978	978	978
2033 .....	2,359	2,359	2,359
2034 .....	139	3,541	3,541
2035 .....	174	177	2,143
2036 .....	169	172	172
2037 .....	263	268	268
2038 .....	426	433	433
2039 .....	322	327	327
2040 .....	269	274	274
2041 .....	—	254	254
2042 .....	—	—	321
Unlimited .....	2,650	3,333	3,333
	<u><b>28,667</b></u>	<u><b>15,163</b></u>	<u><b>17,450</b></u>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**21. TRADE RECEIVABLES**

The Source Photonics Group

	<u>As at December 31</u>		<u>As at September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Trade receivables . . . . .	481,384	877,705	1,378,933
Less: credit loss allowance . . . . .	<u>(2,570)</u>	<u>(3,790)</u>	<u>(5,123)</u>
	<b><u>478,814</u></b>	<b><u>873,915</u></b>	<b><u>1,373,810</u></b>

- (a) As at January 1, 2023, the gross carrying amounts of trade receivables from contracts with customers are amounting to RMB410,101,000 (net of expected credit loss amounting to RMB1,707,000).
- (b) The Source Photonics Group grants credit terms to some customers ranging from 30 to 120 days from the date of billing. The aging analysis of trade receivables based on revenue recognition date is as follows:

	<u>As at December 31</u>		<u>As at September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Within one year . . . . .	479,737	873,220	1,373,013
One to two years . . . . .	249	3,105	4,543
Over two years . . . . .	<u>1,398</u>	<u>1,380</u>	<u>1,377</u>
	<b><u>481,384</u></b>	<b><u>877,705</u></b>	<b><u>1,378,933</u></b>

**22. PREPAYMENTS AND OTHER RECEIVABLES**

The Source Photonics Group

	<u>As at December 31</u>		<u>As at September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Non-current:			
Prepayments:			
Prepayments for equipment . . . . .	<u>50,202</u>	<u>18,539</u>	<u>127,662</u>
Other receivables:			
Deposits . . . . .	<u>2,066</u>	<u>—</u>	<u>—</u>
	<b><u>52,268</u></b>	<b><u>18,539</u></b>	<b><u>127,662</u></b>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**22. PREPAYMENTS AND OTHER RECEIVABLES (Continued)**

The Source Photonics Group (Continued)

	<u>As at December 31</u>		<u>As at September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Current:</b>			
Prepayments:			
Prepayments for raw materials .....	4,238	9,985	4,854
Prepayments for operating expenses .....	7,612	11,058	16,191
Others .....	408	1,275	311
	<u>12,258</u>	<u>22,318</u>	<u>21,356</u>
Other receivables:			
Deposits .....	8,460	10,936	12,510
Export tax rebate .....	10,588	27,095	40,444
Finance lease receivables .....	2,532	1,822	–
Others .....	59	171	404
Less: provision for impairment .....	(194)	(206)	(210)
	<u>21,445</u>	<u>39,818</u>	<u>53,148</u>
	<u>33,703</u>	<u>62,136</u>	<u>74,504</u>

Source Photonics

Other receivables:			
Loans to subsidiaries .....	<u>55,268</u>	<u>60,229</u>	<u>60,595</u>

**23. OTHER CURRENT ASSETS AND OTHER NON-CURRENT ASSETS**

The Source Photonics Group

	<u>As at December 31</u>		<u>As at September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Other current assets</b>			
Deductible input VAT .....	690	8,021	8,848
Prepaid corporate income tax .....	668	5,279	–
Returned goods receivable .....	7,948	9,122	10,989
	<u>9,306</u>	<u>22,422</u>	<u>19,837</u>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**23. OTHER CURRENT ASSETS AND OTHER NON-CURRENT ASSETS (Continued)**

The Source Photonics Group (Continued)

	<u>As at December 31</u>		<u>As at September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Other non-current assets</b>			
Defined benefit plans .....	<u>2,199</u>	<u>2,961</u>	<u>3,147</u>

**24. INVENTORIES**

The Source Photonics Group

	<u>As at December 31</u>		<u>As at September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Raw materials .....	318,934	328,555	556,250
Work in progress .....	261,602	448,821	528,857
Finished goods .....	59,569	60,332	168,064
Materials on consignment .....	11,246	30,422	52,298
Goods in transit .....	22,417	106,432	66,162
Less: provision for impairment .....	<u>(148,146)</u>	<u>(130,405)</u>	<u>(123,425)</u>
	<u><b>525,622</b></u>	<u><b>844,157</b></u>	<u><b>1,248,206</b></u>

- (i) The cost of inventories carried forward to the profit or loss during the year is mainly recognized as the cost of revenue. For the years ended December 31, 2023, 2024 and nine months ended September 30, 2024 and 2025, the cost of inventories carried forward to the cost of revenue amounted to approximately RMB1,009,097,000, RMB2,030,603,000, RMB1,389,675,000 and RMB2,592,009,000, respectively.
- (ii) Provision for inventories recorded as cost of revenue during the years ended December 31, 2023, 2024 and nine months ended September 30, 2024 and 2025 were RMB7,861,000, RMB16,618,000, RMB7,339,000 and RMB22,552,000, respectively.
- (iii) The written off of provisions for inventories during the years ended December 31, 2023, 2024 and nine months ended September 30, 2024 and 2025 were RMB16,753,000, RMB29,754,000, RMB15,498,000 and RMB31,541,000, respectively.
- (iv) The impact of foreign exchange losses/(gains) as at December 31, 2023, 2024 and nine months ended September 30, 2024 and 2025 were approximately RMB(4,679,000), RMB(4,605,000), RMB(4,380,000) and RMB2,009,000, respectively.

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**25. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS**

*(a) Classification of financial assets and liabilities at fair value through profit or loss*

The Source Photonics Group classifies the following financial assets and liabilities at fair value through profit or loss (FVTPL):

Financial assets and liabilities mandatorily measured at FVTPL include the following:

The Source Photonics Group

	<u>As at December 31</u>		<u>As at September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Current assets</b>			
Wealth management products .....	<u>81,000</u>	<u>14,020</u>	<u>12,035</u>
<b>Non-current liabilities</b>			
Convertible bonds (i) .....	<u>—</u>	<u>—</u>	<u>422,675</u>
	<u>—</u>	<u>—</u>	<u>422,675</u>
<b>Current liabilities</b>			
Convertible bonds (i) .....	321,304	374,483	—
Preferred shares (ii) .....	2,625,010	—	—
Derivative financial liabilities .....	<u>75</u>	<u>—</u>	<u>—</u>
	<u>2,946,389</u>	<u>374,483</u>	<u>—</u>

The Source Photonics

	<u>As at December 31</u>		<u>As at September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Current liabilities</b>			
Preferred shares .....	<u>2,625,010</u>	<u>—</u>	<u>—</u>

(i) Convertible Bonds

	<u>As at December 31</u>		<u>As at September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Convertible bonds .....	<u>321,304</u>	<u>374,483</u>	<u>422,675</u>

The fair values of the convertible bonds were determined with reference to a professional valuation conducted by an independent professional valuer for the period ended September 30, 2025.

## APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP

### II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

#### 25. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

##### (a) *Classification of financial assets and liabilities at fair value through profit or loss (Continued)*

###### (i) Convertible Bonds (Continued)

Source Photonics (Chengdu) Company Limited, a subsidiary of the Source Photonics Group, signed the Series D convertible bond loan agreement with an independent third party in November 2023, with a total principal amount of USD50 million. Source Photonics (Chengdu) Company Limited received RMB177,760,000 in December 2023 and RMB177,562,500 in April 2024.

The agreement stipulates that the holder of the convertible bond is entitled to convert this convertible bond into Source photonics Holdings (Cayman) Limited’s shares when the holder complete the overseas direct investment procedures and formally notify the Source Photonics Group of its subscription for the Series D Preferred Share. The conversion is based on the exercise price USD2.6179, but subject of adjustments for share splits or share consolidations (referring to the entire USD50 million convertible bond loan).

Source Photonics (Chengdu) Company Limited, a subsidiary of the Source Photonics Group, signed another Series D convertible bond loan agreement with an independent third party in November 2023, with a total principal amount of USD40 million. Source Photonics (Chengdu) Company Limited received RMB142,246,000 from December 2023.

The agreement stipulates that the holder of the convertible bond is entitled to convert this convertible bond into Source photonics Holdings (Cayman) Limited’s shares when the holder complete the overseas direct investment procedures and formally notify the Source Photonics Group of its subscription for the Series D Preferred Share. The conversion is based on the exercise price USD2.6179, but subject of adjustments for share splits or share consolidations (referring to the entire USD40 million convertible bond loan).

The Source Photonics Group fully repaid the convertible bond loan in 2024. During the period from the date of convertible bond loan received to December 31, 2023, and from January 1, 2024 to the end of the repayment date of the convertible bond loan, the changes in fair value was not materially different to the carrying amounts.

Source Photonics (Chengdu) Co., Ltd. (“Source Photonics Chengdu”), a wholly subsidiary of the Source Photonics Group, Suzhou Dongshan Precision Manufacturing Co., Ltd (“Dongshan Precision”), and Source Photonics jointly entered into the Convertible Bond Investment Agreement on June 30, 2025. Pursuant to the agreement, Dongshan Precision provided a RMB360 million convertible loan to Source Photonics Chengdu. As at September 30, 2025, Source Photonics Chengdu had received RMB360 million under this agreement. The agreement stipulates that the holder of the convertible bond is entitled to convert this convertible bond into shares of Source Photonics upon the holder formally notifying the Source Photonics Group of its subscription for the Preferred Shares. The conversion is based on the exercise price of USD3.0577.

Movements of convertible bond see Note 3.5 for the reconciliation of Level 3 assets and liabilities.

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**25. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)**

*(a) Classification of financial assets and liabilities at fair value through profit or loss (Continued)*

(ii) Preferred Shares

Since the date of incorporation, Source Photonics has completed several rounds of financing through issuing Series A preferred shares, Series B preferred shares and Series C preferred shares (collectively referred to the “Preferred Shares”).

The Preferred Shares are initially recognised at fair value. Source Photonics does not account for the embedded derivatives separately from the host contract and designates the entire Preferred Shares as financial liabilities at FVTPL with fair value changes recognised in “fair value changes of financial liabilities at FVTPL” in profit or loss.

Given that the Preferred Shares include early redemption option from the holder of Preferred Shares that do not meet equity instruments classification by applying IAS 32, and the redemption options are exercisable by the holders anytime, such Preferred Shares measured at FVTPL are classified as current liabilities when the holders have the options to convert within twelve months after the reporting period.

The balance of outstanding Preferred Shares as at December 31, 2023, 2024 and September 30, 2025 are set out below:

	<u>As at December 31</u>		<u>As at September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Series A preferred shares(Note a) . . . . .	1,614,786	–	–
Series B preferred shares(Note b) . . . . .	446,200	–	–
Series C preferred shares(Note c) . . . . .	564,024	–	–
	<u><b>2,625,010</b></u>	<u>–</u>	<u>–</u>

The movements and details of outstanding Preferred Shares during the track record period are set out below:

	<u>Number of shares</u>	<u>Par value of shares</u>
		<i>USD</i>
<b>Series A preferred shares issued and fully paid:</b>		
At January 1, 2023 . . . . .	57,449,524	5,745
Issuance of preferred shares . . . . .	839,422	84
At December 31, 2023, 2024 and September 30, 2025 . . . . .	<u>58,288,946</u>	<u>5,829</u>
<b>Series B preferred shares issued and fully paid:</b>		
At January 1, 2023 . . . . .	19,022,469	1,902
Issuance of preferred shares . . . . .	116,262	12
At December 31, 2023, 2024 and September 30, 2025 . . . . .	<u>19,138,731</u>	<u>1,914</u>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**25. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)**

*(a) Classification of financial assets and liabilities at fair value through profit or loss (Continued)*

(ii) Preferred Shares (Continued)

	<u>Number of shares</u>	<u>Par value of shares</u>
		<i>USD</i>
<b>Series C preferred shares issued and fully paid:</b>		
At January 1, 2023 .....	24,892,540	2,489
Issuance of preferred shares .....	<u>3,394,669</u>	<u>339</u>
At December 31, 2023, 2024 and September 30, 2025 .....	<u>28,287,209</u>	<u>2,828</u>

<u>Date of Issue</u>	<u>Subscription price per share(USD)</u>	<u>Number of shares</u>	<u>Total consideration</u>	<u>Total consideration</u>
			<i>USD '000</i>	<i>RMB '000</i>
<b>Series A Preferred Shares</b>				
August 20, 2018 .....	3.9009	7,718,447	30,109	206,902
December 27, 2018 .....	3.1208	6,408,613	20,000	137,788
January 2, 2019 .....	3.1208	9,612,920	30,000	205,446
January 4, 2019 .....	3.1208	464,624	1,450	9,945
January 16, 2019 .....	3.1208	8,651,628	27,000	182,561
May 23, 2019 .....	3.1208	10,574,212	33,000	227,680
January 11, 2019 (Note) .....	–	1,929,364	–	–
June 30, 2020 (Note) .....	–	11,939,882	–	–
December 28, 2021 (Note) .....	–	149,834	–	–
August 18, 2023 (Note) .....	–	839,422	–	–
<b>Series B Preferred Shares</b>				
March 31, 2020 .....	2.2342	10,070,719	22,500	159,415
July 1, 2020 .....	2.2342	8,951,750	20,000	141,420
August 18, 2023 (Note) .....	–	116,262	–	–
<b>Series C Preferred Shares</b>				
December 28, 2021 .....	2.4102	24,892,540	60,000	382,368
August 18, 2023 (Note) .....	–	<u>3,394,669</u>	–	–
		<b><u>105,714,886</u></b>	<b><u>244,059</u></b>	<b><u>1,653,525</u></b>

Note:

Pursuant to the anti-dilution provision of share purchase agreement, the Source Photonics issued additional 14,019,080 Series A preferred shares of par value USD0.0001 to the Series A investors on January 11, 2019 to December 28, 2021.

Pursuant to the anti-dilution provision of share purchase agreement, the Source Photonics issued 839,422 Series A preferred shares, 116,262 Series B preferred shares and 3,394,669 Series C preferred shares of par value USD0.0001 to Series A, Series B and Series C investors respectively with nil consideration. The Preferred Shares issuance was completed on August 18, 2023.

## APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP

### II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

#### 25. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

##### (a) *Classification of financial assets and liabilities at fair value through profit or loss (Continued)*

##### (ii) Preferred Shares (Continued)

Note a:

Pursuant to the share purchase agreement dated from August 20, 2018 to April 10, 2019, Series A investors agreed to subscribe for 43,430,444 Series A preferred shares of the Source Photonics with par value of USD0.0001 each (the “Series A preferred shares”). The purchase price paid by Series A investors was equivalent to approximately USD3.1208 per share (the “Series A Issue Price”), which was determined based on arms’ length negotiation between the Series A investors and the Source Photonics after taking in account of various factors, including, among others, the timing of investment and business performance of the Source Photonics Group. The investment was completed and fully settled from August 20, 2018 to May 23, 2019.

Note b:

Pursuant to the share purchase agreement dated from March 31, 2020 to June 30, 2020, Series B investors agreed to subscribe for 19,022,469 Series B preferred shares of the Source Photonics with par value of USD0.0001 each (the “Series B preferred shares”). The purchase price paid by Series B investors was equivalent to approximately USD2.2342 per share (the “Series B Issue Price”), which was determined based on arms’ length negotiation between the Series B investors and the Source Photonics after taking in account of various factors, including, among others, the timing of investment and business performance of the Source Photonics Group. The investment was completed and fully settled from March 31, 2020 to July 1, 2020.

Note c:

Pursuant to the share purchase agreement dated from June 16, 2021 to June 20, 2021, Series C investors agreed to subscribe for 24,892,540 Series C preferred shares of the Source Photonics with par value of USD0.0001 each (the “Series C preferred shares”). The purchase price paid by Series C investors was equivalent to approximately USD2.4102 per share (the “Series C Issue Price”), which was determined based on arms’ length negotiation between the Series C investors and the Source Photonics after taking in account of various factors, including, among others, the timing of investment and business performance of the Source Photonics Group. The investment was completed and fully settled on December 28, 2021.

In overall, the key terms of the Preferred Shares are as follows:

##### Redemption rights

The Shareholders of the Preferred Shares may give a written notice to the Source Photonics at any time or from time to time requesting redemption of all or part of their Preferred Shares under the specific conditions provided in the Articles of Association.

The Preferred Shares may be redeemed at any time on or after the earlier of the date falling 48 months after the completion date (i.e. the closing date of the relevant specific conditions provided in the Articles of Association), if a qualified exit (i.e. a qualifying IPO or a qualifying trade sale/ merger of the Source Photonics that is approved by the majority of the major shareholders and meeting the minimum valuation threshold as defined in the Articles) has not been consummated.

## APPENDIX IB ACCOUNTANTS' REPORT OF THE SOURCE PHOTONICS GROUP

### II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

#### 25. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

##### (a) *Classification of financial assets and liabilities at fair value through profit or loss (Continued)*

##### (ii) Preferred Shares (Continued)

The redemption price per share is equal to the deemed preference price of the relevant class plus all accrued but unpaid interest at the simple rate of 10% per annum (calculated from the issuance date until the redemption date), less any dividends paid.

##### Liquidation preferences

Upon the occurrence of a liquidation event means any liquidation, dissolution or winding up of the Source Photonics, the assets of the Source Photonics available for distribution to the shareholders (after satisfaction of all creditors' claims and claims that may be preferred by applicable law) (the "Liquidation Proceeds") shall be distributed in the order and priority as provided below:

Each preferred shareholder shall be entitled to receive the preference amount before the distribution of any Liquidation Proceeds can be made to the ordinary shareholders. The "preference amount" in respect of a preferred shareholder, means the aggregate amount of (i) the product of the preferred share price subject to adjustment from time to time in accordance with anti-dilution protection clause in the Articles of Association ("Deemed Preferred Share Price") of the Preferred Shares multiplied by the number of such preferred shares then held by such preferred shareholder (the "Base Amount"); and (ii) the interest accrued over the Base Amount of such preferred shareholder at the simple rate of 10% per annum (assuming a year of 365 days), calculated from the date that such preferred shares were issued to or acquired by such preferred shareholder until the date of the distribution of the Liquidation Proceeds to such preferred shareholder.

The Liquidation Proceeds legally available for distribution shall be distributed in the following order:

- (a) first, ratably among the holders of the Series C preferred shareholders in proportion to their respective Preference Amount until all of the Preference Amount receivable by such holders are paid in full;
- (b) then, ratably among the holders of the Series A preferred shares and the holders of the Series B preferred shares in proportion to their respective Preference Amount until all of the Preference Amount receivable by such holders are paid in full;
- (c) then, ratably among the holders of the ordinary shares of the Source Photonics in proportion to the subscription price or the acquisition price, as applicable, that has been paid by such holder in respect of such ordinary share ("Investment Cost") of such holders in respect of their respective ordinary shares until all of such Investment Cost have been paid to such holders in full; and
- (d) then, ratably among all of the shareholders in proportion to their respective shareholding percentage on a fully diluted and as converted basis.

##### Voting rights

Each preferred share has voting rights equivalent to the number of voting participating ordinary shares.

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**25. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)**

*(a) Classification of financial assets and liabilities at fair value through profit or loss (Continued)*

(ii) Preferred Shares (Continued)

Dividends rights

The Shareholders of the Preferred Shares shall have pari passu rights to dividends in proportion to the number of the shares held by each of them on the date of the resolutions pursuant to which such dividends were declared.

No dividend was paid to the shareholders of Preferred Shares during the relevant periods.

(iii) The Source Photonics Group applied the discounted cash flow method to determine the underlying equity value of Source Photonics and adopted option pricing method and equity allocation model to determine the fair value of the Preferred Shares. The fair values of the preferred shares were determined with reference to a professional valuation conducted by an independent professional valuer for the year ended December 31, 2023. Key assumptions used to determine the fair value of preferred shares are as follows:

	<u>As at December 31</u>		<u>As at September 30</u>
	<b>2023</b>	<b>2024</b>	<b>2025</b>
Discount rate (%) . . . . .	11.80	—	—
Expected volatility (%) . . . . .	53.87	—	—
Risk-free interest rate (%) . . . . .	<u>2.21</u>	<u>—</u>	<u>—</u>

Discount rate was estimated by weighted average cost of capital of each valuation date. The Source Photonics Group estimated the risk-free interest rate used in the equity allocation with reference to the yield of PRC Government Bonds at that time close to the timing as of valuation date. Volatility was estimated based on the historical share price movement of the comparable companies for the period of time close to the expected time to exercise.

On June 22, 2024, Source Photonics revised the Shareholders’ agreement with its shareholders, pursuant to which all contractual parties agreed to terminate the special rights attaching to the Series A preferred shares, Series B preferred shares and Series C preferred shares.

The special rights included anti-dilution protection, liquidation preference and redemption option from the Shareholders of Preferred Shares.

Upon the termination of the special right attached to the Preferred Shares, the Shareholders of the Preferred Shares are entitled to receive the same dividends as the holders of ordinary shares. In accordance with IAS 32 as the Preferred Shares does not have a fixed maturity and is non-redeemable and payment of dividends is at the discretion of the Source Photonics, as such, the Preferred Shares is no longer met the definition of financial liabilities and should be recognised as equity.

The Source Photonics Group applied the discounted cash flow model is used in determining the underlying equity value of the Source Photonics and Black Scholes option pricing model is used in performing an equity allocation to determine the fair value of the Preferred Shares upon the termination of the special right attached to the Preferred Shares. The fair values of the Preferred Shares were determined with reference to a professional valuation conducted by an independent professional valuer.

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**25. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)**

*(a) Classification of financial assets and liabilities at fair value through profit or loss (Continued)*

The fair value of the Preferred Shares on the date of termination of the special rights was approximately RMB1,989,251,000. The difference between the carrying amount of the Preferred Shares as amounting to approximately RMB648,126,000 is recognised in profit or loss during the year ended December 31, 2024 to the Preferred Shares

Movements of preferred shares see Note 3.5 for the reconciliation of Level 3 assets and liabilities.

*(b) Amounts recognised in profit or loss*

During the year/period, the following gains/(losses) were recognised in profit or loss:

	<u>Year ended December 31</u>		<u>Nine months ended September 30</u>	
	<u>2023</u>	<u>2024</u>	<u>2024</u>	<u>2025</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(Unaudited)</i>	
Fair value changes on financial assets at FVTPL .....	1,420	20	–	35
Gain on modification of terms in Preferred Shares .....	–	648,126	648,126	–
Fair value changes on financial liabilities at FVTPL .....	(70,112)	(21,032)	(15,650)	(73,691)
Gains from financial assets at FVTPL during holding period .....	194	610	154	84
	<u>(68,498)</u>	<u>627,724</u>	<u>632,630</u>	<u>(73,572)</u>

**26. CASH AND CASH EQUIVALENTS, RESTRICTED CASH AND TERM DEPOSITS**

*(a) Cash and Cash Equivalents*

The Source Photonics Group

	<u>As at December 31</u>		<u>As at September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and bank balances .....	264,302	292,391	329,592
Less: restricted cash and term deposits (i) .....	(50,388)	(40,344)	(53,861)
Cash and cash equivalents	<u>213,914</u>	<u>252,047</u>	<u>275,731</u>

(i) As at December 31, 2023, 2024 and September 30, 2025, the Source Photonics Group’s term deposits and security deposits amounting to RMB50,388,000, RMB40,344,000 and RMB53,861,000 were pledged as a guarantee for the bank acceptance notes, borrowings, derivative instruments granted to the Source Photonics Group.

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**26. CASH AND CASH EQUIVALENTS, RESTRICTED CASH AND TERM DEPOSITS (Continued)**

(b) *Cash and cash equivalents are Denominated in:*

The Source Photonics Group

	<u>As at December 31</u>		<u>As at</u> <u>September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
RMB .....	155,203	136,646	112,826
USD .....	94,911	136,043	200,529
TWD .....	6,723	9,117	7,881
Others .....	7,465	10,585	8,356
	<u>264,302</u>	<u>292,391</u>	<u>329,592</u>

**27. BORROWINGS**

The Source Photonics Group

	<u>As at December 31</u>		<u>As at</u> <u>September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Non-current</b>			
Bank borrowings			
– Secured .....	<u>11,766</u>	<u>–</u>	<u>10,000</u>
<b>Current</b>			
Bank borrowings			
– Secured .....	<u>576,803</u>	<u>458,940</u>	<u>557,550</u>
Interest payables .....	<u>4,242</u>	<u>2,635</u>	<u>1,068</u>
	<u>581,045</u>	<u>461,575</u>	<u>558,618</u>

(a) As at December 31, 2023, 2024 and September 30, 2025, the annual interest rate of short-term borrowings was ranged from 2.62% to 10.16%, 2.05% to 7.10% and 3.00% to 5.10%, respectively.

As at December 31, 2023, 2024 and September 30, 2025, the annual interest rate of long-term borrowings was ranged from 4.84% to 5.84%, nil and nil, respectively.

(b) As at December 31, 2023, secured bank borrowings mainly included: (i) borrowings with a principal equivalent to approximately RMB100,745,000 guaranteed by patent technology and Source Photonics Group’s subsidiaries; (ii) borrowings with a principal equivalent to approximately RMB75,157,000 guaranteed by restricted cash; (iii) borrowings with a principal equivalent to approximately

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**27. BORROWINGS (Continued)**

The Source Photonics Group (Continued)

RMB376,498,000 guaranteed by Source Photonics Group’s subsidiaries; (iv) borrowings with a principal equivalent to approximately RMB36,169,000 guaranteed by equipment.

As at December 31, 2024, secured bank borrowings mainly included: (i) borrowings with a principal equivalent to approximately RMB30,000,000 guaranteed by restricted cash; (ii) borrowings with a principal equivalent to approximately RMB18,000,000 guaranteed by trade receivables and Source Photonics Group’s subsidiaries; (iii) borrowings with a principal equivalent to approximately RMB399,816,000 guaranteed by Source Photonics Group’s subsidiaries; (iv) borrowings with a principal equivalent to approximately RMB11,124,000 guaranteed by equipment.

As at September 30, 2025, secured bank borrowings mainly included: (i) borrowings with a principal equivalent to approximately RMB537,550,000 guaranteed by Source Photonics Group’s subsidiaries; (ii) borrowings with a principal equivalent to approximately RMB30,000,000 guaranteed by restricted cash and Source Photonics Group’s subsidiaries.

(c) As at December 31, 2023, 2024 and September 30, 2025, the Source Photonics Group’s borrowings were repayable as follows:

	<u>As at December 31</u>		<u>As at</u> <u>September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Within 1 year . . . . .	581,045	461,575	558,618
Between 1 and 2 years . . . . .	11,766	–	10,000
Between 2 and 5 years . . . . .	–	–	–
Over 5 years . . . . .	–	–	–
	<u><b>592,811</b></u>	<u><b>461,575</b></u>	<u><b>568,618</b></u>

Source Photonics

	<u>As at December 31</u>		<u>As at</u> <u>September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Current</b>			
Bank borrowings			
– Secured . . . . .	100,745	–	–
Interest payables . . . . .	1,429	–	–
	<u><b>102,174</b></u>	<u><b>–</b></u>	<u><b>–</b></u>

As at December 31, 2023, 2024 and September 30, 2025, the annual interest rate of short-term borrowings was ranged from 8.23% to 10.16%, nil and nil, respectively.

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**27. BORROWINGS (Continued)**

Source Photonics (Continued)

(d) Fair value

For the majority of the borrowings, the fair values are not materially different from their carrying amounts, since either the interest payable on those borrowings is close to current market rates, or the borrowings are of a short-term nature.

**28. TRADE PAYABLES**

The Source Photonics Group

	<u>As at December 31</u>		<u>As at</u> <u>September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Payments for materials . . . . .	479,224	854,289	1,300,518
Payments for construction and equipment . . . . .	16,215	43,353	156,035
Payments for operating expenses . . . . .	21,586	18,728	36,751
	<u><b>517,025</b></u>	<u><b>916,370</b></u>	<u><b>1,493,304</b></u>

An aging analysis of the trade payables based on the recognition date as at the end of the reporting period was as follows:

	<u>As at December 31</u>		<u>As at</u> <u>September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Within 1 year . . . . .	515,157	913,392	1,490,648
1 to 2 years . . . . .	760	1,826	1,537
2 to 3 years . . . . .	241	240	228
Over 3 years . . . . .	867	912	891
	<u><b>517,025</b></u>	<u><b>916,370</b></u>	<u><b>1,493,304</b></u>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**29. ACCRUALS AND OTHER PAYABLES**

The Source Photonics Group

	<u>As at December 31</u>		<u>As at</u> <u>September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Current:</b> .....			
Salaries, wages and benefits .....	48,591	151,290	75,608
Taxes other than income tax payables .....	2,342	6,793	2,337
Provisions for sales returns .....	9,936	12,741	13,800
Others .....	2,907	2,276	3,248
	<u>63,776</u>	<u>173,100</u>	<u>94,993</u>

Source Photonics

	<u>As at December 31</u>		<u>As at</u> <u>September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Current:</b>			
Payments to related party .....	199,389	305,205	293,130

**30. PROVISIONS**

	<u>As at December 31</u>		<u>As at</u> <u>September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Product warranties (i) .....	3,215	2,353	2,776

- (i) The Source Photonics Group provides product quality warranty to its consumers and offers free warranties for faults and quality issues that occur within agreed years after the sale of such products. Based on historical warranty claim information and warranty experience, the Source Photonics Group estimates and accrues estimated liabilities for the warranties provided to its customers when selling products. As the recent warranty experience may not reflect the warranty situation of the sold products in the future, the management of the Source Photonics Group needs to use judgement to estimate this estimated liability.

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**31. DEFERRED INCOME**

The Source Photonics Group

	<u>As at December 31</u>		<u>As at</u> <u>September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Government grants .....	<u>28,145</u>	<u>25,848</u>	<u>23,643</u>

The movements of deferred income for the Track Record Period are as follows:

	<u>Year ended</u> <u>December 31</u>		<u>Nine months ended</u> <u>September 30</u>	
	<u>2023</u>	<u>2024</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
			<i>(Unaudited)</i>	
At beginning of the year .....	14,360	28,145	28,145	25,848
Grants received during the year/period .....	15,440	–	–	–
Amounts released to profit or loss during the year/period .....	<u>(1,655)</u>	<u>(2,297)</u>	<u>(1,240)</u>	<u>(2,205)</u>
At the end of the year/period .....	<u>28,145</u>	<u>25,848</u>	<u>26,905</u>	<u>23,643</u>

**32. SHARE CAPITAL**

Authorized share capital

The Source Photonics Group and Source Photonics

	<u>Year ended December 31</u>				<u>Nine months ended September 30</u>			
	<u>2023</u>		<u>2024</u>		<u>2024</u>		<u>2025</u>	
	<u>Share capital</u>	<u>Number of shares (Note i)</u>	<u>Share capital</u>	<u>Number of shares (Note ii)</u>	<u>Share capital</u>	<u>Number of shares (Note ii)</u>	<u>Share capital</u>	<u>Number of shares (Note ii)</u>
	<i>USD’000</i>	<i>’000</i>	<i>USD’000</i>	<i>’000</i>	<i>USD’000</i>	<i>’000</i>	<i>USD’000</i>	<i>’000</i>
					<i>(Unaudited)</i>	<i>(Unaudited)</i>		
At the end of the year/period .....	<u>50</u>	<u>235,000</u>	<u>50</u>	<u>195,000</u>	<u>50</u>	<u>195,000</u>	<u>50</u>	<u>195,000</u>

Note i: Including (i) 200,000,000 voting participating ordinary shares of a par value of USD0.0001 each; (ii) 35,000,000 employee ordinary shares of a par value of USD0.0001 each.

Note ii: Including (i) 160,000,000 voting participating ordinary shares of a par value of USD0.0001 each; (ii) 35,000,000 employee ordinary shares of a par value of USD0.0001 each. On April 17, 2024, Source Photonics adopted the fifth amended and restated memorandum and articles of association. As part of this

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**32. SHARE CAPITAL (Continued)**

adoption, the authorised share capital of the Source Photonics was amended while the total authorised share capital remained unchanged at USD50,000.00. The authorised share capital was restructured as 200,000,000 voting participating ordinary shares of USD0.0001 par value each to 160,000,000 voting participating ordinary shares of USD0.0001 par value each.

Issued and fully paid share capital of voting participating ordinary shares

The Source Photonics Group and Source Photonics

	Year ended December 31				Nine months ended September 30			
	2023		2024		2024		2025	
	Share capital	Number of shares	Share capital	Number of shares	Share capital	Number of shares	Share capital	Number of shares
	RMB'000	'000	RMB'000	'000	RMB'000	'000	RMB'000	'000
					(Unaudited)	(Unaudited)		
At the beginning and end of the year/period . . . .	<u>65</u>	<u>100,000</u>	<u>65</u>	<u>100,000</u>	<u>65</u>	<u>100,000</u>	<u>65</u>	<u>100,000</u>

**33. SHARE INCENTIVE SCHEME**

**2017 SHARE PLAN (2020 Revisions)**

Pursuant to the share option incentive scheme dual approved by the Board of Directors and Shareholders on October 16, 2020 (the “2017 Share Plan (2020 Revisions)”), which authorizes that increase the maximum aggregate number of share options that may be issued to 31,115,675 Non-Voting Ordinary Shares.

(a) The share options were granted on the following dates:

- December 29, 2020, at an exercise price of USD2.04 per share. The fair value is USD0.29 per option;
- November 1, 2021, at an exercise price of USD2.04 per share. The fair value is USD0.21 per option;
- June 1, 2022, at an exercise price of USD2.04 per share. The fair value is USD0.25 per option;
- August 1, 2022, at an exercise price of USD1.19 per share. The fair value is USD0.48 per option.

The term shall not exceed 10 years from the Date of Grant.

(b) Definitions of Key Terms in 2017 Share Plan (2020 Revisions)

The following capitalized terms define the mechanical and legal constraints of the incentive arrangement:

**Vesting Period:** The plan specifies a vesting period of four (4) consecutive years, commencing on January 1, 2020. For share option grants made after 2020, the accounting vesting period is the period from the grant date through the end of the 2023 performance cycle. This period aligns with the service period required for participants to satisfy the vesting conditions.

## APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP

### II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

#### 33. SHARE INCENTIVE SCHEME (Continued)

##### 2017 SHARE PLAN (2020 Revisions) (Continued)

**Vesting Date:** For any given year’s annual tranche, the later of (a) the first business day after the Board approves the Applicable EVIP Multiplier for that year, or (b) the first anniversary of the date the participant became a service provider.

**Performance Conditions:** The annual targets used to determine the portion of options that vest, based on Group indicators including revenue, [REDACTED] EBITDA before bonus, net profit, operating cash flow, and other strategic targets approved by the Board

**Applicable Annual Shares:** The number of shares eligible to vest for a specific year, calculated as 25% of the total share optiones multiplied by the Applicable EVIP Multiplier and a pro-rata fraction based on the number of days the participant remained a service provider during that year.

**Catch-up Vesting Conditions:** Specific conditions that, if satisfied, trigger the immediate vesting of the Maximum Optioned Shares for the entire four-year Vesting Period, regardless of whether the annual performance targets were previously met. These conditions include:

The Group achieved an aggregate audited net profit (prepared in accordance with PRC GAAP or PRC IFRS) of at least USD110 million during the Vesting Period, excluding specific legal fees as specified in the Plan; and

The participant maintaining status as a service provider from on or before December 31, 2020, through the 2023 Vesting Date.

**Maximum Optioned Shares:** The total sum of the Maximum Annual share optiones across the four-year Vesting Period, which shall in no event exceed 100% of the total options granted.

##### Vesting Conditions and Performance Targets

The share-based payment plan exclusively includes performance-based options. For accounting purposes, the vesting period commences on the grant date for each respective tranche. The December 2020 grant follows a four-year vesting period (25% per year); the November 2021 grant follows a three-year vesting period; and the two 2022 grants follow a two-year vesting period.

Vesting is subject to the following conditions:

**Service Condition:** The optionee must remain continuously employed as a service provider (including employees, directors, and consultants) for at least 12 months and must remain in service through the Vesting Date corresponding to each annual tranche.

**Performance Condition:** The number of options that vest annually is determined by the Applicable EVIP Multiplier approved by the Board. This multiplier is based on five key operating indicators of the Group: (A) revenue, (B) [REDACTED] EBITDA before bonus, (C) net profit, (D) operating cash flow, and (E) other strategic targets deemed necessary by the Board.

**Catch-up Vesting Provision:** Notwithstanding the annual performance results, all Maximum share options for the vesting period shall become fully vested on the 2023 Vesting Date if the Catch-up Vesting Conditions are met. These conditions require:

- The aggregate audited net profit (under PRC GAAP or IFRS) of the Group during the Vesting Period reaches at least USD 110 million, excluding legal fees related to specific arbitration proceedings.

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**33. SHARE INCENTIVE SCHEME (Continued)**

**2017 SHARE PLAN (2020 Revisions) (Continued)**

- The optionee commenced service on or before December 31, 2020, and maintains that relationship until the 2023 Vesting Date.

Measurement of Shares

The Applicable Annual Shares for any given year are calculated as the product of 25% of the total Optioned Shares, the Applicable EVIP Multiplier for that year, and the fraction of days the optionee provided service during that year. The total number of shares vested shall in no event exceed 100% of the original grant.

(c) Modification of share-based payment arrangements

In July 2022, Source Photonics reduced the exercise price of employee share options granted on December 29, 2020, November 1, 2021, and June 1, 2022 from USD2.04 to USD1.19 per share. The modification date of the share options was August 1, 2022. The incremental fair value of RMB24,896,000 is recognised as an expense over the remaining vesting period commencing from the modification date. The expense for the original grant is recognised continuously as if the terms had not been modified.

The fair value of the modified options was determined using the same models and principles as described above, with the following model inputs.

	<b>2017 SHARE PLAN (2020 REVISIONS)</b>		
	<u>2020/12/29</u>	<u>2021/11/1</u>	<u>2022/6/1</u>
Expected price volatility . . . . .	52.41%	52.41%	52.31%
Expected option life ( <i>year</i> ) . . . . .	8-10 years	9-10 years	9-10 years
Risk-free interest rate . . . . .	2.60%	2.59%	2.58%
Dividend yield . . . . .	0%	0%	0%
Spot price of ordinary shares ( <i>USD</i> ) . . . . .	1.17	1.17	1.17

- (d) On August 18, 2023, pursuant to the third Shareholders’ Meeting of 2023 and deliberated and approved the proposal titled “On the Transfer of Employee Stock Options from Venus Pearl SPV2 Co., Limited to Source Photonics Holdings (Cayman) Limited”. Based on the completion of the organizational restructuring, all shareholders agreed to transfer the aforementioned multiple Employee share option plans at the VPA to Source Photonics’ level. Specifically, Source Photonics shall formulate and implement the relevant employee incentive plans anew, and such plans shall be substantially the same as at the VPA level. Source Photonics separately assessed the fair value of the share options originally granted at the VPA level and the fair value of the modified share options for Source Photonics as the new entity at the modification date. The assessment results indicated that the change did not result in any change in the fair value of the share options. Therefore, the modification arising from the transfer of the share option plans did not give rise to additional share-based payment expenses, nor did it have any accounting impact related to the recognition of such expenses.

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**33. SHARE INCENTIVE SCHEME (Continued)**

The number of share options under the 2017 Share Plan (2020 Revisions) are summarized as follows:

	Year ended December 31				Nine months ended September 30			
	Weighted average exercise price		Weighted average exercise price		Weighted average exercise price		Weighted average exercise price	
	2023	2024	2024	2024	2024	2025	2025	
	USD		USD		USD		USD	
					(Unaudited)		(Unaudited)	
At the beginning of the year	31,342,675	1.19	31,115,675	1.19	31,115,675	1.19	31,115,675	1.19
Granted	480,000	1.19	–	1.19	–	1.19	–	1.19
Forfeited	(707,000)	1.19	–	1.19	–	1.19	–	1.19
<b>At the end of the year/period</b>	<b><u>31,115,675</u></b>		<b><u>31,115,675</u></b>		<b><u>31,115,675</u></b>		<b><u>31,115,675</u></b>	

The options outstanding at December 31, 2023, 2024 and at September 30, 2025 had an exercise price of USD1.19 and a weighted-average remaining contractual life of 7.8 years, 6.8 years and 6.1 years, respectively.

(e) Set out below are key assumptions of the share option incentive plans adopted during the Track Record Period:

	2017 SHARE PLAN (2020 REVISIONS)			
	2020/12/29	2021/11/1	2022/6/1	2022/8/1
Expected price volatility	50.43% to 54.79%	53.16%	52.27%	52.04% to 52.41%
Expected option life (year)	6-10 years	10 years	10 years	8-10 years
Risk-free interest rate	0.53%-0.94%	1.56%	2.91%	2.58% to 2.90%
Dividend yield	0%	0%	0%	0%
Spot price of ordinary shares (USD)	1.19	0.83	0.94	1.17

The volatility of the comparable companies for the period close to the expected time to exercise. The risk-free interest rate was referred to the market yield of government bond with similar issuing dates and maturity dates as of the respective grant dates.

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**34. ACCUMULATED LOSSES**

The Source Photonics Group

	<b>Year ended December 31</b>		<b>Nine months ended September 30</b>	
	<b>2023</b>	<b>2024</b>	<b>2024</b>	<b>2025</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
			<i>(Unaudited)</i>	
At the beginning of the year . . . . .	(2,340,172)	(2,429,403)	(2,429,403)	(1,377,586)
Net profit/(loss) . . . . .	(89,231)	1,051,817	880,960	476,205
<b>At the end of the year/period . . . . .</b>	<b><u>(2,429,403)</u></b>	<b><u>(1,377,586)</u></b>	<b><u>(1,548,443)</u></b>	<b><u>(901,381)</u></b>

Source Photonics

	<b>Year ended December 31</b>		<b>Nine months ended September 30</b>	
	<b>2023</b>	<b>2024</b>	<b>2024</b>	<b>2025</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
			<i>(Unaudited)</i>	
At the beginning of the year . . . . .	(2,143,106)	(2,226,585)	(2,226,585)	(1,577,883)
Net profit/(loss) . . . . .	(83,479)	648,702	647,533	6,191
<b>At the end of the year/period . . . . .</b>	<b><u>(2,226,585)</u></b>	<b><u>(1,577,883)</u></b>	<b><u>(1,579,052)</u></b>	<b><u>(1,571,692)</u></b>

**35. OTHER RESERVES**

The Source Photonics Group

	<b>Share premium</b>	<b>Other comprehensive income</b>	<b>Capital surplus</b>	<b>Total</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Balance at January 1, 2023 . . . . .	498,960	(140,139)	65,648	424,469
Remeasurement of defined benefit plan . . . . .	–	175	–	175
Currency translation differences of foreign operations . . . . .	–	(52,372)	–	(52,372)
Share-based compensation expenses . . . . .	–	–	26,529	26,529
<b>Balance at December 31, 2023 . . . . .</b>	<b><u>498,960</u></b>	<b><u>(192,336)</u></b>	<b><u>92,177</u></b>	<b><u>398,801</u></b>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**35. OTHER RESERVES (Continued)**

The Source Photonics Group (Continued)

	<u>Share premium</u>	<u>Preferred shares</u>	<u>Other comprehensive income</u>	<u>Capital surplus</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Balance at January 1, 2024 . . . .	498,960	–	(192,336)	92,177	398,801
Deemed contribution (i) . . . . .	8,533	–	–	–	8,533
Modification of terms in Preferred Shares (Note 25) . . . . .	–	1,989,251	–	–	1,989,251
Remeasurement of defined benefit plan . . . . .	–	–	617	–	617
Currency translation differences of foreign operations . . . . .	–	–	(51,156)	–	(51,156)
Share-based compensation expenses . . . . .	–	–	–	7,153	7,153
<b>Balance at December 31, 2024 . . . . .</b>	<b><u>507,493</u></b>	<b><u>1,989,251</u></b>	<b><u>(242,875)</u></b>	<b><u>99,330</u></b>	<b><u>2,353,199</u></b>

	<u>Share premium</u>	<u>Preferred shares</u>	<u>Other comprehensive income</u>	<u>Capital surplus</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<i>(Unaudited)</i>					
Balance at January 1, 2024 . . . .	498,960	–	(192,336)	92,177	398,801
Deemed contribution (i) . . . . .	8,533	–	–	–	8,533
Modification of terms in Preferred Shares (Note 25) . . . . .	–	1,989,251	–	–	1,989,251
Remeasurement of defined benefit plan . . . . .	–	–	(77)	–	(77)
Currency translation differences of foreign operations . . . . .	–	–	(26,331)	–	(26,331)
Share-based compensation expenses . . . . .	–	–	–	7,153	7,153
<b>Balance at September 30, 2024 . . . . .</b>	<b><u>507,493</u></b>	<b><u>1,989,251</u></b>	<b><u>(218,744)</u></b>	<b><u>99,330</u></b>	<b><u>2,377,330</u></b>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**35. OTHER RESERVES (Continued)**

The Source Photonics Group (Continued)

- (i) For the year ended December 31 and nine months ended September 30, 2024, deemed contribution mainly represents the donation received from the shareholder.

	<u>Share premium</u>	<u>Preferred shares</u>	<u>Other comprehensive income</u>	<u>Capital surplus</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Balance at January 1, 2025 . . .	507,493	1,989,251	(242,875)	99,330	2,353,199
Remeasurement of defined benefit plan . . . . .	–	–	148	–	148
Disposal of subsidiaries under common control (Note 38) . . . . .	(18,189)	–	–	–	(18,189)
Currency translation differences of foreign operations . . . . .	–	–	39,999	–	39,999
<b>Balance at September 30, 2025 . . . . .</b>	<b><u>489,304</u></b>	<b><u>1,989,251</u></b>	<b><u>(202,728)</u></b>	<b><u>99,330</u></b>	<b><u>2,375,157</u></b>

Source Photonics

	<u>Share premium</u>	<u>Other comprehensive income</u>	<u>Capital surplus</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Balance at January 1, 2023 . . . . .	276,941	(217,410)	65,648	125,179
Currency translation differences of foreign operations . . . . .	–	(48,610)	–	(48,610)
Share-based compensation expenses . . . . .	–	–	26,529	26,529
<b>Balance at December 31, 2023 . . . . .</b>	<b><u>276,941</u></b>	<b><u>(266,020)</u></b>	<b><u>92,177</u></b>	<b><u>103,098</u></b>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**35. OTHER RESERVES (Continued)**

Source Photonics (Continued)

	<u>Share premium</u>	<u>Preferred shares</u>	<u>Other comprehensive income</u>	<u>Capital surplus</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Balance at January 1, 2024 . . . .	276,941	–	(266,020)	92,177	103,098
Modification of terms in Preferred Shares (Note 25) . . . . .	–	1,989,251	–	–	1,989,251
Deemed contribution (i) . . . . .	8,533	–	–	–	8,533
Currency translation differences of foreign operations . . . . .	–	–	(20,157)	–	(20,157)
Share-based compensation expenses . . . . .	–	–	–	7,153	7,153
<b>Balance at December 31, 2024 . . . . .</b>	<b><u>285,474</u></b>	<b><u>1,989,251</u></b>	<b><u>(286,177)</u></b>	<b><u>99,330</u></b>	<b><u>2,087,878</u></b>

	<u>Share premium</u>	<u>Preferred shares</u>	<u>Other comprehensive income</u>	<u>Capital surplus</u>	<u>Total</u>
<i>(Unaudited)</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Balance at January 1, 2024 . . . .	276,941	–	(266,020)	92,177	103,098
Deemed contribution (i) . . . . .	8,533	–	–	–	8,533
Modification of terms in Preferred Shares (Note 25) . . . . .	–	1,989,251	–	–	1,989,251
Currency translation differences of foreign operations . . . . .	–	–	(18,210)	–	(18,210)
Share-based compensation expenses . . . . .	–	–	–	7,153	7,153
<b>Balance at September 30, 2024 . . . . .</b>	<b><u>285,474</u></b>	<b><u>1,989,251</u></b>	<b><u>(284,230)</u></b>	<b><u>99,330</u></b>	<b><u>2,089,825</u></b>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**35. OTHER RESERVES (Continued)**

Source Photonics (Continued)

- (i) The increase in share premium is due to the fact that the shareholder VPA gratuitously donated the refund of the syndicated loan deposit from East West Bank to Source Photonics.

	<u>Share premium</u>	<u>Preferred shares</u>	<u>Other comprehensive income</u>	<u>Capital surplus</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Balance at January 1, 2025 . . . .	285,474	1,989,251	(286,177)	99,330	2,087,878
Currency translation differences of foreign operations . . . . .	—	—	6,345	—	6,345
<b>Balance at September 30, 2025 . . . . .</b>	<b><u>285,474</u></b>	<b><u>1,989,251</u></b>	<b><u>(279,832)</u></b>	<b><u>99,330</u></b>	<b><u>2,094,223</u></b>

**36. CONTINGENCIES AND COMMITMENTS**

**36.1 Contingencies**

The Source Photonics Group and Source Photonics have contingent liabilities in respect of claims or other legal procedures arising in its ordinary course of business from time to time. As at December 31, 2023, 2024 and September 30, 2025, the directors of Source Photonics did not anticipate that any material liabilities will arise from the contingent liabilities other than those provided for in the Historical Financial Information.

**36.2 Capital Commitments**

The following shows the major capital commitments of the Source Photonics Group:

	<u>As at December 31</u>		<u>As at September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Property, plant and equipment commitments:			
-Contracted, but not provided for . . . . .	<u>52,608</u>	<u>154,106</u>	<u>361,816</u>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**37. NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(a) Reconciliation of Profit/(loss) Before Income Tax to Net Cash Generated from Operations:*

	<u>Year ended December 31</u>		<u>Nine months ended September 30</u>	
	<u>2023</u>	<u>2024</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
			<i>(Unaudited)</i>	
Profit/(loss) before income tax for the year/ period . . . . .	(85,951)	1,133,222	914,301	560,795
Adjustments for:				
Interest income . . . . .	(863)	(710)	(824)	(5,469)
Interests on restricted cash . . . . .	(1,505)	(1,706)	(787)	(1,191)
Finance costs . . . . .	52,948	28,389	20,002	26,888
Depreciation and amortization of non-current assets . . . . .	106,294	115,127	79,407	119,377
Net losses on disposal of property, plant and equipment and other non-current assets . . . . .	432	10,757	4,857	4,552
Net impairment losses on financial assets . . . . .	891	1,284	198	1,364
Impairment provision for inventories . . . . .	7,861	16,618	7,339	22,798
Fair value (gains)/losses on current financial assets and liabilities at FVTPL . . . . .	68,692	21,012	15,650	73,656
Gains on disposal of financial assets at fair value through profit or loss (FVTPL) . . . . .	(194)	(610)	(154)	(84)
Gain on modification of terms in Preferred Shares . . . . .	–	(648,126)	(648,126)	–
Impairment of Intangible assets . . . . .	–	2,306	–	13,618
Net foreign exchange (gains)/losses . . . . .	(18,791)	(20,603)	11,841	9,903
Share-based compensation expenses . . . . .	26,529	7,153	7,153	–
Increase in receivables . . . . .	(94,134)	(414,248)	(233,178)	(557,618)
Increase in payables . . . . .	142,640	431,053	280,487	598,920
Increase in inventories . . . . .	(114,118)	(329,132)	(257,410)	(397,068)
<b>Cash generated from operations . . . . .</b>	<b><u>90,731</u></b>	<b><u>351,786</u></b>	<b><u>200,756</u></b>	<b><u>470,441</u></b>

*(b) Non-Cash Activities*

	<u>Year ended December 31</u>		<u>Nine months ended September 30</u>	
	<u>2023</u>	<u>2024</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
			<i>(Unaudited)</i>	
Additions of right-of-use assets by way of leasing liabilities (Note 17) . . . . .	<u>198</u>	<u>3,596</u>	<u>3,236</u>	<u>–</u>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**37. NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

*(c) Debt Reconciliation*

	<b>Borrowings</b>	<b>Lease liabilities</b>	<b>Convertible bonds</b>	<b>Financial liabilities at fair value through profit or loss - preferred shares</b>	<b>Total</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
At January 1, 2023 . . . . .	630,423	168,625	–	2,513,748	3,312,796
Financing cash flows . . . .	(39,603)	(20,419)	320,609	–	260,587
Interest paid . . . . .	(35,285)	(6,817)	(527)	–	(42,629)
Interest accrued . . . . .	41,924	4,836	–	–	46,760
Other non-cash movements . . . . .	(4,648)	489	1,222	111,262	108,325
<b>At December 31, 2023 . .</b>	<b><u>592,811</u></b>	<b><u>146,714</u></b>	<b><u>321,304</u></b>	<b><u>2,625,010</u></b>	<b><u>3,685,839</u></b>
At January 1, 2024 . . . . .	592,811	146,714	321,304	2,625,010	3,685,839
Financing cash flows . . . .	(118,614)	(20,763)	35,317	–	(104,060)
Interest paid . . . . .	(17,231)	(6,265)	(3,169)	–	(26,665)
Interest accrued . . . . .	20,411	4,821	–	–	25,232
Other non-cash movements . . . . .	(15,802)	3,254	21,031	(2,625,010)	(2,616,527)
<b>At December 31, 2024 . .</b>	<b><u>461,575</u></b>	<b><u>127,761</u></b>	<b><u>374,483</u></b>	<b><u>–</u></b>	<b><u>963,819</u></b>
<i>(Unaudited)</i>					
At January 1, 2024 . . . . .	592,811	146,714	321,304	2,625,010	3,685,839
Financing cash flows . . . .	(161,080)	(15,132)	35,317	–	(140,895)
Interest paid . . . . .	(14,951)	(5,099)	(3,169)	–	(23,219)
Interest accrued . . . . .	14,719	4,073	–	–	18,792
Other non-cash movements . . . . .	7,184	2,939	15,658	(2,625,010)	(2,599,229)
<b>At September 30, 2024 . . . . .</b>	<b><u>438,683</u></b>	<b><u>133,495</u></b>	<b><u>369,110</u></b>	<b><u>–</u></b>	<b><u>941,288</u></b>
At January 1, 2025 . . . . .	461,575	127,761	374,483	–	963,819
Financing cash flows . . . .	109,772	(13,995)	2,254	–	98,031
Interest paid . . . . .	(21,757)	(4,472)	(27,753)	–	(53,982)
Interest accrued . . . . .	22,112	4,472	–	–	26,584
Other non-cash movements . . . . .	(3,084)	1,149	73,691	–	71,756
Disposal of subsidiaries (Note 38) . . . . .	–	(1,526)	–	–	(1,526)
<b>At September 30, 2025 . . . . .</b>	<b><u>568,618</u></b>	<b><u>113,389</u></b>	<b><u>422,675</u></b>	<b><u>–</u></b>	<b><u>1,104,682</u></b>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**38. DISPOSAL OF SUBSIDIARIES**

**Nine months ended September 30, 2025**

During the nine months ended September 30, 2025, the Source Photonics Group disposed of interest in the following entity to Source Photonics, Inc and Source Photonics Santa Clara, LLC (“Source Photonics SC”) :

<u>Name of subsidiaries</u>	<u>Place of establishment</u>	<u>Principal activities</u>	<u>Equity interest held by the Source Photonics before disposal</u>	<u>Equity interest held by the Source Photonics Group after disposal</u>	<u>Total consideration</u>
Source Photonics, Inc (i) . . . . .	The USA	R&D, production, and sales of optical chips and optical modules	100%	–	7
Source Photonics Santa Clara, LLC (i) . . . . .	The USA	Business and Investment	100%	–	7

(i) On September 30, 2025, Source Photonics disposed of Source Photonics, Inc. and Source Photonics Santa Clara, LLC to New Source Photonics Holdings (Cayman) Limited, wholly owned subsidiaries of Source Photonics, for a consideration of USD1.00 for each.

The net assets of subsidiaries at the date of disposal and the impact on the cash flows in the current period were as follows:

	<u>Source Photonics, Inc</u>	<u>Source Photonics SC</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Net assets disposed of :			
Cash and cash equivalents . . . . .	2,824	252	3,076
Trade and notes receivables . . . . .	819	–	819
Prepayments and other receivables . . . . .	300,458	2	300,460
Inventories . . . . .	6,245	–	6,245
Property, plant and equipment . . . . .	4,256	–	4,256
Right-of-use assets . . . . .	447	–	447
Intangible assets . . . . .	19,971	–	19,971
Trade payables . . . . .	(6,118)	(4)	(6,122)
Accruals and other payables . . . . .	(9,026)	(297,408)	(306,434)
Current tax liabilities . . . . .	(3,003)	–	(3,003)
Lease liabilities . . . . .	(1,526)	–	(1,526)
Less: Non-controlling interests . . . . .	–	–	–
	<u>315,347</u>	<u>(297,158)</u>	<u>18,189</u>
Satisfied by:			
Cash consideration . . . . .	–	–	–
Gain on disposal of subsidiaries (equity transaction, recognised directly in equity) . . . . .	<u>315,347</u>	<u>(297,158)</u>	<u>18,189</u>

**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**38. DISPOSAL OF SUBSIDIARIES (Continued)**

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries as follow:

	<u>Source Photonics, Inc</u> <i>RMB’000</i>	<u>Source Photonics SC</u> <i>RMB’000</i>	<u>Total</u> <i>RMB’000</i>
Cash received . . . . .	–	–	–
Cash and cash equivalents disposal of . . . . .	<u>2,824</u>	<u>252</u>	<u>3,076</u>
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries . . . . .	<u>(2,824)</u>	<u>(252)</u>	<u>(3,076)</u>

**39. RELATED PARTY TRANSACTIONS**

**(a) Parent Entities**

<u>Name</u>	<u>Place of incorporation</u>	<u>Ownership interest</u>		
		<u>As at December 31 2023</u>	<u>2024</u>	<u>As at September 30 2025</u>
Diamond Hill, L.P . . . . .	Cayman Islands	34.99%	34.99%	34.99%

Source Photonics had no ultimate controlling shareholders for the years ended December 31, 2023, 2024 and nine months ended September 30, 2025.

**(b) Names and Relationship with Related Parties**

Related parties are those parties that have the ability, directly and indirectly, to control, jointly control or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related because they are subject to common control and common joint control in the controlling shareholder’s families. Members of key management and their close family member of the Source Photonics Group are also considered as related parties.

The directors of Source Photonics are of the view that the following parties were significant related parties of the Source Photonics Group that had transactions or balances with the Source Photonics Group for the years ended December 31, 2023, 2024 and nine months ended September 30, 2025:

<u>Name of the related parties</u>	<u>Relationship with the Source Photonics Group</u>
VPA	Former Controlling Shareholder
Yicun Capital Co., Ltd. (一村資本有限公司)	Shareholder with Significant Influence
Shanghai Yicun Private Equity Fund Management Co., Ltd.(上海一村私募基金管理有限公司)	Subsidiary of Yicun Capital Co., Ltd.
Source Photonics Santa Clara, LLC	An entity controlled by the controlling shareholders
New Source Photonics Holdings (Cayman) Limited	An entity controlled by the controlling shareholders



**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**39. RELATED PARTY TRANSACTIONS (Continued)**

*(e) Balance with Related Parties*

All the balances with the related parties are trade in natures.

	<u>As at December 31</u>		<u>As at</u> <u>September 30</u>
	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Trade nature</b>			
<b>Trade receivables</b>			
Source Photonics Santa Clara, LLC . . . . .	–	–	2,474
Less: credit loss allowance . . . . .	–	–	(2)
	<u>–</u>	<u>–</u>	<u>2,472</u>

For the year ended December 31, 2023, 2024 and the nine months ended September 30, 2025, the amount of expense recognized in the year in respect of bad and doubtful debts are nil, nil and RMB2,000, respectively.

**40. EVENTS AFTER THE REPORTING PERIOD**

Except for the transactions mentioned above, the Source Photonics Group had no significant subsequent events after September 30, 2025, and up to the date of this report.

**41. SUMMARY OF OTHER ACCOUNTING POLICIES**

**(1) Principles of Consolidation**

The Historical Financial Information incorporates the financial statements of Source Photonics and entities (including structured entities) controlled by Source Photonics and its subsidiaries. Control is achieved when Source Photonics:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Source Photonics 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 listed above.

## **APPENDIX IB ACCOUNTANTS' REPORT OF THE SOURCE PHOTONICS GROUP**

### **II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

#### **41. SUMMARY OF OTHER ACCOUNTING POLICIES (Continued)**

##### **(1) Principles of Consolidation (Continued)**

When the Source Photonics Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Source Photonics Group considers all relevant facts and circumstances in assessing whether or not the Source Photonics Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Source Photonics Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Source Photonics Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Source Photonics Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when Source Photonics obtains control over the subsidiary and ceases when Source Photonics loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year/period are included in the consolidated statement of profit or loss and consolidated statement of comprehensive income from the date Source Photonics gains control until the date when Source Photonics ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of Source Photonics and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of Source Photonics and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Source Photonics Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Source Photonics Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Source Photonics Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

##### *Changes in the Source Photonics Group's ownership interests in existing subsidiaries*

Changes in the Source Photonics Group's ownership interests in existing subsidiaries that do not result in the Source Photonics Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Source Photonics Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Source Photonics Group and the non-controlling interests according to the Source Photonics Group's and the non-controlling interests' proportionate interests.

## **APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

### **II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

#### **41. SUMMARY OF OTHER ACCOUNTING POLICIES (Continued)**

##### **(1) Principles of Consolidation (Continued)**

###### *Changes in the Source Photonics Group’s ownership interests in existing subsidiaries (Continued)*

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of Source Photonics.

When the Source Photonics Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognized. A gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of Source Photonics. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Source Photonics Group had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under *IFRS 9* or, when applicable, the cost on initial recognition of an investment in an associate.

##### **(2) Investments in Associates and Joint Ventures**

An associate is an entity over which the Source Photonics Group has significant influence but no control or joint control. This is generally the case where the Source Photonics Group holds between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost.

Under *IFRS 11* Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. Interests in joint ventures are accounted for using the equity method, after initially being recognized at cost in the consolidated statement of financial position.

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Source Photonics Group’s share of the post-acquisition profits or losses of the investee in profit or loss, and the Source Photonics Group’s share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognized as a reduction in the carrying amount of the investment.

Where the Source Photonics Group’s share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Source Photonics Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Source Photonics Group and its associates and joint ventures are eliminated to the extent of the Source Photonics Group’s interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Source Photonics Group.

## APPENDIX IB ACCOUNTANTS' REPORT OF THE SOURCE PHOTONICS GROUP

### II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

#### 41. SUMMARY OF OTHER ACCOUNTING POLICIES (Continued)

##### (2) Investments in Associates and Joint Ventures (Continued)

###### *Changes in the Source Photonics Group's interests in associates and joint ventures*

When the Source Photonics Group reduces its ownership interests in an associate or a joint venture but the Source Photonics Group continues to use the equity method (including situations that change of ownership interest in an associate or a joint venture due to capital increase of other shareholders to the associate or the joint venture), the Source Photonics Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interests if that gain or loss would have been reclassified to profit or loss on the disposal of the related assets or liabilities.

##### (3) Business Combinations

###### *(i) Business Combination not Under Common Controls*

The acquisition method of accounting is used to account for all business combinations (except for the business combinations under common controls), regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Source Photonics Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Source Photonics Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value, with changes in fair value recognized in profit or loss.

## **APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

### **II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

#### **41. SUMMARY OF OTHER ACCOUNTING POLICIES (Continued)**

##### **(4) Separate Financial Statements**

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by Source Photonics on the basis of dividend received and receivable.

Impairment test of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount of the investee’s net assets including goodwill.

##### **(5) Foreign Currencies**

###### **(i) Functional and Presentation Currency**

Items included in the financial statements of each of the Source Photonics Group’s entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). Since the majority of the assets and operations of the Source Photonics Group are located in the PRC, the Historical Financial Information are presented in RMB, which is also Source Photonics’ functional and the Source Photonics Group’s presentation currency.

###### **(ii) Transactions and Balances**

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statements of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the consolidated statements of profit or loss on a net basis within other gains/(losses), net.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at FVTPL are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognized in other comprehensive income.

###### **(iii) Source Photonics Group Companies**

The results and financial position of all the Source Photonics Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position of the Source Photonics Group’s entities are translated at the closing rate at the end of the reporting period;

## **APPENDIX IB ACCOUNTANTS' REPORT OF THE SOURCE PHOTONICS GROUP**

### **II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

#### **41. SUMMARY OF OTHER ACCOUNTING POLICIES (Continued)**

##### **(5) Foreign Currencies (Continued)**

###### **(iii) Source Photonics Group Companies (Continued)**

- income and expenses for each statement of profit or loss of the Source Photonics Group's entities are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

##### **(6) Property, Plant and Equipment**

The Source Photonics Group's accounting policy for buildings and equipment is explained in Note 16(a). Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property 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.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Source Photonics Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Construction in progress mainly represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for use.

## **APPENDIX IB ACCOUNTANTS' REPORT OF THE SOURCE PHOTONICS GROUP**

### **II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

#### **41. SUMMARY OF OTHER ACCOUNTING POLICIES (Continued)**

##### **(7) Impairment of Non-Financial Assets**

Goodwill and intangible assets that have an indefinite useful life or are not yet available for use are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

##### **(8) Intangible assets**

###### **(i) Goodwill**

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

###### **(ii) Patent right and Patent technology**

Patent right and Patent technology are initially recognized at fair value and historical costs on the acquisition date. They have a finite useful life and subsequently carried at cost less accumulated amortization and impairment losses.

###### **(iii) Software**

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

###### **(iv) Research and Development**

Research expenditure and development expenditure that do not meet the criteria for capitalisation are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

## APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP

### II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

#### 41. SUMMARY OF OTHER ACCOUNTING POLICIES (Continued)

##### (9) Financial Assets

##### (i) Classification

The Source Photonics Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will be recorded either in profit or loss or in OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Source Photonics Group has made an irrevocable election at the time of initial recognition to present subsequent changes in fair value in other comprehensive income.

##### (ii) Recognition and Derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Source Photonics Group commits to purchase or sell the assets. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Source Photonics Group has transferred substantially all the risks and rewards of ownership.

##### (iii) Measurement

At initial recognition, the Source Photonics Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

##### *Debt instruments*

Subsequent measurement of debt instruments depends on the Source Photonics Group’s business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Source Photonics Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses), net together with foreign exchange gains and losses. Impairment losses are presented as separate line items in the statement of profit or loss.
- FVTPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in profit or loss and presented net within other gains/(losses), net in the period in which it arises.

## **APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

### **II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

#### **41. SUMMARY OF OTHER ACCOUNTING POLICIES (Continued)**

##### **(9) Financial Assets (Continued)**

###### *(iii) Measurement (Continued)*

###### *Debt instruments (Continued)*

- FVOCI: assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as a separate line item in the statement of profit or loss.

###### *Equity instruments*

The Source Photonics Group subsequently measures all equity investments at fair value. Where the Source Photonics Group’s management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Source Photonics Group’s right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognized in other gains/ (losses) in the statement of profit or loss as applicable.

###### *(iv) Impairment of Financial Assets*

The Source Photonics Group recognizes an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Source Photonics Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flow will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. Details, please refer to credit risks in Note 3.2.

##### **(10) Financial Liabilities and Equity**

###### *Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

###### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

## **APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

### **II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

#### **41. SUMMARY OF OTHER ACCOUNTING POLICIES (Continued)**

##### **(10) Financial Liabilities and Equity (Continued)**

###### **Financial liabilities**

Financial liabilities of the Source Photonics Group mainly comprise financial liabilities at amortized cost, including trade and notes payables, other payables and accruals, borrowings and customer deposit. Such financial liabilities are initially recognized at fair value, net of transaction costs incurred, and subsequently measured using the effective interest method.

Financial liabilities that are due within one year (inclusive) are classified as current liabilities; those with maturities over one year but are due within one year (inclusive) as from the balance sheet date are classified as current portion of non-current liabilities. Others are classified as non-current liabilities.

###### **Financial liabilities at fair value through profit or loss**

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is measured as at FVTPL.

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

For financial liabilities that are measured as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, such as contingent consideration, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability’s credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to accumulated losses upon derecognition of the financial liability.

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## **APPENDIX IB ACCOUNTANTS' REPORT OF THE SOURCE PHOTONICS GROUP**

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### **II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

#### **41. SUMMARY OF OTHER ACCOUNTING POLICIES (Continued)**

##### **(10) Financial Liabilities and Equity (Continued)**

###### **Financial Liabilities at amortized cost**

Financial liabilities including trade and notes payables, other payables and accruals, borrowings and customer deposit are subsequently measured at amortized cost, using the effective interest method.

###### **Derecognition/modification of financial liabilities**

The Source Photonics derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss during period incurred.

##### **(11) Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost of inventories are determined using the weighted-average cost calculated on a monthly basis. Cost comprises direct materials, direct labor and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost includes the reclassification from equity of any gains or losses on qualifying cash flow hedges relating to purchases of raw material but excludes borrowing costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

##### **(12) Trade Receivables**

Trade receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, in which case they are recognized at fair value. The Source Photonics Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. See Note 3.2 for a description of the Source Photonics Group's impairment policies.

##### **(13) Share Capital and Capital Reserve**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

##### **(14) Trade and Other Payables**

These amounts represent liabilities for goods and services provided to the Source Photonics Group prior to the end of financial period which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

##### **(15) Borrowings**

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction

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## **APPENDIX IB ACCOUNTANTS' REPORT OF THE SOURCE PHOTONICS GROUP**

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### **II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

#### **41. SUMMARY OF OTHER ACCOUNTING POLICIES (Continued)**

##### **(15) Borrowings (Continued)**

costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are derecognized when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Source Photonics Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Covenants that the Source Photonics Group is required to comply with, on or before the end of reporting period, are considered in classifying loan arrangements with covenants as current or non-current. Covenants that the Source Photonics Group is required to comply with after the reporting period do not affect the classification at the reporting date.

##### **(16) Borrowing Costs**

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other borrowing costs are expensed in the period in which they are incurred.

##### **(17) Provisions**

Provisions for legal claims, service warranties and make good obligations are recognized when the Source Photonics Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to

## **APPENDIX IB ACCOUNTANTS' REPORT OF THE SOURCE PHOTONICS GROUP**

### **II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

#### **41. SUMMARY OF OTHER ACCOUNTING POLICIES (Continued)**

##### **(17) Provisions (Continued)**

determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

##### **(18) Employee Benefits**

###### **(i) Short-Term Obligations**

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the statement of financial position.

###### **(ii) Housing Funds, Medical Insurances and Other Social Insurances**

Employees of the Source Photonics Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Source Photonics Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Source Photonics Group's liability in respect of these funds is limited to the contribution payable in each year. Contributions to the housing funds, medical insurances and other social insurances are expensed as incurred.

###### **(iii) Post-Employment Benefits**

The Source Photonics Group classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Source Photonics Group pays fixed contributions into a separate fund and will have no obligation to pay further contributions; and defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, the Source Photonics Group's defined contribution plans mainly include basic pensions and unemployment insurance, while the defined benefit plans are certain oversea subsidiaries provide supplemental retirement benefits beyond the national regulatory insurance system.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligations less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method at the interest rate of treasury bonds with similar obligation term and currency. The charges related to supplementary retirement benefits (including current service costs, historical service costs and gains or losses on settlement) and net interest are recognized in profit or loss for the current period or included in the cost of an asset, and the changes arising from remeasurement in net liabilities or net assets of defined benefit plans are recognized in other comprehensive income.

###### **(iv) Basic Pensions**

The Source Photonics Group's employees participate in the basic pension plan set up and administered by local authorities of Ministry of Human Resource and Social Security. Monthly payments of premiums on

## APPENDIX IB ACCOUNTANTS' REPORT OF THE SOURCE PHOTONICS GROUP

### II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

#### 41. SUMMARY OF OTHER ACCOUNTING POLICIES (Continued)

##### (18) Employee Benefits (Continued)

###### (iv) *Basic Pensions (Continued)*

the basic pensions are calculated according to prescribed bases and percentage by the relevant local authorities. When employees retire, the relevant local authorities are obliged to pay the basic pensions to them. The amounts based on the above calculations are recognized as liabilities in the accounting period in which the service has been rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

##### (19) Share-Based Payments

###### (i) *Equity-settled share-based payment transactions*

The Source Photonics Group operates an equity-settled share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (including shares or share options) of the Source Photonics Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, remaining an employee of the entity over a specified time period);
- including the impact of any non-vesting conditions.

At the end of each reporting period, the Source Photonics Group revises its estimates of the number of share options that are expected to vest based on the non-marketing performance and service conditions, irrespective of whether those non-vesting conditions are satisfied. It recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

###### (ii) *Share-based payment transactions among Source Photonics Group entities*

Source Photonics settling a share-based payment transaction when another entity in the Source Photonics Group receives the goods or services shall recognize the transaction as an equity-settled share-based payment transaction only if it is settled in Source Photonics' own equity instruments. Otherwise, the transaction shall be recognized as a cash settled share-based payment transaction. In its separate financial statements, Source Photonics records a debit, recognizing an increase in the investment in subsidiaries as a capital contribution from the parent and a credit to equity as no goods or services are received by Source Photonics. Source Photonics records a debit, recognizing the cash the employee paid when exercising the equity-settled share-based payment along with a decrease in reserves and a credit, recognizing share capital and share premium of Source Photonics.

###### (iii) *Modifications and Cancellations*

The Source Photonics Group may modify the terms and conditions on which the share-based compensation plan was granted. If a modification increases the fair value of the equity instruments granted, the incremental fair value granted is included in the measurement of the amount recognized for the services received over the remainder of the vesting year. A grant of the share-based compensation plan, that is cancelled or settled during the vesting year, is treated as an acceleration of vesting. The Source Photonics Group will immediately recognize the amount that otherwise would have been recognized for services received over the remainder of the vesting year.

## **APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

### **II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

#### **41. SUMMARY OF OTHER ACCOUNTING POLICIES (Continued)**

##### **(20) Dividend Distribution**

Dividend distribution to the shareholders is recognized as a liability in the Historical Financial Information in the period in which the dividends are approved by the entities’ shareholders or directors, where appropriate.

##### **(21) Interest Income**

Interest income from financial assets at FVTPL is included in the net fair value gains/(losses) on these assets.

Interest income on financial assets at amortized cost and financial assets at FVOCI calculated using the effective interest method is recognized in profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes.

##### **(22) Dividend Income**

Dividend income is recognized when the right to receive dividend payment is established.

##### **(23) Earnings Per Share**

###### Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of Source Photonics, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

###### Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

##### **(24) Government Grant**

Government grants relating to costs are deferred and recognized in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and they are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

## APPENDIX IB ACCOUNTANTS' REPORT OF THE SOURCE PHOTONICS GROUP

### II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

#### 41. SUMMARY OF OTHER ACCOUNTING POLICIES (Continued)

##### (25) Current and Deferred Income Tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

##### (i) *Current Income Tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where Source Photonics and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Source Photonics Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

##### (ii) *Deferred Income Tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Historical Financial Information. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where Source Photonics is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## **APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

### **II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

#### **41. SUMMARY OF OTHER ACCOUNTING POLICIES (Continued)**

##### **(25) Current and Deferred Income Tax (Continued)**

###### *(ii) Deferred Income Tax (Continued)*

In assessing any uncertainty over income tax treatments, the Source Photonics Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be used by individual Source Photonics Group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

##### **(26) Leases**

###### *(i) Definition of 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.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Source Photonics Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

###### *(ii) The Source Photonics Group as a Lessee*

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Source Photonics Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

###### Short-Term Leases and Leases of Low-Value Assets

The Source Photonics Group applies the short-term lease recognition exemption to 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 to the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

###### Right-of-Use Assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Source Photonics Group; and
- an estimate of costs to be incurred by the Source Photonics Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

## **APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

### **II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

#### **41. SUMMARY OF OTHER ACCOUNTING POLICIES (Continued)**

##### **(26) Leases (Continued)**

##### **(ii) *The Source Photonics Group as a Lessee (Continued)***

##### *Right-of-Use Assets (Continued)*

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease.

Right-of-use assets in which the Source Photonics Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Source Photonics Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Land leases are also in the scope of IFRS 16. The Source Photonics Group recognizes any prepaid premium for leasehold lands as right-of-use assets which are depreciated over the relevant lease terms.

Refundable rental deposits paid are account under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

##### *Lease Liabilities*

At the commencement date of a lease, the Source Photonics Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Source Photonics Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Source Photonics Group, the lessee’s incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Source Photonics Group under residual value guarantees;
- the exercise price of a purchase option if the Source Photonics Group is reasonably certain to exercise that option;

## **APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

### **II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

#### **41. SUMMARY OF OTHER ACCOUNTING POLICIES (Continued)**

##### **(26) Leases (Continued)**

##### **(ii) *The Source Photonics Group as a Lessee (Continued)***

##### *Lease Liabilities (Continued)*

- payments of penalties for terminating the lease, if the lease term reflects the Source Photonics Group exercising that option; and
- lease payments to be made under reasonably certain extension options are also included in the measurement of lease liabilities.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Source Photonics Group presents lease liabilities as a separate line item in the consolidated statement of financial position.

##### **(iii) *The Source Photonics Group as a Lessor***

##### *Classification and measurement of leases*

Leases for which the Source Photonics Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognized as an expense on a straight-line basis over the lease term.

Refundable rental deposits received are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

##### **(27) Convertible Bonds**

The Source Photonics Group has convertible bonds which are classified entirely as liabilities. Since the instrument contains an embedded derivative, it has been designated as at fair value through profit or loss on initial recognition and, as such the embedded conversion feature is not separated. All transaction costs related to financial instruments designated as at fair value through profit or loss are expensed as incurred.

The liability is subsequently carried at fair value, determined using valuation techniques. If the bonds are converted, the fair value at the time of conversion are transferred to share capital and share premium for the shares issued. If the bonds are redeemed, the difference between redemption amount and carrying value is recognised in profit or loss.

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**APPENDIX IB ACCOUNTANTS’ REPORT OF THE SOURCE PHOTONICS GROUP**

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**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**

**41. SUMMARY OF OTHER ACCOUNTING POLICIES (Continued)**

**(27) Convertible Bonds (Continued)**

**III SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by Source Photonics or any of the companies now comprising the Source Photonics Group in respect of any period subsequent to September 30, 2025, and up to the date of this report.