The following discussion and our analysis should be read in conjunction with our consolidated financial statements included in the Accountants' Report in Appendix I, together with the accompanying notes. Our consolidated financial statements have been prepared in accordance with IFRS Accounting Standards.

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

For the purposes of this section, unless the context otherwise requires, references to the years of 2023, 2024 and 2025 refer to the years ended December 31 of such years.

OVERVIEW

We are a globally leading branded independent semiconductor memory product enterprise. Based on our vertically integrated capabilities including controller and memory chip design, firmware development, system-level packaging and testing, we design, develop, manufacture and sell a comprehensive portfolio of memory products for edge AI and traditional consumer, enterprise and industrial applications. According to CIC, we are the second largest independent semiconductor memory product enterprise worldwide among more than 100 market players and the largest independent memory product enterprise in China among more than 30 market players, in terms of revenue from memory products in 2025. We have a market share of 1.2% in the global memory product market in 2025, representing a meaningful position for an independent memory enterprise given the large scale of the industry. We currently own and operate three brands — FORESEE, Zilia and Lexar — each focusing on different customer segments and enjoying strong recognition in its respective market. Our leadership among independent semiconductor memory product enterprises stands as a testament to both the significant scale of our global presence and the strength of our brand and product portfolio, underscoring our pivotal role within the broader semiconductor memory industry.

BASIS OF PRESENTATION

The historical financial information of our Group has been prepared in accordance with IFRS Accounting Standards issued by International Accounting Standards Board. The preparation of the historical financial information in conformity with IFRS Accounting Standards requires the use of certain material accounting policy information. It also requires management to make judgements, estimates and assumptions in the process of applying our Group's accounting policies. Judgements made by management in the application of IFRS Accounting Standards that have significant effect on the historical financial information and major sources of estimation uncertainty are discussed in the Accountants' Report included in Appendix I to this document.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Global Demand for Memory Products

As a memory products enterprise, we operate in a global landscape that is highly susceptible to macroeconomic fluctuations and the global demand for memory products. The demand for our products is largely driven by the demand for downstream end applications such as smartphones, PCs, server, automotive electronics, robotics, and other industrial and consumer electronics. Fluctuations within the semiconductor memory product industry have historically impacted our financial performance. For example, in 2025, our revenue increased by 30.4% compared to the prior year due to demand for memory products outpacing available supply, which in turn was primarily driven by the uptick in AI-related applications since the third quarter of 2025. Such supply shortage led to increase in prices of memory products. For more information, please refer to "Risk Factors — Risk Factors Related to Our Business and Our Industry — The markets in which we compete have historically been cyclical and have experienced downturns with fluctuations of average selling prices that have materially adversely affected, and may in the future materially adversely affect, our business, results of operations and financial condition" in this document.

In addition, the semiconductor memory product industry is subject to constant and rapid technological changes, frequent new product introductions, rapid product obsolescence and evolving technical standards. The proliferation of AI, upgrades in consumer electronics and expansion in data centers, connected vehicles, robotics and the IoTs have driven significant data growth, and fueled the global demand for semiconductor memory products. According to CIC, the global semiconductor memory market is expected to grow from US$275.4 billion in 2025 to US$875.6 billion in 2030, representing a CAGR of 26.0%. We anticipate that in the coming years, edge AI applications, including AI-enabled consumer devices and smart vehicles, will emerge as a key incremental growth driver. For example, we have launched SPU controller chip WM8500, to better capitalize the market trend.

Ability to Attract and Maintain Key Customers and Broaden Customer Base

At the core of our growth strategy is our commitment to maintain robust relationships with existing large-scale global customers while continuously broadening our customer base. We aim to develop new relationships with leading enterprises across various industries for our B2B products and enhance our brand recognition in B2C markets. We have established long-standing business relationships with numerous top-tier enterprises across various industries, such as Dell, Lenovo, Mindray, OPPO, Samsung, Transsion and Xiaomi. While we expect the composition of our customers to change over time, our business scale, results of operations and financial conditions will depend on our ability to maintain business relationships with existing customers that make repeat and large orders and attract new customers. In addition, any significant pricing pressure exerted by a key customer could adversely affect our operating results.

We leverage our strengths in technology, quality and service to meet varied needs for customers across different industries. We monitor changes in market demand and leverage our vertically integrated business model to achieve technical customization in order to meet higher requirements for the performance, stability and customization of memory products. This breadth in capabilities provides numerous opportunities for fostering customer loyalty and increasing revenue. Our strategic partnerships with major customers further establish ourselves as a trusted memory products provider in the market, while our reputation for reliability and innovation attracts new customers across regions and verticals. We believe that this dual approach — deepening existing relationships while securing new customers — will continue to enable us to capture market share in the rapidly expanding market and enhance our competitive position globally.

Fluctuation in Prices of Raw Materials and Supply Chain Management

The prices of raw materials and the efficiency of supply chain management directly affect our cost of sales and gross profit and have historically experienced significant fluctuations. In 2023, 2024 and 2025, raw materials costs accounted for 85.2%, 86.7% and 88.1% of our cost of sales, respectively. As a semiconductor memory products enterprise, memory wafers represent our most significant raw material costs. Therefore, changes in the availability and prices of raw materials, particularly memory wafers, could have a significant impact on our results of operations. We procure the majority of memory wafers and other key raw materials from a limited number of suppliers. In 2023, 2024 and 2025, purchase from our five largest suppliers, consisting of memory wafers and controller chips suppliers, accounted for 48.6%, 50.0% and 52.0% of our total procurement cost, respectively. See "Risk Factors — Risk Factors Related to Our Business and Our Industry — We depend on a limited number of suppliers for our major raw materials. Any significant disruption in the supply of raw materials could adversely impact our business, financial condition and operating results" for more information in this document. We have established long-standing and stable business relationships with major domestic and international suppliers of memory wafers and controller chips, to secure a reliable and quality supply of key raw materials for production. In addition, we have been enhancing our in-house capabilities in areas such as memory and controller chip design, firmware development, packaging and testing, particularly for high-end products, to reduce our reliance on external parties. Going forward, we intend to further enhance the resilience of both our international and domestic supply chains by strengthening our cooperation with both domestic and international top-tier suppliers. We will also continue to invest in chip design, firmware development, and in-house production capabilities.

Operational Efficiency

Our ability to manage and improve our operational efficiency significantly affects our profitability and results of operations. Our operating expenses primarily comprised research and development expenses, selling and distribution expenses and administrative expenses.

As a technology-driven company, we have dedicated, and will continue to dedicate, significant resources in R&D, to keep pace with technological developments, evolving standards and competition in the global semiconductor memory market. Our research and development expenses increased from RMB593.7 million in 2023 to RMB910.3 million in 2024, and further increased to RMB1,047.8 million in 2025. Our investments have translated to meaningful, actionable R&D results. For example, we have successfully commercialized our UFS 4.1 controller chip that utilizes Samsung's state-of-the-art wafer fabrication techniques. Going forward, we expect to continue to invest in cutting-edge technology research and product development and believe that R&D will remain a crucial driver for our sustained growth.

The effectiveness of our branding and marketing activities is critical to our financial performance. We sell our products through both direct sales and distributor sales, which provide us with flexibility to meet the needs of various markets while building strong customer relationships and ensuring efficient product distribution. Our selling and distribution expenses increased from RMB482.0 million in 2023 to RMB772.1 million in 2024, and further increased to RMB885.6 million in 2025. Such increases aligned with our business growth and is driven by heightened investment in our branding and marketing activities. As we expand the scale and scope of our business, we anticipate that our selling and distribution expenses will continue to increase in absolute amounts. We are committed to continuously improving our selling and distribution efficiency and benefiting from economies of scale.

The effectiveness of management activities is crucial to the success of our business. Our administrative expenses increased from RMB453.2 million in 2023 to RMB634.6 million in 2024, and further increased to RMB669.2 million in 2025. These increases were primarily due to the expansion of our management team as a result of mergers and acquisitions and the global expansion of our business. We aim to further optimize our management structure to enhance our operational and management efficiencies, ultimately improving our financial performance.

Pricing of Our Memory Products

The pricing of our products directly affects our revenue, gross profit margin and results of operations. In determining our product pricing, we consider a range of factors, including raw material costs, prevailing market prices, market supply-demand dynamics, administrative, sales and distribution expenses, our inventory level, estimated production capacity and the duration of our customer relationships. Therefore, the pricing of our memory products can vary significantly across different product types, time periods and customer segments, directly impacting our sales revenue and profitability.

As an independent memory product enterprise with 1.2% global market share in the semiconductor memory product industry, we primarily compete with global and local independent memory product companies, and engage in differentiated competition with IDMs. In the cases when our products overlap with IDMs, we may face significant pricing pressure from leading IDMs. Furthermore, some of these IDMs supply us with key raw materials and can determine their pricing. Strategically pricing our products to cover production and operational costs, maintain our margins and the competitiveness of our products is essential to our financial performance.

To address these challenges, we are increasingly focused on differentiated and customized product categories, such as the edge AI-related applications. This approach enables us to add significant value to our offerings and enhance our pricing power. Nonetheless, we anticipate that the pricing of our products and our pricing power along the industry value chain will continue to influence our revenue, profitability and overall results of operations.

Scale of Our Product Offerings and Diversification of Our Product Mix

We offer a comprehensive range of memory products, including embedded storage, SSDs, mobile storage and DIMM, catering to the needs of both enterprise and individual customers. The scale of our business and the growth of our total revenue are largely driven by the expansion, breadth and diversification of our product offerings. Within each product line, we strive to continually expand and upgrade our offerings to provide comprehensive and high-quality solutions for our customers. Additionally, our cost of sales and pricing strategy vary across product lines, resulting in differences in our gross profit margin by product type. During the Track Record Period, fluctuations in our gross profit margin were primarily attributable to the scale of our product offerings and changes in our product mix. By leveraging our diversified product offerings and our vertically integrated business model, equipped with end-to-end operational capabilities, we are able to offer customers a variety of product combinations, which we expect to create potential business growth opportunities. We anticipate that our results of operations and profitability will continue to be influenced by the growth and mix of our product offerings.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments relating to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and results of operations. Our management continually evaluates such estimates, assumptions and judgments based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There has not been any material deviation between our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future. See Note 3 to the Accountants' Report in Appendix I to this document for details.

For a discussion of the material accounting policies, which are important for understanding our financial condition and results of operations, see Note 2.3 to the Accountants' Report in Appendix I to this document.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The following table sets forth a summary of our consolidated statements of profit or loss and other comprehensive income for the years indicated.

	For the year ended December 31,					
	2023		2024		2025	
	RMB	*% of revenue*	*RMB*	*% of revenue*	*RMB*	*% of revenue*
	(in thousands, except percentages)					
Revenue	10,125,112	100.0	17,463,650	100.0	22,766,170	100.0
Cost of sales	(9,653,091)	(95.3)	(14,704,494)	(84.2)	(18,673,002)	(82.0)
Gross profit	**472,021**	**4.7**	**2,759,156**	**15.8**	**4,093,168**	**18.0**
Other income and gains	101,821	1.0	496,048	2.8	606,368	2.7
Research and development expenses	(593,654)	(5.9)	(910,301)	(5.2)	(1,047,824)	(4.6)
Selling and distribution expenses	(481,980)	(4.8)	(772,122)	(4.4)	(885,602)	(3.9)
Administrative expenses	(453,225)	(4.5)	(634,585)	(3.6)	(669,199)	(2.9)
Impairment losses on financial assets	(1,141)	(0.0)	(1,732)	(0.0)	(749)	(0.0)
Other expenses	(20,341)	(0.2)	(75,238)	(0.4)	(120,600)	(0.5)
Financial costs	(82,150)	(0.8)	(271,304)	(1.6)	(230,372)	(1.0)
Share of profits/(losses) of associates	371	0.0	(266)	(0.0)	(225)	(0.0)
(Loss)/Profit before tax	**(1,058,278)**	**(10.5)**	**589,656**	**3.4**	**1,744,965**	**7.7**
Income tax credit/(expense)	221,022	2.2	(84,425)	(0.5)	(247,194)	(1.1)
(Loss)/Profit for the year	**(837,256)**	**(8.3)**	**505,231**	**2.9**	**1,497,771**	**6.6**
Other comprehensive income/(loss)						
Exchange differences on translation of foreign operations	11,578	0.1	(292,124)	(1.7)	82,996	0.4
Total comprehensive (loss)/income for the year	**(825,678)**	**(8.2)**	**213,107**	**1.2**	**1,580,767**	**6.9**
Attributable to:						
Owners of the parent	(816,231)	(8.1)	209,366	1.2	1,505,412	6.6
Non-controlling interests	(9,447)	(0.1)	3,741	0.0	75,355	0.3
	(825,678)	**(8.2)**	**213,107**	**1.2**	**1,580,767**	**6.9**

In 2023, we incurred a net loss of RMB837.3 million, primarily attributable to: (i) sustained weak demand in our end markets, particularly in key sectors such as mobile phones and PCs, driven by the global economic slowdown, continued de-stocking efforts by downstream enterprise customers for the majority of 2023, and rising inflation; and (ii) an increase in operating expenses, largely due to increased investment in R&D, alongside additional costs related to share-based payments and service fees associated with our acquisitions during the year.

NON-IFRS MEASURES

To supplement our consolidated financial statements presented in accordance with IFRS Accounting Standards, we use adjusted profit/(loss) for the year (non-IFRS measure) and adjusted EBITDA (non-IFRS measure) as additional financial measures, which are not required by, or presented in accordance with IFRS Accounting Standards. We believe that these non-IFRS measures facilitate comparisons of operating performance from year to year and company to company by eliminating potential impacts of certain items. We believe that these measures provide useful information to investors in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, presentation of adjusted profit/(loss) for the year (non-IFRS measure) and adjusted EBITDA (non-IFRS measure) may not be comparable to similarly titled measures presented by other companies. The use of these non-IFRS measures has limitations as an analytical tool, and investors should not consider them in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under IFRS Accounting Standards.

The following table presents our non-IFRS financial measures for the years indicated.

	For the year ended December 31,		
	2023	2024	2025
	(RMB in thousands)		
Reconciliation of profit/(loss) for the year to adjusted profit/(loss) (non-IFRS measure) and adjusted EBITDA (non-IFRS measure)			
(Loss)/profit for the year	**(837,256)**	**505,231**	**1,497,771**
Add:			
Equity-settled share-based payment expense[1]	198,081	232,173	91,481
Fair value change of financial assets at fair value through profit or loss – Equity instrument	(36,046)	(286,709)	(191,465)
Adjusted profit/(loss) (non-IFRS measure)	**(675,221)**	**450,695**	**1,397,787**
Add:			
Depreciation and amortization	134,402	457,788	445,458
Net finance costs	48,066	254,430	211,291
Income tax expenses/(credit)	(221,022)	84,425	247,194
Adjusted EBITDA (non-IFRS measure)	**(713,775)**	**1,247,338**	**2,301,730**

Note:

(1) "Equity-settled share-based payment expense" is non-cash in nature.

We recorded adjusted loss (non-IFRS measure) of RMB675.2 million in 2023, primarily due to the sustained weak demand in our end markets, particularly in key sectors such as mobile phones and PCs, driven by the global economic slowdown, continued de-stocking efforts by downstream enterprise customers for the majority of 2023, and rising inflation.

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

Revenue Breakdown by Product

During the Track Record Period, we derived revenue primarily from sales of products, including embedded storage, SSDs, mobile storage and DIMM. We generally recognize revenue when our products have been delivered to and accepted by our customers. We also generate a small portion of our revenue from providing packaging and testing services through Longforce Suzhou since October 2023 and technical service for collaborative R&D projects with certain of our customers, as well as subleasing our spare office spaces from time to time.

The following table sets forth a breakdown of our total revenue by product line, each in absolute amount and as a percentage of our total revenue, for the years indicated.

	For the year ended December 31,					
	2023		2024		2025	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
Embedded storage	4,422,919	43.6	8,425,271	48.3	10,012,076	44.0
SSDs	2,802,425	27.7	4,146,913	23.7	5,569,596	24.5
Mobile storage	2,327,529	23.0	3,207,978	18.4	4,894,013	21.5
DIMM	513,095	5.1	1,527,023	8.7	2,216,494	9.7
Others[1]	59,144	0.6	156,465	0.9	73,991	0.3
Total	**10,125,112**	**100.0**	**17,463,650**	**100.0**	**22,766,170**	**100.0**

Note:

(1) Represents (i) revenue from providing packaging and testing services through Longforce Suzhou, (ii) technical service fee generated from collaborative R&D projects with certain customers and (iii) rent generated from subleases of our spare office properties.

During the Track Record Period, embedded storage, SSDs and mobile storage remained our major product line, with DIMM also meaningfully contributed to our revenue growth. The revenue contribution of DIMM increased from 5.1% in 2023 to 8.7% in 2024 and further to 9.7% in 2025. Due to low base effect, the revenue growth of this product line and its contribution to our overall revenue increased at a relatively rapid pace.

The following table presents the sales volume in GB and average selling price per GB of each product line during the Track Record Period.

	For the year ended December 31,					
	2023		2024		2025	
	Sales volume	**Average selling price**	**Sales volume**	**Average selling price**	**Sales volume**	**Average selling price**
	(million GB)	*(RMB per GB)*	*(million GB)*	*(RMB per GB)*	*(million GB)*	*(RMB per GB)*
Embedded storage	11,399.3	0.39	11,529.6	0.73	15,064.3	0.66
SSDs	10,694.7	0.26	10,374.7	0.40	15,087.5	0.37
Mobile storage	5,689.7	0.41	6,354.5	0.50	10,105.7	0.48
DIMM	45.2	11.34	94.6	16.14	107.8	20.56

Sales volume in GB demonstrated a consistent increase during the Track Record Period. This growth was attributed to (i) the inherent characteristics of the semiconductor memory product industry, where technological advancements and data accumulation have driven increased demand for data, leading to continuous expansion in memory product capacity; and (ii) our strategic business scale expansion, which significantly contributed to the rapid increase in our product sales. In line with this trend, the sales volume across all four of our product lines experienced significant growth during the Track Record Period, with a slight decrease of SSDs in 2024, due to our strategic optimization of customer structure by focusing our SSDs sales on a more concentrated group of industry leading business customers to balance the increase of sales volume and improvement of profitability for this product line.

The average selling price for each of our product lines increased from 2023 to 2024, which were largely consistent with the industry-wide fluctuation of the semiconductor memory sector. According to CIC, after continuous de-stocking efforts in the last downward industry cycle, the major electronic companies eventually cleared their inventories and began re-stocking since late 2023. Consequently, the semiconductor memory product industry exhibited an upward trend, and product prices started to recover. According to CIC, in 2024, most product lines saw price increases during this period. With the continuation of this upward trend, the average selling price for each of our product lines experienced a relatively significant rise from 2023 to 2024. The average selling price for each of our product lines except DIMM experienced a slight decrease from 2024 to 2025. This trend is generally consistent with the inherent characteristics of the memory industry in the medium to long term, where technological advancements reduce manufacturing cost per GB and enhance economies of scale. From a short-term perspective, market witnessed a slight downturn in the first half of 2025, which was largely offset by overall market demand outpacing available supply since the third quarter of 2025. DIMM, however, recorded an increase in average selling price, primarily due to higher average selling prices of our DIMM products driven by the tight supply of DRAM memory wafers.

Revenue Breakdown by Brands

We possess three brands: FORESEE, Lexar and Zilia. The following table below sets forth a breakdown of our revenue by brand, both in absolute amounts and as percentages of our total revenue, during the Track Record Period.

	For the year ended December 31,					
	2023		2024		2025	
	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except percentages)					
FORESEE	3,672,254	36.3	7,364,317	42.2	9,066,128	39.8
Lexar	2,425,775	23.9	3,524,584	20.2	4,741,420	20.8
Zilia	37,212	0.4	2,307,966	13.2	2,898,612	12.7
Others(1)	3,989,871	39.4	4,266,783	24.4	6,060,010	26.7
Total	**10,125,112**	**100.0**	**17,463,650**	**100.0**	**22,766,170**	**100.0**

Note:

(1) "Others" consist of revenue from sales of products under ODM business, rendering of services and other sources.

During the Track Record Period, FORESEE, our flagship brand in the enterprise market which primarily offers embedded storage and DIMM products, remained our largest revenue contributor. The revenue increases for the sales of FORESEE products during the Track Record Period were primarily due to the increases in the sales of our embedded storage and DIMM products. The Lexar brand, which primarily offers mobile storage, SSDs and DIMM products for individual consumers, demonstrated consistent revenue growth throughout the Track Record Period, primarily benefiting from its enhanced brand influence. Zilia, which we acquired in late 2023 and mainly covers the Latin American markets, made an immediate contribution of RMB2,308.0 million, accounting for 13.2% of total revenue, in its first full year of 2024, demonstrating our successful integration and market potential. Zilia's revenue further increased in 2025, primarily attributable to the introduction of new customers and products benefiting from synergies created by the acquisition. The growth of revenue from the "Others" category during the Track Record Period was primarily driven by (i) the consolidation of Longforce Suzhou's revenue starting late 2023, and (ii) steady contributions from ODM business, attributable to increased large volume orders of mobile storage from key customers. This diversified brand portfolio and sources of revenue has enabled us to navigate market cycles while maintaining stable overall revenue growth.

Revenue Breakdown by Geographic Location

Over the years, we have built a geographically diverse and extensive customer base. In 2025, we have shipped our products over 60 countries and regions. Throughout the Track Record Period, a significant portion of our revenue has been generated from offshore markets. For more information about our global presence, see "Business — Sales, Distribution and Marketing."

The following table sets forth the breakdown of our revenue in an absolute amount and as a percentage of total revenue by geographic location of customers for the years indicated. The geographical location of customers is determined based on the principal place of business of the customer who places order with us.

	For the year ended December 31,					
	2023		2024		2025	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
Chinese Mainland	2,318,702	22.9	5,038,831	28.9	7,547,874	33.2
Hong Kong, China	4,597,626	45.4	5,485,728	31.4	5,623,543	24.7
Brazil	68,813	0.7	2,386,835	13.7	2,927,018	12.9
Others[(1)]	3,139,971	31.0	4,552,256	26.0	6,667,735	29.2
Total	**10,125,112**	**100.0**	**17,463,650**	**100.0**	**22,766,170**	**100.0**

Note:

(1) "Others" mainly comprise other Asian countries or regions, North America, Europe and Middle East.

During the Track Record Period, a significant portion of our revenue is generated from offshore markets, primarily in Hong Kong, China. Hong Kong is a popular delivery hub for the semiconductor industry due to its strategic location near major semiconductor production markets such as (a) Chinese Mainland, (b) Taiwan, China, (c) Japan and (d) South Korea, as well as its efficient logistics infrastructure, free trade policies and robust legal and financial environment. Many of our clients, including domestic customers, typically request delivery of products in Hong Kong. We do not anticipate significant changes in this industry practice in the short term, and we expect that a substantial portion of our revenue will continue to be generated from offshore markets including Hong Kong. Revenue from Chinese Mainland doubled year-over-year in 2024 and further increased in 2025, mainly driven by robust demand for DIMM and SSDs products from domestic enterprise customers. Brazil emerged as our third-largest market in 2024, contributing 13.7% of total revenue following our strategic acquisition of Zilia in late 2023, and contributing 12.9% of total revenue in 2025.

Revenue Breakdown by Sales Channel

In both onshore and offshore markets, we operate through two main sales channels: (i) direct sales, and (ii) distributor sales.

- *Direct Sales*: In our direct sales model, we sell products directly to end customers. As part of our direct sales, we utilize a consignment-based model to supply some of our Lexar-branded products in North America directly to internationally recognized retailers.

- *Distributor Sales*: We strategically collaborate with distributors who possess extensive sales channels to expand our market reach and effectively serve the needs of customers in various regions.

For more information about our sale channels, see "Business — Sales, Distribution and Marketing" in this document.

The following table sets forth the revenue contribution from direct sales and distributor sales, in absolute amounts and as percentages of our revenue from sales of products, and their respective gross margin during the Track Record Period.

	For the year ended December 31,								
	2023			2024			2025		
	RMB	*%*	*Gross margin*	*RMB*	*%*	*Gross margin*	*RMB*	*%*	*Gross margin*
				(in thousands, except percentages)					
Direct sales[1]	5,554,928	54.9	10.1	10,055,718	57.6	16.4	14,558,302	63.9	19.6
Distributor sales	4,570,184	45.1	(2.0)	7,407,932	42.4	15.0	8,207,868	36.1	15.0
Total	**10,125,112**	**100.0**	**4.7**	**17,463,650**	**100.0**	**15.8**	**22,766,170**	**100.0**	**18.0**

Note:

(1) As part of our direct sales, we generated revenues of RMB68.1 million, RMB64.2 million and RMB76.6 million in 2023, 2024 and 2025, respectively, from consignment retailers, which accounted for 0.7%, 0.4% and 0.3% of our total revenues during these periods.

During the Track Record Period, revenue from direct sales has steadily increased, driven by key customers requesting direct product delivery from us and our efforts in securing direct contracting relationship with more enterprise customers. Consequently, the proportion of direct sales rose from 54.9% in 2023 to 57.6% for 2024, and further to 63.9% in 2025. Despite this growth, we continue to leverage the distributors' sale channels for several reasons. First, the diversity and volume of our product offerings require a broad distribution network. Second, our distributors also serve as essential service providers, offering field application engineer support to enhance our ability to serve clients worldwide; varying market conditions and customer preferences across countries necessitate localized expertise and services. Third, as large clients under the direct sales model often request longer credit terms, we can improve our trade receivable turnover rates by selling our products through distributors, who typically operate on much shorter credit terms. Lastly, distributors allow us to serve small- to medium-sized clients whose purchase volumes may not meet our minimum order quantity. By partnering with distributors who have extensive sales channels and robust after-sales service capabilities, we can expand our product reach, better serve diverse customer needs, and effectively manage credit terms and order processes. We do not anticipate significant changes in the revenue contribution from direct and distributor sales in the near future.

The disparity in gross margins between our direct sales and distributor sales primarily results from fundamental differences in their respective business models, customer structures and product composition. Our distributor sales typically yields lower gross margins compared to direct sales during the Track Record Period, primarily due to: (i) lower unit prices as distributors typically purchase in bulk, (ii) channel incentives, such as distributor commissions and rebates, provided to distributors, and (iii) their assumption of certain customer service functions on behalf of us, which necessitates corresponding price concessions. Our direct sales customers primarily consist of large-scale enterprises with established business relationships with us, which typically have greater pricing stability and cyclical resilience, evidenced by the relatively contained gross margin fluctuation. Furthermore, during the Track Record Period, mobile storage achieved the highest gross margin among our four product lines and was primarily sold through direct sales, thereby contributing to the higher gross margin of direct sales.

Cost of Sales

Our cost of sales consists primarily of:

- ***Raw Materials***: Key items include memory wafers, controller chips, circuit boards, connectors and packaging materials. Memory wafers and controller chips represent a substantial majority of our cost of raw materials.
- ***Outsourced Services***: Key outsourced services include packaging, testing, SMT and assembly of memory products.
- ***Production Expenses***: Expenses associated with the production process.
- ***Others***: These primarily consist of costs related to the provision of technical services and the subleasing of spare office properties.

The following table sets forth a breakdown of our cost of sales by nature, in an absolute amount and as a percentage of total cost of sales, for the years indicated.

	For the year ended December 31,					
	2023		2024		2025	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
Raw materials	8,231,509	85.2	12,749,098	86.7	16,458,170	88.1
Outsourced services	1,222,768	12.7	1,357,787	9.2	1,375,884	7.4
Production expenses	198,725	2.1	595,137	4.0	838,625	4.5
Others	89	0.0	2,472	0.1	323	0.0
Total	**9,653,091**	**100.0**	**14,704,494**	**100.0**	**18,673,002**	**100.0**

The following sensitivity analysis illustrates the effects of hypothetical fluctuations in our average cost of raw materials on our profit/(loss) before income tax for the years indicated, assuming all other factors affecting our profitability had remained unchanged.

	For the year ended December 31,		
	2023	2024	2025
	(RMB in thousands)		
Change in average price of raw materials			
+/-5%	+/-411,575	+/-637,455	+/-822,908
+/-10%	+/-823,151	+/-1,274,910	+/-1,645,817

Procurement by Geographical Locations

The following table presents a breakdown of the Company's procurement by geographical locations, both in absolute amounts and as percentages of our total procurement for each year, during the Track Record Period. The geographical location of suppliers is determined based on the principal place of business of the suppliers whom we directly place order with.

	For the year ended December 31,					
	2023		2024		2025	
	Procurement	% of total procurement	Procurement	% of total procurement	Procurement	% of total procurement
	(RMB in thousands, except percentages)					
Hong Kong, China	4,381,498	38.3	3,568,229	21.7	6,596,085	29.7
Chinese Mainland	3,447,158	30.1	5,308,021	32.3	5,713,584	25.7
Others[(1)]	3,622,834	31.6	7,558,619	46.0	9,899,825	44.6
Total	**11,451,490**	**100.0**	**16,434,869**	**100.0**	**22,209,494**	**100.0**

Note:

(1) Others mainly include (i) Singapore, (ii) Taiwan, China, (iii) Macao, China, (iv) the U.S., (v) Brazil and (vi) South Korea.

During the Track Record Period, Chinese Mainland and Hong Kong, China consistently ranked as our two largest procurement regions. The increase in our procurement from Chinese Mainland was benefited from the continuously strengthened domestic supply chain capabilities. Hong Kong, China leverages its strategic geographic position and efficient logistics network, served as an effective distribution hub of raw materials. Procurement from other countries or regions increased significantly in 2024, primarily due to the consolidation of Zilia, which procured from various overseas countries, with shipments typically made directly to Brazil.

Gross Profit and Gross Margin

Gross profit is equal to our total revenues less cost of sales. Gross profit as a percentage of our total revenues is referred to as gross margin. The following table sets forth a breakdown of our gross profit and gross margin by product line for the years indicated.

	For the year ended December 31,					
	2023		2024		2025	
	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
Embedded storage	(72,670)	(1.6)	1,163,956	13.8	1,623,260	16.2
SSDs	90,189	3.2	595,221	14.4	784,044	14.1
Mobile storage	545,014	23.4	897,801	28.0	1,408,944	28.8
DIMM	(93,845)	(18.3)	100,786	6.6	284,354	12.8
Others	3,333	5.6	1,392	0.9	(7,434)	(10.0)
Total	**472,021**	**4.7**	**2,759,156**	**15.8**	**4,093,168**	**18.0**

We recorded relatively low or even negative gross profit margin for certain product lines in 2023, primarily because prior to late 2023, the memory product industry had experienced a downward trend, characterized by (i) decreased demand due to reduction in remote work in the post-pandemic era, slowing global economic growth, U.S. interest rate hikes and the Russia-Ukraine conflict, as well as (ii) inventory clearance by IDMs, which, facing excess capacity from pandemic-era overproduction, initiated price cuts to reduce inventory levels. These factors collectively led to a significant drop in memory product prices and an industry-wide decrease in profit margins, as observed in the performance of industry-leading enterprises, according to CIC. Our gross profit and gross margin improved notably from 2023 to 2024, primarily due to (i) the overall recovery of memory product industry which observes a rebound in product demand and an increase in prices, and (ii) our strategic restocking in anticipation of the industry's recovery in late

2023, allowing us to procure wafers and other raw materials at relatively lower prices, resulting in lower costs for products sold in 2024. Our gross profit and gross margin further improved from 2024 to 2025, primarily due to (i) increased memory product prices, driven by overall market demand outpacing available supply as a result of surging AI-related demand and product upgrades; and (ii) optimized product mix attributable to the increased revenue contribution from mobile storage products as we continued to enhance the competitiveness of Lexar-branded mobile storage products and deepen relationships with major business customers in 2025, which have the highest gross margin across our product lines.

The changes in the gross profit and gross margin of our embedded storage and DIMM product lines during the Track Record Period are consistent and largely attributable to fluctuations in the end markets, which primarily include mobile phones, PCs and other consumer electronics and data centers. These markets, in sync with the semiconductor industry's fluctuations, experienced a rebound in demand and prices starting in late 2023. For embedded storage, we recorded a gross margin of negative 1.6% in 2023, primarily due to weak end-market demand, particularly in the smartphone sector, which is a major application for these products. In 2024, the gross margin improved to 13.8%, benefiting from both the broader industry upturn and our operational enhancements. Specifically, we actively increased wallet share with key customers, and further utilized in-house production capacity for this product line. The gross profit margin of our embedded storage products further increased from 13.8% in 2024 to 16.2% in 2025, mainly due to the surging AI-related demand.

DIMM represents a relatively recent addition to our product lines. During the initial phase of market penetration, we adopted a strategy of offering competitive pricing to attract a broader customer base. Coupled with fluctuations in the semiconductor industry, we recorded negative gross margins for this product line in 2023. Our gross margin for DIMM improved to 6.6% for 2024, driven by increased sales under the Lexar brand and RDIMM products, which typically enjoy better pricing. The gross profit margin of our DIMM products further increased to 12.8% in 2025, mainly due to the higher average selling prices of our DIMM products driven by the tight supply of DRAM memory wafers.

Mobile storage enjoys a relatively higher gross margin among our four product lines, as these products are either (i) marketed under the Lexar brand, which strategically target high-end customers who prioritize performance over budget or (ii) sold to industry leading business customers. These customers are relatively less sensitive to price, so the product prices are less affected by industry fluctuations, allowing us to maintain our gross margin even in market downward cycle. The gross margin for mobile storage steadily increased from 23.4% in 2023 to 28.0% in 2024, and further to 28.8% in 2025, largely attributed to our continuous optimization of the customer structure within this business segment, resulting in a higher proportion of large clients with the needs of product customization, thereby enhancing our gross margin.

The gross margin of SSDs improved from 3.2% in 2023 to 14.4% in 2024 and remained relatively stable at 14.1% in 2025. The relatively low gross margin in 2023 was primarily due to the previous market downward cycle. In 2024, the increase in the gross margin for SSDs was primarily due to the increase in its average selling price, as the memory industry continued its overall recovery and our SSD products experienced robust downstream market demand.

Subject to the industry-wide fluctuations in the memory product markets, we are committed to improving and stabilizing our gross profit and gross margin over the long term by (i) developing a greater number of high-end clients, (ii) offering more high value-added and differentiated products, (iii) expanding and upgrading our product offerings to ensure complementary strengths across different product lines and readiness to seize opportunities in a dynamic market.

Other Income and Gains

Our other income consist of (i) interest income from various financial assets, including cash and cash equivalents, time deposits and wealth management products, (ii) government grants, primarily non-recurring financial support or subsidies from government bodies as incentives for the development of semiconductor industry, (iii) dividend income, reflecting changes in profits from long-term equity investments accounted for under the equity method, and (iv) other miscellaneous income, primarily proceeds from disposal of certain assets of the acquired entities. Our other gains consist of (i) gain on disposal of items of property, plant and equipment, (ii) gain on deemed disposal of investment in associate, (iii) net gain on disposal of financial assets or liabilities, and (iv) net fair value gains derived from equity investment, structured deposits and certificate deposits, and derivative financial instruments. In the years ended December 31, 2023, 2024 and 2025, our other income and gains represented 1.0%, 2.8% and 2.7% of our revenue, respectively.

The following table sets forth a breakdown of our other income and gains for the years indicated.

	For the year ended December 31,		
	2023	2024	2025
	RMB	*RMB*	*RMB*
		(in thousands)	
Other income			
Interest income	34,084	16,874	19,081
Government grants	25,394	104,895	373,005
Dividend income	70	210	193
Others	3,034	13,567	7,482
Total other income	**62,582**	**135,546**	**399,761**
Gains			
Gain on disposal of items of property, plant and equipment	–	3,224	8,629
Gain on deemed disposal of investment in associate	–	14,095	–
Gain on disposal of financial assets/liabilities, net	71	33,013	4,516
Fair value gains, net:			
Equity instrument	36,046	286,709	191,465
Structured deposits and certificate deposits	2,780	6,158	1,997
Derivative financial instruments	342	17,303	–
Total gains	**39,239**	**360,502**	**206,607**
Total other income and gains	**101,821**	**496,048**	**606,368**

Research and Development Expenses

Our research and development expenses primarily consist of employee compensation and share-based compensation for our R&D staff, R&D materials expenses, depreciation and amortization for R&D-related assets and other R&D-related expenses. In the years ended December 31, 2023, 2024 and 2025, our research and development expenses represented 5.9%, 5.2% and 4.6% of our revenue, respectively.

The following table sets forth a breakdown of our research and development expenses by nature, in an absolute amount and as a percentage of our total research and development expenses, for the years indicated.

	For the year ended December 31,					
	2023		2024		2025	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
Employee compensation	383,976	64.7	542,820	59.6	701,857	67.0
Depreciation and amortization	40,187	6.8	75,125	8.3	112,351	10.7
Materials expenses	39,457	6.6	75,505	8.3	86,154	8.2
Share-based compensation	111,291	18.7	137,863	15.1	59,611	5.7
Others[(1)]	18,743	3.2	78,988	8.7	87,851	8.4
Total	**593,654**	**100.0**	**910,301**	**100.0**	**1,047,824**	**100.0**

Note:

(1) "Others" mainly include office and telecommunication expenses, conference expenses, express delivery and transportation expenses.

Selling and Distribution Expenses

Our selling and marketing expenses consist of employee compensation and share-based compensation for sales staff, advertising expenses, sales commission, warehousing, delivery and custom clearance expenses, service fees for third parties providing after-sale services and calling centers, travel and business development expenses and others. In the years ended December 31, 2023, 2024 and 2025, our selling and distribution expenses represented 4.8%, 4.4% and 3.9% of our revenue, respectively.

The following table sets forth a breakdown of our selling and distribution expenses by nature, in an absolute amount and as a percentage of our total selling and distribution expenses, for the years indicated.

	For the year ended December 31,					
	2023		2024		2025	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
Employee compensation	166,390	34.5	300,839	39.0	386,074	43.6
Advertising expenses	132,340	27.5	226,334	29.3	247,922	28.0
Sales commission	54,112	11.2	55,295	7.2	82,204	9.3
Warehousing, delivery and custom clearance expenses	17,860	3.7	20,899	2.7	17,467	2.0
Travel and business development expenses	24,310	5.0	35,052	4.5	37,520	4.2
Service fee	23,875	5.0	31,846	4.1	43,636	4.9
Share-based compensation	31,807	6.6	52,344	6.8	19,080	2.2
Others[(1)]	31,286	6.5	49,513	6.4	51,699	5.8
Total	**481,980**	**100.0**	**772,122**	**100.0**	**885,602**	**100.0**

Note:

(1) "Others" mainly include sample and sample testing expenses, third-party product design fees, depreciation and amortization for sales-related assets.

Administrative Expenses

Our administrative expenses consist of employee compensation and share-based compensation for our administrative staff, professional service fee for legal consulting and advisory services, depreciation and amortization of self-owned real property, office lease, telecommunication, travel and business development expenses and other expenses. In the years ended December 31, 2023, 2024 and 2025, our administrative expenses represented 4.5%, 3.6% and 2.9% of our revenue, respectively.

The following table sets forth a breakdown of our administrative expenses by nature, in an absolute amount and as a percentage of our total administrative expenses, for the years indicated.

	For the year ended December 31,					
	2023		2024		2025	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
Employee compensation	199,079	43.9	376,395	59.3	400,944	59.9
Depreciation and amortization	37,932	8.4	44,420	7.0	51,582	7.7
Professional service fee	105,375	23.3	64,482	10.2	79,504	11.9
Office, telecommunication, travel and business development expenses	37,256	8.2	68,601	10.8	75,290	11.3
Share-based compensation	54,984	12.1	41,967	6.6	12,791	1.9
Others[(1)]	18,599	4.1	38,720	6.1	49,088	7.3
Total	**453,225**	**100.0**	**634,585**	**100.0**	**669,199**	**100.0**

Note:

(1) "Others" mainly include administrative equipment maintenance expenses, property management fees and cleaning fees.

Impairment Losses on Financial Assets

Our impairment losses on financial assets consist primarily of impairment losses for movement in loss allowance for trade and bills receivables at amortized cost, and movement in loss allowance for equity investments and other financial assets. We recorded impairment losses on financial assets of RMB1.1 million, RMB1.7 million and RMB0.7 million in 2023, 2024 and 2025, respectively.

Other Expenses

Our other expenses mainly consist of foreign exchange losses and fair value changes of forward contracts.

The following table sets forth a breakdown of our other expenses by nature, in an absolute amount and as a percentage of total other expenses, for the years indicated.

	For the year ended December 31,					
	2023		2024		2025	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
Foreign exchange loss	19,486	95.8	61,294	81.5	39,832	33.0
Fair value change – forward contracts	–	–	3,405	4.5	76,154	63.1
Others[1]	855	4.2	10,539	14.0	4,614	3.9
Total	**20,341**	**100.0**	**75,238**	**100.0**	**120,600**	**100.0**

Note:

(1) "Others" mainly include losses on disposal of fixed assets.

Finance Costs

Our finance costs consist of (i) interest on bank borrowings used to support our working capital needs and (ii) interest on our lease liabilities. During the Track Record Period, fluctuations in our finance costs were primarily influenced by changes in borrowing levels and interest rate variations.

The following table sets forth a breakdown of our finance costs by nature, in an absolute amount and as a percentage of our total finance costs, for the years indicated.

	For the year ended December 31,					
	2023		2024		2025	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
Interest on bank borrowings	81,278	98.9	265,352	97.8	225,432	97.9
Interest on lease liabilities	872	1.1	5,952	2.2	4,940	2.1
Total	**82,150**	**100.0**	**271,304**	**100.0**	**230,372**	**100.0**

Share of Profits/(Losses) of Associates

We recorded share of profits of associates of RMB0.4 million in 2023. We had share of losses of associates of RMB0.3 million in 2024 and RMB0.2 million in 2025. The fluctuations during the Track Record Period were due to the fluctuations in the results of operation of Shanghai Testrong Technologies Co., Ltd., which we had ceased to account for as an associate since June 2024, due to our renouncement of right to appoint a director of the board of this entity.

Income Tax Credit/(Expense)

Our income tax credit/(expense) primarily consists of (i) current income tax charged for the year, (ii) overprovision in previous years, and (iii) deferred income tax. We recorded income tax credit of RMB221.0 million in 2023. We recorded income tax expense of RMB84.4 million in 2024 and RMB247.2 million in 2025.

During the Track Record Period, certain entities within our Group enjoyed preferential tax treatments. We are subject to varying tax rates in different jurisdictions. See Note 10 to the Accountants' Report included in Appendix I to this document.

In Chinese Mainland, pursuant to the Enterprise Income Tax Law and Implementation Regulation of the Enterprise Income Tax Law, the tax rate of our Company and our subsidiaries in Mainland China was 25% for the year ended December 31, 2023, 2024 and 2025. Our Company enjoyed preferential tax treatments, subject to tax rate of 15% in 2023 and 2024 due to preferential tax policies for being approved as high-tech enterprises. Certain of our subsidiaries in Chinese Mainland enjoyed preferential tax treatments, mainly including tax rate of 15% due to preferential tax policies for being approved as high-tech enterprises. Certain of our subsidiaries in Chinese Mainland enjoyed other tax concessions, including tax rate of 15% due to some subsidiaries located in certain areas of Chinese Mainland. Our Company and certain of our subsidiaries in Chinese Mainland also enjoy additional tax deduction on certain of our research and development expenses relating to high-end technologies.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year Ended December 31, 2025 Compared to Year Ended December 31, 2024

Revenue

Our revenue increased by 30.4% from RMB17,463.7 million for 2024 to RMB22,766.2 million for 2025, primarily attributable to the overall increase of revenue from all of our four product lines, which was primarily attributable to the increase in sales volume across all product lines during this period driven by both robust market demand and enhanced product competitiveness.

Specifically, our revenue from embedded storage products increased by 18.8% from RMB8,425.3 million for 2024 to RMB10,012.1 million for 2025, which was primarily due to the increase in sales volume from 11,529.6 million GB to 15,064.3 million GB during the same period mainly attributable to the robust demand from the downstream consumer and automotive electronics markets driven by continuous product iteration.

Our revenue from SSDs increased by 34.3% from RMB4,146.9 million for 2024 to RMB5,569.6 million for 2025, which was primarily due to the increase in sales volume from 10,374.7 million GB to 15,087.5 million GB during the same period as (i) our SSDs products gained elevated market and customer acceptance due to their superior product performance; and (ii) we enhance our global sales channel and brand image development.

Our revenue from mobile storage increased by 52.6% from RMB3,208.0 million for 2024 to RMB4,894.0 million for 2025, which was primarily due to the increase in sales volume from 6,354.5 million GB to 10,105.7 million GB during the same period mainly as (i) we enhanced the competitiveness of Lexar-branded products in high-end markets by product upgrades; and (ii) we increased the stickiness of key business customers through competitive mobile storage products and gained more orders from them.

Our revenue from DIMM increased by 45.2% from RMB1,527.0 million for 2024 to RMB2,216.5 million for 2025, which was primarily due to the increases in sales volume from 94.6 million GB to 107.8 million GB driven by the increased sales of our enterprise-grade products, and the increase in average selling price per GB from RMB16.14 to RMB20.56.

Cost of Sales

Our cost of sales increased by 27.0% from RMB14,704.5 million for 2024 to RMB18,673.0 million for 2025, primarily attributable to increases in cost of raw materials driven by the increase in sales volume of our products, and increase in production expenses, which is generally in line with our business growth.

Gross Profit and Gross Margin

As a result, our gross profit increased from RMB2,759.2 million in 2024 to RMB4,093.2 million in 2025, and our gross margin increased from 15.8% for 2024 to 18.0% for 2025. The increase in gross profit and gross profit margin in 2025 was primarily due to (i) increased memory product prices, driven by overall market demand outpacing available supply as a result of surging AI-related demand and product upgrades; and (ii) optimized product mix attributable to the increased revenue contribution from mobile storage products as we continued to enhance the competitiveness of Lexar-branded mobile storage products and deepen relationships with major business customers in 2025, which have the highest gross margin across our product lines and whose gross margin increased from 28.0% in 2024 to 28.8% in 2025. Moreover, the gross profit margin of our embedded storage products increased from 13.8% to 16.2% mainly due to the surging AI-related demand and the gross profit margin of our DIMM products increased from 6.6% to 12.8% mainly due to the increased average selling prices of our DIMM products driven by the tight supply of DRAM memory wafers, both of which also contributed to the increase in our overall gross profit margin.

Other Income and Gains

Our other income and gains increased by 22.2% from RMB496.0 million for 2024 to RMB606.4 million for 2025. This increase was primarily attributable to an increase in government grants of RMB268.1 million, which primarily contributed by the Brazilian government subsidy to Zilia under Brazil's program to support the technological development of the semiconductor industry, partially offset by the decrease in net fair value gains in equity instrument of RMB95.2 million mainly attributable to the fair value changes in our public company equity investment.

Research and Development Expenses

Our research and development expenses increased by 15.1%, from RMB910.3 million for 2024 to RMB1,047.8 million for 2025, reflecting our enhanced R&D efforts in expanding R&D capabilities as well as retaining and attracting R&D talents, primarily in the areas of controller chip design and the development of enterprise-grade products.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 14.7%, from RMB772.1 million for 2024 to RMB885.6 million for 2025, primarily due to expanded sales efforts for our Lexar brand globally, including increased promotional activities, the increase of commissions for sales team in line with revenue growth, and growth in our sales team to support market expansion and customer acquisition initiatives.

Administrative Expenses

Our administrative expenses remained relatively stable at RMB634.6 million for 2024 and RMB669.2 million for 2025.

Impairment Losses on Financial Assets

Our impairment losses on financial assets decreased by 56.8% from RMB1.7 million for 2024 to RMB0.7 million for 2025, primarily due to the reduction in the balance of long-term trade and bills receivables in 2025 driven by our enhanced collection efforts related to trade and bills receivables.

Other Expenses

Our other expenses increased by 60.3% from RMB75.2 million for 2024 to RMB120.6 million for 2025, primarily attributed to fair value changes in forward contracts due to the fluctuations of foreign exchange rate.

Finance Costs

Our finance costs decreased by 15.1% from RMB271.3 million for 2024 to RMB230.4 million for 2025. This decrease was primarily due to a decrease in our interest on bank and other borrowings attributable to the downward trend of interest rates.

Share of Profits/(Losses) of Associates

We recorded share of losses of associates of RMB0.3 million for 2024 and RMB0.2 million for 2025, which remained relatively stable.

Profit/(Loss) before Tax

As a result of the foregoing, we recorded a profit before tax of RMB589.7 million for 2024, and RMB1,745.0 million for 2025.

Income Tax Credit/(Expense)

We recorded an income tax expense of RMB84.4 million for 2024 and RMB247.2 million for 2025. Income tax expense as a percentage of our profit before income tax was 14.3% and 14.2% for the same respective period.

Profit for the Year

As a result of the foregoing, we recorded a profit of RMB505.2 million for 2024 and RMB1,497.8 million for 2025.

Year Ended December 31, 2024 Compared to Year Ended December 31, 2023

Revenue

Our revenue increased by 72.5% from RMB10,125.1 million for 2023 to RMB17,463.7 million for 2024, attributable to the overall increase of revenue from all of our four product lines, which was primarily attributable to (i) the increase in average selling price across all product lines during this period, as the semiconductor memory product industry demonstrated an upward trend, leading to rebound in product prices, (ii) the increase in sales of our Lexar-branded products, the revenue of which increased by 45.3% from RMB2,425.8 million for 2023 to RMB3,524.6 million for 2024, benefited from its continuous global expansion strategy, and (iii) the consolidation of revenue contributed by Zilia, which increased from RMB37.2 million for December 2023 after the acquisition to RMB2,308.0 million for the year of 2024.

Specifically, our revenue from embedded storage products increased by 90.5% from RMB4,422.9 million for 2023 to RMB8,425.3 million for 2024, which was primarily due to (i) the increase in average selling price per GB from RMB0.39 to RMB0.73 during the same period, attributable to the market recovery, and (ii) the increase in sales volume from 11,399.3 million GB to 11,529.6 million GB, as a result of increase in orders from key customers in the mobile phone sector.

Our revenue from SSDs increased by 48.0% from RMB2,802.4 million for 2023 to RMB4,146.9 million for 2024, which was primarily due to the increase in average selling price per GB from RMB0.26 to RMB0.40 during the same period, benefiting from the overall recovery of the SSD sector and the increase in large orders from key customers for our eSSD products, which typically have higher average selling price per unit than consumer-grade SSDs due to their high performance, reliability and advanced features.

Our revenue from mobile storage increased by 37.8% from RMB2,327.5 million for 2023 to RMB3,208.0 million for 2024, which was primarily due to the increases in sales volume from 5,689.7 million GB to 6,354.5 million GB and average selling price per GB from RMB0.41 to RMB0.50 during the same period, both largely attributable to (i) the increased sales of mobile storage products, including PSSDs, under the Lexar brand, and (ii) the steady growth of the sales of mobile storage products to the world's leading retailers.

Our revenue from DIMM increased by 197.6% from RMB513.1 million for 2023 to RMB1,527.0 million for 2024, which was primarily due to the increases in sales volume from 45.2 million GB to 94.6 million GB and average selling price per GB from RMB11.34 to RMB16.14 during the same period, which were largely driven by the increased sales of our enterprise-grade products and products under the Lexar brand, both generally having higher average selling prices than other DIMM products.

Cost of Sales

Our cost of sales increased by 52.3% from RMB9,653.1 million for 2023 to RMB14,704.5 million for 2024, which is generally in line with our business growth. This increase in our costs of sales was primarily driven by the increase in both the quantity and the price of memory wafers we purchased.

Gross Profit and Gross Margin

As a result, our gross profit increased from RMB472.0 million in 2023 to RMB2,759.2 million in 2024, and our gross margin increased from 4.7% for 2023 to 15.8% for 2024. The relatively low gross profit and gross profit margin for 2023 was primarily due to decreased gross profit in embedded storage, SSDs and DIMM, which were impacted by the downturn in the memory product industry, exerting significant pressure on the selling prices of these products. Benefitting from the recovery of demand for and the rebound of prices of the memory products starting from late 2023, along with our strategic restocking in anticipation of this recovery at relatively lower raw material costs, we achieved a significant increase in gross profit from 2023 to 2024.

Other Income and Gains

Our other income and gains increased by 387.2% from RMB101.8 million for 2023 to RMB496.0 million for 2024. This increase was primarily due to (i) an increase in government grants of RMB79.5 million, which primarily contributed by the Brazilian government subsidy to Zilia under Brazil's Semiconductor Industry Technological Development Support Program, (ii) an increase in net gain on disposal of financial assets of RMB32.9 million, which is primarily due to the maturity of structured deposits and certificate deposits purchased by our Brazilian subsidiary, and (iii) an increase in net fair value gains on equity instruments due to the gain on deemed disposal of our equity investment in our associates, resulting from the changes of accounting treatment, with approximately RMB260 million attributed by Maxio Technology, a company listed on Shanghai Stock Exchange STAR Market since November 2024.

Research and Development Expenses

Our research and development expenses increased by 53.3%, from RMB593.7 million for 2023 to RMB910.3 million for 2024, reflecting our enhanced R&D efforts in expanding R&D capabilities as well as retaining and attracting R&D talents, primarily in the areas of the development of enterprise-grade products, chip design and leading packaging and testing expertise.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 60.2%, from RMB482.0 million for 2023 to RMB772.1 million for 2024, primarily due to expanded sales efforts for our Lexar brand globally, including increased promotional activities such as sponsoring of esports tournaments and streaming advertisements, the increase of commissions for sales team in line with revenue growth, and growth in our sales team to support market expansion and customer acquisition initiatives.

Administrative Expenses

Our administrative expenses increased by 40.0% from RMB453.2 million for 2023 to RMB634.6 million for 2024, primarily due to higher administrative personnel costs associated with business growth.

Impairment Losses on Financial Assets

Our impairment losses on financial assets increased by 51.8% from RMB1.1 million for 2023 to RMB1.7 million for 2024, primarily due to the increase in provisions made following impairment testing of trade receivable, the balance of which increased from RMB1,347.4 million as of December 31, 2023 to RMB1,604.2 million as of December 31, 2024, based on the estimated risk of loss.

Other Expenses

The substantial rise in other expenses from RMB20.3 million for 2023 to RMB75.2 million for 2024 was primarily attributed to foreign exchange losses, resulting from the fluctuations in the exchange rate between the U.S. dollar and RMB, as well as the Brazilian real and RMB.

Finance Costs

Our finance costs increased by 230.3% from RMB82.2 million for 2023 to RMB271.3 million for 2024. This increase was primarily due to (i) additional loans taken for two acquisition transactions conducted in 2023 and to meet the working capital needs driven by substantial growth in our business scale, and (ii) an increase in interest on lease liabilities resulting from Zilia's leasing of offices and factories in Brazil.

Share of Profits/(Losses) of Associates

We recorded share of losses of associates of RMB0.3 million for 2024, compared to share of profits of associates of RMB0.4 million for 2023. The difference was primarily due to the fluctuations in the results of operation of Shanghai Testrong.

(Loss)/Profit before Tax

As a result of the foregoing, we recorded a profit before tax of RMB589.7 million for 2024, compared to a loss before tax of RMB1,058.3 million for 2023.

Income Tax Credit/(Expense)

We recorded an income tax expense of RMB84.4 million for 2024, and the income tax expense as a percentage of our profit before income tax was 14.3% for the same period. We recorded an income tax credit of RMB221.0 million for 2023, primarily because we recorded loss before tax for the same period.

DISCUSSION OF CERTAIN KEY ITEMS FROM OUR CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The table below sets forth the selected information from our consolidated statements of financial position as of the dates indicated, which have been extracted from our audited consolidated financial statements included in Appendix I to this document.

	As of December 31,		
	2023	2024	2025
		(in RMB thousands)	
ASSETS			
Non-current assets			
Property, plant and equipment	1,990,227	2,427,468	2,678,304
Right-of-use assets	263,356	255,034	238,057
Goodwill	868,661	793,980	820,182
Other intangible assets	279,854	245,771	258,958
Investment in associates	25,159	30,000	30,123
Financial assets at fair value through profit or loss	393,883	720,080	911,545
Deferred tax assets	446,494	537,632	503,645
Prepayments, other receivables and other assets	346,762	203,219	701,635
Total non-current assets	**4,614,396**	**5,213,184**	**6,142,449**
Current assets			
Inventories	5,893,165	7,833,153	11,677,745
Trade and bills receivables	1,345,301	1,671,623	2,040,417
Receivables financing	–	–	4,434
Prepayments, other receivables and other assets	608,034	974,113	1,368,800
Financial assets at fair value through profit or loss	–	179,623	38,541
Pledged deposits	18,426	10,560	9,520
Cash and cash equivalents	1,200,523	1,014,411	1,468,811
Total current assets	**9,065,449**	**11,683,483**	**16,608,268**
LIABILITIES			
Current liabilities			
Trade payables	1,147,411	1,140,589	2,016,776
Contract liabilities	65,844	94,803	354,635
Other payables and accruals	526,816	673,492	1,034,904
Financial liabilities at fair value through profit or loss	789	–	66
Interest-bearing bank borrowings	3,170,752	5,162,691	6,112,477
Tax payables	5,423	129,427	119,342
Lease liabilities	16,350	22,326	25,320
Provision	–	–	60,080
Total current liabilities	**4,933,385**	**7,223,328**	**9,723,600**
Net current assets	**4,132,064**	**4,460,155**	**6,884,668**
Total assets less current liabilities	**8,746,460**	**9,673,339**	**13,027,117**

	As of December 31,		
	2023	2024	2025
		(in RMB thousands)	
Non-current liabilities			
Interest-bearing bank borrowings	2,092,258	2,516,736	4,377,325
Deferred income	14,581	20,651	35,264
Deferred tax liabilities	99,965	135,156	161,358
Lease liabilities	68,203	64,420	51,232
Other payables and accruals	–	–	39,606
Provision	22,049	36,871	667
Total non-current liabilities	**2,297,056**	**2,773,834**	**4,665,452**
Net assets	**6,449,404**	**6,899,505**	**8,361,665**
Equity			
Share capital	412,864	415,982	419,145
Reserves	5,608,265	6,051,507	7,435,149
	6,021,129	6,467,489	7,854,294
Non-controlling interests	428,275	432,016	507,371
Total equity	**6,449,404**	**6,899,505**	**8,361,665**

Assets

Property, Plant and Equipment

Our property, plant and equipment primarily consist of buildings, plants and machinery, electronic equipment and construction in progress.

The following table sets forth a breakdown of our property, plant and equipment as of the dates indicated.

	As of December 31,		
	2023	2024	2025
		(RMB in thousands)	
Buildings	526,150	898,199	1,192,345
Plant and machinery	859,502	1,031,956	1,223,171
Electronic equipment, furniture and fixtures	125,218	144,522	115,770
Construction in progress	422,949	266,254	58,765
Leasehold improvements	49,690	81,052	84,020
Motor vehicles	6,718	5,485	4,233
Total	**1,990,227**	**2,427,468**	**2,678,304**

Our property, plant and equipment increased from RMB1,990.2 million as of December 31, 2023 to RMB2,427.5 million as of December 31, 2024, mainly attributable to the increase in buildings relating to the Phase II of Zhongshan Storage Industrial Park and addition of plant and machinery in Zhongshan Storage Industrial Park and Suzhou Packaging and Testing Production Base to support our expansion. Our property, plant and equipment further increased to RMB2,678.3 million as of December 31, 2025, mainly due to increase in buildings relating to the completion of R&D center in Shanghai, and increase in plant and machinery relating to the development and production of our memory products.

Right-of-Use Assets

The right-of-use assets primarily represent our leased buildings, equipment, and machinery for our production facilities and offices. Right-of-use assets decreased from RMB263.4 million as of December 31, 2023 to RMB255.0 million as of December 31, 2024 and RMB238.1 million as of December 31, 2025, mainly attributable to (i) the ordinary course amortization, and (ii) the gradual reduction in external leasing expenses as our self-owned properties were put into use.

Goodwill

As of December 31, 2023, 2024 and 2025, our goodwill amounted to RMB868.7 million, RMB794.0 million and RMB820.2 million, respectively. Our goodwill arose from our acquisitions of Powertech Suzhou and SMART Brazil in 2023. The decrease as of December 31, 2024 and the increase as of December 31, 2025 were both primarily due to fluctuations in the exchange rate.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) ("**CGU**") to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized. We determine whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the CGUs to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Goodwill acquired through business combinations is allocated to the following CGU for impairment testing:

- Longforce Suzhou CGU; and
- Zilia Eletrônicos CGU.

The carrying amount of goodwill allocated to each of the CGUs is as follows:

	As of December 31,					
	2023		2024		2025	
	(RMB in thousands)					
	Longforce Suzhou	*Zilia Eletronicos*	*Longforce Suzhou*	*Zilia Eletronicos*	*Longforce Suzhou*	*Zilia Eletronicos*
Recoverable amount	1,390,080	1,269,179	1,473,962	1,236,591	1,445,455	1,643,129
Carrying value including goodwill	1,201,833	1,034,937	1,328,465	1,049,450	1,263,370	1,224,285

Assumptions were used in the value in use calculation of the Longforce Suzhou and Zilia Eletrônicos CGUs for the years ended December 31, 2023, 2024 and 2025. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Discount Rates: The discount rates used are before tax and reflect specific risks relating to the relevant units.

Revenue Growth Rates over the Forecast Period: The growth rates are determined based on historical experience and forecast of market development in which the CGU operate in.

Budgeted Gross Margin: The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year.

For the Longforce Suzhou CGU, a reasonably possible change in the key assumptions of the cash flow projections would cause its carrying amount exceed its recoverable amount. The headroom was RMB188.2 million, RMB145.5 million and RMB182.1 million as of December 31, 2023, 2024 and 2025, respectively. If the compound average revenue growth rates over the forecast period decreased from 25.26% to 21.25%, or the discount rate increased from 11.56% to 13.33%, or the weighted average gross margin over the forecast period decreased from 18.21% to 16.39%, a further impairment on goodwill would be recognized during the year ended December 31, 2023. If the compound average revenue growth rates over the forecast period decreased from 27.49% to 23.41%, or the discount rate increased from 12.51% to 14.12%, or the weighted gross margin over the forecast period decreased from 26.01% to 23.41%, a further impairment on goodwill would be recognized during the year ended December 31, 2024. If the compound average revenue growth rates over the forecast period decreased from 16.34% to 13.67%, or the discount rate increased from 13.05% to 14.56%, or the weighted gross margin over the forecast period decreased from 23.30% to 21.59%, a further impairment on goodwill would be recognized during the year ended December 31, 2025.

For the Zilia Eletronicos CGU, a reasonably possible change in the key assumptions of the cash flow projections would cause its carrying amount exceed its recoverable mount. The headroom was RMB234.2 million, RMB187.1 million and RMB418.8 million as of December 31, 2023, 2024 and 2025, respectively. If the compound average revenue growth rates over the forecast period decreased from 21.93% to 16.61%, or the discount rate increased from 18.87% to 22.30%, or the weighted average gross margin over the forecast period decreased from 14.64% to 12.88%, a further impairment on goodwill would be recognized during the year ended December 31, 2023. If the compound average revenue growth rates over the forecast period decreased from 17.27% to 12.15%, or the discount rate increased from 15.18% to 17.73%, or the weighted average gross margin over the forecast period decreased from 12.88% to 12.37%, a further impairment on goodwill would be recognized during the year ended December 31, 2024. If the compound average revenue growth rates over the forecast period decreased from 6.22% to 2.87%, or the discount rate increased from 16.70% to 21.70%, or the weighted average gross margin over the forecast period decreased from 14.33% to 12.65%, a further impairment on goodwill would be recognized during the year ended December 31, 2025.

For more information on the impairment assessment on goodwill including the sensitivity analysis and headroom for impairment test of goodwill, see Note 15 to the Accountants' Report in Appendix I to this document.

Other Intangible Assets

Our other intangible assets primarily consist of software and intellectual properties in connection with our business operation, such as trademark and patent. Other intangible assets decreased from RMB279.9 million as of December 31, 2023 to RMB245.8 million as of December 31, 2024, mainly attributable to the amortization of intangible assets. Our other intangible assets increased to RMB259.0 million as of December 31, 2025, due to our increased investment in software.

Investment in Associates

Our investment in associates as of December 31, 2023 mainly related to our investment in Shanghai Testrong. Since June 2024, we no longer maintained significant influence over the operations of Shanghai Testrong and ceased to account it as an associate. As of December 31, 2024 and 2025, our investment in associates amounted to RMB30.0 million and RMB30.1 million, respectively, mainly attributable to our investment in Suzhou Puhua Quanxin Investment Partnership (Limited Partnership).

Financial Assets at Fair Value through Profit or Loss

We had financial assets at fair value through profit or loss (including both current and non-current portions) of RMB393.9 million, RMB899.7 million, RMB950.1 million, as of December 31, 2023, 2024 and 2025, respectively, consisting of current portion of nil, RMB179.6 million and RMB38.5 million as of the same respective dates and non-current portion of RMB393.9 million, RMB720.1 million and RMB911.5 million, as of the same respective dates.

	As of December 31,		
	2023	2024	2025
		(RMB in thousands)	
Current:			
Derivative financial instruments	–	17,303	2,922
Structured deposits and certificate deposits	–	162,320	35,619
	–	179,623	38,541
Non-current:			
Unlisted equity investments, at fair value	393,883	168,874	214,481
Listed equity investments, at fair value	–	551,206	697,064
	393,883	720,080	911,545
Total:	**393,883**	**899,703**	**950,086**

Our financial assets at fair value through profit or loss consisted of redeemable short-term wealth management products, mainly derivative financial instruments and structured deposits and certificate deposits, issued by banks in China and Brazil. The structured deposits and certificate deposits classified as our financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest. The changes in our financial assets at fair value through profit or loss during the Track Record Period were primarily due to our redemption of certain wealth management products according to our cash management strategies aimed at optimizing liquidity and returns.

Our financial assets measured at fair value through profit or loss as of December 31, 2023, 2024 and 2025 also included our equity investment in certain unlisted and listed companies. We have dedicated personnel in place who are responsible for identifying, reviewing and pursuing strategic investments, including investments in unlisted and listed companies. We make investment decisions on a case-by-case basis based on the consideration of a number of factors, including the investee's operating history, the growth potential of the investee and the industries in which it operates, the quality of the investee's management team, as well as the investee's potential to generate synergies with our existing operations. We closely monitor the operational and financial performance of our investee companies. From time to time, we may also decide to dispose of certain or all of our equity interests in our investee companies to achieve financial returns or to align with our business focus. Our internal procedures for exit decisions are substantially similar to the procedures for investment decisions.

We follow a prudent investment approach for wealth management products, focusing on capital preservation and stable returns. Our investments are primarily in wealth management products issued by reputable banks. These products are selected for their low-risk profiles, predictable cash flows, and alignment with our overall financial strategy of optimizing liquidity management while balancing risk and return. We make investment decisions related to financial products on a case-by-case basis after thoroughly considering a number of factors, including but not limited to the macro-economic environment, general market conditions, the risk control and credit levels of the issuing banks, our working capital needs, and the expected profit or potential loss of the investment. The investment in these assets will be subject to the compliance with Chapter 14 of the Listing Rules upon the [**REDACTED**] and the [**REDACTED**].

For more information about valuation of financial assets measured at fair value through profit or loss, see Note 23 to the Accountants' Report set out in Appendix I.

Deferred Tax Assets

Our deferred tax assets primarily consist of credit impairment provisions, asset impairment provisions, deductible losses and deferred income. Our deferred tax assets increased from RMB446.5 million as of December 31, 2023 to RMB537.6 million as of December 31, 2024, primarily due to the recognition of deductible tax losses and provisions for the impairment of our inventories. Our deferred tax assets decreased to RMB503.6 million as of December 31, 2025, primarily due to our utilization of subsidiaries' historical losses for tax deduction.

Prepayments, Other Receivables and Other Assets

Our prepayments, other receivables and other assets primarily consist of prepayments for the purchase of raw materials, VAT (value-added tax) and other taxes recoverable, prepaid tax, rental deposits and deposits with suppliers. The following table sets forth the breakdown of prepayments, other receivables and other assets as of the dates indicated.

	As of December 31,		
	2023	**2024**	**2025**
	(RMB in thousands)		
Current			
Prepayments	331,586	421,020	657,678
Value-added tax and other taxes recoverable	176,435	389,652	331,714
Prepaid tax	37,762	57,409	30,707
Deposits	19,881	12,332	11,653
Export value-added tax refund receivables	1,800	44,382	244,761
[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Other receivables and other assets	40,570	40,751	60,057
	608,034	974,113	1,368,800
Non-current			
Prepayments	191,370	95,549	298,079
Value-added tax and other taxes recoverable	115,298	66,349	366,166
Key employee insurance	17,403	17,783	17,345
Deposits	2,536	2,179	3,764
Other receivables	20,155	21,359	16,281
	346,762	203,219	701,635
Total	**954,796**	**1,177,332**	**2,070,435**

Our prepayments, other receivables and other assets (including both current and non-current portions) increased from RMB954.8 million as of December 31, 2023, to RMB1,177.3 million as of December 31, 2024, mainly due to (i) an increase in prepayments to suppliers, as we increased the procurement of raw materials to support our business expansion, (ii) an increase in prepayments for VAT tax and other taxes recoverable driven by the VAT we paid in connection with our purchase of materials, goods and equipment to support our business expansion, (iii) an increase in prepaid tax, which generally aligns with our business growth, and (iv) an increase in other receivables and other assets, mainly attributable to our acquisition of SMART Brazil and increase in housing loans to employees. Our prepayments, other receivables and other assets further increased to RMB2,070.4 million as of December 31, 2025 mainly due to (i) an increase in prepayments to suppliers, as we increased the procurement of equipment to support our business expansion and R&D activities, (ii) an increase in prepayments for VAT and other taxes recoverable driven by higher financial credits generated under the Brazilian law, which generally aligns with our business growth, and (iii) an increase in export VAT refund receivables, which generally aligns with our increased export sales.

The non-current portion of VAT and other taxes recoverable mainly represented tax credits according to tax policy for semiconductor industry in Brazil, which was expected to be deducted from Brazil federal taxes since more than one year after the end of reporting period. The decrease in non-current portion of VAT and other taxes recoverable from RMB115.3 million as of December 31, 2023 to RMB66.3 million as of December 31, 2024 was mainly due to reclassification to current portion of such deductible VAT and other taxes on sales of products of RMB15.2 million following the acquisition of SMART Brazil.

Inventories

Our inventories primarily consist of (i) finished goods, such as semiconductor memory products that are fully manufactured, tested, packaged, and ready for sale; (ii) raw materials for our semiconductor memory products, including memory wafers and controller chips; (iii) work in progress, which mainly include items still in production, such as partially assembled products, or components undergoing testing; and (iv) others, which include auxiliary materials for our semiconductor memory products.

The following table sets forth a summary of the balances of our inventories as of the dates indicated.

	As of December 31,		
	2023	2024	2025
	(RMB in thousands)		
Finished goods	2,329,706	3,164,361	4,664,753
Raw materials	2,386,818	3,620,897	4,974,839
Work in progress	1,167,121	1,035,470	2,015,188
Others	9,520	12,425	22,965
Total	**5,893,165**	**7,833,153**	**11,677,745**

As of December 31, 2023, 2024 and 2025, the balance of our inventories was RMB5,893.2 million, RMB7,833.2 million and RMB11,677.7 million, respectively. The increase in the balance of our inventories over time generally aligns with our business growth. As of December 31, 2023, 2024 and 2025, we recorded provision of inventories of RMB120.1 million, RMB235.9 million and RMB76.0 million, respectively. The provision for inventory impairment is based on a detailed assessment of the net realizable value of inventory items compared to their carrying amounts.

We believe maintaining appropriate levels of inventories dynamically helps us fully address our customers' demand and achieve customer satisfaction without adversely affecting our liquidity. We have in place a set of policies and procedures to manage our inventories. For details, see "Business — Warehousing, Logistics and Inventory Management."

The following table sets forth the turnover days for inventories for the years indicated.

	For the year ended December 31,		
	2023	2024	2025
	(days)		
Inventories turnover days[1]	182.2	170.4	190.7

Note:

(1) Inventories turnover days for each year equals the average balance of inventories of the beginning and ending balances of inventories for that year divided by the corresponding cost of sales for the relevant year, multiplied by the number of days during such year (i.e. 365 days for one fiscal year).

Our inventories turnover days decreased from 182.2 days in 2023 to 170.4 days in 2024, mainly due to our improved inventory utilization efficiency. Our inventories turnover days increased to 190.7 days in 2025, due to enhanced stockpiling in the fourth quarter of 2025 in anticipation of robust market demand. According to CIC, our inventory turnover days are generally in line with industry standards.

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

	As of December 31, 2023					
	Within 6 months	**7 to 12 months**	**Over 1 year**	**Total**	**Less: write down of inventories**	**Carrying value**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Finished goods	2,167,516	142,754	108,278	2,418,548	(88,842)	2,329,706
Raw materials	2,197,856	103,236	109,701	2,410,793	(23,975)	2,386,818
Work in progress	1,171,021	2,741	653	1,174,415	(7,294)	1,167,121
Others	5,011	1,499	3,010	9,520	–	9,520
	5,541,404	**250,230**	**221,642**	**6,013,276**	**(120,111)**	**5,893,165**

	As of December 31, 2024					
	Within 6 months	**7 to 12 months**	**Over 1 year**	**Total**	**Less: write down of inventories**	**Carrying value**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Finished goods	2,912,580	275,667	110,252	3,298,499	(134,138)	3,164,361
Raw materials	2,360,180	919,150	435,794	3,715,124	(94,227)	3,620,897
Work in progress	1,030,942	11,676	343	1,042,961	(7,491)	1,035,470
Others	7,112	1,154	4,159	12,425	–	12,425
	6,310,814	**1,207,647**	**550,548**	**8,069,009**	**(235,856)**	**7,833,153**

	As of December 31, 2025					
	Within 6 months	**7 to 12 months**	**Over 1 year**	**Total**	**Less: write down of inventories**	**Carrying value**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Finished goods	4,509,036	122,398	74,814	4,706,248	(41,495)	4,664,753
Raw materials	4,467,167	310,199	228,630	5,005,996	(31,157)	4,974,839
Work in progress	2,012,373	3,601	2,535	2,018,509	(3,321)	2,015,188
Others	13,837	3,975	5,153	22,965	–	22,965
	11,002,413	**440,173**	**311,132**	**11,753,718**	**(75,973)**	**11,677,745**

Inventories are carried at the lower of cost and net realizable value. 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. As of December 31, 2023, 2024 and 2025, we recorded write-down of inventories of RMB120.1 million, RMB235.9 million and RMB76.0 million, respectively. Our inventories primarily consist of (i) finished goods, (ii) raw materials, and (iii) work in progress. We generally purchase raw materials based on sales demand and most of the work in progress and raw materials will be subsequently sold or utilized within a year. We have in place a set of policies and procedures to manage our inventories. For details, see "Business — Warehousing, Logistics and Inventory Management."

We review the condition of our inventories at the end of each reporting periods and make provisions against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use based on sales forecasts. Such sales forecasts are prepared based on agreements or orders on hand and estimated sales in the foreseeable future based on historical experiences with our customers and current market conditions of the semiconductor industry. We estimate the net realizable value for those obsolete and slow-moving inventories based primarily on the latest invoice prices and current market conditions. The estimation is reassessed at the end of each reporting periods. Where the actual outcome or expectation in future is different from the original estimate, such difference will impact on the carrying value of inventories and the write-down of inventories recognized in the periods in which such estimates have been changed. As such, our management believes that there is no recoverability issue for inventories based on the level of subsequent utilization and enhanced inventory management policies and sufficient provision has been made.

As of March 31, 2026, RMB4,371 million, or 37.4% of our inventories outstanding as of December 31, 2025, had been subsequently sold.

Trade and Bills Receivables

Our trade and bills receivables mainly consist of outstanding amounts from customers for the sale of our semiconductor memory products.

The following table sets forth the details of our trade and bills receivables as of the dates indicated.

	As of December 31,		
	2023	**2024**	**2025**
		(RMB in thousands)	
Trade receivables	1,347,357	1,604,227	2,032,250
Bills receivables	–	70,484	11,752
Impairment	(2,056)	(3,088)	(3,585)
Net carrying amount	**1,345,301**	**1,671,623**	**2,040,417**

As of December 31, 2023, 2024 and 2025, the balance of our trade and bills receivables amounted to RMB1,345.3 million, RMB1,671.6 million and RMB2,040.4 million, respectively. The increase in the balance of our trade and bills receivables over time generally aligns with our business growth.

As of December 31, 2023, 2024 and 2025, we made provisions for the impairment of our trade and bills receivables of RMB2.1 million, RMB3.1 million and RMB3.6 million, respectively. We measure loss allowances for trade and bills receivables at an amount equal to lifetime expected credit losses (ECLs), which is calculated using a provision matrix.

We generally offer customers a credit period no more than 120 days after invoicing. The following table provides an aging analysis of our trade and bills receivables, categorized by the number of days outstanding, as of the dates indicated.

	As of December 31,		
	2023	**2024**	**2025**
		(RMB in thousands)	
Within 3 months	1,317,688	1,538,129	1,883,268
3 to 6 months	25,182	130,186	155,870
Over 6 months	2,431	3,308	1,279
Total	**1,345,301**	**1,671,623**	**2,040,417**

The following table sets forth the turnover days of our trade and bills receivables for the years indicated.

	For the year ended December 31,		
	2023	2024	2025
		(days)	
Trade and bills receivables turnover days[(1)]	40.7	31.5	29.8

Note:

(1) Trade and bills receivables turnover days for each year equals the average balance of trade and bills receivables of the beginning and ending balances of trade and bills receivables for that year divided by the corresponding total revenue for the relevant year, multiplied by the number of days during such year (i.e. 365 days for one fiscal year).

Our trade and bills receivables turnover days decreased from 40.7 days in 2023 to 31.5 days in 2024, primarily due to earlier payments from certain key customers. The turnover days remained relatively stable at 29.8 days in 2025.

As of March 31, 2026, RMB1,931 million, or 95.0% of our trade and bills receivables outstanding as of December 31, 2025 had been subsequently collected.

Cash and Cash Equivalents

As of December 31, 2023, 2024 and 2025, our cash and cash equivalents amounted to RMB1,200.5 million, RMB1,014.4 million and RMB1,468.8 million, respectively. Our cash and cash equivalents primarily consist of cash held at banks and other financial institutions, readily accessible on demand to support our operational and liquidity needs.

Pledged Deposits

Our pledged deposits were deposited to banks for the issue of letter of credits. As of December 31, 2023, 2024 and 2025, our pledged deposits amounted to RMB18.4 million, RMB10.6 million and RMB9.5 million, respectively.

Liabilities

Trade Payables

Our trade payables primarily represent outstanding amounts due to third parties, including payments for our suppliers for raw materials and outsourced services include packaging, testing, SMT and assembly.

Our trade payables remained stable at RMB1,147.4 million and RMB1,140.6 million as of December 31, 2023 and 2024. Our trade payables increased to RMB2,016.8 million as of December 31, 2025, primarily due to increased procurement of raw materials and outsourced services to support our expanding production and business operations.

The following table sets forth the aging analysis of our trade payables based on the invoice date as of the dates indicated.

	As of December 31,		
	2023	2024	2025
		(RMB in thousands)	
Less than 1 years	1,146,102	1,140,188	2,016,112
Over 1 year	1,309	401	664
Total	**1,147,411**	**1,140,589**	**2,016,776**

The following table sets forth our trade payables turnover days for the years indicated.

	For the year ended December 31,		
	2023	2024	2025
		(days)	
Trade payables turnover days[1]	34.2	28.4	30.9

Note:

(1) Trade payables turnover days for each year equals the average balance of trade payables of the beginning and ending balances of trade payables for that year divided by total cost of sales for the relevant year, multiplied by the number of days during such year (i.e. 365 days for one fiscal year).

Our trade payables turnover days remained relatively stable at 34.2 days in 2023, 28.4 days in 2024 and 30.9 days in 2025. The relatively low turnover days in 2024 was primarily due to our procurement of raw materials on a prepayment basis during the initial phase of building relationships with our certain new suppliers.

As of March 31, 2026, RMB2,013 million, or 99.8% of our trade payables outstanding as of December 31, 2025 had been subsequently settled.

Other Payables and Accruals

Our other payables and accruals primarily consist of salaries and benefits payable, other payables for construction cost and purchase of property, plant and equipment and other tax payables.

The following table sets forth a breakdown of our other payables and accruals as of the dates indicated.

	As of December 31,		
	2023	2024	2025
		(RMB in thousands)	
Current			
Salaries and benefits payables	145,888	258,186	478,688
Other tax payables	10,563	26,201	83,112
Other payables	370,365	389,105	473,104
	526,816	673,492	1,034,904
Non-current			
Other payables[2]	–	–	39,606
	–	–	39,606
Total	**526,816**	**673,492**	**1,074,510**

Notes:

(1) Current other payables are unsecured, non-interest-bearing and repayable on demand.

(2) Non-current other payables are unsecured, non-interest-bearing and not repayable within one year.

As of December 31, 2023, 2024 and 2025, the balance of our other payables and accruals, current portion, amounted to RMB526.8 million, RMB673.5 million and RMB1,034.9 million, respectively. The general increase in the balance of our other payables and accruals, current portion, over time was primarily due to (i) the increase in salaries and benefits payables driven by the increase in the number of our employees and accrual for bonuses, (ii) the increase in other payables, mainly due to payables associated with the acquisition of SMART Brazil, as well as the construction costs and purchase of property, plant and equipment resulting from the construction of Zhongshan Storage Industrial Park and R&D center in Shanghai, and (iii) the increase in other tax payables as our profitability improved. As of December 31, 2025, we also had other payables, non-current portion, of RMB39.6 million, mainly representing VAT payables arising from Zilia Eletrônicos's procurement of equipment from overseas.

As of March 31, 2026, RMB433 million, or 91.5% of our other payables and accruals outstanding as of December 31, 2025 had been subsequently settled.

Financial Liabilities at Fair Value through Profit or Loss

We had financial liabilities at fair value through profit or loss of RMB0.8 million, nil and RMB66 thousand as of December 31, 2023, 2024 and 2025, respectively. Our financial liabilities at fair value through profit or loss as of December 31, 2023 and 2025 represent derivative financial instruments purchased by Zilia Eletrônicos, which consist of foreign currency forward contracts designed to mitigate the risk caused by foreign exchange rate fluctuations. The changes in our financial liabilities measured at fair value through profit or loss were primarily due to the fluctuations of foreign exchange rates.

Contract Liabilities

Our contract liabilities primarily represent the advances received from customers to deliver our products. Our contract liabilities increased from RMB65.8 million as of December 31, 2023 to RMB94.8 million as of December 31, 2024, and further increased to RMB354.6, primarily due to increases in advances received from our customers, which generally aligns with our business expansion.

As of March 31, 2026, RMB245 million, or 69.0% of our contract liabilities as of December 31, 2025 had been subsequently settled.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we had met our working capital and other capital requirements primarily through cash generated from our business operations, bank loans, and shareholder contributions. Following the [**REDACTED**], we plan to finance our future capital requirements through cash generated from our business operations, the net [**REDACTED**] from the [**REDACTED**], and, if needed, additional future equity or debt financings.

We currently do not anticipate any material changes to the availability of financing to fund our operations in the near future. We had cash and cash equivalents of RMB1,200.5 million, RMB1,014.4 million and RMB1,468.8 million as of December 31, 2023, 2024 and 2025, respectively.

Net Current Assets

The following table sets forth our current assets and current liabilities as of the dates indicated.

	As of December 31,			As of March 31,
	2023	2024	2025	2026
				(unaudited)
	(RMB in thousands)			
Current assets				
Inventories	5,893,165	7,833,153	11,677,745	17,961,072
Trade and bills receivables	1,345,301	1,671,623	2,040,417	2,835,315

	As of December 31,			As of March 31,
	2023	2024	2025	2026
				(unaudited)
	(RMB in thousands)			
Receivables financing	–	–	4,434	52,899
Prepayments, other receivables and other assets	608,034	974,113	1,368,800	4,641,641
Financial assets at fair value through profit or loss	–	179,623	38,541	131,886
Pledged deposits	18,426	10,560	9,520	8,637
Cash and cash equivalents	1,200,523	1,014,411	1,468,811	4,140,058
Total current assets	**9,065,449**	**11,683,483**	**16,608,268**	**29,771,508**
Current liabilities				
Trade payables	1,147,411	1,140,589	2,016,776	2,800,701
Contract liabilities	65,844	94,803	354,635	2,216,957
Other payables and accruals	526,816	673,492	1,034,904	677,372
Financial liabilities at fair value through profit or loss	789	–	66	13,733
Interest-bearing bank borrowings	3,170,752	5,162,691	6,112,477	7,287,121
Tax payables	5,423	129,427	119,342	759,137
Lease liabilities	16,350	22,326	25,320	25,351
Provision	–	–	60,080	73,308
Total current liabilities	**4,933,385**	**7,223,328**	**9,723,600**	**13,853,680**
Net current assets	**4,132,064**	**4,460,155**	**6,884,668**	**15,917,828**

Our net current assets increased from RMB6,884.7 million as of December 31, 2025 to RMB15,917.8 million as of March 31, 2026, primarily due to (i) an increase in inventories from RMB11,677.7 million as of December 31, 2025 to RMB17,961.1 million as of March 31, 2026, (ii) an increase in prepayments, other receivables and other assets from RMB1,368.8 million as of December 31, 2025 to RMB4,641.6 million as of March 31, 2026, (iii) an increase in cash and cash equivalents from RMB1,468.8 million as of December 31, 2025 to RMB4,140.1 million as of March 31, 2026, and (iv) and a decrease in other payables and accruals from RMB1,034.9 million as of December 31, 2025 to RMB677.4 million as of March 31, 2026. The increase in our net current assets was partially offset by (i) an increase in contract liabilities from RMB354.6 million as of December 31, 2025 to RMB2,217.0 million as of March 31, 2026, (ii) an increase in interest-bearing bank borrowings from RMB6,112.5 million as of December 31, 2025 to RMB7,287.1 million as of March 31, 2026, (iii) an increase in trade payables from RMB2,016.8 million as of December 31, 2025 to RMB2,800.7 million as of March 31, 2026, and (iv) an increase in tax payables from RMB119.3 million as of December 31, 2025 to RMB759.1 million as of March 31, 2026.

Our net current assets increased from RMB4,460.2 million as of December 31, 2024 to RMB6,884.7 million as of December 31, 2025, primarily due to (i) an increase in inventories from RMB7,833.2 million as of December 31, 2024 to RMB11,677.7 million as of December 31, 2025, (ii) an increase in cash and cash equivalents from RMB1,014.4 million as of December 31, 2024 to RMB1,468.8 million as of December 31, 2025, (iii) an increase in prepayments, other receivables and other assets from RMB974.1 million as of December 31, 2024 to RMB1,368.8 million as of December 31, 2025, and (iv) an increase in trade and bills receivables from RMB1,671.6 million as of December 31, 2024 to RMB2,040.4 million as of December 31, 2025. The increase in our net current assets was partially offset by (i) an increase in interest-bearing bank borrowings from RMB5,162.7 million as of December 31, 2024 to RMB6,112.5 million as of December 31, 2025, (ii) an increase in trade payables from RMB1,140.6 million as of December 31, 2024 to RMB2,016.8

million as of December 31, 2025, (iii) an increase in other payables and accruals from RMB673.5 million as of December 31, 2024 to RMB1,034.9 million as of December 31, 2025, and (iv) an increase in contract liabilities from RMB94.8 million as of December 31, 2024 to RMB354.6 million as of December 31, 2025.

Our net current assets increased from RMB4,132.1 million as of December 31, 2023 to RMB4,460.2 million as of December 31, 2024, primarily due to (i) an increase in inventories from RMB5,893.2 million as of December 31, 2023 to RMB7,833.2 million as of December 31, 2024, (ii) an increase in trade and bills receivables from RMB1,345.3 million as of December 31, 2023 to RMB1,671.6 million as of December 31, 2024, and (iii) an increase in prepayments, other receivables and other assets from RMB608.0 million as of December 31, 2023 to RMB974.1 million as of December 31, 2024. The increase in our net current assets was partially offset by (i) a decrease in cash and cash equivalents from RMB1,200.5 million as of December 31, 2023 to RMB1,014.4 million as of December 31, 2024, (ii) an increase in interest-bearing bank borrowings from RMB3,170.8 million as of December 31, 2023 to RMB5,162.7 million as of December 31, 2024, (iii) an increase in other payables and accruals of RMB526.8 million as of December 31, 2023 to RMB673.5 million as of December 31, 2024, and (iv) an increase in tax payable from RMB5.4 million as of December 31, 2023 to RMB129.4 million as of December 31, 2024.

Cash Flow Analysis

The following table sets forth our cash flows for the years indicated.

	For the year ended December 31,		
	2023	2024	2025
		(RMB in thousands)	
Net cash flows used in operating activities	(2,798,400)	(1,189,742)	(1,201,202)
Net cash flows used in investing activities	(1,661,459)	(1,101,991)	(967,920)
Net cash flows from financing activities	3,717,868	2,140,742	2,624,796
Net (decrease)/increase in cash and cash equivalents	(741,991)	(150,991)	455,674
Cash and cash equivalents at the beginning of the year	1,908,239	1,200,523	1,014,411
Effect of foreign exchange rate changes, net	34,275	(35,121)	(1,274)
Cash and cash equivalents at the end of the year	1,200,523	1,014,411	1,468,811

Net Cash Flows Used in Operating Activities

Net cash flows used in operating activities in 2025 was RMB1,201.2 million, which primarily consists of profit before tax of RMB1,745.0 million, adjusted for certain non-cash and non-operating items. Adjustments for such non-cash and non-operating items primarily include fair value gains on financial assets at fair value through profit or loss, net of RMB178.3 million, partially offset by (i) depreciation of property, plant and equipment of RMB348.0 million, (ii) write-down of inventories to net realizable value of RMB313.7 million and (iii) finance costs of RMB230.4 million. The amount was further adjusted by income tax paid of RMB194.7 million and changes in working capital, primarily including (i) an increase in inventories of RMB4,158.3 million, (ii) an increase in prepayments, other receivables and other assets of RMB694.0 million, and (iii) an increase in trade and bill receivables RMB373.9 million, partially offset by (i) an increase in trade payables of RMB876.2 million, (ii) an increase in other payables and accruals of RMB344.5 million and (iii) an increase in contract liabilities of RMB259.8 million.

Net cash flows used in operating activities in 2024 was RMB1,189.7 million, which primarily consists of profit before tax of RMB589.7 million, adjusted for certain non-cash and non-operating items. Adjustments for such non-cash and non-operating items primarily include (i) write-down of inventories to net realizable value of RMB566.3 million, (ii) depreciation of property, plant and equipment of RMB373.6 million, (iii) finance costs of RMB271.3 million and (iv) equity-settled share-based payment expenses of RMB232.2 million. The amount was further adjusted by income tax paid of RMB39.3 million and changes in working capital, primarily including (i) an increase in inventories of RMB2,506.3 million, (ii) an increase in prepayments, other receivables and other assets of RMB371.7 million, and (iii) an increase in trade and bills receivables of RMB328.1 million, partially offset by an increase in other payables and accruals of RMB241.0 million.

Net cash flows used in operating activities in 2023 was RMB2,798.4 million, which primarily consists of loss before tax of RMB1,058.3 million, adjusted for certain non-cash and non-operating items. Adjustments for such non-cash and non-operating items primarily include (i) write-down of inventories to net realizable value of RMB356.4 million, (ii) equity-settled share-based payment expenses of RMB198.1 million, and (iii) depreciation of property, plant and equipment of RMB88.8 million. The amount was further adjusted by income tax paid of RMB168.8 million and changes in working capital, primarily including (i) an increase in inventories of RMB2,277.9 million, (ii) an increase in prepayments, other receivables and other assets of RMB333.4 million, and (iii) an increase in trade and bills receivables of RMB231.7 million, partially offset by (i) an increase in trade payables of RMB346.8 million, and (ii) an increase in other payables and accruals of RMB134.8 million.

To improve net operating cash outflow position, we implement a range of strategies to, among others, (i) optimize demand forecasting and inventory planning. We leverage historical sales data and demand forecasts to set minimum safety stock levels, preventing overstocking while ensuring sufficient inventory to meet fluctuating demand. Additionally, we adjust inventory strategies based on historical trends and market fluctuations, ensuring efficient stock management throughout the year; (ii) track product's storage, movement, and status and regularly review inventory turnover rates for different products to identify slow-moving or obsolete stock, taking timely actions such as discounting or liquidation to minimize obsolescence risks; (iii) maintain strict control over our outstanding receivables and regularly review the recoverability of our outstanding balances. We implement stricter payment terms for certain higher-risk customers, such as requiring upfront deposits or shorter payment intervals; and (iv) closely collaborate with suppliers to optimize procurement schedules and credit terms, which ensure timely material supplies, reducing the risk of excess inventory accumulation.

Net Cash flows Used in Investing Activities

Net cash flows used in investing activities in 2025 was RMB967.9 million, which primarily consists of (i) purchases of items of property, plant and equipment of RMB744.3 million, (ii) purchases of financial assets at fair value through profit or loss of RMB692.1 million, (iii) acquisition of subsidiaries of RMB208.6 million and (iv) purchase of intangible assets of RMB100.4 million, partially offset by proceeds from disposal of finance products of RMB819.7 million.

Net cash flows used in investing activities in 2024 was RMB1,102.0 million, which primarily consists of (i) purchases of financial assets at fair value through profit or loss of RMB1,006.7 million, (ii) purchases of items of property, plant and equipment of RMB888.7 million, and (iii) purchase of intangible assets of RMB54.8 million, partially offset by proceeds from disposal of finance products of RMB845.9 million.

Net cash flows used in investing activities in 2023 was RMB1,661.5 million, which primarily consists of (i) acquisition of subsidiaries of RMB1,727.2 million, (ii) purchases of financial assets at fair value through profit or loss of RMB590.0 million, (iii) purchases of items of property, plant and equipment of RMB423.0 million, and (iv) purchase of intangible assets of RMB76.0 million, partially offset by proceeds from disposal of finance products of RMB1,150.0 million.

Net Cash Flows from Financing Activities

Net cash flows provided by financing activities in 2025 was RMB2,624.8 million, which primarily consists of new bank and other borrowings of RMB9,878.4 million, partially offset by (i) repayment of bank and other borrowings of RMB7,076.5 million and (ii) interest paid of RMB234.6 million.

Net cash flows provided by financing activities in 2024 was RMB2,140.7 million, which primarily consists of new bank and other borrowings of RMB7,949.0 million, partially offset by (i) repayment of bank and other borrowings of RMB5,527.6 million, (ii) interest paid of RMB262.7 million, and (iii) dividends paid of RMB104.0 million.

Net cash flows provided by financing activities in 2023 was RMB3,717.9 million, which primarily consists of new bank borrowings of RMB6,115.0 million, partially offset by (i) repayment of bank borrowings of RMB2,301.6 million, (ii) interest paid of RMB75.3 million, (iii) payments of lease liabilities of RMB13.2 million, and (iv) share issue expenses of RMB7.0 million.

WORKING CAPITAL SUFFICIENCY

Our Directors are of the view, and the Joint Sponsors concur, that taking into account the financial resources available to us, including our cash and cash equivalents on hand, our available financing facilities and the estimated net [**REDACTED**] from the [**REDACTED**] and the expected cash generated from operating activities, we have sufficient working capital for our current requirements and for the next 12 months from the date of this document. Our Directors confirm that we had no material defaults in payment of trade and non-trade payables during the Track Record Period and up to the date of this document.

INDEBTEDNESS

The following table sets forth our indebtedness as of the dates indicated.

	As of December 31,			As of March 31,
	2023	**2024**	**2025**	**2026**
				(unaudited)
		(RMB in thousands)		
Interest-bearing bank borrowings				
– Non-current	2,092,258	2,516,736	4,377,325	9,431,242
– Current	3,170,752	5,162,691	6,112,477	7,287,121
Total interest-bearing bank borrowings	**5,263,010**	**7,679,427**	**10,489,802**	**16,718,363**
Lease liabilities:				
– Non-current	68,203	64,420	51,232	45,029
– Current	16,350	22,326	25,320	25,351
Total lease liabilities	**84,553**	**86,746**	**76,552**	**70,380**
Total	**5,347,563**	**7,766,173**	**10,566,354**	**16,788,743**

Interest-bearing Bank Borrowings

Our interest-bearing bank borrowings (including both current and non-current portions) increased from RMB5,263.0 million as of December 31, 2023 to RMB7,679.4 million as of December 31, 2024, mainly because we incurred more bank loans for acquisitions in 2023 and general corporate and working capital purposes. We further recorded RMB10,489.8 million interest-bearing bank borrowings as of December 31, 2025 and RMB16,718.4 million as of March 31, 2026, being the most recent practicable date for determining our indebtedness, to support our business expansion and for general corporate and working capital purposes.

Certain of interest-bearing bank borrowings was secured by our equity interests in certain subsidiaries, buildings and trade receivables. As of December 31, 2023, 2024 and 2025, the effective interest rate of our secured bank loans ranged from 2.9%-5.9% per annum, 2.5%-3.4% per annum and 0.8%-2.7% per annum, respectively. For details, including amounts of total committed and unrestricted available facilities interest rates for each major type of borrowings and maturity analysis of financial liabilities, see Note 27 to the Accountants' Report included in Appendix I to this document.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, the agreements under our borrowings did not contain any covenant that would have a material adverse effect on our ability to make additional borrowings or issue debt or equity securities in the future. Our Directors further confirm that we had no defaults in bank borrowings, nor did we breach any covenants which would have a material adverse effect on our business, financial condition and results of operations during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirm that during the Track Record Period and up to the Latest Practicable Date, we did not experience any difficulties in obtaining bank loans and other borrowings, credit facilities, or withdrawal of facilities or requests for early repayment. Our Directors confirm that there has not been any material change in our indebtedness since March 31, 2026 and up to the date of this document.

We follow a prudent investment approach for wealth management products, focusing on capital preservation and stable returns. Our investments are primarily in wealth management products issued by reputable banks. These products are selected for their low-risk profiles, predictable cash flows, and alignment with our overall financial strategy of optimizing liquidity management while balancing risk and return. We make investment decisions related to financial products on a case-by-case basis after thoroughly considering a number of factors, including but not limited to the macro-economic environment, general market conditions, the risk control and credit levels of the issuing banks, our working capital needs, and the expected profit or potential loss of the investment.

To ensure proper oversight and mitigate risks, we have established a robust internal control mechanism for managing these investments. All potential investments are subject to a rigorous evaluation process, which involves assessing the risk-return profile, the creditworthiness of the issuing bank, and compliance with our investment policies. With the authorization of the Board and the supervision by our chief financial officer, our finance department is responsible for analyzing, evaluating and determining the investment plans with respect to financial products in accordance with our cash management policies and internal approval process. Once investments are made, we conduct continuous monitoring of their performance and credit risk, with regular updates provided to senior management and the Board. Our management team has significant expertise in evaluating and managing financial investments, particularly wealth management products. Our team is well-equipped to analyze market trends, assess risks, and make informed decisions. We also remain vigilant about changes in financial markets and regulatory developments, which allows us to manage our investments proactively and effectively.

The Board is actively involved in overseeing and governing our investment activities. It approves our overall investment policy to ensure alignment with our strategic objectives and provides oversight for key decisions regarding wealth management investments. Furthermore, the Board receives regular reports on the performance and risk assessment of our investments, enabling it to provide ongoing guidance and oversight.

Saved as otherwise disclosed under sections headed "— Indebtedness" and "— Contractual Obligations," as of March 31, 2026, being the latest practicable date for determining our indebtedness, we did not have any other loan issued and outstanding or any loan agreed to be issued, bank overdrafts, loans and other similar indebtedness, liabilities under acceptances or acceptance credits or hire purchase commitments, debentures, mortgages, charges, guarantees or other material contingent liabilities. Save as disclosed above and the [**REDACTED**], we do not have any material external financing plan as of the Latest Practicable Date.

As of March 31, 2026, we had unutilized banking facilities of RMB6,496 million.

Lease Liabilities

Our lease liabilities, including current and non-current portions, primarily relate to our leased office buildings, production facilities and other machinery equipment.

As of December 31, 2023, 2024, 2025 and March 31, 2026, the balance of our lease liabilities, including both current and non-current portions, was RMB84.6 million, RMB86.7 million, RMB76.6 million and RMB70.4 million, respectively. Our lease liabilities remained relatively stable from December 31, 2023 to March 31, 2026.

CAPITAL EXPENDITURES

Our capital expenditures during the Track Record Period primarily consisted of purchases of items of property, plant and equipment and purchase of intangible assets. The following table sets forth our capital expenditure for the years indicated.

	For the year ended December 31,		
	2023	**2024**	**2025**
		(RMB in thousands)	
Purchases of items of property, plant and equipment	422,966	888,713	744,324
Purchase of intangible assets	76,021	54,833	100,448
Total	**498,987**	**943,546**	**844,772**

In 2023, 2024 and 2025, our capital expenditures amounted to RMB499.0 million, RMB943.5 million and RMB844.8 million, respectively. We funded these expenditures with cash generated from operations, equity financing and bank borrowings during the Track Record Period.

We plan to continue to make capital expenditures to support our business growth and expansion strategy. See "Future Plans and Use of [**REDACTED**] — [**REDACTED**]." We intend to fund these expenditures with available financial resources, including cash generated from operations, net [**REDACTED**] from the [**REDACTED**], and potential future equity or debt financing.

CONTRACTUAL OBLIGATIONS

Capital Commitments

Our capital commitments primarily related to our capital expenditures in the purchase of items of property, plant and equipment. The following table sets forth a summary of our capital commitments as of the dates indicated.

	As of December 31,		
	2023	**2024**	**2025**
		(RMB in thousands)	
Contracted but not provided for:			
Purchase of items of property, plant and equipment	385,444	267,897	108,227

CONTINGENT LIABILITIES

As of December 31, 2023, 2024 and 2025, we did not have any material contingent liabilities.

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios for the periods indicated.

	As of and for the year ended December 31,		
	2023	2024	2025
Revenue growth	21.6%	72.5%	30.4%
Gross profit margin[(1)]	4.7%	15.8%	18.0%
Current ratio[(2)]	1.8	1.6	1.7
Gearing ratio[(3)]	52.9%	59.2%	63.2%
Debt to equity ratio[(4)]	112.1%	144.9%	172.1%
Interest coverage ratio[(5)]	(11.9)	3.2	8.6

Notes:

(1) Gross profit margin equals gross profit divided by revenue for the period.

(2) Current ratio equals current assets divided by current liabilities as of the end of the period.

(3) Gearing ratio is calculated using total liabilities divided by total assets as of the end of the year and multiplied by 100%.

(4) Debt to equity ratio is calculated using total liabilities divided by total equity as of the end of the year and multiplied by 100%.

(5) Interest coverage ratio is calculated by dividing earnings before interest and taxes by the interest expenses for the same period.

Gearing Ratio

Our gearing ratio remained relatively stable at 52.9% as of December 31, 2023 and 59.2% as of December 31, 2024. Our gearing ratio increased to 63.2% as of December 31, 2025 mainly due to an increase in interest-bearing bank borrowings.

Debt to Equity Ratio

Our debt to equity ratio increased from 112.1% as of December 31, 2023 to 144.9% as of December 31, 2024 and further to 172.1% as of December 31, 2025, primarily due to an increase in interest-bearing bank borrowings and trade payables.

RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. For details of our related party transactions, see Note 38 to the Accountants' Report included in Appendix I to this document.

Our Directors are of the view that each of the related party transactions set out in Note 38 to the Accountants' Report included in Appendix I to this document was conducted in the ordinary course of business on an arm's length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or cause our historical results to become non-reflective of our future performance.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet commitments or arrangements.

FINANCIAL RISKS DISCLOSURE

We are exposed to various types of financial risks, including interest rate risk, foreign currency risk, credit risk and liquidity risk.

Interest Rate Risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Our exposure to the risk of changes in market interest rates relates primarily to our cash and time deposits at banks and interest-bearing bank borrowings. For a sensitivity analysis of interest rate risk, see Note 41 of the Accountants' Report included in Appendix I to this document.

Foreign Currency Risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between RMB and other currencies in which we conduct business may affect our Group's financial condition and results of operations. For more information about our exposure to currency risks, how we manage such risks, and a sensitivity analysis relating to currency risks, see Note 41 of the Accountants' Report included in Appendix I to this document.

Credit Risk

We trade only with recognized and creditworthy parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. We monitor receivable balances on an ongoing basis, and our exposure to bad debts is not significant. The credit risk of our other financial assets, which comprise cash and cash equivalents and financial assets included in prepayments, other receivables, and other assets, arises from the default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

For other receivables and other assets, management makes periodic collective assessment as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The Directors believe that there is no material credit risk inherent in our outstanding balance of other receivables.

Liquidity Risk

We monitor our risk of a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both our financial instruments and financial assets, as well as projected cash flows from operations. For details of the maturity profile of our financial liabilities as at the end of each of the Track Record Period, based on the contractual undiscounted payments, see Note 41 to the Accountants' Report included in Appendix I to this document.

DIVIDENDS

We declared cash dividend of RMB104.0 million for the year ended December 31, 2024, which had been fully distributed. We proposed cash dividend of RMB146.7 million for the year ended December 31, 2025, and interim dividend of RMB272.4 million for the three months ended March 31, 2026, both of which were subsequently approved by the Annual General Meeting of the Company on May 19, 2026. We expect to distribute these dividends before [**REDACTED**]. Save as disclosed above, after the Track Record Period and up to the date of this document, we did not declare any dividends to our Shareholders. We currently do not have any dividend policy regarding a fixed dividend pay-out ratio.

Subject to PRC laws and regulations, including the PRC Company Law (《中華人民共和國公司法》) and the No. 3 Guideline for the Supervision of Listed Companies — Cash Dividend Distribution of Listed Companies (2025 Revision) (《上市公司監管指引第3號—上市公司現金分紅(2025年修訂)》), and the Articles of Association, we may pay cumulative cash dividends of any three fiscal years that account for not less than 30% of our average profits for those three fiscal years subject to certain conditions. In 2025, our Shareholder Return Plan for 2025-2027 was adopted. We have strictly implemented this plan, which specifies the decision-making process for dividend standards, dividend ratios and profit distribution policies, aiming to protect the legitimate interests of minority Shareholders.

Future profit distributions may be carried out in the form of cash dividends or stock dividends or a combination of cash dividends and stock dividends. Any proposed distribution of dividends is subject to the discretion of our Board and the approval at our Shareholders' meetings. Our Board may recommend a distribution of dividends in the future after taking into account our results of operations, financial condition, operating requirements, fund requirements, Shareholders' interests and any other conditions that our Board may deem relevant.

DISTRIBUTABLE RESERVES

As of December 31, 2025, our consolidated retained profit amounted to RMB3,135.3 million, which is available for distribution to our Shareholders.

[**REDACTED**] EXPENSES

Our [**REDACTED**] expenses mainly include (i) [**REDACTED**] expenses, such as [**REDACTED**] fees and commissions, and (ii) non-[**REDACTED**] expenses, comprising professional fees paid to our legal advisors and reporting accountants for their services rendered in relation to the [**REDACTED**] and the [**REDACTED**], and other fees and expenses. Assuming full payment of the [**REDACTED**], the estimated total [**REDACTED**] expenses (based on the mid-point of the [**REDACTED**] range and assuming that the [**REDACTED**] is not exercised) for the [**REDACTED**] are approximately HK$[**REDACTED**], accounting for approximately of [**REDACTED**]% of our gross [**REDACTED**]. Among such estimated total [**REDACTED**] expenses, we expect to pay [**REDACTED**] expenses of HK$[**REDACTED**], professional fees for our legal advisors and reporting accountants of HK$[**REDACTED**] and other fees and expenses of HK$[**REDACTED**]. In 2023, 2024 and 2025, [**REDACTED**] expenses charged to profit or loss were [**REDACTED**] and [**REDACTED**], respectively and [**REDACTED**] expenses amounted to [**REDACTED**] and [**REDACTED**] in the corresponding years will be deducted from equity upon [**REDACTED**].

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, up to the date of this document, there has been no material adverse change in our financial, operational or trading position, indebtedness, contingent liabilities or prospects since December 31, 2025, being the end date of our latest audited financial statements, and there has been no event since December 31, 2025 that would materially affect the information shown in the Accountants' Report set out in Appendix I to this document.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

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

[**REDACTED**]