

APPENDIX I

ACCOUNTANT’S REPORT

The following is the text of a report set out on pages [I-1 to I-3], received from the Company’s reporting accountant, [PricewaterhouseCoopers], Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of HKSIR 200, Accountants’ Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

[To insert the firm’s letterhead]

[DRAFT]

ACCOUNTANT’S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF IMOTION AUTOMOTIVE TECHNOLOGY (SUZHOU) CO., LTD. AND CITIGROUP GLOBAL MARKETS ASIA LIMITED, HUATAI FINANCIAL HOLDINGS (HONGKONG) LIMITED AND CCB INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial information of iMotion Automotive Technology (Suzhou) Co., Ltd. (the “Company”) and its subsidiaries (together, the “Group”) set out on pages [I-4 to I-93], which comprises the consolidated balance sheets as at 31 December 2020, 2021 and 2022 and 30 June 2023, the balance sheets of the Company as at 31 December 2020, 2021 and 2022 and 30 June 2023, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023 (the “Track Record Period”) and material accounting policy information and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages [I-4 to I-93] forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [REDACTED] (the “Document”) in connection with the [REDACTED] of the H shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors’ responsibility for the Historical Financial Information

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

Reporting accountant’s responsibility

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

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Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant’s judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation sets out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant’s report, a true and fair view of the financial position of the Company as at 31 December 2020, 2021 and 2022 and 30 June 2023 and the consolidated financial position of the Group as at 31 December 2020, 2021 and 2022 and 30 June 2023 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation sets out in Note 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2022 and other explanatory information (the “Stub Period Comparative Financial Information”). The directors of the Company are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the International Auditing and Assurance Standards Board (“IAASB”). A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that

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the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

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

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page [I-4] have been made.

Dividends

We refer to Note 40 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Track Record Period.

[PricewaterhouseCoopers]

Certified Public Accountants

Hong Kong

[Date]

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I HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

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

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by [PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所(特殊普通合夥))] in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (“IAASB”) (the “Underlying Financial Statements”).

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	<i>Note</i>	Year ended 31 December			Six months ended	
		2020	2021	2022	30 June	2023
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					<i>(Unaudited)</i>	
Revenue	5	47,655	178,258	1,325,882	359,171	543,212
Cost of sales	8	(38,059)	(141,475)	(1,215,309)	(336,069)	(502,173)
Gross profit		9,596	36,783	110,573	23,102	41,039
Selling expenses	8	(3,046)	(9,403)	(27,681)	(16,096)	(13,565)
Administrative expenses	8	(8,591)	(29,715)	(41,517)	(14,203)	(38,382)
Research and development expenses	8	(44,141)	(54,948)	(104,047)	(46,430)	(103,987)
(Net impairment)/ reversal of impairment losses on financial assets	3.1(b)	(90)	(1,453)	(3,717)	(1,471)	2,989
Other income	6	3,716	3,421	4,710	473	4,224
Other (losses)/ gains – net	7	(387)	4,929	(628)	(567)	6,133
Operating loss		(42,943)	(50,386)	(62,307)	(55,192)	(101,549)
Finance income	10	9	94	100	85	2,034
Finance costs	10	(10,893)	(413,907)	(280,169)	(245,325)	(233)
Finance (costs)/ income – net	10	(10,884)	(413,813)	(280,069)	(245,240)	1,801
Loss before income tax		(53,827)	(464,199)	(342,376)	(300,432)	(99,748)
Income tax expense	11	–	–	–	–	–
Loss for the year/period		(53,827)	(464,199)	(342,376)	(300,432)	(99,748)
Other comprehensive income/(loss): <i>Items that may be subsequently reclassified to profit or loss</i>						
Currency translation differences		3	(6)	–	–	–
Loss and total comprehensive loss for the year/period attributable to the owners of the Company		(53,824)	(464,205)	(342,376)	(300,432)	(99,748)
Loss per share attributable to the owners of the Company (in RMB)						
Basic and diluted loss per share	12	(0.37)	(2.80)	(1.77)	(1.61)	(0.49)

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CONSOLIDATED BALANCE SHEETS

		As at 31 December			As at
	Note	2020	2021	2022	30 June
		RMB'000	RMB'000	RMB'000	2023
					RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	15	16,983	14,745	30,704	38,708
Right-of-use assets	14	6,599	39,352	37,408	35,461
Intangible assets	16	7,829	6,964	4,859	4,316
Financial assets at fair value					
through profit or loss	21	–	3,000	3,000	3,502
Other non-current assets	17	2,228	6,208	19,932	19,237
		<u>33,639</u>	<u>70,269</u>	<u>95,903</u>	<u>101,224</u>
Current assets					
Inventories	18	9,484	47,006	271,974	162,081
Other current assets	20	7,193	10,782	45,178	60,313
Trade and notes receivables	19	15,248	111,289	289,358	126,890
Financial assets at fair value					
through profit or loss	21	24,443	242,832	182,408	250,591
Derivative financial					
instruments	23	–	1,451	–	–
Restricted cash	22	300	833	835	300
Cash and cash equivalents	22	16,912	32,042	365,745	146,687
		<u>73,580</u>	<u>446,235</u>	<u>1,155,498</u>	<u>746,862</u>
Total assets		<u>107,219</u>	<u>516,504</u>	<u>1,251,401</u>	<u>848,086</u>
EQUITY					
Paid-in capital	24	7,569	9,087	–	–
Share capital	25	–	–	10,211	204,214
Treasury stock	26	(142,366)	(465,516)	–	–
Reserves	26	148,937	492,791	681,550	532,508
Accumulated losses		<u>(130,497)</u>	<u>(594,696)</u>	<u>(25,294)</u>	<u>(125,207)</u>
Total (deficits)/equity		<u>(116,357)</u>	<u>(558,334)</u>	<u>666,467</u>	<u>611,515</u>

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		As at 31 December			As at
	Note	2020	2021	2022	30 June
		RMB'000	RMB'000	RMB'000	2023
					RMB'000
LIABILITIES					
Non-current liabilities					
Lease liabilities	14	4,962	3,367	1,572	798
Contract liabilities	5	–	15,773	6,750	9,626
Provisions	31	–	132	3,281	5,187
Deferred income	32	300	1,217	883	717
Financial instruments with preferred rights at amortized cost	29	162,219	897,731	–	–
		<u>167,481</u>	<u>918,220</u>	<u>12,486</u>	<u>16,328</u>
Current liabilities					
Trade and notes payables	33	6,778	90,440	438,417	128,384
Other payables and accruals	34	10,574	27,275	53,879	55,704
Contract liabilities	5	11,675	753	26,545	29,949
Borrowings	30	25,029	35,538	49,004	–
Lease liabilities	14	2,039	2,546	3,341	2,482
Provisions	31	–	66	1,262	3,724
		<u>56,095</u>	<u>156,618</u>	<u>572,448</u>	<u>220,243</u>
Total liabilities		<u>223,576</u>	<u>1,074,838</u>	<u>584,934</u>	<u>236,571</u>
Total (deficits)/equity and liabilities		<u>107,219</u>	<u>516,504</u>	<u>1,251,401</u>	<u>848,086</u>
Net current assets		<u>17,485</u>	<u>289,617</u>	<u>583,050</u>	<u>526,619</u>

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BALANCE SHEETS OF THE COMPANY

		As at 31 December			As at
	Note	2020	2021	2022	30 June
		RMB’000	RMB’000	RMB’000	2023
					RMB’000
ASSETS					
Non-current assets					
Property, plant and equipment	15	5,280	5,844	24,154	33,042
Right-of-use assets	14	2,925	36,869	36,117	34,766
Intangible assets	16	6,715	6,002	3,999	4,280
Investments in subsidiaries	13	36,602	48,702	51,712	66,732
Other non-current assets	17	2,228	6,208	19,932	19,237
		<u>53,750</u>	<u>103,625</u>	<u>135,914</u>	<u>158,057</u>
Current assets					
Inventories	18	1,648	40,880	232,390	106,451
Other current assets	20	10,451	11,104	44,906	58,897
Trade and notes receivables	19	2,767	91,342	303,087	149,746
Financial assets at fair value through profit or loss	21	24,443	242,832	182,408	250,591
Derivative financial instruments	23	–	1,451	–	–
Restricted cash	22	300	833	835	300
Cash and cash equivalents	22	15,658	21,674	356,904	140,387
		<u>55,267</u>	<u>410,116</u>	<u>1,120,530</u>	<u>706,372</u>
Total assets		<u>109,017</u>	<u>513,741</u>	<u>1,256,444</u>	<u>864,429</u>
EQUITY					
Paid-in capital	24	7,569	9,087	–	–
Share capital	25	–	–	10,211	204,214
Treasury stock	26	(142,366)	(465,516)	–	–
Reserves	26	148,905	492,791	681,550	532,343
Accumulated losses		<u>(114,695)</u>	<u>(580,693)</u>	<u>(12,493)</u>	<u>(122,364)</u>
Total (deficits)/equity		<u>(100,587)</u>	<u>(544,331)</u>	<u>679,268</u>	<u>614,193</u>

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		As at 31 December			As at
	Note	2020	2021	2022	30 June
		RMB'000	RMB'000	RMB'000	2023
					RMB'000
LIABILITIES					
Non-current liabilities					
Lease liabilities	14	2,333	2,022	1,572	798
Contract liabilities		–	15,773	6,750	9,626
Provisions	31	–	132	3,281	5,187
Deferred income	32	300	1,217	883	717
Financial instruments with preferred rights at amortized cost	29	162,219	897,731	–	–
		<u>164,852</u>	<u>916,875</u>	<u>12,486</u>	<u>16,328</u>
Current liabilities					
Trade and notes payables	33	50	79,429	434,104	132,462
Other payables and accruals	34	7,117	24,151	51,783	65,976
Contract liabilities		11,672	750	26,542	29,945
Borrowings	30	25,029	35,538	49,004	–
Lease liabilities	14	884	1,263	1,995	1,801
Provisions	31	–	66	1,262	3,724
		<u>44,752</u>	<u>141,197</u>	<u>564,690</u>	<u>233,908</u>
Total liabilities		<u>209,604</u>	<u>1,058,072</u>	<u>577,176</u>	<u>250,236</u>
Total (deficits)/equity and liabilities		<u>109,017</u>	<u>513,741</u>	<u>1,256,444</u>	<u>864,429</u>
Net current assets		<u>10,515</u>	<u>268,919</u>	<u>555,840</u>	<u>472,464</u>

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	<i>Note</i>	Attributable to equity holders of the Company					Total <i>RMB’000</i>
		Paid-in capital	Share capital	Treasury stock	Reserves	Accumulated losses	
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	
As at 1 January 2020		7,018	–	(83,516)	82,081	(76,670)	(71,087)
Comprehensive loss							
Loss for the year		–	–	–	–	(53,827)	(53,827)
Other comprehensive income		–	–	–	3	–	3
		<u>–</u>	<u>–</u>	<u>–</u>	<u>3</u>	<u>(53,827)</u>	<u>(53,824)</u>
Transactions with equity holders							
Capital contributions from equity holders	24, 26	551	–	–	58,299	–	58,850
Recognition of financial instruments with preferred rights at amortized cost	29	–	–	(58,850)	–	–	(58,850)
Share-based payment	27	–	–	–	8,554	–	8,554
		<u>551</u>	<u>–</u>	<u>(58,850)</u>	<u>66,853</u>	<u>–</u>	<u>8,554</u>
As at 31 December 2020		<u>7,569</u>	<u>–</u>	<u>(142,366)</u>	<u>148,937</u>	<u>(130,497)</u>	<u>(116,357)</u>

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	<i>Note</i>	Attributable to equity holders of the Company					Total <i>RMB’000</i>
		Paid-in	Share	Treasury	Accumulated		
		capital	capital	stock	Reserves	losses	
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As at 1 January 2021		7,569	–	(142,366)	148,937	(130,497)	(116,357)
Comprehensive loss							
Loss for the year		–	–	–	–	(464,199)	(464,199)
Other comprehensive loss		–	–	–	(6)	–	(6)
		<u>–</u>	<u>–</u>	<u>–</u>	<u>(6)</u>	<u>(464,199)</u>	<u>(464,205)</u>
Transactions with equity holders							
Capital contributions from equity holders	24, 26	1,518	–	–	326,178	–	327,696
Recognition of financial instruments with preferred rights at amortized cost	29	–	–	(323,150)	–	–	(323,150)
Reclassification to profit or loss on liquidation of a subsidiary		–	–	–	(26)	–	(26)
Share-based payment	27	–	–	–	17,708	–	17,708
		<u>1,518</u>	<u>–</u>	<u>(323,150)</u>	<u>343,860</u>	<u>–</u>	<u>22,228</u>
As at 31 December 2021		<u>9,087</u>	<u>–</u>	<u>(465,516)</u>	<u>492,791</u>	<u>(594,696)</u>	<u>(558,334)</u>

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	<i>Note</i>	Attributable to equity holders of the Company					Total <i>RMB’000</i>
		Paid-in	Share	Treasury	Accumulated		
		capital	capital	stock	Reserves	losses	
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As at 1 January 2022		9,087	–	(465,516)	492,791	(594,696)	(558,334)
Comprehensive loss							
Loss for the year		–	–	–	–	(342,376)	(342,376)
Transactions with equity holders							
Capital contributions from equity holders	24, 26	1,124	–	–	344,876	–	346,000
Recognition of financial instruments with preferred rights at amortized cost	29	–	–	(346,000)	–	–	(346,000)
Derecognition of financial instruments with preferred rights at amortized cost	29	–	–	811,516	711,635	–	1,523,151
Conversion into a joint stock company	25, 26	(10,211)	10,211	–	(911,778)	911,778	–
Share-based payment	27	–	–	–	44,026	–	44,026
		(9,087)	10,211	465,516	188,759	911,778	1,567,177
As at 31 December 2022		–	10,211	–	681,550	(25,294)	666,467

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	<i>Note</i>	Attributable to equity holders of the Company					Total <i>RMB'000</i>
		Paid-in	Share	Treasury	Accumulated		
		capital	capital	stock	Reserves	losses	
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2023		–	10,211	–	681,550	(25,294)	666,467
Comprehensive loss							
Loss for the period		–	–	–	–	(99,748)	(99,748)
Provision of safety fund surplus reserve	26	–	–	–	340	(340)	–
Utilisation of safety fund surplus reserve	26	–	–	–	(175)	175	–
		–	–	–	165	(99,913)	(99,748)
Transactions with equity holders							
Capitalization Issue	25, 26	–	194,003	–	(194,003)	–	–
Share-based payment	27	–	–	–	44,796	–	44,796
		–	194,003	–	(149,207)	–	44,796
As at 30 June 2023		<u>–</u>	<u>204,214</u>	<u>–</u>	<u>532,508</u>	<u>(125,207)</u>	<u>611,515</u>

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	<i>Note</i>	Attributable to equity holders of the Company					Total <i>RMB'000</i>
		Paid-in	Share	Treasury	Accumulated		
		capital	capital	stock	Reserves	losses	
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2022		9,087	–	(465,516)	492,791	(594,696)	(558,334)
Comprehensive loss							
Loss for the period		–	–	–	–	(300,432)	(300,432)
Transactions with equity holders							
Capital contributions from equity holders	24, 26	358	–	–	98,142	–	98,500
Recognition of financial instruments with preferred rights at amortized cost	29	–	–	(98,500)	–	–	(98,500)
Share-based payment	27	–	–	–	22,127	–	22,127
		<u>358</u>	<u>–</u>	<u>(98,500)</u>	<u>120,269</u>	<u>–</u>	<u>22,127</u>
As at 30 June 2022 <i>(Unaudited)</i>		<u>9,445</u>	<u>–</u>	<u>(564,016)</u>	<u>613,060</u>	<u>(895,128)</u>	<u>(836,639)</u>

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	<i>Note</i>	Year ended 31 December			Six months ended 30 June	
		2020 <i>RMB’000</i>	2021 <i>RMB’000</i>	2022 <i>RMB’000</i>	2022 <i>RMB’000</i> <i>(Unaudited)</i>	2023 <i>RMB’000</i>
Cash flows from operating activities						
Net cash used in operations	35	(23,844)	(62,998)	(65,667)	(28,159)	(82,916)
Interest received from cash at banks	10	9	94	100	85	2,034
Net cash (used in)/ generated from operating activities		<u>(23,835)</u>	<u>(62,904)</u>	<u>(65,567)</u>	<u>(28,074)</u>	<u>(80,882)</u>
Cash flows from investing activities						
Payments for land use right	14	–	(34,021)	–	–	–
Payments for property, plant and equipment		(2,904)	(4,097)	(24,437)	(9,404)	(15,092)
Payments for intangible assets		(7,812)	(2,506)	(1,506)	(690)	(1,603)
Government grants received in relation to acquisition of non-current assets		–	1,000	–	–	–
Proceeds from sale of property, plant and equipment		48	717	30	30	100
Proceeds from disposals of financial assets at fair value through profit or loss	3.3(c)	41,250	631,231	2,008,902	820,935	1,281,795
Payments for financial assets at fair value through profit or loss	3.3(c)	(65,200)	(848,730)	(1,940,749)	(824,109)	(1,345,370)
Proceeds from settlement of derivative financial instruments		–	67	–	(801)	–
Payments for settlement of derivative financial instruments		–	–	(801)	–	–
Proceeds from sale of a subsidiary		1,480	–	–	–	–
Net cash (used in)/ generated from investing activities		<u>(33,138)</u>	<u>(256,339)</u>	<u>41,439</u>	<u>(14,039)</u>	<u>(80,170)</u>

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	Note	Year ended 31 December			Six months ended 30 June	
		2020 RMB'000	2021 RMB'000	2022 RMB'000	2022 RMB'000	2023 RMB'000
Cash flows from financing activities						
Proceeds from contributions from equity holders	24, 26	58,850	327,696	346,000	98,500	–
Payments of lease liabilities	35(d)	(2,125)	(2,350)	(3,073)	(1,373)	(1,729)
Repayments of borrowings	35(d)	(12,000)	(25,000)	(35,500)	(19,500)	(48,857)
Proceeds from borrowings	35(d)	27,000	35,500	48,857	–	–
Interest paid for borrowings	35(d)	(897)	(1,245)	(375)	(533)	(284)
Payments for [REDACTED] expenses		–	–	–	–	(7,696)
Net cash generated/ (used in) from financing activities		<u>70,828</u>	<u>334,601</u>	<u>355,909</u>	<u>77,094</u>	<u>(58,566)</u>
Net increase/(decrease) in cash and cash equivalents		<u>13,855</u>	<u>15,358</u>	<u>331,781</u>	<u>34,981</u>	<u>(219,618)</u>
Cash and cash equivalents at beginning of the year/period		3,066	16,912	32,042	32,042	365,745
Exchange (losses)/gains on cash and cash equivalents	7	(9)	(228)	1,922	632	560
Cash and cash equivalents at end of the year/period	22	<u><u>16,912</u></u>	<u><u>32,042</u></u>	<u><u>365,745</u></u>	<u><u>67,655</u></u>	<u><u>146,687</u></u>

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II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION

iMotion Automotive Technology (Suzhou) Co., Ltd. was incorporated in Suzhou on December 27, 2016 as a limited liability company. The address of its registered office is G2-1901 1902 2002, No. 88 Jinji Lake Avenue, Suzhou Industrial Park, Suzhou, Jiangsu Province, the PRC.

Upon approval by the shareholders’ general meeting held in November 2022, the Company was converted into a joint stock company with limited liability under the Company Law of the PRC and changed its registered name from “iMotion Automotive Technology (Suzhou) Co., Ltd. (知行汽車科技(蘇州)有限公司)” to “iMotion Automotive Technology (Suzhou) Co., Ltd. (知行汽車科技(蘇州)股份有限公司)” on 29 December 2022.

The Company and its subsidiaries (together, “the Group”) are principally engaged in the development, manufacture and sale of autonomous driving products and solutions.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES

The material accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied throughout the Track Record Period, unless otherwise stated.

2.1 Basis of preparation

(i) Compliance with IFRS

The Historical Financial Information have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”).

(ii) Historical cost convention

The Historical Financial Information have been prepared on a historical cost basis, except for the certain financial assets and liabilities that are measured at fair value.

(iii) New or amended standards not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for the Track Record Period and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

The followings are new standards, amendments to existing standards and new interpretations that have been issued but are not effective for the Track Record Period and have not been early adopted by the Group. The Group plans to adopt these new standards, amendments to standards and annual improvements when they become effective:

Standards and amendments	Effective for accounting periods beginning on or after
IFRS 16 (Amendment) ‘Lease Liability in a Sale and Leaseback’	1 January 2024
IAS 1 (Amendment) ‘Non-current Liabilities with Covenants’	1 January 2024
IAS 1 (Amendment) ‘Classification of Liabilities as Current or Non-current’	1 January 2024
IFRS 7 (Amendment) and IAS 7 (Amendment) ‘Supplier Finance Arrangements’	1 January 2024
IAS 12 (Amendment) ‘International Tax Reform – Pillar Two Model Rules’	Note
IFRS 10 (Amendment) and IAS 28 (Amendment) ‘Sale or contribution of Assets between an Investor and its Associate or Joint Venture’	To be determined

Note: On 23 May 2023, the IASB issued amendments to IAS 12 – International Tax Reform – Pillar Two Model Rules, which became effective immediately. The disclosures in respect of the current tax expense related to the Pillar Two income taxes and the known or reasonably estimable exposure to Pillar Two income taxes are required for annual reporting periods beginning on or after 1 January 2023, but they are not required to be disclosed in interim financial reports for any interim period ending on or before 31 December 2023.

The Group has already commenced an assessment of the impact of these new or revised standards. According to the preliminary assessment made by the Group, no significant impact on the financial performance and positions of the Group is expected when they become effective.

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2.2 Principles of consolidation and equity accounting

Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Business combinations

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

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

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

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

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

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in profit or loss.

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2.4 Separate financial statements

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

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

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

The chief operating decision-maker (“CODM”), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that makes strategic decisions.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional currency of the Company and the companies in PRC is RMB. The functional currency of the company in Germany is Euro. The Historical Financial Information are presented in RMB which is the Group’s presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year/period end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income on a net basis within other gains/(losses).

2.7 Property, plant and equipment

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

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

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

Machineries	5-10 years
Vehicles	5 years
Furniture	5 years
Equipments	3-5 years
Leasehold improvements	Over the shorter of their expected useful lives and the lease terms

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

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within “other gains/(losses) – net” in the consolidated statement of comprehensive income.

Construction in progress represents unfinished construction and equipment under construction or pending for installation, and is stated at cost less impairment losses. Cost comprises direct costs of construction including borrowing costs attributable to the construction during the period of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use.

2.8 Intangible assets

(a) *Purchased software*

Acquired software is recognized at historical cost and subsequently carried at cost less accumulated amortization and accumulated impairment losses. The Group’s software is amortized on a straight-line basis over their estimated useful lives of 3 years.

(b) *Research and development*

Research and development cost comprise all costs that are directly attributable to research and development activities (relating to the design and testing of new or improved autonomous driving products) or that can be allocated on a reasonable basis to such activities. Research and development costs are recognized as intangible assets when the following criteria are met:

- the technical feasibility of completing the intangible assets so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible assets;
- the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; an
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

2.9 Impairment of non-financial assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

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2.10 Financial assets

(a) Classification

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

- those to be measured subsequently at fair value (either through OCI or through profit or loss); and
- those to be measured at amortized cost.

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

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

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition and derecognition

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

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (“FVPL”), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

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

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

Equity instruments

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

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Changes in the fair value of financial assets at FVPL are recognized in profit or loss and presented in “other gains/(losses) – net” in the consolidated statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(d) Impairment

The Group assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For cash and cash equivalents and restricted cash, the expected credit loss risk is considered immaterial.

For trade and notes receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

In addition, management also reviews the credit risk of individual debtors by considering the relationship with customers and their financial position to assess whether further provision was needed at the end of the reporting period.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheets where the Group currently has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2.12 Trade receivables

Trade receivables are amounts due from customers for goods sold or services rendered in the ordinary course of business. If collection of trade receivables is expected in one year or less (or in the normal operating cycle of the business if longer), it is classified as current asset. If not, it is presented as non-current asset.

Trade receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. See Note 19 for further information about the Group’s accounting for trade receivables and Note 3.1(b) for a description of the Group’s impairment policies.

2.13 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in fair value of derivative financial instruments are recognized in profit or loss.

2.14 Inventories

Raw materials, semi-finished goods, work in progress and finished goods are stated at the lower of cost and net realizable value. Cost comprises direct materials, direct labor and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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2.15 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.16 Paid-in capital/share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

2.18 Financial instruments with preferred rights at amortized cost

A contract that contains an obligation for the Group to purchase the Group's equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount. Even if the Group's obligations to purchase are conditional on the counterparty exercising a right to redeem, the financial instruments with preferred rights are recognized as financial liability initially at the present value of the redemption amount and subsequently measured at amortized cost with interest charged in finance costs.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, canceled or have expired. The carrying amount of the financial instruments derecognized was credited into the equity.

2.19 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are removed from the consolidated balance sheets when the obligation specified in the contract is discharged, canceled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.20 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other borrowing costs are expensed in the period in which they are incurred.

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2.21 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred income tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

(b) *Deferred income tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Historical Financial Information. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred income tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current income tax assets and liabilities and where the deferred income tax balances relate to the same taxation authority. Current income tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred income tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity respectively.

2.22 Employee benefits

(a) *Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated balance sheets.

(b) *Pension obligations*

In accordance with the rules and regulations in the PRC, the employees of the Group participate in various defined contribution retirement benefit plans organized by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to certain ceiling. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government. The Group's contributions to these plans are expensed as incurred.

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(c) Housing funds, medical insurances and other social insurances

The employees of the Group are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period.

(d) Bonus plan

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

(e) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

2.23 Share-based payment

The fair value of awarded shares granted to employees under the ESOP less amount paid by employees is recognized as an employee benefits expense over the relevant service period, being the vesting period of the shares, and the credit is recognized in equity in the share-based payment reserves. The fair value of the shares is measured at the grant date. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of shares that are expected to vest based on the service conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Where there is any modification of terms and conditions which increases the fair value of the equity instruments granted, the Group includes the incremental fair value granted in the measurement of the amount recognized for the services received over the remainder of the vesting period. The incremental fair value is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. An expense based on the incremental fair value is recognized over the period from the modification date to the date when the modified equity instruments vest in addition to any amount in respect of the original instrument, which should continue to be recognized over the remainder of the original vesting period. Where shares are forfeited due to a failure by the employee to satisfy the service conditions, any expenses previously recognized in relation to such shares are reversed effective at the date of the forfeiture.

The grant of share-based payments by the shareholders to the employees of the subsidiaries are treated as a capital contribution to subsidiaries in the separate financial statements of the Company. The fair value of employee services received, determined by reference to the grant date fair value, is recognised over the vesting period as an increase to investments in subsidiaries undertakings, with a corresponding adjustment to equity in the separate financial statements of the Company.

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2.24 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Where the grants related to an expense item, it is recognised as income on a systematic basis over the period that the costs, which it is intended to compensate, are expensed. Where the grants related to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset on straight-line basis.

2.25 Revenue recognition

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

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

When allocating the transaction price to each performance obligation identified in the contract, the Group determines the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract and allocate the transaction price in proportion to those stand-alone selling prices.

In determining whether revenue of the Group should be reported gross or net is based on a continuing assessment of various factors. When determining whether the Group is acting as the principal or agent in offering goods or services to the customer, the Group needs to first identify who controls the specified goods or services before they are transferred to the customer. The Group follows the accounting guidance for principal-agent considerations to assess whether the Group controls the specified goods or service before it is transferred to the customer, the indicators of which including but not limited to (a) whether the entity is primarily responsible for fulfilling the promise to provide the specified service; (b) whether the entity has inventory risk before the specified service has been transferred to a customer; and (c) whether the entity has discretion in establishing the prices for the specified goods or service. The management considers the above factors in totality, as none of the factors individually are considered presumptive or determinative, and applies judgment when assessing the indicators depending on each different circumstances.

The Group mainly provides autonomous driving related R&D services to OEMs to develop software, hardware, algorithm and function for autonomous driving solution for vehicle models in such OEMs’ pipelines, and when such R&D is successfully validated, the OEMs would engage the Group for the production and sales of such autonomous driving solutions. Other than the above core business in relation to the autonomous driving solutions, the Group also engaged in manufacture and sale of printed circuit board assembly (PCBA) products to certain customers by using surface-mount technology (“SMT”).

The following is a description of the accounting policy for the principal revenue streams of the Group:

(a) Sales of autonomous driving products and solutions and PCBA parts

Revenue generates from sales of autonomous driving products and solutions primarily includes its main products autonomous driving (AD) domain controllers and intelligent front cameras to OEMs, which is recognised at the point in time when it satisfies a performance obligation by transferring control over a product to a customer,

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generally upon the acceptance of the products. For PCBA parts with revenue recognized at a point in time, the Company recognizes revenue upon transfer of control, which generally occurs upon shipment to the customers and transfer of title and risk of loss under standard commercial terms (typically DAP or EXW). The revenue is measured based on consideration, less value-added tax, specified in a contract with a customer, as well as adjusted for any variable consideration (i.e., price concessions or annual price adjustments) based on contract terms and historical patterns.

(b) Provision of autonomous driving related R&D services

The Group provides autonomous driving services to OEMs, including (i) software and hardware development in autonomous driving segment; (ii) autonomous driving algorithm and function development; and (iii) functional safety consulting and validation service. The Group recognizes revenue at a point in time when performance obligations are satisfied as well as the agreed deliverables are accepted by customers. The Group does not have any enforceable right to payment before the agreed deliverables are accepted by customers.

Contract fulfillment costs represents costs that relate directly to a contract for autonomous driving related R&D services provided by the Group, primarily including direct labor, direct materials and allocations of costs incurred in providing the promised services directly to the customers. When performance obligations are satisfied as well as the agreed deliverables are accepted by the customers, the Group recognizes revenue and the accumulated cost in relation to fulfill the contract were transferred to cost of sales. The contract fulfillment costs are amortized to cost of sales on a project basis according to the terms specified in the underlying contracts, which is consistent with the transfer of relevant goods or service. The Group recognized an impairment loss in profit or loss to the extent that the carrying amount of contract fulfillment costs recognized exceeds the remaining amount of consideration that the Group expected to receive in exchange for such services. In addition, the Group makes payments to customers in conjunction with ongoing business. Certain customer payments (i.e. upfront fees) are considered to be an incremental cost to obtain a contract as they are directly attributable to a contract. In these cases, the customer payment is capitalized and amortized to revenue based on the transfer of goods or services to which the upfront payment relates.

2.26 Provisions

Provisions for product warranties and onerous contracts, etc. are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The increase in the provisions due to the passage of time is recognized as interest expense.

2.27 Leases

The Group leases buildings and land use right as lessee. Rental contracts are typically made for fixed periods of 3 to 5 years and 30 years respectively.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain various different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments (if applicable):

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;

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- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing; and
- makes adjustments specific to the lease, e.g., term, country, currency and security.

If a readily observable amortizing loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Group use that rate as a starting point to determine the incremental borrowing rate.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each reporting period.

Right-of-use assets are measured at cost comprising the following (if applicable):

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

2.28 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains/(losses) on these assets, see Note 7 below.

Interest income on financial assets at amortized cost is recognized in profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 10 below. Any other interest income is included in other income.

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Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.29 Loss per share

(a) Basic loss per share

Basic loss per share is calculated by dividing:

- the loss attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, and
- by the weighted average number of ordinary shares outstanding during the financial year/period, adjusted for bonus elements in ordinary shares issued during the year/period and excluding treasury stock.

(b) Diluted loss per share

Diluted loss per share adjusts the figures used in the determination of basic loss per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group’s risk management is predominantly controlled by the treasury department under policies approved by the Board of Directors of the Company (the “Board”). The Group’s treasury department identifies, evaluates and hedges financial risks in close cooperation with the Group’s operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the Group entities’ functional currency. The Group’s businesses are principally conducted in RMB. The majority of assets is denominated in RMB. The majority of non-RMB assets and liabilities are cash and cash equivalents, trade receivables and trade payables denominated in USD and EUR. The Group is subject to foreign exchange risk arising from future commercial transactions and recognised assets and liabilities which are denominated in non-RMB and net investment in foreign operations.

The Group manages its foreign exchange risk by closely monitoring the movement of the foreign currency rates. Cash repatriation from the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government. Additionally, the Group enters into forward exchange contracts to mitigate the foreign exchange risk. The Group did not have other significant exposure to foreign exchange risk.

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The carrying amount of the Group’s foreign currency denominated monetary assets and monetary liabilities at the respective dates of consolidated statements of financial position are as follows:

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB’000	RMB’000	RMB’000	2023
				RMB’000
Assets				
USD	16,415	34,258	33,842	7,662
EUR	95	–	–	–
	<u>16,510</u>	<u>34,258</u>	<u>33,842</u>	<u>7,662</u>
Liabilities				
USD	<u>308</u>	<u>40,254</u>	<u>129,215</u>	<u>87,171</u>

The Group is primarily exposed to changes in RMB/USD exchange rates. As at 31 December 2020, 2021 and 2022 and 30 June 2023, if the USD strengthened/weakened by 10% against the RMB, with all other variables held constant, loss before income tax for the year/period then ended would have been approximately RMB1,611,000 lower/higher and RMB600,000, RMB9,537,000 and RMB7,951,000 higher/lower respectively as a result of foreign exchange gains/losses on translation of USD denominated financial assets and liabilities.

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets except for cash and cash equivalents, the Group’s income and operating cash flows are substantially independent of changes in market interest rates.

The Group’s interest-rate risk mainly arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The interest rates and terms of repayments of borrowings are disclosed in Note 30. The Group did not use any interest rate swap contracts or other financial instruments to hedge against its interest rate risk for the reporting period.

As at 31 December 2020, 2021 and 2022, if the Group’s interest rates on borrowings obtained at variable rates had been higher/lower by 0.5%, loss before income tax for the year then ended would have been approximately RMB97,000, RMB139,000 and RMB137,000 higher/lower respectively.

(iii) Price risk

The Group’s exposure to equity securities price risk arises from investments held by the Group and classified in the balance sheet as at fair value through profit or loss (FVPL) (Note 21). Loss before income tax for the year/period would decrease/increase as a result of gains/losses on securities classified as at FVPL. As at 31 December 2021 and 2022 and 30 June 2023, if the prices of investments rise/fall by 10% while holding all other variables constant, loss before income tax for the year/period then ended would be approximately RMB300,000 and RMB350,000 lower/higher respectively.

To manage its price risk arising from investments in securities, the group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the group.

(b) Credit risk

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

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Risk management

To manage this risk, cash and cash equivalents and wealth management products are mainly placed with state-owned or reputable financial institutions in Mainland China which are all high-credit-quality financial institutions.

To manage risk arising from trade and notes receivables, the Group has policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and management performs ongoing credit evaluations of the counterparties. Trade and notes receivables have been grouped based on shared credit risk characteristics and aging to measure the expected credit losses. Trade and note receivables are written off when there is no reasonable expectation of recovery. Impairment losses on trade and notes receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

For other financial assets carried at amortized cost (excluding deferred [REDACTED] expenses, input Value Added Tax (“VAT”) to be deducted, contract fulfilment costs and prepayments), management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experiences.

Impairment of financial assets

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

- cash and cash equivalents, restricted cash and wealth management products;
- trade and notes receivables;
- other receivables.

(i) Cash and cash equivalents, restricted cash and wealth management products

To manage risk arising from cash and cash equivalents, the Group only transacts with state-owned or reputable financial institutions in Mainland China. There has been no recent history of default in relation to these financial institutions. These instruments are considered to have low credit risk because they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term. Cash and cash equivalents are also subject to the impairment requirements of IFRS 9, while the identified impairment loss was immaterial.

(ii) Trade and notes receivables

The Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade and notes receivables. To measure the expected credit losses, trade and notes receivables have been grouped based on shared credit risk characteristics and aging.

The Group calculates expected loss rates based on the exposure at default and the expected loss rates. The determination of the expected loss rates is based on the probability of default and the loss given default with reference to the credit ratings of counter parties at the end of each reporting period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

When considering forward-looking information, the Group takes different economic scenarios into consideration. The Group regularly monitors and reviews the assumptions and parameters related to the calculation of expected loss rates, including the risk of economic downturn, external market environment, technological environment, changes in customer conditions, Gross Domestic Product (“GDP”), Consumer Price Index (“CPI”), etc. In 2022, the Group considered the uncertainty caused by COVID-19 and updated the relevant assumptions and parameters.

Individually impaired trade receivables are related to customers who are experiencing unexpected economic difficulties. The Group expects that the amounts of the receivables will partially or entirely have difficulty to be recovered and has recognized impairment losses.

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The Group’s trade receivables mainly consist of amounts due from customers for goods sold or services rendered as described in Note 19.

As at 31 December 2021 and 2022 and 30 June 2023, the Group had certain concentrations of credit risk as 81.39%, 95.59% and 88.59% of the Group’s trade receivables due from its largest customer, Geely Group, respectively.

(iii) Other receivables

Other receivables mainly include refundable deposits, payments on behalf of employees and others. All of the Group’s financial assets at amortized cost are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition as described in Note 20.

Trade and other receivables are written off when there is no reasonable expectation of recovery.

Impairment losses on trade and other receivables are presented as net impairment losses within operating loss. Subsequent recoveries of amounts previously written off are credited against the same line item.

The movement of loss allowance for trade and notes receivables and other receivables during the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023 is as follows:

	Trade and notes receivables RMB’000	Other receivables RMB’000	Total RMB’000
Opening loss allowance as at 1 January 2020	(116)	(15)	(131)
(Increase)/decrease in loss allowance recognized in profit or loss during the year	(91)	1	(90)
As at 31 December 2020	<u>(207)</u>	<u>(14)</u>	<u>(221)</u>
As at 1 January 2021	(207)	(14)	(221)
Increase in loss allowance recognized in profit or loss during the year	(1,449)	(4)	(1,453)
As at 31 December 2021	<u>(1,656)</u>	<u>(18)</u>	<u>(1,674)</u>
As at 1 January 2022	(1,656)	(18)	(1,674)
Increase in loss allowance recognized in profit or loss during the year	(3,714)	(3)	(3,717)
As at 31 December 2022	<u>(5,370)</u>	<u>(21)</u>	<u>(5,391)</u>
As at 1 January 2023	(5,370)	(21)	(5,391)
Decrease/(increase) in loss allowance recognized in profit or loss during the period	3,047	(58)	2,989
As at 30 June 2023	<u>(2,323)</u>	<u>(79)</u>	<u>(2,402)</u>

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	Trade and notes receivables <i>RMB’000</i>	Other receivables <i>RMB’000</i>	Total <i>RMB’000</i>
As at 1 January 2022	(1,656)	(18)	(1,674)
Increase in loss allowance recognized in profit or loss during the period	(1,457)	(14)	(1,471)
As at 30 June 2022 (Unaudited)	<u>(3,113)</u>	<u>(32)</u>	<u>(3,145)</u>

(c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the policy of the Group is to regularly monitor the Group’s liquidity risk and to maintain adequate cash and cash equivalents to meet the Group’s liquidity requirements.

Maturities of financial liabilities

The table below analyzes the Group’s financial liabilities into relevant maturity groupings based on their contractual maturities for all non-derivative financial liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year <i>RMB’000</i>	Between 1 and 2 years <i>RMB’000</i>	Between 2 and 5 years <i>RMB’000</i>	Total <i>RMB’000</i>
As at 31 December 2020				
Borrowings (including interest payables)	25,596	–	–	25,596
Trade and notes payables (Note 33)	6,724	54	–	6,778
Other payables and accruals (excluding payroll and welfare payables and other tax payables) (Note 34)	3,204	131	–	3,335
Lease liabilities	2,322	2,429	2,788	7,539
	<u>37,846</u>	<u>2,614</u>	<u>2,788</u>	<u>43,248</u>
As at 31 December 2021				
Borrowings (including interest payables)	36,359	–	–	36,359
Trade and notes payables (Note 33)	90,416	24	–	90,440
Other payables and accruals (excluding payroll and welfare payables and other tax payables) (Note 34)	17,149	50	37	17,236
Lease liabilities	2,767	2,864	607	6,238
	<u>146,691</u>	<u>2,938</u>	<u>644</u>	<u>150,273</u>

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	Less than 1 year RMB’000	Between 1 and 2 years RMB’000	Between 2 and 5 years RMB’000	Total RMB’000
As at 31 December 2022				
Borrowings (including interest payables)	49,183	–	–	49,183
Trade and notes payables (Note 33)	438,333	84	–	438,417
Other payables and accruals (excluding payroll and welfare payables and other tax payables) (Note 34)	24,442	68	–	24,510
Lease liabilities	3,493	1,273	343	5,109
	<u>515,451</u>	<u>1,425</u>	<u>343</u>	<u>517,219</u>
As at 30 June 2023				
Trade and notes payables (Note 33)	128,384	–	–	128,384
Other payables and accruals (excluding payroll and welfare payables and other tax payables) (Note 34)	31,242	–	–	31,242
Lease liabilities	2,565	815	–	3,380
	<u>162,191</u>	<u>815</u>	<u>–</u>	<u>163,006</u>

As at 31 December 2020 and 2021, the financial instruments with preferred rights at amortized cost as described in Note 29 of approximately RMB162,219,000 and RMB897,731,000 were not managed by maturing date and were all reclassified to equity in 2022.

3.2 Capital management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for equity holders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital by regularly reviewing the capital structure. As a part of this review, management of the Company considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the amounts of dividends paid to equity holders, return capital to equity holders, issue new shares or repurchase the Company’s shares. In the opinion of the management of the Company, the Group’s capital risk is low. As a result, capital risk is not significant for the Group and measurement of capital management is not a tool currently used in the internal management reporting procedures of the Group.

As at 31 December 2020, 2021 and 2022 and 30 June 2023, the debt equity ratio were as follows:

	As at 31 December			As at 30 June
	2020	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Net debt/(cash) (Note 35)	152,894	661,308	(497,236)	(397,500)
Total (deficits)/equity	(116,357)	(558,334)	666,467	611,515
Net debt equity ratio	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

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3.3 Fair value estimation

(a) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognized and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards.

- Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.
- Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted investment with preferred rights securities.

The following table presents the Group’s assets and liabilities that are measured at fair value as at 31 December 2020, 2021 and 2022 and 30 June 2023:

	Level 1 <i>RMB’000</i>	Level 2 <i>RMB’000</i>	Level 3 <i>RMB’000</i>	Total <i>RMB’000</i>
As at 31 December 2020				
Assets				
Financial assets at FVPL (<i>Note 21</i>)	–	–	24,443	24,443
As at 31 December 2021				
Assets				
Financial assets at FVPL (<i>Note 21</i>)	–	–	245,832	245,832
Derivative financial instruments (<i>Note 23</i>)	–	1,451	–	1,451
	–	1,451	245,832	247,283
As at 31 December 2022				
Assets				
Financial assets at FVPL (<i>Note 21</i>)	–	–	185,408	185,408
As at 30 June 2023				
Assets				
Financial assets at FVPL (<i>Note 21</i>)	69,794	–	184,299	254,093

The Group’s policy is to recognize transfers into and out of fair value hierarchy levels as at the end of each reporting period.

(b) Valuation techniques used to determine level 2 and level 3 fair values

Specific valuation techniques used to value financial instruments include:

Quoted market prices or dealer quotes for similar instruments; and

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For forward currency forwards – the present value of future cash flows based on forward exchange rates at the balance sheet date;

For unlisted investment with preferred rights securities, the Group used its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each date of statement of financial position. Back-solve method was used to determine the share value held by the Group and an equity allocation based on Option Pricing Model (“OPM model”) is performed as well.

Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There were no changes in valuation techniques during the Track Record Period.

The fair value of trade and notes receivables, other receivables, restricted cash and cash and cash equivalents approximated their carrying amounts.

The fair value of trade and notes payables, other payables and accruals (excluding payroll and welfare payables and other tax payables) and current borrowings approximated their carrying amounts.

(c) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023:

	Financial assets at FVPL RMB’000
As at 1 January 2020	–
Acquisitions	65,200
Disposals	(41,250)
Fair value changes	493
	<hr/>
As at 31 December 2020	24,443
	<hr/> <hr/>
As at 1 January 2021	24,443
Acquisitions	848,730
Disposals	(631,231)
Fair value changes	3,890
	<hr/>
As at 31 December 2021	245,832
	<hr/> <hr/>
As at 1 January 2022	245,832
Acquisitions	1,940,749
Disposals	(2,008,902)
Fair value changes	7,729
	<hr/>
As at 31 December 2022	185,408
	<hr/> <hr/>
As at 1 January 2023	185,408
Acquisitions	1,275,705
Disposals	(1,281,795)
Fair value changes	4,981
	<hr/>
As at 30 June 2023	184,299
	<hr/> <hr/>

More details about the financial assets at FVPL as at 31 December 2020, 2021 and 2022 and 30 June 2023 have been presented in Note 21.

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- (d) There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the Track Record Period.
- (e) *Valuation inputs and relationships to fair value*

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

As at 31 December 2020

Description	Fair value RMB’000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Wealth management products (“WMPs”)	24,443	Expected rate of return	2.58%-3.08%	The higher the expected rate of return, the higher the fair value

As at 31 December 2021

Description	Fair value RMB’000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
WMPs	242,832	Expected rate of return	2.63%-4.55%	The higher the expected rate of return, the higher the fair value

As at 31 December 2022

Description	Fair value RMB’000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
WMPs	182,408	Expected rate of return	2.2%-4.2%	The higher the expected rate of return, the higher the fair value

As at 30 June 2023

Description	Fair value RMB’000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
WMPs	180,797	Expected rate of return	1.23%-3.00%	The higher the expected rate of return, the higher the fair value
Unlisted investment with preferred rights	3,502	Risk free interest rate and volatility	Risk free interest rate: 2.4% Volatility: 51%	The higher the risk free interest rate and volatility, the lower the fair value

As at 31 December 2020, 2021 and 2022 and 30 June 2023, if expected rate of return higher/lower by 0.5%, fair value of financial assets at FVPL would have been approximately RMB38,200, RMB234,000, RMB331,800 and RMB268,000 higher/lower respectively.

All of these WMPs are sponsored and managed by state-owned or reputable national banks and financial institutes in the PRC. These WMPs are short-term investments which are denominated in RMB. The expected rate of return of the WMPs are updated by the security companies and banks periodically on a quarterly or more frequent basis. Management uses the expected rate of return for approximation for cash flow assessment in evaluating the fair values of the WMPs.

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4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Historical Financial Information requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgment in applying the Group’s accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year/period are addressed below.

(a) Fair value of financial assets at FVPL

The fair value of financial assets that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Changes in these assumptions and estimates could materially affect the respective fair value of these investments. Details of the assumptions and estimates in determination of the fair value are disclosed in Note 3.3.

(b) Recognition of share-based payment expenses

As detailed in Note 27, certain shares transfer and grant of shares under the share award schemes have resulted in share-based payments expenses.

The Group has engaged an independent valuer to determine the total fair value of the equity incentive awards granted to employees. The discounted cash flow method and back-solve method were used to determine the total equity value of the Company and then equity allocation model was adopted to determine the fair value of the equity incentive awards. Significant estimates on assumptions, such as risk-free interest rate, volatility and dividend yield are made based on management’s best estimates. Further details are included in Note 27.

As the awards granted in equity-settled share-based payment plan are conditional on a [REDACTED] [REDACTED] (“[REDACTED]”). The Group has estimated whether the [REDACTED] is probable or not and [REDACTED] date when they calculated share-based payment expenses at each reporting period end. Since [REDACTED] condition is considered as vesting condition, the entity also needs to consider when the [REDACTED] is probable. If the service period under the service condition ends before [REDACTED], then the vesting period will end on [REDACTED] date; if the service period under the service condition ends after [REDACTED], then the vesting period will end according to the service conditions. As at 30 June 2023, the Group assessed it is probable that the performance condition (i.e., [REDACTED]) will be achieved in the future.

The Group also has to estimate the expected forfeiture rate at the end of vesting periods (“Forfeiture Rate”) of the restricted shares granted in order to determine the amount of share-based payment expenses charged to profit or loss. The Forfeiture Rate of the restricted shares awarded of the Group to managements and employees were assessed to be 15% to 30%, 25% to 45%, 25% to 45% and 25% to 45% as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively.

(c) Write-down of inventories

The Group’s management reviews the condition of inventories, as stated in Note 18 to the Historical Financial Information, at each reporting date, and makes allowance for inventories that are identified as obsolete, slow-moving or no longer recoverable or suitable for use in production. The Group carries out the inventory review on a product-by-product basis and makes allowances by reference to the latest market prices and current market conditions.

(d) Income taxes and deferred income tax

There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from the Group in determining the provisions for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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The Group recognizes deferred income tax assets based on estimates that it is probable to generate sufficient taxable profits in the foreseeable future against which the deductible losses will be utilized. The recognition of deferred income tax assets mainly involves management’s judgments and estimations about the timing and the amount of taxable profits of the companies who has tax losses. No deferred income tax asset has been recognized in respect of such tax losses due to the unpredictability of future taxable income and details of unrecognized tax losses have been set out in Note 11.

(e) Warranty provisions

The Group provides product warranties on all new goods based on the contracts with its customers at the time of sale of goods. The Group accrues a warranty reserve for the goods sold by multiplying the expected unit costs for warranty services by the sales volume, which includes the best estimate of projected costs to repair or replace items under warranties. These estimates are primarily based on the estimates of the nature, frequency and average costs of future claims. These estimates are inherently uncertain given the Group’s relatively short history of sales, and changes to the historical or projected warranty experience may cause material changes to the warranty provisions in the future. The portion of the warranty reserve expected to be incurred within the next 12 months is included within the accrued a warranty provision included in other current liabilities while the remaining balance is included within other non-current liabilities on the consolidated balance sheets. Warranty cost is recorded as a component of selling expenses in the consolidated statements of comprehensive loss. The Group re-evaluates the adequacy of the warranty accrual on a regular basis.

5 REVENUE AND SEGMENT INFORMATION

(a) Description of segments and principal activities

During the Track Record Period, the Group is engaged in the production, research and development and sales of autonomous driving products and solutions in the PRC. The executive directors of the Company (i.e., the CODM) review the operating results of the business as one operating segment to make strategic decisions and resources allocation. Therefore, the Group regards that there is only one segment which is used to make strategic decisions.

Geographical information

All of the Group’s business and operations are conducted in Mainland China and currently, the Group’s principal market, majority of revenue, operating loss and non-current assets are derived from/located in the PRC. Accordingly, no geographical segment information is presented.

(b) Revenue during the Track Record Period

Revenue represents the invoiced value of goods sold and rendering of services, which is net of rebate and discounts.

Revenue mainly comprises sales of autonomous driving solutions and other products and rendering of services. An analysis of the Group’s revenue by category for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023 is as follows:

	Year ended 31 December			Six months ended 30 June	
	2020 RMB’000	2021 RMB’000	2022 RMB’000	2022 RMB’000 (Unaudited)	2023 RMB’000
Autonomous driving solutions and products	440	86,154	1,252,949	336,755	520,856
Autonomous driving-related R&D services	4,826	34,503	37,956	5,460	12,083
Sales of PCBA products	42,389	57,601	34,977	16,956	10,273
	<u>47,655</u>	<u>178,258</u>	<u>1,325,882</u>	<u>359,171</u>	<u>543,212</u>

All the Group’s revenue is recognised at a point in time.

For the years ended December 31, 2021 and 2022 and the six months ended 30 June 2022 and 2023, Geely Group was the Group’s largest customer and the Group’s revenue from Geely Group was RMB94.5 million, RMB1,277.5 million, RMB340.0 million and RMB516.0 million, respectively, representing approximately 53.0%, 96.4%, 94.7% and 95.0% of the Group’s total revenue during the same years/periods.

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(c) Assets and liabilities related to contracts with customers

The Group recognized the following assets and liabilities related to the contracts with customers:

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Non-current assets recognised for costs incurred to acquire contracts	–	–	11,667	10,208
Current assets recognised for costs incurred to acquire contracts	–	–	2,916	2,917
Total assets recognised for costs incurred to acquire contracts (i)	–	–	14,583	13,125
Non-current assets recognised for costs incurred to fulfill contracts	2,228	5,327	6,380	6,539
Current assets recognised for costs incurred to fulfill contracts	1,255	5,417	28,246	31,601
Total assets recognised for costs incurred to fulfill contracts (ii)	3,483	10,744	34,626	38,140
Non-current liabilities – rendering of services (iii)	–	15,773	6,750	9,626
Current liabilities – rendering of services (iv)	11,675	753	26,364	29,755
Current liabilities – sales of products (v)	–	–	181	194
Total contract liabilities	11,675	16,526	33,295	39,575

(i) Assets recognised from costs to acquire contracts

In addition to the contract balances disclosed above, the Group has also recognised an asset in relation to costs to acquire contracts. This is presented within other current assets (Note 20) and non-current assets (Note 17) in the balance sheet.

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Assets recognised from costs incurred to acquire contracts	–	–	17,500	14,583
Amortisation recognised as cost of selling products during the year/period	–	–	(2,917)	(1,458)
	–	–	14,583	13,125

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(ii) Assets recognised from costs to fulfill contracts

In addition to the contract balances disclosed above, the Group has also recognised assets in relation to costs to fulfill contracts. This is presented within other current assets (Note 20) and non-current assets (Note 17) in the balance sheet.

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
Assets recognised from costs incurred to fulfill contracts at 31 December	3,483	11,085	39,388	42,126
Impairment loss recognised as cost of providing services during the year/period	–	(341)	(4,762)	(3,986)
	<u>3,483</u>	<u>10,744</u>	<u>34,626</u>	<u>38,140</u>

Contract fulfillment costs represented costs that relate directly to a contract for autonomous driving related R&D services provided by the Company, primarily including direct labour, direct materials and allocations of costs incurred in providing the promised services directly to the customers. The provision for impairment of contract fulfillment costs as recognized was RMB341,000, RMB4,421,000 and RMB305,000 for the years ended 31 December 2021 and 2022 and the six months ended 30 June 2023, respectively.

(iii) Significant changes in contract liabilities

The increase was due to the negotiation of larger prepayments and an increase in overall contract activity during the Track Record Period.

(iv) Revenue recognised in relation to contract liabilities

	Year ended 31 December			Six months ended	
	2020	2021	2022	30 June	2023
	RMB'000	RMB'000	RMB'000	2022	2023
Revenue recognised that was included in the contract liability balance at the beginning of the year/period	621	11,675	753	750	5,033
	<u>621</u>	<u>11,675</u>	<u>753</u>	<u>750</u>	<u>5,033</u>

(Unaudited)

(v) Transaction price allocated to the unsatisfied performance obligations

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
Aggregate amount of transaction price allocated to contracts that are partially or fully unsatisfied				
Rendering of services	36,690	74,058	97,398	104,959
Sales of products	–	142,094	246,130	199,170
	<u>36,690</u>	<u>216,152</u>	<u>343,528</u>	<u>304,129</u>

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The above remaining performance obligations are mainly related to the contract of rendering of services and sales of products. Management expects that the unsatisfied obligations of RMB36,690,000, RMB169,275,000, RMB329,828,000 and RMB291,009,000 as of 31 December 2020, 2021 and 2022 and 30 June 2023, respectively will be recognised as revenue within the next twelve months. The remaining unsatisfied obligations will be recognised in one to two year(s).

6 OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2022 RMB'000	2023 RMB'000
				<i>(Unaudited)</i>	
Government grants	3,716	3,421	4,710	473	4,224

During the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, the government grants mainly include government subsidies for the Group’s research and development expenditures as well as construction for advanced industry base. There are no unfulfilled conditions or other contingencies attaching to the grants recognized.

7 OTHER (LOSSES)/GAINS – NET

	Year ended 31 December			Six months ended 30 June	
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2022 RMB'000	2023 RMB'000
				<i>(Unaudited)</i>	
Net fair value gains on financial assets at FVPL (Note 21)	493	3,890	7,729	4,213	5,110
Net gains/(losses) on disposals of property, plant and equipment and intangible assets	24	(266)	(73)	13	88
Net fair value gains/(losses) on derivative financial instruments (Note 23)	–	1,518	(2,252)	(2,252)	–
Liquidation gain of a subsidiary	–	9	–	–	–
Net foreign exchange (losses)/gains	(870)	(212)	(6,284)	(2,945)	884
Others	(34)	(10)	252	404	51
	<u>(387)</u>	<u>4,929</u>	<u>(628)</u>	<u>(567)</u>	<u>6,133</u>

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8 EXPENSES BY NATURE

The detailed analysis of cost of sales, selling expenses, administrative expenses and research and development expenses is as follow:

	Year ended 31 December			Six months ended 30 June	
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2022 RMB'000 (Unaudited)	2023 RMB'000
Changes in inventories of finished goods	(2,141)	(36,071)	(195,619)	(40,982)	174,242
Raw materials and consumables used	29,982	142,024	1,328,028	357,421	308,617
Employee benefit expenses (Note 9)	41,537	69,579	154,971	66,109	120,329
Design and testing expenses	10,379	29,308	56,861	15,375	20,456
Depreciation and amortization expenses (Notes 14, 15 and 16)	7,555	10,515	13,953	6,463	8,709
Travel expense	969	2,517	5,039	1,409	1,939
Legal, consulting and other professional fees	913	10,314	2,703	1,758	1,625
Advertising and publicity expenses	633	865	2,157	394	1,115
Expenses relating to short-term leases (Note 14)	157	359	727	508	206
Business development expenses	157	544	1,606	490	1,131
Auditors’ remuneration – Audit services	18	185	1,266	208	292
Provision for impairment of contract fulfillment costs	–	341	4,421	521	305
Provision for impairment of inventories	–	199	25	145	241
Warranty	–	198	3,746	553	4,274
[REDACTED] expenses	–	–	2,056	–	10,367
Others	3,678	4,664	6,614	2,426	5,355
Total	93,837	235,541	1,388,554	412,798	658,107

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9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December			Six months ended 30 June	
	2020 RMB’000	2021 RMB’000	2022 RMB’000	2022 RMB’000 (Unaudited)	2023 RMB’000
Wages, salaries and bonuses	29,317	43,472	92,935	38,780	65,832
Share-based payment expenses (Note 27)	8,554	17,708	44,026	22,127	43,220
Pension obligations, housing funds, medical insurances and other social insurances (a)	2,715	7,334	15,941	4,475	10,724
Other employee benefits (b)	951	1,065	2,069	727	553
	<u>41,537</u>	<u>69,579</u>	<u>154,971</u>	<u>66,109</u>	<u>120,329</u>

(a) Pension obligations, housing funds, medical insurances and other social insurances

Full time employees of the Group in the PRC are members of a state-managed retirement benefit schemes operated by the PRC government. The Group is required to contribute a specified percentage of payroll costs, subject to certain ceiling, as determined by local government authority to the pension obligations, housing funds, medical insurances and other social insurances to fund the benefits. The Group’s liabilities in respect of benefits schemes are limited to the contribution payable in each year/period.

According to policies issued by the Ministry of Human Resources and Social Security and local municipal departments in response the impact from Coronavirus Disease 2019 (COVID-19), certain social security relief policies have been successively implemented by local authorities. As such, the social insurance expenses for the period from February to December 2020 have been reduced accordingly.

(b) Other employee benefits

Other employee benefits mainly include meal, traveling, transportation allowances and other allowances.

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(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023 include 4, 4, 2, 3 and 3 directors respectively, whose emoluments are disclosed in the Note 37. The emoluments payable to the remaining 1, 1, 3, 2 and 2 highest paid individuals during the Track Record Period are as follows:

	Year ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Wages, salaries and bonuses	828	777	2,168	926	1,057
Pension obligations, housing funds, medical insurances and other social insurances	37	80	167	81	89
Other employee benefits	5	5	10	5	5
Share-based payment expenses	333	1,004	8,357	1,391	6,979
	<u>1,203</u>	<u>1,866</u>	<u>10,702</u>	<u>2,403</u>	<u>8,131</u>

The remaining highest paid individuals fell within the following bands:

Emolument bands	Year ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
HKD500,001- HKD1,000,000	-	-	-	-	-
HKD1,000,001- HKD1,500,000	1	-	-	1	-
HKD1,500,001- HKD2,000,000	-	-	-	1	-
HKD2,000,001- HKD2,500,000	-	1	-	-	-
HKD3,000,001- HKD3,500,000	-	-	1	-	-
HKD4,000,001- HKD4,500,000	-	-	1	-	1
HKD4,500,001- HKD5,000,000	-	-	-	-	1
HKD5,000,001- HKD5,500,000	-	-	1	-	-

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10 FINANCE COSTS – NET

	Year ended 31 December			Six months ended	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Finance income:					
Interest income on cash at banks	9	94	100	85	2,034
Finance costs:					
Interest expenses on bank borrowings	(910)	(1,254)	(484)	(512)	(137)
Financial cost on financial instruments with preferred rights at amortized cost (Note 29)	(9,604)	(412,362)	(279,420)	(244,680)	–
Interest and finance charges on lease liabilities (Note 14)	(379)	(291)	(265)	(133)	(96)
Finance costs	<u>(10,893)</u>	<u>(413,907)</u>	<u>(280,169)</u>	<u>(245,325)</u>	<u>(233)</u>
Finance (costs)/income – net	<u>(10,884)</u>	<u>(413,813)</u>	<u>(280,069)</u>	<u>(245,240)</u>	<u>1,801</u>

11 INCOME TAX EXPENSE

	Year ended 31 December			Six months ended	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Current income tax expense	–	–	–	–	–
Deferred income tax expense	–	–	–	–	–
Income tax expense	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

The Group’s principal applicable taxes and tax rates are set out below.

The Company was entitled to a preferential corporate income tax rate of 15% during the Track Record Period. The Company obtained its High and New Technology Enterprises (“HNTE”) status in year 2019, and hence it is entitled to a preferential tax rate of 15% for a three-year period commencing 2019. This status is subject to a requirement that the Company reapply for HNTE status every three years. The Company re-applied for HNTE status and the application was approved for another three-year period commencing 2022.

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In accordance with the Notice on Implementing the Inclusive Tax Deduction and Exemption Policies for Micro and Small Enterprises (Cai Shui [2019] No. 13) jointly issued by the Ministry of Finance and the State Taxation Administration of the PRC, from 1 January 2019 to 31 December 2021, the annual taxable income of a small low-profit enterprise that is not more than RMB1 million shall be recognised at 25% of income and be subject to the corporate income tax at a tax rate of 20%; the annual taxable income that is more than RMB1 million but no more than RMB3 million shall be recognised at 50% of income and be subject to the corporate income tax at a tax rate of 20%.

In accordance with the Implementation of Preferential Income Tax Policies in Support of the Development of Small and Micro Enterprises and Individual Businesses (Announcement of the State Taxation Administration [2021] No. 8) jointly issued by the State Taxation Administration of the PRC, from 1 January 2021 to 31 December 2022, the annual taxable income of a small low-profit enterprise that is not more than RMB1 million shall be recognised at 12.5% of income and be subject to the corporate income tax at a tax rate of 20%.

In accordance with the Announcement on Further Implementing the Preferential Income Tax Policy for Small and Micro Enterprises (Cai Shui [2022] No. 13) jointly issued by the Ministry of Finance and the State Taxation Administration of the PRC, from 1 January 2022 to 31 December 2024, the annual taxable income that is more than RMB1 million but no more than RMB3 million shall be recognised at 25% of income and be subject to the corporate income tax at a tax rate of 20%.

In accordance with the Implementation of Preferential Income Tax Policies in Support of the Development of Small and Micro Enterprises and Individual Businesses (Announcement of the State Taxation Administration [2023] No. 6) jointly issued by the State Taxation Administration of the PRC, from 1 January 2023 to 31 December 2024, the annual taxable income of a small low-profit enterprise that is not more than RMB1 million shall be recognised at 25% of income and be subject to the corporate income tax at a tax rate of 20%.

The Company’s subsidiaries qualified as a small low-profit enterprise and enjoyed the above preferential income tax policy. The effective corporate income tax rate was 20% during the Track Record Period. Since 2022, iMotion Electronics Technology (Suzhou) Co., Ltd. no longer qualified as Micro and Small Enterprises.

According to the relevant laws and regulations promulgated by the State Taxation Administration of the PRC, enterprises engaging in research and development activities are entitled to claim 175% from 2018 onwards (subsequently raised to 200% from 2021 onwards) of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year (the “Super Deduction”).

A reconciliation of the expected income tax calculated at the applicable corporate income tax rate and loss before income tax, with the actual corporate income tax during the Track Record Period is as follow:

	Year ended 31 December			Six months ended	
	2020	2021	2022	30 June	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Loss before income tax	<u>(53,827)</u>	<u>(464,199)</u>	<u>(342,376)</u>	<u>(300,432)</u>	<u>(99,748)</u>
Income tax credit computed at the applicable income tax rate of 25%	(13,457)	(116,050)	(85,593)	(75,108)	(24,937)
Tax effects of:					
Preferential tax rate	5,394	46,658	34,541	29,924	11,019
Expenses not deductible for taxation purposes	1,455	61,888	42,010	36,732	67
Super Deduction in respect of R&D expenditures	(2,831)	(5,208)	(10,450)	(4,479)	(9,952)
Utilisation of previously unrecognised tax losses	(99)	–	(304)	–	(2,432)

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	Year ended 31 December			Six months ended 30 June	
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2022 RMB'000	2023 RMB'000
Tax losses for which no deferred income tax assets was recognized	8,188	10,658	11,649	9,174	19,396
Other Temporary differences for which no deferred income tax assets were recognised	1,350	2,054	8,147	3,757	6,839
Income tax expense	-	-	-	-	-

As at 31 December 2020, 2021 and 2022 and 30 June 2022 and 2023, the accumulative tax losses of the Group brought over from prior years is approximately RMB141,776,000, RMB211,703,000, RMB287,308,000, RMB270,556,000 and RMB406,706,000 that can be carried forward against future taxable income, respectively. Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The Group principally conducted its business in Mainland China, where the accumulated tax losses will normally expire within 5 years. Pursuant to the relevant regulations on extension for expiries of unused tax losses of HNTE issued in August 2018, the expiry period of the accumulated unexpired tax losses of the Company, which is qualified as HNTE, from 2018 had been extended from 5 years to 10 years. The Company re-applied for HNTE status in 2022 and the approval was obtained in October 2022.

Deductible losses that are not recognized for deferred income tax assets will expire as follows:

	Year ended 31 December			Six months ended 30 June	
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2022 RMB'000	2023 RMB'000
Expiry year					
2023	3,727	3,727	2,510	2,510	1,013
2024	8,348	8,348	8,348	8,348	1,330
2025	167	167	167	167	167
2026	-	3,170	3,170	3,170	2,356
2027	2,098	2,098	4,602	5,356	4,061
2028	27,592	27,592	27,592	27,592	27,700
2029	45,639	45,639	45,639	45,639	45,639
2030	54,205	54,205	54,205	54,205	54,205
2031	-	66,757	66,757	66,757	66,757
2032	-	-	74,318	56,812	74,318
2033	-	-	-	-	129,160
	141,776	211,703	287,308	270,556	406,706

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12 LOSS PER SHARE

(a) Basic loss per share

Basic loss per share for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023 are calculated by dividing the loss attributable to the Company’s equity holders by the weighted average number of ordinary shares in issue during the year/period.

	Year ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022 <i>(Unaudited)</i>	2023
Loss attributable to the equity holders of the Company (<i>RMB’000</i>)	(53,827)	(464,199)	(342,376)	(300,432)	(99,748)
Weighted average number of ordinary shares outstanding (thousand shares) (<i>Note</i>)	144,407	165,661	193,459	186,520	204,214
Basic loss per share (expressed in RMB per share)	<u>(0.37)</u>	<u>(2.80)</u>	<u>(1.77)</u>	<u>(1.61)</u>	<u>(0.49)</u>

Note: The weighted average number of ordinary shares in issue before the Company’s conversion into a joint stock company was determined assuming the paid-in capital had been fully converted into the Company’s share capital at the same conversion ratio of 1:1 as upon conversion into joint stock company in August 2022.

In addition to the aforementioned, the weighted average number of ordinary shares used for such purpose has been retrospectively adjusted for the effect of the Capitalization Issue (as defined in Note 25) completed on 23 March 2023.

(b) Diluted loss per share

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive instruments. For the years ended 31 December 2020 and 2021, financial instruments with preferred rights at amortized cost (Note 29) had potential dilutive impact, but they were not included in the calculation of diluted loss per share because they were antidilutive. Accordingly, diluted loss per share for the years ended 31 December 2020 and 2021 was the same as basic loss per share for the respective year/period. For the year ended 31 December 2022 and the six months ended 30 June 2023, diluted loss per share was the same as basic loss per share as there were no potentially dilutive ordinary shares outstanding during the year/period.

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13 SUBSIDIARIES

(a) Subsidiaries of the Company

As at the date of this report, the Company has direct or indirect interests in the following subsidiaries:

Name of entity	Date of incorporation	Place of incorporation and kind of legal entity	Registered share capital	Effective interest held by the Group			As of Principal report date activities
				As at 31 December 2020	2021	As at 30 June 2023	
<i>In thousand</i>							
Directly held:							
iMotion Electronics Technology (Suzhou) Co., Ltd. 知辛電子科技(蘇州)有限公司 ⁽ⁱ⁾	19 June 2018	Suzhou, China, limited liability company	RMB40,000	100%	100%	100%	100% Manufacturing and assembly of products
iMotion Automotive Technology (Changshu) Co., Ltd. 知行汽車科技(常熟)有限公司 ⁽ⁱ⁾	04 December 2017	Suzhou, China, limited liability company	RMB3,500	100%	100%	100%	100% Autonomous driving testing
Shanghai Aimoxing Automobile Technology Co., Ltd. 上海艾摩星汽車科技有限公司 ⁽ⁱ⁾	15 September 2021	Shanghai, China, limited liability company	RMB4,000	N/A	100%	100%	100% Research and development
iMotion Automotive Technology (Tianjin) Co., Ltd. 知行汽車科技(天津)有限公司 ⁽ⁱ⁾	20 March 2022	Tianjin, China, limited liability company	RMB15,000	N/A	N/A	100%	100% Research and development
iMotion Germany GmbH ⁽ⁱⁱ⁾	28 June 2018	Germany, limited liability company	USD29	100%	N/A	N/A	N/A Research and development
Indirectly held:							
iMotion Electronics (Hong Kong) Technology Co., Limited ⁽ⁱⁱⁱ⁾	3 January 2022	Hong Kong (“HK”), limited liability company	USD50	N/A	N/A	100%	N/A Research and development

- (i) The English name of the subsidiaries represents the best effort by the management of the Group in translating their Chinese names as they do not have an official English name.
- (ii) In November 2021, iMotion Germany GmbH, was deregistered.
- (iii) In August 2023, iMotion Electronics (Hong Kong) Technology Co., Limited was dissolved.

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(b) Investments in subsidiaries – the Company

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Investments in subsidiaries, at costs	36,490	47,500	47,500	62,500
Deemed investment arising from share-based payment	112	1,202	4,212	4,232
	<u>36,602</u>	<u>48,702</u>	<u>51,712</u>	<u>66,732</u>

14 LEASES

The Group

(a) Amounts recognized in the consolidated balance sheets of the Group

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Right-of-use assets				
Land use right (i)	–	33,926	32,792	32,225
Leased buildings (ii)	6,599	5,426	4,616	3,236
	<u>6,599</u>	<u>39,352</u>	<u>37,408</u>	<u>35,461</u>
Lease liabilities				
Current	2,039	2,546	3,341	2,482
Non-current	4,962	3,367	1,572	798
	<u>7,001</u>	<u>5,913</u>	<u>4,913</u>	<u>3,280</u>

(i) In December 2021, the Group and the Company acquired land use right to construct headquarter building for manufacturing and research and development in Suzhou, Jiangsu Province, the PRC. Additions to land use rights during the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023 were nil, RMB34,021,000, nil, nil, and nil, respectively.

(ii) Additions to leased buildings of the Group and the Company during the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023 were approximately nil, RMB971,000, RMB1,808,000, RMB1,808,000 and nil, respectively.

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(b) Amounts recognized in profit or loss

	As at 31 December			As at 30 June	
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2022 RMB'000 (Unaudited)	2023 RMB'000
Depreciation charge of right-of-use assets					
Land use right	–	95	1,134	567	473
Leased buildings	2,092	2,145	2,616	1,236	1,380
	<u>2,092</u>	<u>2,240</u>	<u>3,750</u>	<u>1,803</u>	<u>1,853</u>
Interest expenses (included in finance cost) (Note 10)	379	291	265	133	96
Expenses relating to short-term leases (included in cost of sales, administrative expenses and research and development expenses) (Note 8)	157	359	727	508	206
	<u>157</u>	<u>359</u>	<u>727</u>	<u>508</u>	<u>206</u>
	<u>2,628</u>	<u>2,890</u>	<u>4,742</u>	<u>2,444</u>	<u>2,155</u>

The total cash outflows for leases of buildings during the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023 were approximately RMB2,282,000, RMB2,709,000, RMB3,800,000, RMB1,881,000 and RMB1,935,000, respectively.

(c) The Group’s leasing activities and how these are accounted for

In addition to land use right, the Group leases certain buildings. Rental contracts are typically made for fixed periods of 3 years to 5 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The Company

This note provides information for leases where the Company is a lessee.

(a) Amounts recognized in the balance sheets of the Company

	As at 31 December			As at
	2020 RMB'000	2021 RMB'000	2022 RMB'000	30 June 2023 RMB'000
Right-of-use assets				
Land use right	–	33,926	32,792	32,225
Leased buildings	2,925	2,943	3,325	2,541
	<u>2,925</u>	<u>36,869</u>	<u>36,117</u>	<u>34,766</u>

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	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Lease liabilities				
Current	884	1,263	1,995	1,801
Non-current	2,333	2,022	1,572	798
	<u>3,217</u>	<u>3,285</u>	<u>3,567</u>	<u>2,599</u>

15 PROPERTY, PLANT AND EQUIPMENT

The Group

	Machinery and molds	Vehicles	Electronic equipment and others	Furniture	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2020							
Cost	9,289	1,755	6,336	1,571	4,775	633	24,359
Accumulated depreciation	(1,954)	(492)	(1,387)	(364)	(446)	–	(4,643)
Net book amount	<u>7,335</u>	<u>1,263</u>	<u>4,949</u>	<u>1,207</u>	<u>4,329</u>	<u>633</u>	<u>19,716</u>
Year ended 31 December 2020							
Opening net book amount	7,335	1,263	4,949	1,207	4,329	633	19,716
Transfers	–	–	–	–	831	(831)	–
Additions	1,006	–	437	–	410	198	2,051
Disposals	(3)	–	–	(16)	–	–	(19)
Depreciation charge (Note 8)	(1,570)	(343)	(1,287)	(316)	(1,249)	–	(4,765)
Closing net book amount	<u>6,768</u>	<u>920</u>	<u>4,099</u>	<u>875</u>	<u>4,321</u>	<u>–</u>	<u>16,983</u>
As at 31 December 2020							
Cost	10,292	1,755	6,773	1,544	6,016	–	26,380
Accumulated depreciation	(3,524)	(835)	(2,674)	(669)	(1,695)	–	(9,397)
Net book amount	<u>6,768</u>	<u>920</u>	<u>4,099</u>	<u>875</u>	<u>4,321</u>	<u>–</u>	<u>16,983</u>
Year ended 31 December 2021							
Opening net book amount	6,768	920	4,099	875	4,321	–	16,983
Additions	1,057	616	1,846	141	211	–	3,871
Disposals	(403)	–	(498)	(16)	–	–	(917)
Depreciation charge (Note 8)	(1,738)	(372)	(1,357)	(315)	(1,410)	–	(5,192)
Closing net book amount	<u>5,684</u>	<u>1,164</u>	<u>4,090</u>	<u>685</u>	<u>3,122</u>	<u>–</u>	<u>14,745</u>

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	Machinery and molds	Vehicles	Electronic equipment and others	Furniture	Leasehold improvements	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 31 December 2021							
Cost	10,697	2,371	7,788	1,660	6,227	–	28,743
Accumulated depreciation	(5,013)	(1,207)	(3,698)	(975)	(3,105)	–	(13,998)
Net book amount	<u>5,684</u>	<u>1,164</u>	<u>4,090</u>	<u>685</u>	<u>3,122</u>	<u>–</u>	<u>14,745</u>
Year ended 31 December 2022							
Opening net book amount	5,684	1,164	4,090	685	3,122	–	14,745
Additions	10,748	417	7,268	1,318	2,882	189	22,822
Disposals	–	(14)	(84)	–	–	–	(98)
Depreciation charge (Note 8)	(1,790)	(402)	(2,466)	(424)	(1,683)	–	(6,765)
Closing net book amount	<u>14,642</u>	<u>1,165</u>	<u>8,808</u>	<u>1,579</u>	<u>4,321</u>	<u>189</u>	<u>30,704</u>
As at 31 December 2022							
Cost	21,445	2,648	14,847	2,978	9,109	189	51,216
Accumulated depreciation	(6,803)	(1,483)	(6,039)	(1,399)	(4,788)	–	(20,512)
Net book amount	<u>14,642</u>	<u>1,165</u>	<u>8,808</u>	<u>1,579</u>	<u>4,321</u>	<u>189</u>	<u>30,704</u>
Six months ended 30 June 2023							
Opening net book amount	14,642	1,165	8,808	1,579	4,321	189	30,704
Additions	2,342	1,196	1,888	6	32	7,434	12,898
Depreciation charge (Note 8)	(1,529)	(231)	(1,846)	(224)	(1,064)	–	(4,894)
Closing net book amount	<u>15,455</u>	<u>2,130</u>	<u>8,850</u>	<u>1,361</u>	<u>3,289</u>	<u>7,623</u>	<u>38,708</u>
As at 30 June 2023							
Cost	23,787	3,844	16,735	2,984	9,141	7,623	64,114
Accumulated depreciation	(8,332)	(1,714)	(7,885)	(1,623)	(5,852)	–	(25,406)
Net book amount	<u>15,455</u>	<u>2,130</u>	<u>8,850</u>	<u>1,361</u>	<u>3,289</u>	<u>7,623</u>	<u>38,708</u>

(b) Depreciation of property, plant and equipment charged to profit or loss is analyzed as follows:

	Year ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Cost of sales	2,067	2,707	2,909	1,364	1,465
Selling expenses	–	–	13	5	14
Administrative expenses	974	592	642	311	356
Research and development expenses	<u>1,724</u>	<u>1,893</u>	<u>3,201</u>	<u>1,294</u>	<u>3,059</u>
	<u>4,765</u>	<u>5,192</u>	<u>6,765</u>	<u>2,974</u>	<u>4,894</u>

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The Company

	Machinery and molds	Vehicles	Electronic equipment and others	Furniture	Leasehold improvements	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2020							
Cost	–	1,367	4,912	916	724	–	7,919
Accumulated depreciation	–	(364)	(977)	(169)	(108)	–	(1,618)
Net book amount	–	1,003	3,935	747	616	–	6,301
Year ended 31 December 2020							
Opening net book amount	–	1,003	3,935	747	616	–	6,301
Additions	133	–	424	–	–	–	557
Depreciation charge	(11)	(263)	(996)	(163)	(145)	–	(1,578)
Closing net book amount	122	740	3,363	584	471	–	5,280
As at 31 December 2020							
Cost	133	1,367	5,336	916	724	–	8,476
Accumulated depreciation	(11)	(627)	(1,973)	(332)	(253)	–	(3,196)
Net book amount	122	740	3,363	584	471	–	5,280
Year ended 31 December 2021							
Opening net book amount	122	740	3,363	584	471	–	5,280
Additions	262	615	1,798	138	–	–	2,813
Disposals	(3)	–	(494)	(16)	–	–	(513)
Depreciation charge	(41)	(292)	(1,086)	(172)	(145)	–	(1,736)
Closing net book amount	340	1,063	3,581	534	326	–	5,844
As at 31 December 2021							
Cost	391	1,982	6,378	1,028	724	–	10,503
Accumulated depreciation	(51)	(919)	(2,797)	(494)	(398)	–	(4,659)
Net book amount	340	1,063	3,581	534	326	–	5,844
Year ended 31 December 2022							
Opening net book amount	340	1,063	3,581	534	326	–	5,844
Additions	10,481	417	7,059	1,293	2,443	189	21,882
Disposals	–	(14)	(85)	–	–	–	(99)
Depreciation charge	(138)	(326)	(2,178)	(310)	(521)	–	(3,473)
Closing net book amount	10,683	1,140	8,377	1,517	2,248	189	24,154
As at 31 December 2022							
Cost	10,872	2,260	13,231	2,320	3,167	189	32,039
Accumulated depreciation	(189)	(1,120)	(4,854)	(803)	(919)	–	(7,885)
Net book amount	10,683	1,140	8,377	1,517	2,248	189	24,154

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	Machinery and molds	Vehicles	Electronic equipment and others	Furniture	Leasehold improvements	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Six months ended 30 June 2023							
Opening net book amount	10,683	1,140	8,377	1,517	2,248	189	24,154
Additions	2,256	677	1,888	6	–	7,434	12,261
Depreciation charge	(767)	(193)	(1,717)	(215)	(481)	–	(3,373)
Closing net book amount	<u>12,172</u>	<u>1,624</u>	<u>8,548</u>	<u>1,308</u>	<u>1,767</u>	<u>7,623</u>	<u>33,042</u>
As at 30 June 2023							
Cost	13,128	2,937	15,119	2,326	3,167	7,623	44,300
Accumulated depreciation	(956)	(1,313)	(6,571)	(1,018)	(1,400)	–	(11,258)
Net book amount	<u>12,172</u>	<u>1,624</u>	<u>8,548</u>	<u>1,308</u>	<u>1,767</u>	<u>7,623</u>	<u>33,042</u>

16 INTANGIBLE ASSETS

The Group

	Software
	<i>RMB'000</i>
As at 1 January 2020	
Cost	2,074
Accumulated amortization	(293)
Net book amount	<u>1,781</u>
Year ended 31 December 2020	
Opening net book amount	1,781
Additions	6,913
Amortization charge (<i>Note 8</i>)	(865)
Closing net book amount	<u>7,829</u>
As at 31 December 2020	
Cost	8,987
Accumulated amortization	(1,158)
Net book amount	<u>7,829</u>
Year ended 31 December 2021	
Opening net book amount	7,829
Additions	2,218
Amortization charge (<i>Note 8</i>)	(3,083)
Closing net book amount	<u>6,964</u>

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	Software <i>RMB'000</i>
As at 31 December 2021	
Cost	11,205
Accumulated amortization	<u>(4,241)</u>
Net book amount	<u><u>6,964</u></u>
Year ended 31 December 2022	
Opening net book amount	6,964
Additions	1,333
Amortization charge (<i>Note 8</i>)	<u>(3,438)</u>
Closing net book amount	<u><u>4,859</u></u>
As at 31 December 2022	
Cost	12,538
Accumulated amortization	<u>(7,679)</u>
Net book amount	<u><u>4,859</u></u>
Six months ended 30 June 2023	
Opening net book amount	4,859
Additions	1,419
Amortization charge (<i>Note 8</i>)	<u>(1,962)</u>
Closing net book amount	<u><u>4,316</u></u>
As at 30 June 2023	
Cost	13,957
Accumulated amortization	<u>(9,641)</u>
Net book amount	<u><u>4,316</u></u>

(a) Amortization of intangible assets has been charged to profit or loss for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023 as follows:

	Year ended 31 December			Six months ended	
	2020	2021	2022	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of sales	74	649	1,180	610	233
Administrative expenses	115	121	249	137	343
Research and development expenses	<u>676</u>	<u>2,313</u>	<u>2,009</u>	<u>939</u>	<u>1,386</u>
	<u><u>865</u></u>	<u><u>3,083</u></u>	<u><u>3,438</u></u>	<u><u>1,686</u></u>	<u><u>1,962</u></u>

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The Company

	Software <i>RMB’000</i>
As at 1 January 2020	
Cost	695
Accumulated amortization	(203)
Net book amount	492
Year ended 31 December 2020	
Opening net book amount	492
Additions	6,913
Amortization charge	(690)
Closing net book amount	6,715
As at 31 December 2020	
Cost	7,608
Accumulated amortization	(893)
Net book amount	6,715
Year ended 31 December 2021	
Opening net book amount	6,715
Additions	2,198
Amortization charge	(2,911)
Closing net book amount	6,002
As at 31 December 2021	
Cost	9,806
Accumulated amortization	(3,804)
Net book amount	6,002
Year ended 31 December 2022	
Opening net book amount	6,002
Additions	1,308
Amortization charge	(3,311)
Closing net book amount	3,999
As at 31 December 2022	
Cost	11,114
Accumulated amortization	(7,115)
Net book amount	3,999

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	Software <i>RMB’000</i>
Six months ended 30 June 2023	
Opening net book amount	3,999
Additions	2,234
Amortization charge	<u>(1,953)</u>
Closing net book amount	<u>4,280</u>
As at 30 June 2023	
Cost	13,348
Accumulated amortization	<u>(9,068)</u>
Net book amount	<u>4,280</u>

17 OTHER NON-CURRENT ASSETS

The Group and the Company

	As at 31 December			As at
	2020	2021	2022	30 June
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Contract fulfillment costs (a)	2,228	5,668	8,212	8,372
Less: provisions for impairment of contract fulfillment costs (Note 20)	<u>–</u>	<u>(341)</u>	<u>(1,832)</u>	<u>(1,833)</u>
	2,228	5,327	6,380	6,539
Prepayment for property, plant and equipment	<u>–</u>	<u>881</u>	<u>1,885</u>	<u>2,490</u>
Capitalized upfront fee (b)	–	–	14,583	13,125
Less: Non-current capitalized upfront fee to be settled within one year (Note 20)	<u>–</u>	<u>–</u>	<u>(2,916)</u>	<u>(2,917)</u>
	<u>–</u>	<u>–</u>	<u>11,667</u>	<u>10,208</u>
	<u>2,228</u>	<u>6,208</u>	<u>19,932</u>	<u>19,237</u>

(a) The amortisation of contract fulfillment costs charged to cost of sales was RMB3,654,000, RMB8,888,000, RMB12,628,000, RMB5,106,000 and RMB8,116,000 for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, respectively.

(b) Capitalized upfront fee represents the payments to customers made by the Company in order to obtain certain contracts, which are amortized to offsetting revenue based on the transfer of relevant goods and services. The amount of amortization to net sales was RMB2,917,000 and RMB1,458,000 for the year ended 31 December 2022 and the six months ended 30 June 2023, respectively.

As at 31 December 2022 and 30 June 2023, there have been no impairment losses in relation to the costs capitalized.

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18 INVENTORIES

The Group

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Raw materials	5,730	7,325	36,700	101,248
Semi-finished goods	1,731	464	624	96
Work in progress	1,512	113	3,180	2,218
Finished goods	511	39,249	231,640	58,888
	<u>9,484</u>	<u>47,151</u>	<u>272,144</u>	<u>162,450</u>
Less: provisions for impairment of raw materials	<u>–</u>	<u>(145)</u>	<u>(170)</u>	<u>(369)</u>
	<u>9,484</u>	<u>47,006</u>	<u>271,974</u>	<u>162,081</u>

Raw materials primarily consist of materials for volume production which will be transferred into production cost when incurred as well as using for research and development.

Finished goods include products ready for transit at production plants and products delivered to customers but acceptance has not been obtained yet.

During the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, inventories recognized as cost of sales amounted to approximately RMB27,370,000, RMB103,218,000, RMB1,128,160,000, RMB313,733,000 and RMB482,360,000, respectively, and the provision for impairment of inventories as recognized for the respective years/periods amounted to approximately nil, RMB199,000, RMB25,000, RMB145,000 and RMB241,000, respectively. All these expenses and impairment charge have been included in “cost of sales” in the consolidated statements of comprehensive loss.

The Company

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Raw materials	1,648	1,697	1,936	50,360
Semi-finished goods	–	–	3	47
Finished goods	–	39,183	230,453	56,149
	<u>1,648</u>	<u>40,880</u>	<u>232,392</u>	<u>106,556</u>
Less: provisions for impairment of raw materials	<u>–</u>	<u>–</u>	<u>(2)</u>	<u>(105)</u>
	<u>1,648</u>	<u>40,880</u>	<u>232,390</u>	<u>106,451</u>

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19 TRADE AND NOTES RECEIVABLES

The Group

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Notes receivables (a)	254	904	750	7,775
Provisions for impairment	–	–	–	–
	<u>254</u>	<u>904</u>	<u>750</u>	<u>7,775</u>
Trade receivables				
Due from third parties	15,201	112,041	293,978	121,438
Provisions for impairment	(207)	(1,656)	(5,370)	(2,323)
	<u>14,994</u>	<u>110,385</u>	<u>288,608</u>	<u>119,115</u>
Total	<u>15,248</u>	<u>111,289</u>	<u>289,358</u>	<u>126,890</u>

(a) Notes receivables

As at 31 December 2020, 2021 and 2022 and 30 June 2023, notes receivables were bank acceptance notes aged less than six months.

(b) Trade receivables

(i) Aging analysis of the trade receivables

As at 31 December 2020, 2021 and 2022 and 30 June 2023, the aging analysis of the trade receivables based on revenue recognition date is as follows:

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Within 3 months	14,117	111,462	273,481	36,349
3 to 6 months	1,084	194	20,031	38,626
6 to 12 months	–	385	466	46,034
Over 12 months	–	–	–	429
	<u>15,201</u>	<u>112,041</u>	<u>293,978</u>	<u>121,438</u>

(ii) Fair values of the trade receivables

Due to the short-term nature of the current receivables, their carrying amounts are considered to be approximately the same as their fair values.

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(iii) *Impairment and risk exposure*

Trade receivables

The Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Details of the allowance for impairment and the movement in the allowance balance has been set out in Note 3.1(b).

As at 31 December 2022 and 30 June 2023, as the customers with trade receivable amounted to RMB450,000 have encountered difficulties in operations, the Group has evaluated the cash flow that might not be collected, therefore provision for bad debt amounting to RMB450,000 had been fully provided.

The Company

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Notes receivables	254	904	750	7,775
Provisions for impairment	—	—	—	—
	<u>254</u>	<u>904</u>	<u>750</u>	<u>7,775</u>
Trade receivables				
Due from subsidiaries	—	20	19,914	25,317
Due from third parties	2,553	91,813	288,038	119,331
	<u>2,553</u>	<u>91,833</u>	<u>307,952</u>	<u>144,648</u>
Gross trade receivables	2,553	91,833	307,952	144,648
Provisions for impairment (a)	(40)	(1,395)	(5,615)	(2,677)
	<u>2,513</u>	<u>90,438</u>	<u>302,337</u>	<u>141,971</u>
	<u><u>2,767</u></u>	<u><u>91,342</u></u>	<u><u>303,087</u></u>	<u><u>149,746</u></u>

(a) *Trade receivables*

(i) *Aging analysis of the trade receivables*

As at 31 December 2020, 2021 and 2022 and 30 June 2023, the aging analysis of the trade receivables based on revenue recognition date is as follows:

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Within 3 months	2,109	91,695	282,179	44,250
3 to 6 months	444	41	25,344	45,466
6 to 12 months	—	97	429	54,503
Over 12 months	—	—	—	429
	<u>2,553</u>	<u>91,833</u>	<u>307,952</u>	<u>144,648</u>
	<u><u>2,553</u></u>	<u><u>91,833</u></u>	<u><u>307,952</u></u>	<u><u>144,648</u></u>

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ACCOUNTANT’S REPORT

20 OTHER CURRENT ASSETS

The Group

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023 RMB'000
Other receivables (a)				
– Refundable deposits (i)	671	2,828	1,416	1,278
– Loan to staff (iii)	–	–	–	1,000
– Payments on behalf of employees	98	74	40	291
– Others	172	53	77	216
	941	2,955	1,533	2,785
Provisions for impairment (ii)	(14)	(18)	(21)	(79)
	927	2,937	1,512	2,706
Prepayments for (b)				
– raw materials to third parties	116	490	5,932	5,870
– other taxes	31	117	931	763
– capitalized upfront fee (Note 17)	–	–	2,916	2,917
– [REDACTED] expenses	–	–	–	653
– other operating expenses	176	585	1,891	3,148
	323	1,192	11,670	13,351
Contract fulfillment costs	1,255	5,417	31,176	33,754
Less: provisions for impairment of contract fulfillment costs	–	–	(2,930)	(2,153)
	1,255	5,417	28,246	31,601
Deferred [REDACTED] expenses	–	–	1,754	9,444
Input VAT to be deducted (c)	4,688	1,236	1,996	3,211
Total other current assets	7,193	10,782	45,178	60,313

As at 31 December 2020, 2021 and 2022 and 30 June 2023, the fair values of other current assets of the Group, except for the prepayments and input VAT to be deducted which are not financial assets, approximated their carrying amounts.

The carrying amounts of the Group’s other current assets are all denominated in RMB.

(a) Other receivables

(i) Refundable deposits

Refundable deposits consist primarily of security deposits for rental of buildings and customs deposits.

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ACCOUNTANT'S REPORT

(ii) *Impairment and risk exposure*

For other receivables, management performs periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experiences incorporating forward-looking information. Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

Expected credit loss ("ECL") model for other receivables, as summarized below:

- The other receivables that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group. The expected credit loss is measured on a 12-month basis;
- If a significant increase in credit risk (as defined below) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. The expected credit loss is measured on lifetime basis;
- If the financial instrument is credit-impaired (as defined below), the financial instrument is then moved to 'Stage 3'. The expected credit loss is measured on lifetime basis; and
- Under Stages 1 and 2, if a financial asset subsequently becomes credit-impaired (Stage 3), the Group is required to calculate the interest income by applying the effective interest method in subsequent reporting period to the amortized cost of the financial asset (the gross carrying amount net of loss allowance) rather than the gross carrying amount.

The loss allowance recognized in the year/period is impacted by a variety of factors, as described below:

- Transfer between stage 1, stage 2 or stage 3 due to other receivables experiencing significant increases (or decreases) of credit risk in the period, and the subsequent "step up" (or "step down") between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognized, as well as releases for other receivables derecognized in the period; and
- Other receivables derecognized and write-offs of allowance related to assets that were written off during the year/period.

The Group considers counter-parties as follows:

- 'Stage 1' – Counter-parties who have a low risk of default and a strong capacity to meet contractual cash flows;
- 'Stage 2' – Counter-parties whose repayments are past due but with reasonable expectation of recovery; and
- 'Stage 3' – Counter-parties whose repayments are past due and with low reasonable expectation of recovery.

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The following tables summarized the loss allowance for other receivables as analyzed by different stages:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 31 December 2020 (<i>RMB'000</i>)	941	–	–	941
Loss allowance as at 31 December 2020 (<i>RMB'000</i>)	(14)	–	–	(14)
Expected credit loss rate	1.46%	–	–	1.46%
Gross carrying amount as at 31 December 2021 (<i>RMB'000</i>)	2,955	–	–	2,955
Loss allowance as at 31 December 2021 (<i>RMB'000</i>)	(18)	–	–	(18)
Expected credit loss rate	0.60%	–	–	0.60%
Gross carrying amount as at 31 December 2022 (<i>RMB'000</i>)	1,533	–	–	1,533
Loss allowance as at 31 December 2022 (<i>RMB'000</i>)	(21)	–	–	(21)
Expected credit loss rate	1.34%	–	–	1.34%
Gross carrying amount as at 30 June 2023 (<i>RMB'000</i>)	2,785	–	–	2,785
Loss allowance as at 30 June 2023 (<i>RMB'000</i>)	(79)	–	–	(79)
Expected credit loss rate	2.84%	–	–	2.84%

(iii) As at 30 June 2023, the loan to staff represented a loan to Mr. Ge Dingfeng, the chief operation officer of the Company. The loan was unsecured, interest-free and due by 30 September 2023.

(b) The prepayments represented prepayments to third parties during the Track Record Period.

(c) Input VAT to be deducted are mainly input VAT arisen from the acquisition of property, plant and equipment, intangible assets and materials. According to Announcement of the General Administration of Taxation and Customs of the Ministry of Finance on Policies for Deepening the Reform of Value-Added Tax (Announcement of the General Administration of Taxation and Customs of the Ministry of Finance, (2019) No. 39), enterprises with value-added tax recoverable balance can, starting from 1 April 2019, apply for value-added tax credit refund.

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The Company

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Other receivables				
– Due from subsidiaries	4,551	947	2,137	1,122
– Refundable deposits	434	2,552	1,127	1,009
– Loan to staff (ii)	–	–	–	1,000
– Payments on behalf of employees	94	70	40	291
– Others	120	1	75	213
	<u>5,199</u>	<u>3,570</u>	<u>3,379</u>	<u>3,635</u>
Provisions for impairment (i)	(82)	(28)	(52)	(92)
	<u>5,117</u>	<u>3,542</u>	<u>3,327</u>	<u>3,543</u>
Prepayments for				
– raw materials to subsidiaries	1,075	1,120	–	–
– raw materials to third parties	116	490	5,932	5,870
– other taxes	162	169	919	763
– capitalised upfront fee	–	–	2,916	2,917
– [REDACTED] expenses	–	–	–	653
– other operating expenses	85	319	1,757	3,008
	<u>1,438</u>	<u>2,098</u>	<u>11,524</u>	<u>13,211</u>
Contract fulfillment costs	1,255	5,417	31,176	33,754
Less: provisions for impairment of contract fulfillment costs	–	–	(2,930)	(2,153)
	<u>1,255</u>	<u>5,417</u>	<u>28,246</u>	<u>31,601</u>
Deferred [REDACTED] expenses	–	–	1,754	9,444
	<u>2,641</u>	<u>47</u>	<u>55</u>	<u>1,098</u>
Input VAT to be deducted	2,641	47	55	1,098
Total other current assets	<u>10,451</u>	<u>11,104</u>	<u>44,906</u>	<u>58,897</u>

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(i) *Impairment and risk exposure*

The following tables explain the changes in the loss allowance for the Company’s other receivables as analyzed by different stages:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 31 December 2020 (RMB’000)	5,199	–	–	5,199
Loss allowance as at 31 December 2020 (RMB’000)	(82)	–	–	(82)
Expected credit loss rate	1.58%	–	–	1.58%
Gross carrying amount as at 31 December 2021 (RMB’000)	3,570	–	–	3,570
Loss allowance as at 31 December 2021 (RMB’000)	(28)	–	–	(28)
Expected credit loss rate	0.78%	–	–	0.78%
Gross carrying amount as at 31 December 2022 (RMB’000)	3,379	–	–	3,379
Loss allowance as at 31 December 2022 (RMB’000)	(52)	–	–	(52)
Expected credit loss rate	1.54%	–	–	1.54%
Gross carrying amount as at 30 June 2023 (RMB’000)	3,635	–	–	3,635
Loss allowance as at 30 June 2023 (RMB’000)	(92)	–	–	(92)
Expected credit loss rate	2.53%	–	–	2.53%

(ii) As at 30 June 2023, the loan to staff represented a loan to Mr. Ge Dingfeng, the chief operation officer of the Company. The loan was unsecured, interest-free and due by 30 September 2023.

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group and the Company

The Group classifies the followings as financial assets at FVPL:

- debt investments that do not qualify for measurement at either amortized cost or FVOCI
- equity investments that are held for trading, and
- equity investments for which the Group has not elected to recognize fair value gains and losses through OCI.

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ACCOUNTANT’S REPORT

The Group and the Company’s financial assets measured at FVPL include the following:

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB’000	RMB’000	RMB’000	2023
				RMB’000
Non-current assets (the Group)				
Unlisted investment with preferred rights (a)	–	3,000	3,000	3,502
Current assets (the Group and the Company)				
Investments in wealth management products issued by banks and financial institutes (b)	24,443	242,832	182,408	250,591

- (a) In November 2021, the Group purchased 1.11% equity interest of Lingti Technology (Shanghai) Co., Ltd. (瓴鈦科技(上海)有限公司) (“Lingti”) with total consideration of RMB3,000,000, which is recorded as investment measured at fair value through profit or loss. Lingti is a company specializing in the development of millimeter wave sensor chips and relative module solutions of algorithm software.
- (b) The principals and returns of the wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore, the wealth management products issued by banks and financial institutes are measured at fair value through profit or loss.
- (c) Amounts recognized in profit or loss is set out below:

During the year/period, the following net fair value gains were recognized in the consolidated statements of comprehensive loss:

	Year ended 31 December			Six months ended	
	2020	2021	2022	30 June	2023
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Net fair value gains on financial assets at FVPL recognized in other gains/(losses) – net (Note 7)					
– realized	250	2,396	6,321	1,952	3,682
– unrealized	243	1,494	1,408	2,261	1,428
	493	3,890	7,729	4,213	5,110

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ACCOUNTANT’S REPORT

22 CASH AND CASH EQUIVALENTS

The Group

(a) Cash and cash equivalents

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
Cash at banks	17,212	32,875	366,580	146,987
Less: restricted cash <i>(b)</i>	<u>(300)</u>	<u>(833)</u>	<u>(835)</u>	<u>(300)</u>
Cash and cash equivalents	<u>16,912</u>	<u>32,042</u>	<u>365,745</u>	<u>146,687</u>

The maximum exposure to credit risk at the reporting date is the carrying values of cash and cash equivalents as mentioned above.

(b) Restricted cash

As at 31 December 2020, 2021 and 2022 and 30 June 2023, restricted cash with amount of RMB300,000 were government grants reserved in separate account, mainly for subsidizing the Group’s purchases of equipment, which can not be withdrawn without prior application.

As at 31 December 2021 and 2022, restricted cash with amount of RMB533,000 and RMB535,000 were guarantee deposits for forward exchange agreements, respectively.

Cash and cash equivalents are denominated in:

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
RMB	16,555	13,938	340,082	142,345
USD	261	18,104	25,663	4,342
EUR	<u>96</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>16,912</u>	<u>32,042</u>	<u>365,745</u>	<u>146,687</u>

The Company

(a) Cash and cash equivalents

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
Cash at banks	15,958	22,507	357,739	140,687
Less: restricted cash	<u>(300)</u>	<u>(833)</u>	<u>(835)</u>	<u>(300)</u>
Cash and cash equivalents	<u>15,658</u>	<u>21,674</u>	<u>356,904</u>	<u>140,387</u>

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The maximum exposure to credit risk at the reporting date is the carrying values of cash and cash equivalents as mentioned above.

Cash and cash equivalents are denominated in:

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
RMB	15,532	11,109	335,411	139,713
USD	126	10,565	21,493	674
	<u>15,658</u>	<u>21,674</u>	<u>356,904</u>	<u>140,387</u>

23 DERIVATIVE FINANCIAL INSTRUMENTS

The Group and the Company

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
Foreign exchange forward contracts	<u>–</u>	<u>1,451</u>	<u>–</u>	<u>–</u>

As at 31 December 2021, the Company entered into 10 foreign exchange forward contracts with total principal amounts of USD11,000,000. The forward contracts were all settled in 2022.

Amount recognized in profit or loss is set out below:

	Year ended 31 December			Six months ended	
	2020	2021	2022	30 June	
	RMB'000	RMB'000	RMB'000	2022	2023
Fair value (losses)/gains – net (Note 7)					
– realized	–	67	(2,252)	(2,252)	–
– unrealized	–	1,451	–	–	–
	<u>–</u>	<u>1,518</u>	<u>(2,252)</u>	<u>(2,252)</u>	<u>–</u>

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24 PAID-IN CAPITAL

The Group and the Company

	Paid-in capital <i>RMB’000</i>
As at 1 January 2020	7,018
Capital contributions from series B-1 investors (a)	365
Capital contributions from series B-2 investors (b)	186
	<hr/>
As at 31 December 2020	7,569
	<hr/>
As at 1 January 2021	7,569
Capital contributions from series B-1 investors (a)	122
Capital contributions from series B-2 investors (b)	1
Capital contributions from series B-3 investors (c)	157
Capital contributions from series B-4 investors (d)	157
Capital contributions from series C-1 investors (e)	1,081
	<hr/>
As at 31 December 2021	9,087
	<hr/>
As at 1 January 2022	9,087
Capital contributions from series C-2 investor (f)	358
Capital contributions from series C-3 investor (g)	766
Conversion into a joint stock company (Note 25(a))	(10,211)
	<hr/>
As at 31 December 2022 and 30 June 2023	–
	<hr/> <hr/>

- (a) In June 2020, the Company entered into an investment agreement with series B-1 investors, pursuant to which total capital of RMB52,000,000 was contributed into the Company. The proceeds of RMB39,000,000 were received by the Company in June 2020. The remaining proceeds of RMB13,000,000 were received by the Company in Jan 2021, with RMB486,605 (approximately 4.8% of total paid-in capital before the Company’s conversion into a joint stock company (Note 25(a))) and RMB51,513,395 credited to the Company’s paid-in capital and capital reserves, respectively (Note 26). Certain preferred rights upon capital contribution were granted to series B-1 investor (Note 29).
- (b) In December 2020, the Company entered into an investment agreement with series B-2 investor, pursuant to which total capital of RMB20,000,000 was contributed into the Company. The proceeds of RMB19,850,000 were received by the Company in December 2020. The remaining proceeds of RMB150,000 were received by the Company in Jan 2021, with RMB187,156 (approximately 1.8% of total paid-in capital before the Company’s conversion into a joint stock company (Note 25(a))) and RMB19,812,844 credited to the Company’s paid-in capital and capital reserves, respectively (Note 26). Certain preferred rights upon capital contribution were granted to series B-2 investor (Note 29).
- (c) In January 2021, the Company entered into capital contribution agreement with series B-3 investors, pursuant to which total capital of RMB20,000,000 was contributed into the Company. The proceeds of RMB20,000,000 were received by the Company in Feb 2021, with approximately RMB156,982 (approximately 1.5% of total paid-in capital before the Company’s conversion into a joint stock company (Note 25(a))) and RMB19,843,018 credited to the Company’s paid-in capital and capital reserves, respectively (Note 26). Certain preferred rights upon capital contribution were granted to series B-3 investors (Note 29).
- (d) In February 2021, the Company entered into capital contribution agreement with series B-4 investors, pursuant to which total capital of RMB20,000,000 was contributed into the Company. The proceeds of RMB20,000,000 were received by the Company in Feb 2021, with approximately RMB156,982 (approximately 1.5% of total

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paid-in capital before the Company’s conversion into a joint stock company (Note 25(a))) and RMB19,843,018 credited to the Company’s paid-in capital and capital reserves, respectively (Note 26). Certain preferred rights upon capital contribution were granted to series B-4 investors (Note 29).

- (e) In August 2021, the Company entered into capital contribution agreement with series C-1 investors, pursuant to which total capital of RMB270,000,000 was contributed to the Company. The proceeds of RMB270,000,000 were received by the Company in September 2021, with approximately RMB1,080,819 (approximately 10.6% of total paid-in capital before the Company’s conversion into a joint stock company (Note 25(a))) and RMB268,919,181 credited to the Company’s paid-in capital and capital reserves, respectively (Note 26). Certain preferred rights upon capital contribution were granted to series C-1 investors (Note 29).
- (f) In February 2022, the Company entered into capital contribution agreement with series C-2 investors, pursuant to which total capital of RMB98,500,000 was contributed to the Company. The proceeds of RMB66,500,000 were received by the Company in Feb 2022. The remaining proceeds of RMB32,000,000 were received by the Company in March 2022, with approximately RMB358,023 (approximately 3.5% of total paid-in capital before the Company’s conversion into a joint stock company (Note 25(a))) and RMB98,141,977 credited to the Company’s paid-in capital and capital reserves, respectively (Note 26). Certain preferred rights upon capital contribution were granted to series C-2 investors (Note 29).
- (g) On 31 July 2022, the Company entered into capital contribution agreement with series C-3 investor, pursuant to which total capital of RMB247,500,000 was contributed to the Company. The proceeds of RMB247,500,000 were received by the Company in August 2022, with approximately RMB765,804 (approximately 7.5% of total paid-in capital before the Company’s conversion into a joint stock company (Note 25(a))) and RMB246,734,196 credited to the Company’s paid-in capital and capital reserves, respectively (Note 26). Certain preferred rights upon capital contribution were granted to series C-3 investor (Note 29).

25 SHARE CAPITAL

The Group and the Company

A summary of movements in the Company’s authorized, issued and fully paid share capital is as follows:

	Number of shares	Share capital <i>RMB’000</i>
As at 1 January 2022	–	–
Conversion into a joint stock limited company (a)	10,210,717	10,211
As at 31 December 2022	10,210,717	10,211
As at 1 January 2023	10,210,717	10,211
Capitalization Issue (b)	194,003,623	194,003
As at 30 June 2023	204,214,340	204,214

- (a) In December 2022, the Company was converted into a joint stock company with limited liability under the Company Law of the PRC. The net assets of the Company as at the conversion date were converted into approximately 10,210,717 ordinary shares at RMB1 each. The excess of net assets converted over nominal value of the ordinary shares was credited to the Company’s share premium (Note 26).
- (b) On March 23, 2023, the Shareholders of the Company passed a resolution approving the capitalization of RMB194,003,623 from the share premium reserve for the issuing of 194,003,623 Shares with a nominal value of RMB1.0 each to the Shareholders at that time on a pro rata basis (the “Capitalization Issue”). Upon completion, the total issued Shares of the Company increased from 10,210,717 Shares to 204,214,340 Shares with a nominal value of RMB1.0 each.

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26 TREASURY STOCK AND RESERVES

The following table shows a breakdown of the balance sheet line items “treasury stock” and “reserves” and their movements during the respective years/period. A description of the nature and purpose of each reserve is provided below the table.

The Group

	Reserves					
	Treasury stock	Share premium	Capital reserves	Other reserves	Foreign currency translation	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2020	(83,516)	–	77,273	4,779	29	82,081
Capital contributions from series B-1 investors	–	–	38,635	–	–	38,635
Capital contributions from series B-2 investors	–	–	19,664	–	–	19,664
Recognition of financial instruments with preferred rights at amortized cost (a)	(58,850)	–	–	–	–	–
Share-based payment (Note 27)	–	–	–	8,554	–	8,554
Currency translation differences	–	–	–	–	3	3
As at 31 December 2020	<u>(142,366)</u>	<u>–</u>	<u>135,572</u>	<u>13,333</u>	<u>32</u>	<u>148,937</u>
As at 1 January 2021	(142,366)	–	135,572	13,333	32	148,937
Capital contributions from series B-1 investors	–	–	12,878	–	–	12,878
Capital contributions from series B-2 investors	–	–	149	–	–	149
Capital contributions from series B-3 investors	–	–	19,843	–	–	19,843
Capital contributions from series B-4 investors	–	–	19,843	–	–	19,843
Capital contributions from series C-1 investors	–	–	268,919	–	–	268,919
Capital contributions from equity holders	–	–	4,546	–	–	4,546
Recognition of financial instruments with preferred rights at amortized cost (a)	(323,150)	–	–	–	–	–
Share-based payment (Note 27)	–	–	–	17,708	–	17,708
Currency translation differences	–	–	–	–	(6)	(6)
Reclassification to profit or loss on liquidation of a subsidiary	–	–	–	–	(26)	(26)
As at 31 December 2021	<u>(465,516)</u>	<u>–</u>	<u>461,750</u>	<u>31,041</u>	<u>–</u>	<u>492,791</u>

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	Reserves						Total RMB'000
	Treasury stock RMB'000	Share premium RMB'000	Capital reserves RMB'000	Special reserves RMB'000	Other reserves RMB'000	Foreign currency translation RMB'000	
As at 1 January 2022	(465,516)	–	461,750	–	31,041	–	492,791
Capital contributions from series C-2 investor	–	–	98,142	–	–	–	98,142
Capital contributions from series C-3 investor	–	–	246,734	–	–	–	246,734
Recognition of financial instruments with preferred rights at amortized cost (a)	(346,000)	–	–	–	–	–	–
Derecognition of financial instruments with preferred rights at amortized cost (b)	811,516	–	711,635	–	–	–	711,635
Conversion into a joint stock company (Note 25(a))	–	666,951	(1,518,261)	–	(60,468)	–	(911,778)
Share-based payment (Note 27)	–	–	–	–	44,026	–	44,026
As at 31 December 2022	<u>–</u>	<u>666,951</u>	<u>–</u>	<u>–</u>	<u>14,599</u>	<u>–</u>	<u>681,550</u>
As at 1 January 2023	–	666,951	–	–	14,599	–	681,550
Capitalization Issue (Note 25)	–	(194,003)	–	–	–	–	(194,003)
Share-based payment (Note 27)	–	–	–	–	44,796	–	44,796
Provision of safety fund surplus reserve (d)	–	–	–	340	–	–	340
Utilisation of safety fund surplus reserve (d)	–	–	–	(175)	–	–	(175)
As at 30 June 2023	<u>–</u>	<u>472,948</u>	<u>–</u>	<u>165</u>	<u>59,395</u>	<u>–</u>	<u>532,508</u>

(a) The Group recorded treasury stock to reflect the carrying amount of the financial instruments with preferred rights at the date of issuance of the Series Pre-A financing to Series C-3 financing. Further details are described in Note 29 (a).

On 30 August 2022, upon termination of the preferred rights among the Series Pre-A Investors to Series C-3 Investors, all the treasury stock was derecognized and the difference between the derecognition of the financial instruments with preferred rights and the treasury stock was credited to the capital reserves. Further details are described in Note 29(b).

(b) Treasury stock is recorded to reflect the carrying amount of the financial instruments with preferred rights when the financial instruments with preferred rights are initially reclassified from equity, and will be reversed when the financial instruments with preferred rights are derecognized upon when the Group’s obligations in connection with those financial instruments are discharged, canceled or have expired which will then be reclassified back to equity. Details of the financial instruments with preferred rights at amortized cost have been set out in Note 29.

(c) The Group recorded other reserves to reflect the contributions from shareholders for share award schemes of employees (Note 27).

(d) According to the Administrative Measures for the Collection and Utilisation of Enterprise Work Safety Funds (Cai Zi [2022] No. 136) jointly issued by the Ministry of Finance and the State Administration of Emergency Management, the subsidiary of the Group, iMotion Electronics Technology (Suzhou) Co., Ltd. is required to establish a safety fund surplus reserve based on a certain percentage of the prior year’s revenue during the six months ended 30 June 2023.

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27 SHARE-BASED PAYMENT

(a) Share award schemes

- (i) Suzhou Lanchi Enterprise Management L.P. (蘇州藍馳管理諮詢企業(有限合夥)) (“Suzhou Lanchi”) and Suzhou Zichi Enterprise Management L.P. (蘇州紫馳管理諮詢企業(有限合夥)) (“Suzhou Zichi”), (collectively referred to as the “Vehicles”) were incorporated in the PRC under the Company Law of the PRC as a vehicle to hold the ordinary shares for the Company’s employees under the Employee Share Ownership Plan (the “ESOP”).

As the Company did not have power to govern the relevant activities of the Vehicles nor repurchase or settlement obligations but only derive benefits from the contributions of the eligible employees who are awarded with the shares under the ESOP, the directors of the Company consider it does not control and not to consolidate the Vehicles. No statutory financial statements had been prepared by the Vehicles during the Track Record Period.

In April 2019, 425,221 restricted stock units (“RSUs”) were granted to certain directors, managements and employees (the “Grantees”) at a consideration of nil per share under the ESOP through Suzhou Lanchi as rewards for their services, full time devotion and professional expertise to the Group.

In October 2019, 180,042 RSUs were granted to certain directors, managements and employees (the “Grantees”) at a consideration of nil per share under the ESOP through Suzhou Lanchi as rewards for their services, full time devotion and professional expertise to the Group.

In December 2020, 564,471 RSUs were granted to certain directors, managements and employees (the “Grantees”) at a consideration of RMB4.75 per share under the ESOP through Suzhou Lanchi and Suzhou Zichi as rewards for their services, full time devotion and professional expertise to the Group.

In December 2021, 370,499 RSUs were granted to certain directors, managements and employees (the “Grantees”) at a consideration of RMB4.75 per share under the ESOP through Suzhou Lanchi and Suzhou Zichi as rewards for their services, full time devotion and professional expertise to the Group.

In July 2022, 145,195 RSUs were granted to certain directors, managements and employees (the “Grantees”) at a consideration of RMB4.75 per share under the ESOP through Suzhou Lanchi and Suzhou Zichi as rewards for their services, full time devotion and professional expertise to the Group.

In February 2023, 137,700 RSUs were granted to certain directors, managements and employees (the “Grantees”) at a consideration of RMB4.75 per share under the ESOP through Suzhou Lanchi and Suzhou Zichi as rewards for their services, full time devotion and professional expertise to the Group.

The fair value of the restricted shares granted to employees is determined by using the discounted cash flow method and back-solve method to determine the underlying equity fair value of the Company and equity allocation based on Option Pricing Model (“OPM”) model to determine the fair value of common shares. Significant estimates on key assumptions, such as risk-free interest rate, volatility, and dividend yield are made based on management’s best estimates:

Key assumptions

Risk-free interest rate	2.17%-2.83%
Volatility	52.11%-55.25%
Dividend yield	0%
WACC	18%-22%
Terminal growth rate	2.3%-3%

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The fair values of the RSUs granted to the Grantees during the Track Record Period were as follows:

	Years ended 31 December			Six months ended
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
Fair value of one RSU	0.09	0.25	0.32	0.38

All the shares granted are vested on the later of the following two points: the third anniversary from the date of fulfilling the service or [REDACTED] success as prescribed in the ESOP. If an employee ceased to be employed by the Group within this period, the awarded shares would be forfeited, and forfeited shares would be purchased back by Mr. Song Yang (宋陽) at the price that the employees initially purchased the shares, and would be reallocated in the subsequent grants, if any, at the discretion of Mr. Song Yang.

Set out below are the movement in the number of awarded restricted shares under the Share award schemes:

As at 1 January 2020	605,263
Granted	564,471
Forfeited	—
As at 31 December 2020	1,169,734
As at 1 January 2021	1,169,734
Granted	370,499
Forfeited	(202,376)
As at 31 December 2021	1,337,857
As at 1 January 2022	1,337,857
Granted	145,195
Forfeited	(420,390)
As at 31 December 2022	1,062,662
As at 1 January 2023	1,062,662
Granted	137,700
Forfeited	(72,695)
Capitalization Issue	23,121,293
As at 30 June 2023	24,248,960

(ii) Modification of the ESOP

In December 2021, the Vehicles entered into supplemental agreements with the Grantees to modify the service condition under the original ESOP. As a result, the 1,169,734 shares granted to the Grantees in April 2019, October 2019 and December 2020 will be vested if Grantees remain as employees of the Group as at the [REDACTED] date. No expenses related to vesting of restricted share was impacted upon modification since the estimated vesting date was not changed.

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(b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognized during the years/periods as part of employee benefit expense were as follows:

	Years ended 31 December			Six months ended	
	2020	2021	2022	30 June	2023
	RMB'000	RMB'000	RMB'000	2022	2023
				RMB'000	RMB'000
				<i>(Unaudited)</i>	
Share-based payment expenses	8,554	17,708	44,026	22,127	43,220

28 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Financial assets				
Financial assets at amortized cost:				
– Trade and notes receivables (Note 19)	15,248	111,289	289,358	126,890
– Other receivables (Note 20)	927	2,937	1,512	2,706
– Cash and cash equivalents (Note 22)	16,912	32,042	365,745	146,687
– Restricted cash (Note 22)	300	833	835	300
Financial assets at FVPL (Note 21)	24,443	245,832	185,408	254,093
Derivative financial instruments (Note 23)	–	1,451	–	–
	57,830	394,384	842,858	530,676

Financial liabilities

Liabilities at amortized cost:				
– Borrowings (Note 30)	25,029	35,538	49,004	–
– Trade and notes payables (Note 33)	6,778	90,440	438,417	128,384
– Other payables and accruals (excluding payroll and welfare payables and other tax payables) (Note 34)	3,335	17,236	24,510	31,242
– Lease liabilities (Note 14)	7,001	5,913	4,913	3,280
– Financial instruments with preferred rights at amortized cost (Note 29)	162,219	897,731	–	–
	204,362	1,046,858	516,844	162,906

The Group’s exposure to various risks associated with the financial instruments is discussed in Note 3. The maximum exposure to credit risk at end of the reporting period is the carrying amount of each class of financial assets mentioned above.

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29 FINANCIAL INSTRUMENTS WITH PREFERRED RIGHTS AT AMORTIZED COST

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	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
Financial instruments with preferred rights at amortized cost	162,219	897,731	–	–

The financial instruments with preferred rights represent redemption rights granted to certain investors.

The movements of financial instruments with preferred rights at amortized cost for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023 were as follows:

	Financial instruments with preferred rights at amortized cost RMB'000
As at 1 January 2020	93,765
Recognition of financial instruments with preferred rights at amortized cost (a)	58,850
Charged to finance costs	9,604
As at 31 December 2020	<u>162,219</u>
As at 1 January 2021	162,219
Recognition of financial instruments with preferred rights at amortized cost (a)	323,150
Financial cost on financial instruments with preferred rights at amortized cost (i)	412,362
As at 31 December 2021	<u>897,731</u>
As at 1 January 2022	897,731
Recognition of financial instruments with preferred rights at amortized cost (a)	346,000
Financial cost on financial instruments with preferred rights at amortized cost	279,420
Derecognition of financial instruments with preferred rights at amortized cost (b)	(1,523,151)
As at 31 December 2022 and 30 June 2023	<u>–</u>

(a) *Series Pre-A financing to Series C financing*

Series Pre-A financing

In August 2017, the Company entered into an investment agreement with certain series Pre-A investors, pursuant to which the Company issued and allotted approximately 897,000 shares, representing approximately 8.79% of the equity interests of the Company, to series Pre-A investors, at a consideration of RMB10,379,000.

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Series A financing

In June 2018, the Company entered into an investment agreement with certain series A investors, pursuant to which the Company issued and allotted approximately 1,037,500 shares, representing approximately 10.16% of the equity interests of the Company, to series A investors, at a consideration of RMB73,137,000. The proceeds of RMB73,137,000 were received by the Company in June, July and September 2018. Series A investors were granted certain preferred rights upon capital contribution, and the preferred rights were also granted to Series Pre-A investors at the same time. The Company had initially recognized the related financial instruments with preferred rights of RMB10,379,000 and RMB73,137,000 (present value of the estimated amount to be paid out by the Company) in 2018. In June, July and September 2018, the Company applied a discount rate of 7.93%, 8.15% and 8.22% separately to derive the present value of the issued financial instruments.

Series B financing

As stated in Note 24, in June 2020, the Company entered into an investment agreement with certain series B-1 investors. The Company had initially recognized the related financial instruments with preferred rights of RMB39,000,000 (present values of the estimated amount to be paid out by the Company) in 2020 and recognized the related financial instruments with preferred rights of RMB13,000,000 (present values of the estimated amount to be paid out by the Company) in 2021. The Company applied a discount rate of 8.76% and 8.96% separately to derive the present value of the issued financial instruments.

In December 2020, the Company entered into an investment agreement with a series B-2 investors. The Company had initially recognized the related financial instruments with preferred rights of RMB19,850,000 (present value of the estimated amount to be paid out by the Company) in 2020 and recognized the related financial instruments with preferred rights of RMB150,000 (present values of the estimated amount to be paid out by the Company) in 2021. The Company applied a discount rate of 8.95% and 8.96% separately to derive the present value of the issued financial instruments.

In January 2021, the Company entered into an investment agreement with certain series B-3 investors. The Company had initially recognized the related financial instruments with preferred rights of RMB20,000,000 (present value of approximately the estimated amount to be paid out by the Company) in 2021. The Company applied a discount rate of 8.99% to derive the present value of the issued financial instruments.

In February 2021, the Company entered into an investment agreement with a series B-4 investor. The Company had initially recognized the related financial instruments with preferred rights of RMB20,000,000 (present value of approximately the estimated amount to be paid out by the Company) in 2021. The Company applied a discount rate of 8.99% to derive the present value of the issued financial instruments.

Series C financing

In August 2021, the Company entered into an investment agreement with certain series C-1 investors. The Company had initially recognized the related financial instruments with preferred rights of RMB270,000,000 (present values of the estimated amount to be paid out by the Company) in 2021. The Company applied a discount rate of 9.22% to derive the present value of the issued financial instruments.

In February 2022, the Company entered into an investment agreement with certain series C-2 investors. The Company had initially recognized the related financial instruments with preferred rights of RMB98,500,000 (present values of the estimated amount to be paid out by the Company) in 2022. The Company applied a discount rate of 9.40% to derive the present value of the issued financial instruments.

In July 2022, the Company entered into an investment agreement with a series C-3 investor. The Company had initially recognized the related financial instruments with preferred rights of RMB247,500,000 (present value of the estimated amount to be paid out by the Company) in 2022. The Company applied a discount rate of 9.60% to derive the present value of the issued financial instruments.

Series B-1 investors, series B-2 investors, series B-3 investors and series B-4 investor are collectively referred as “Series B Investors”. Series C-1 investors, series C-2 investors and series C-3 investor are collectively referred as “Series C Investors”.

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In accordance with Series Pre-A investment agreements to Series C investment agreements, Series Pre-A Investors to Series C Investors had been granted with certain preferred rights (the “Preferred Rights”) upon capital contribution. These Preferred Rights mainly included the followings:

Most favorable terms

If the rights granted by the Group to any shareholders (including the new investor brought in) is more favorable than existing shareholders, the existing shareholders are also entitled to such terms, conditions or rights.

Redemption right

Investors have a right to require the Company to redeem their investment if (i) the Company failed to [REDACTED] before a certain date; (ii) during the period from the issuance date to before the Company’s [REDACTED], the Company and its existing shareholders have committed a major breach to the agreements.

Before August 2021, the redemption amount is calculated as: regarding to the scenario (i), the original investment principal from investors, plus an annual simple rate of 10% of the original investment principal for a period of time commencing from the delivery date to the actual payments date of the settlement (calculated as 365 days in a calendar year); regarding to the scenario (ii), the original investment principal from investors, plus an annual simple rate of 15% of the original investment principal for a period of time commencing from the delivery date to the actual payments date of the settlement (calculated as 365 days in a calendar year) ((i) and (ii) are collectively referred as “P+I”).

In August 2021, the Company entered into an investment agreement with certain series C-1 investors, and the redemption amount of C-1 Investors is calculated as the higher of (i) P+I ; and (ii) The fair value of the redeemed capital (“FV”).

- (i) Because of the Most favorable terms, the redemption price of Pre-A Investors to Series B Investors is adjusted as the higher of P+I and FV accordingly, which resulting in approximately RMB388,249,000 was immediately recognized in finance cost.

Liquidation preferences

In the event of any liquidation, dissolution or winding up of the Company, Series Pre-A Investors to Series C Investors shall be entitled to receive the liquidation preference amount, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the other holders of ordinary shares of the Company.

The liquidation preference amount of Series Pre-A Investors to Series C Investors is calculated as the original investment principal plus 10% annualized simple interest from Series Pre-A Investors to Series C Investors respectively (“Liquidation Preference Cap”). If the amount of distributable assets of the Company is less than the total Liquidation Preference Cap, Series Pre-A Investors to Series C Investors shall be entitled the amount based on the percentage of each investor’s share.

The following events shall be treated as a “Deemed Liquidation Event”: (i) any sale, disposition or conveyance by the Company of all or substantially all of its assets (including the exclusive licensing of all or substantially all the intellectual property assets of the Company); (ii) any merger, consolidation or other transactions resulting in the Company acquired by other entity or after which change the substantial control of the Company.

Anti-dilution right

If the Company increases its paid-in capital at a price lower than the price paid by Series Pre-A Investors to Series C Investors on a per paid-in capital basis, Series Pre-A Investors to Series C Investors have a right to require (i) the Company to issue new paid-in capital for nil consideration (or lowest price allowed by law) to Series Pre-A Investors to Series C Investors; or (ii) existing shareholders to transfer the equity interests of the Company directly or indirectly held to Series Pre-A Investors to Series C Investors for nil consideration (or lowest price allowed by law), so that the total amount paid by Series Pre-A Investors to Series C Investors divided by the total amount of paid-in capital obtained is equal to the price per paid-in capital in the new issuance.

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The directors of the Company considered that the fair value of the anti-dilution right was immaterial and therefore no liability was recognized by the Company.

(b) Termination of Preferred Rights

On 30 August 2022, the Company entered into a termination agreement to terminate the abovementioned Preferred Rights with Series Pre-A Investors to Series C Investors. Pursuant to the termination agreement, the financial instruments with preferred rights at amortized cost of approximately RMB1,523,151,000 and the treasury stock of approximately RMB811,516,000 were derecognized accordingly. The difference of approximately RMB711,635,000 was credited to capital reserves (Note 26).

30 BORROWINGS

The Group and the Company

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Borrowings included in current liabilities:				
<i>Unsecured</i>				
Bank borrowings (a)	25,000	35,500	–	–
Other loans (b)	–	–	48,857	–
Interest payables	29	38	147	–
	<u>25,029</u>	<u>35,538</u>	<u>49,004</u>	<u>–</u>
Total borrowings	<u>25,029</u>	<u>35,538</u>	<u>49,004</u>	<u>–</u>

(a) As at 31 December 2021, the Company had short-term borrowings from a PRC bank with amounts totalling RMB35,500,000 and an effective interest of 3.86% per annum. The aforementioned borrowings were guaranteed by Mr. Song Yang. The borrowings and related interest were fully repaid in 2022 and the guarantee was released accordingly.

As at 31 December 2020, the Company had short-term borrowings from a PRC bank with amounts totalling RMB23,000,000 and an effective interest of 4.16% per annum. The aforementioned borrowings were guaranteed by Mr. Song Yang. The borrowings and related interest were fully repaid in 2021 and the guarantee was released accordingly.

As at 31 December 2020, the Company had short-term borrowing from a PRC bank with amount RMB2,000,000 and an effective interest of 4.79% per annum. The aforementioned borrowing was guaranteed by iMotion Electronics Technology (Suzhou) Co., Ltd., a subsidiary of the Company. The borrowing and related interest were fully repaid in 2021 and the guarantee was released accordingly.

(b) As at 31 December 2022, the Company had import bill advance paid by a PRC bank with amounts totalling RMB48,857,000 and an effective interest of 2.4% per annum.

(c) Other disclosures

The Group’s borrowings are all denominated in RMB.

During the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, the Group had not been in violation of any of the covenants nor subject to material financial covenants pursuant to the applicable borrowing agreements that the Group entered with the lenders.

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The exposure of the Group’s borrowings to interest rate changes and the contractual repricing dates or maturity date, whichever is earlier, were as follows:

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB’000	RMB’000	RMB’000	2023
				RMB’000
Less than 6 months	10,200	12,000	48,857	–
Between 6 and 12 months	14,800	23,500	–	–
	<u>25,000</u>	<u>35,500</u>	<u>48,857</u>	<u>–</u>

The fair values of current borrowings approximate their carrying amount as the discounting impact is not significant.

31 PROVISIONS

The Group and the Company

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB’000	RMB’000	RMB’000	2023
				RMB’000
Non-current				
Onerous contract to be executed (i)	–	–	1,700	–
Warranties (ii)	–	132	1,581	5,187
	–	132	3,281	5,187
Current				
Onerous contract to be executed (i)	–	–	–	1,131
Warranties	–	66	1,262	2,593
	–	66	1,262	3,724
	<u>–</u>	<u>198</u>	<u>4,543</u>	<u>8,911</u>

(i) The Group entered into irrevocable contracts with certain customers to provide autonomous driving related R&D services. The costs estimated to execute the contracts exceed the expected revenue to be received under the contracts. As at 31 December 2021 and 2022 and 30 June 2023, the Group has recognised provision for any excess of unavoidable costs over expected benefits after the contract fulfillment cost have been tested for impairment (Note 20).

(ii) The Group provides warranties for certain products and undertakes the obligation to repair or replace items that fail to perform satisfactorily. The amount of provisions for product warranties is estimated based on the sales volume and industry experience of the level of repairs and returns. The estimation is reviewed on an ongoing basis and is revised when appropriate.

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The movements of the Group’s provisions are analyzed as follows:

	Onerous contract to be executed RMB’000	Warranties RMB’000	Total RMB’000
As at 1 January 2021	–	–	–
Provisions for the year	–	198	198
Amounts utilized during the year	–	–	–
As at 31 December 2021	–	198	198
As at 1 January 2022	–	198	198
Provisions for the year	1,700	3,746	5,446
Amounts utilized during the period	–	(1,101)	(1,101)
As at 31 December 2022	1,700	2,843	4,543
As at 1 January 2023	1,700	2,843	4,543
Provisions for the period	–	4,937	4,937
Amounts utilized during the period	(569)	–	(569)
As at 30 June 2023	1,131	7,780	8,911

32 DEFERRED INCOME

The Group and the Company

	As at 31 December			As at 30 June
	2020	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Government grants	300	1,217	883	717

During the years/period ended 31 December 2020, 2021 and 2022 and 30 June 2023, the Group received government grants with total amount of approximately RMB300,000, RMB1,000,000, nil and nil respectively, mainly for subsidizing the Group’s purchases of equipments for research and development. These government grants were recorded as deferred income and credited to profit or loss on a straight-line basis over the useful lives of the related equipments.

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33 TRADE AND NOTES PAYABLES

The Group

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Trade payables				
– Payables for materials	6,778	83,930	291,910	118,803
Notes payables (a)				
– Payables for materials	–	6,510	146,507	9,581
	<u>6,778</u>	<u>90,440</u>	<u>438,417</u>	<u>128,384</u>

(a) The maturity term of the notes payables is 3 months.

As at 31 December 2021 and 2022 and 30 June 2023, the Company had guaranteed notes payables from a PRC bank with amounts totalling RMB6,000,000, RMB110,864,000 and nil respectively. The aforementioned notes payables were guaranteed by Mr. Song Yang.

(b) The carrying amounts of trade payables approximate their fair values due to their short-term maturity in nature.

(c) The aging analysis of the trade payables based on purchase date at the end of each Track Record Period is as follows:

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Up to 1 year	6,724	83,906	291,826	118,469
1 to 2 years	54	24	84	334
	<u>6,778</u>	<u>83,930</u>	<u>291,910</u>	<u>118,803</u>

The Company

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Trade payables				
– Payables for materials	50	72,919	287,597	122,881
Notes payables				
– Payables for materials	–	6,510	146,507	9,581
	<u>50</u>	<u>79,429</u>	<u>434,104</u>	<u>132,462</u>

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The aging analysis of the Company’s trade payables based on purchase date at the end of each Track Record Period is as follows:

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB’000	RMB’000	RMB’000	2023
				RMB’000
Up to 1 year	50	72,919	287,560	122,870
1 to 2 years	—*	—*	37	11
	<u>50</u>	<u>72,919</u>	<u>287,597</u>	<u>122,881</u>

* The balance represents an amount less than RMB1,000.

34 OTHER PAYABLES AND ACCRUALS

The Group

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB’000	RMB’000	RMB’000	2023
				RMB’000
Payroll and welfare payables	6,949	9,707	20,539	19,193
Accruals	2,925	3,225	5,089	3,261
Other taxes payables	290	332	8,830	5,269
Payables for purchases of property, plant and equipment	52	327	1,656	1,714
Accrued [REDACTED] expenses	—	—	3,811	4,417
Others (a)	358	13,684	13,954	21,850
	<u>10,574</u>	<u>27,275</u>	<u>53,879</u>	<u>55,704</u>

(a) The Group agreed to collect service fees from an OEM customer and pay on behalf of the customer to a supplier, who provided part of the R&D services in relation to its hardware and software used in autonomous driving products. As at 31 December 2021 and 2022 and 30 June 2023, the service fees collected by the Company from the customer but unpaid to the supplier were approximately RMB13,522,000, RMB12,920,000 and RMB21,713,000 respectively.

The Company

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB’000	RMB’000	RMB’000	2023
				RMB’000
Payroll and welfare payables	5,685	8,462	19,434	18,069
Accruals	1,071	1,456	4,209	2,714
Other taxes payables	103	319	8,801	5,246
Payables for purchases of property, plant and equipment	21	231	1,595	1,655
Accrued [REDACTED] expenses	—	—	3,811	4,417
Amounts due to subsidiary	—	—	—	12,088
Others	237	13,683	13,933	21,787
	<u>7,117</u>	<u>24,151</u>	<u>51,783</u>	<u>65,976</u>

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35 CASH FLOW INFORMATION

(a) Reconciliation of loss before income tax to net cash used in operations

	Years ended 31 December			Six months ended	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Loss before income tax	(53,827)	(464,199)	(342,376)	(300,432)	(99,748)
Adjustments for:					
Net impairment losses/(reversal of impairment losses) on financial assets <i>(Note 3.1)</i>	90	1,453	3,717	1,471	(2,989)
Depreciation of property, plant and equipment <i>(Note 15)</i>	4,765	5,192	6,765	2,974	4,894
Depreciation of right-of-use assets <i>(Note 14)</i>	1,925	2,240	3,750	1,803	1,853
Amortization of intangible assets <i>(Note 16)</i>	865	3,083	3,438	1,686	1,962
Net (gains)/losses on disposals of property, plant and equipment, intangible assets <i>(Note 7)</i>	(24)	266	73	(13)	(88)
Provisions for impairment of inventories <i>(Note 8)</i>	–	199	25	145	241
Provisions for impairment of contract fulfillment costs <i>(Note 8)</i>	–	341	4,421	521	305
Share-based payment expenses <i>(Note 27)</i>	8,554	17,708	44,026	22,127	43,220
Net fair value gains on financial assets at FVPL <i>(Note 7)</i>	(493)	(3,890)	(7,729)	(4,213)	(5,110)
Net fair value losses/(gains) on derivative financial instruments <i>(Note 7)</i>	–	(1,518)	2,252	2,252	–
Finance costs/(income) – net <i>(Note 10)</i>	10,887	413,804	280,073	245,240	(1,801)
Loss on liquidation of a subsidiary	–	(9)	–	–	–
Amortization of government grants	–	(83)	(333)	(167)	(167)
Net foreign exchange differences <i>(Note 7)</i>	9	228	(1,922)	(632)	(560)
Operating loss before changes in working capital:	(27,249)	(25,185)	(3,820)	(27,238)	(57,988)
(Increase)/decrease in inventories	(4,095)	(37,720)	(224,994)	(51,422)	109,651
(Increase)/decrease in trade and notes receivables	(6,759)	(97,490)	(181,783)	(36,198)	165,515
Increase in other assets	(451)	(7,913)	(36,208)	(7,152)	(13,922)
(Increase)/decrease in restricted cash	–	(533)	(2)	(1)	535
(Increase)/decrease in other operating assets	–	–	(14,583)	(1,787)	1,299
(Decrease)/increase in trade and notes payables	(4,143)	83,662	347,976	91,176	(310,033)
Increase/(decrease) in other payables and accruals	7,851	17,132	26,633	(16,973)	11,379
Increase in contract liabilities	11,002	4,851	16,769	20,883	6,280
Increase in provisions	–	198	4,345	553	4,368
Net cash (used in)/generated from operations	<u>(23,844)</u>	<u>(62,998)</u>	<u>(65,667)</u>	<u>(28,159)</u>	<u>(82,916)</u>

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(b) Major non-cash investing and financing activities

Major non-cash investing and financing activities disclosed in other notes are:

- additions to right-of-use assets in respect of leased buildings – Note 14
- recognition and derecognition of financial instruments with preferred rights at amortized cost – Note 29

(c) Net debt

	As at 31 December			As at
	2020	2021	2022	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and cash equivalents (<i>Note 22</i>)	16,912	32,042	365,745	146,687
Financial assets at fair value through profit or loss (<i>Note 21</i>)	24,443	245,832	185,408	254,093
Financial instruments with preferred rights at amortized cost (<i>Note 29</i>)	(162,219)	(897,731)	–	–
Lease liabilities (<i>Note 14</i>)	(7,001)	(5,913)	(4,913)	(3,280)
Borrowings (<i>Note 30</i>)	(25,029)	(35,538)	(49,004)	–
Net (debt)/cash	(152,894)	(661,308)	497,236	397,500

(d) Reconciliation of liabilities from financing activities

	Financial instruments with preferred rights at amortized cost <i>RMB'000</i>	Lease liabilities <i>RMB'000</i>	Borrowings <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2020	93,765	8,915	10,016	112,696
Cash flows	–	(2,125)	14,103	11,978
Interest expenses	–	379	910	1,289
Financial cost on financial instruments with preferred rights at amortized cost	9,604	–	–	9,604
Recognition of financial instruments with preferred rights at amortized cost (<i>Note 29</i>)	58,850	–	–	58,850
Other movement (<i>i</i>)	–	(168)	–	(168)
As at 31 December 2020	162,219	7,001	25,029	194,249
As at 1 January 2021	162,219	7,001	25,029	194,249
Cash flows	–	(2,350)	9,256	6,905
New leases	–	971	–	971
Interest expenses	–	291	1,254	1,545
Financial cost on financial instruments with preferred rights at amortized cost	412,362	–	–	412,362
Recognition of financial instruments with preferred rights at amortized cost (<i>Note 29</i>)	323,150	–	–	323,150
As at 31 December 2021	897,731	5,913	35,538	939,182

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	Financial instruments with preferred rights at amortized cost	Lease liabilities	Borrowings	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2022	897,731	5,913	35,538	939,182
Cash flows	–	(3,073)	12,982	9,909
New leases	–	1,808	–	1,808
Interest expenses	–	265	484	749
Financial cost on financial instruments with preferred rights at amortized cost	279,420	–	–	279,420
Recognition of financial instruments with preferred rights at amortized cost (Note 29)	346,000	–	–	346,000
Derecognition of financial instruments with preferred rights at amortized cost (Note 29)	(1,523,151)	–	–	(1,523,151)
As at 31 December 2022	–	4,913	49,004	53,917
As at 1 January 2023	–	4,913	49,004	53,917
Cash flows	–	(1,729)	(49,141)	(50,870)
Interest expenses	–	96	137	233
As at 30 June 2023	–	3,280	–	3,280

(i) Rent relief for state-owned properties in 2020 in response to the impact of COVID-19.

36 RELATED PARTY TRANSACTIONS

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

(a) Key management personnel compensation

The directors consider the key management personnel to be the members of the Board of Directors of the Company who have responsibilities for planning, directing and controlling the activities of the Group. Their compensations are disclosed in Note 37(a).

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37 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors and supervisors

Details of the emoluments paid or payable to the directors and supervisors for the Track Record Period are set out as follows:

	Fees <i>RMB'000</i>	Wages and salaries <i>RMB'000</i>	Discretionary bonuses <i>RMB'000</i>	Share-based payment <i>RMB'000</i>	Social security costs, housing benefits and employee welfare <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended						
31 December 2020						
Name of directors:						
Mr. Song Yang (i)	–	350	128	–	29	507
Mr. Li Shuangjiang (ii)	–	354	144	–	37	535
Mr. Lu Yukun (iii)	–	444	192	4,729	37	5,402
Mr. Zhu Qinghua (iv)	–	433	175	430	37	1,075
Mr. Li Chengsheng (v)	–	–	–	–	–	–
Mr. Zeng Yingzhe (vi)	–	–	–	–	–	–
Mr. Wan Yuan (vii)	–	–	–	–	–	–
	–	1,581	639	5,159	140	7,519

Name of supervisor:						
Mr. Luo Hong (viii)	–	399	163	379	33	974

	Fees <i>RMB'000</i>	Wages and salaries <i>RMB'000</i>	Discretionary bonuses <i>RMB'000</i>	Share-based payment <i>RMB'000</i>	Social security costs, housing benefits and employee welfare <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended						
31 December 2021						
Name of directors:						
Mr. Song Yang (i)	–	570	209	–	68	847
Mr. Li Shuangjiang (ii)	–	449	126	–	80	655
Mr. Lu Yukun (iii)	–	534	149	3,064	80	3,827
Mr. Zhu Qinghua (iv)	–	504	198	1,456	80	2,238
Mr. Li Chengsheng (v)	–	–	–	–	–	–
Mr. Zeng Yingzhe (vi)	–	–	–	–	–	–
Mr. Fan Ze (ix)	–	–	–	–	–	–
Mr. Wan Yuan (vii)	–	–	–	–	–	–
	–	2,057	682	4,520	308	7,567

Name of supervisor:						
Mr. Luo Hong (viii)	–	494	144	245	68	951

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	Fees RMB’000	Wages and salaries RMB’000	Discretionary bonuses RMB’000	Share-based payment RMB’000	Social security costs, housing benefits and employee welfare RMB’000	Total RMB’000
Year ended						
31 December 2022						
Name of directors:						
Mr. Song Yang (i)	–	914	240	–	82	1,236
Mr. Li Shuangjiang (ii)	–	624	108	–	82	814
Mr. Lu Yukun (iii)	–	760	130	3,996	82	4,986
Mr. Li Chengsheng (v)	–	–	–	–	–	–
Mr. Zeng Yingzhe (vi)	–	–	–	–	–	–
Mr. Zheng Kaizhong (x)	–	–	–	–	–	–
Mr. Fan Ze (ix)	–	–	–	–	–	–
Mr. Tao Zhixin (xi)	–	–	–	–	–	–
Mr. Zhang Weigong (xii)	–	–	–	–	–	–
Mr. Yang Xiaojian (xiii)	–	–	–	–	–	–
Mr. Liu Yong (xiv)	–	–	–	–	–	–
	–	2,298	478	3,996	246	7,018
Name of supervisor:						
Mr. Luo Hong (viii)	–	702	157	320	82	1,261
Mr. Wang Binjie (xv)	–	60	103	762	7	932
Mr. Zhu Qinghua (iv)	–	733	160	1,515	82	2,490
	–	1,495	420	2,597	171	4,683
Six months ended 30						
June 2023						
Name of directors:						
Mr. Song Yang (i)	–	672	152	–	45	869
Mr. Li Shuangjiang (ii)	–	360	77	–	45	482
Mr. Lu Yukun (iii)	–	462	100	5,161	45	5,768
Mr. Li Chengsheng (v)	–	–	–	–	–	–
Mr. Fan Ze (ix)	–	–	–	–	–	–
Mr. Tao Zhixin (xi)	–	–	–	–	–	–
Mr. Yang Yuankui (xvi)	–	–	–	–	–	–
Mr. Zhang Weigong (xii)	50	–	–	–	–	50
Mr. Yang Xiaojian (xiii)	23	–	–	–	–	23
Mr. Liu Yong (xiv)	50	–	–	–	–	50
	123	1,494	329	5,161	135	7,242
Name of supervisor:						
Mr. Luo Hong (viii)	–	428	92	413	45	978
Mr. Wang Binjie (xv)	–	368	86	1,706	45	2,205
Mr. Zhu Qinghua (iv)	–	462	100	1,589	45	2,196
	–	1,258	278	3,708	135	5,379

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	Fees	Wages and salaries	Discretionary bonuses	Share-based payment	Social security costs, housing benefits and employee welfare	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>(Unaudited)</i>						
Six months ended 30 June 2022						
Name of directors:						
Mr. Song Yang <i>(i)</i>	–	390	120	–	40	550
Mr. Li Shuangjiang <i>(ii)</i>	–	284	54	–	40	378
Mr. Lu Yukun <i>(iii)</i>	–	340	65	1,998	40	2,443
Mr. Li Chengsheng <i>(v)</i>	–	–	–	–	–	–
Mr. Zeng Yingzhe <i>(vi)</i>	–	–	–	–	–	–
Mr. Zheng Kaizhong <i>(x)</i>	–	–	–	–	–	–
Mr. Fan Ze <i>(ix)</i>	–	–	–	–	–	–
Mr. Zhu Qinghua <i>(iv)</i>	–	327	81	758	40	1,206
	–	1,341	320	2,756	160	4,577
Name of supervisor:						
Mr. Luo Hong <i>(viii)</i>	–	312	79	160	40	591

- (i) Mr. Song Yang was appointed as the Executive director of the Company on 24 March 2017. He was redesignated as the executive Director and Chairman on 17 November 2022.
- (ii) Mr. Li Shuangjiang was appointed as the director of the Company on 31 August 2018 and redesignated as an executive Director on 17 November 2022.
- (iii) Mr. Lu Yukun was appointed as the director of the Company on 31 August 2018 and redesignated as an executive Director on 17 November 2022.
- (iv) Mr. Zhu Qinghua was appointed as the director of the Company on 24 June 2020 and resigned from the Company’s director on 17 November 2022. Mr. Zhu Qinghua was designated as the supervisor of the Company on 17 November 2022.
- (v) Mr. Li Chengsheng was appointed as the director of the Company on 31 August 2018 and was redesignated as a non-executive Director on 17 November 2022.
- (vi) Mr. Zeng Yingzhe was appointed as the director of the Company on 10 October 2017 and resigned from the Company’s director on 22 February 2022.
- (vii) Mr. Wan Yuan was appointed as the director of the Company on 24 June 2020 and resigned from the Company’s director on 30 August 2021.
- (viii) Mr. Luo Hong was designated as the supervisor of the Company on 31 August 2018.
- (ix) Mr. Fan Ze was appointed as the director of the Company on 30 August 2021 and resigned from the Company’s director on 23 March 2023.

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- (x) Mr. Zheng Kaizhong was designated as the director on 22 February 2022 and resigned from the Company’s director on 17 November 2022.
- (xi) Mr. Tao Zhixin was designated as non-executive Director of the Company on 17 November 2022.
- (xii) Mr. Zhang Weigong was designated as an independent non-executive director of the Company on 17 November 2022.
- (xiii) Mr. Yang Xiaojian was designated as an independent non-executive director of the Company on 17 November 2022 and resigned from the Company’s independent non-executive director on 23 March 2023.
- (xiv) Mr. Liu Yong was designated as an independent non-executive director of the Company on 17 November 2022.
- (xv) Mr. Wang Binjie was designated as a supervisor on 17 November 2022.
- (xvi) Mr. Yang Yuankui was appointed as the director of the Company on 23 March 2023.

(b) Directors and supervisors’ retirement benefits

None of the directors or supervisors received any retirement benefits during the Track Record Period.

(c) Directors and supervisors’ termination benefits

None of the directors or supervisors received any termination benefits during the Track Record Period.

(d) Consideration provided to third parties for making available directors and supervisors’ services

During the Track Record Period, the Company did not pay consideration to any third parties for making available directors or supervisors’ services.

(e) Information about loans, quasi-loans and other dealings in favor of directors, supervisors and bodies corporate controlled by or entities connected with directors

There were no loans, quasi-loans and other dealings in favor of directors, supervisors or controlled bodies corporate by and connected entities with such directors or supervisors during the Track Record Period.

(f) Directors and supervisors’ material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group’s business to which the Company was a party and in which a director or supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the years/periods or at any time during the Track Record Period.

38 COMMITMENTS

(a) Capital commitments

	As at 31 December			As at
	2020	2021	2022	30 June
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Property, plant and equipment	–	350	1,874	137,264
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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39 CONTINGENCIES

As at 31 December 2020, 2021 and 2022 and 30 June 2023, there were no significant contingency items for the Group and the Company.

40 DIVIDEND

No dividend has been paid or declared by the Company or subsidiaries of the Company during each of the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023.

41 SUBSEQUENT EVENTS

Subsequent to the Track Record Period, the Company made an adjustment to the [REDACTED] of the [REDACTED] (the “Adjustment”). The cumulative impact of the [REDACTED] expenses recognised up to 30 June 2023 arising from the Adjustment will be recognised in the consolidated financial statements for the year ending 31 December 2023. As a result, the estimated impact on the [REDACTED] expenses to be recognised in the consolidated statement of comprehensive income and other current assets in the consolidated balance sheet would be a debit of RMB[REDACTED] and a credit of the same amount, respectively, for the year ending 31 December 2023.

[Other than the event as disclosed above, there are no other material subsequent events undertaken by or impacted on the Company or the Group subsequent to 30 June 2023 and up the date of this report.]

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Company or any of the companies comprising the Group in respect of any period subsequent to 30 June 2023 and up to the date of this report. No dividend or distribution has been declared, made or paid by the Company or any of the companies comprising the Group in respect of any period subsequent to 30 June 2023.