
FINANCIAL INFORMATION

You should read the following discussion and analysis with our audited consolidated financial information, including the notes thereto, included in the Accountants’ Report in Appendix I to this Document. Our consolidated financial information has been prepared in accordance with the IFRS Accounting Standards.

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

For the purpose of this section, unless the context otherwise requires, references to 2022, 2023 and 2024 refer to our financial years ended December 31 of such years. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

We are an industry-leading integrated one-stop precision manufacturing solution provider. We are focused on technological innovation and empowered by smart manufacturing. In terms of revenue in 2024, we are a global leading player in precision structural parts and modules integrated solutions for both consumer electronics and smart vehicles interaction systems.

We currently offer a comprehensive suite of precision manufacturing solutions in consumer electronics, smart vehicles and other smart devices, including various structural parts, functional modules and others, such as complete device assembly.

Our structural parts and functional modules are specifically designed and manufactured pursuant to the customizations and needs of our customers for use in (i) smartphones and computers, (ii) smart vehicles and cockpits, (iii) intelligent head-mounted displays and smart wearables and (iv) other smart devices which include smart retail devices. Our customers during the Track Record Period were mainly global brand companies in the consumer electronics and smart vehicles industries.

We achieved strong growth of both our revenue and our profit for the year during the Track Record Period. In 2022, 2023 and 2024, our revenue amounted to RMB46,698.5 million, RMB54,490.7 million and RMB69,896.8 million, representing a year-on-year growth of 16.7% in 2023 and 28.3% in 2024. In 2022, 2023 and 2024, our profit for the year amounted to RMB2,519.8 million, RMB3,041.8 million and RMB3,676.9 million, representing a year-on-year growth of 20.7% in 2023 and 20.9% in 2024.

FINANCIAL INFORMATION

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial condition are affected by a number of general factors influencing the overall global precision manufacturing industry. These factors include macroeconomic trends, industry development and competitive landscape in the market. Any adverse development can have a negative impact on our results of operations.

In addition to these general factors, our results of operations are affected by the following specific factors:

Maintaining and Growing Our Relationship with Our Existing Customers

Our results of operations have been and are expected to be affected by our ability to maintain and grow our relationship with our existing customers, which is in turn affected by many factors, including the global consumers’ demand for consumer electronics and smart vehicles and our product and service offerings.

We generate our revenue primarily from providing structural parts, functional modules and complete device assembly to global brand companies in the consumer electronics and smart vehicles industries. Unfavorable changes in global economic conditions and consumer spending could negatively affect demand for consumer electronics and smart vehicles, which in turn will negatively affect our customers’ demand for our products and services and materially and adversely affect our results of operations.

In addition, consumer electronics and smart vehicles industries are characterized by intense competition and constant price reduction pressures in recent years. As a result, our customers face ongoing pressure to launch new products at competitive prices, which in turn requires us to (i) advance our technologies and production techniques to develop, together with our customers, end products with innovative features and specifications and (ii) optimize our production efficiency to lower our production costs. Our ability to achieve technological innovation and to enhance our production efficiency and manage our production costs will affect our customers’ demand for our products and services as well as our profit margins.

Furthermore, our ability to grow our relationship with our existing customers is affected by our ability to (i) advance our research and development to produce new products that meet our customers’ evolving requirements and (ii) cross-sell additional products and services to our customers, which in turn depend on the growth or upgrade of our production techniques, products and services through technological innovation.

Further Penetration into New End Markets

Our ability to continue to grow our business will depend on our capability to enter or further penetrate into new end markets. We have been continuously growing our portfolio of products and services to capture emerging opportunities from new end markets or application scenarios. For example, we expanded into the smart vehicles industry in 2018, and in 2022, 2023 and 2024, smart vehicles and cockpits related revenue accounted for 7.7%, 9.2% and 8.5% of our total revenue in

FINANCIAL INFORMATION

the respective periods. We also successfully entered the smart retail industry with our smart retail devices in 2024, and we have recently expanded into the humanoid robots industry, having delivered the first batch of humanoid robots in January 2025.

Even though we currently only generate an immaterial portion of our revenue from new end markets such as humanoid robots, we expect that our revenue from these new end markets will grow in the future due to the anticipated development of these markets. Our ability to successfully capitalize on such development and acquire new customers in these markets, which depends on our research and development capabilities in these new end markets and the demand of brand companies in these markets, will affect our business and financial condition.

Product Mix and Pricing

Our revenue and profitability are affected by the mix of our products and solutions. In line with our strategy of offering vertically integrated solutions to our customers, we have been expanding our product and solution offerings along the precision manufacturing industry value chain. Our product offerings have expanded from cover glass for mobile phones to structural parts for various consumer electronics and smart vehicles, as well as functional modules and complete device assembly. Our wide range of products and solutions have highly different selling price and margin profile. For example, our gross margin for complete device assembly was (1.6%), 2.6% and 1.3% in 2022, 2023 and 2024, significantly lower than our overall gross margin. Even within the same category of products, we offer an extensive range of different products with varying prices and margin profiles. In particular, part of our complete device assembly business was performed under the buy-and-sell model, under which we buy certain raw materials and components and sold the complete device, instead of charging a processing fee. As such, complete devices sold under the buy-and-sell model are associated with much higher selling prices but lower gross profit margin. Our profitability is also affected by our ability to price our products and solutions to achieve our intended profit margins. If we are unable to manage our portfolio of products and solutions or to price our products and solutions to achieve our desired profitability, our business and financial condition will be adversely affected.

Ability to Control Cost of Sales

Our cost of sales mainly includes costs of raw materials and components used in the production of our products, such as glass, metals and the electronic components used in our functional modules, as well as labor costs, depreciations costs, power costs and transportation costs associated with the production of our products.

Our ability to control our cost of sales is crucial in maintaining our desired profitability. While we are able to source our raw materials and components through a variety of sources (other than the raw materials and components specifically designated by our key customers, for which our key customers are responsible for negotiating the supply terms), if the availability of, or access to, or the cost of purchasing certain raw materials or components that we need to manufacture our products is adversely affected (for example, due to a decrease in the number of suppliers of such materials or a reduction in the overall availability of such materials, whether due to a lack of supply or increased demand from our competitors or fluctuations in market prices), we may have to pay

FINANCIAL INFORMATION

more for these materials. Our ability to maintain a high product yield rate also impacts our raw materials cost. Increased raw material or components costs will reduce our profit margins if we are unable to recover these additional costs through higher selling prices or increased production efficiencies.

In addition, while a large part of our production equipment and facilities has been automated, labor costs remains a key component of our cost of sales. If we experience any significant increase in labor costs and we are unable to upgrade our production in time to compensate for such increase, our business and financial condition will be affected.

Foreign Exchange Fluctuations

Our reporting currency is the RMB. The functional currency of the majority of our subsidiaries is the RMB. Some of our sales, purchases, trade receivables and payables and bank balances are recorded or denominated in foreign currencies. Consequently, foreign currency exchange rates have a significant impact on our consolidated financial information.

Foreign currency transactions are translated into the functional currency using the exchange rates at the end of the previous month. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. In 2022, 2023 and 2024, we recorded foreign exchange gains of RMB231.5 million, RMB59.5 million and RMB193.2 million.

For further details regarding the carrying amounts of our monetary assets and liabilities denominated in foreign currencies and the effect of foreign currency fluctuations on our results of operations, see Note 41 to the Accountants’ Report set out in Appendix I.

Research and Development Efforts and Achievements

Research and development are crucial to our sustained business growth as our competitiveness depends on our ability to develop and implement new technologies and production techniques to address evolving needs of our customers. Therefore, we have been investing and will continue to invest in research and development efforts. In 2022, 2023 and 2024, our research and development expenses amounted to RMB2,105.0 million, RMB2,316.6 million and RMB2,784.8 million, representing 4.5%, 4.3% and 4.0% of our total revenue in the respective periods.

Our research and development achievements affect our business in multiple ways, such as (i) whether we will be successful in maintaining our relationships with our existing customers and acquiring new customers, (ii) whether we can expand our portfolio of products and services and (iii) whether we can manage our production costs by employing more advanced and automated production equipment or by maintaining high product yields. We cannot assure you that our research and development efforts will achieve our intended results, or that we will be able to

FINANCIAL INFORMATION

successfully implement new technologies or technologies resulting from our research and development to achieve our intended benefits. In this case, our business and financial condition will be adversely affected.

BASIS OF PRESENTATION

Our financial information during the Track Record Period has been prepared in accordance with IFRS, which comprise all standards and interpretations approved by the International Accounting Standards Board. Our financial information during the Track Record Period has been prepared under the historical cost convention, except for certain financial assets which have been measured at fair value. See note 1 to Appendix I — Accountants’ Report.

MATERIAL ACCOUNTING POLICIES AND ESTIMATES

Note 4 to Appendix I — Accountants’ Report to this Document sets forth certain material accounting policies, which are important for understanding our financial condition and results of operations.

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments relating to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and results of operations. Our management continually evaluates such estimates, assumptions and judgments based on past experiences and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances. During the Track Record Period, there was no material deviation between our management’s estimates or assumptions and actual results, and we did not make any material changes to these estimates or assumptions. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

FINANCIAL INFORMATION

RESULTS OF OPERATIONS

	2022		2023		2024	
	RMB	%	RMB	%	RMB	%
	(in thousands, except for percentages)					
Revenue						
Contracts with customers . . .	46,603,225	99.8%	54,364,061	99.8%	69,756,758	99.8%
Leases	95,321	0.2%	126,673	0.2%	140,018	0.2%
Total revenue	46,698,546	100%	54,490,734	100%	69,896,776	100%
Cost of sales	(38,151,630)	(81.7%)	(45,998,870)	(84.4%)	(59,713,283)	(85.4%)
Gross profit	8,546,916	18.3%	8,491,864	15.6%	10,183,493	14.6%
Other income	678,576	1.5%	1,017,209	1.9%	567,024	0.8%
Reversal of impairment losses (impairment losses recognised) under expected credit loss (“ECL”) model, net	43,962	0.1%	1,259	0.0%	(33,859)	0.0%
Other gains and losses, net . .	321,012	0.7%	218,657	0.4%	384,380	0.5%
Selling expenses	(708,849)	(1.5%)	(674,057)	(1.2%)	(705,599)	(1.0%)
Administrative expenses	(3,239,490)	(6.9%)	(2,910,299)	(5.3%)	(3,368,955)	(4.8%)
Research and development expenses	(2,104,976)	(4.5%)	(2,316,619)	(4.3%)	(2,784,813)	(4.0%)
Other expenses	(10,032)	0.0%	(6,848)	0.0%	(8,216)	0.0%
Share of results of investments accounted for using the equity method . .	3,987	0.0%	(57,291)	(0.1%)	3,899	0.0%
Finance costs	(616,216)	(1.3%)	(509,986)	(0.9%)	(388,438)	(0.6%)
Profit before tax	2,914,890	6.2%	3,253,889	6.0%	3,848,916	5.5%
Income tax expense	(395,069)	(0.8%)	(212,062)	(0.4%)	(172,061)	(0.2%)
Profit for the year	2,519,821	5.4%	3,041,827	5.6%	3,676,855	5.3%
Profit for the year attributable to:						
Owners of the Company	2,448,037	5.2%	3,021,342	5.5%	3,623,901	5.2%
Non-controlling interests	71,784	0.2%	20,485	0.0%	52,954	0.1%

FINANCIAL INFORMATION

NON-IFRS MEASURE

To supplement our consolidated financial statements that are presented in accordance with IFRS, we also use adjusted profit for the year (a non-IFRS measure) and adjusted net margin (a non-IFRS measure), as additional financial measures, which are not required by, or presented in accordance with IFRS. We believe that these non-IFRS measures facilitate comparisons of operating performance from period to period by eliminating potential impact of certain items. We believe that these measures provide useful information to investors and others in understanding and evaluating our consolidated financial statements in the same manner as they help our management. However, our presentation of adjusted profit for the year (a non-IFRS measure) and adjusted net margin (a non-IFRS measure) may not be comparable to similar item measures presented by other companies. The use of these non-IFRS measures has limitations as an analytical tool, and you should not consider them in isolation from, or as substitute for analysis of, our consolidated financial statements or financial condition as reported under IFRS. We define adjusted profit for the year (a non-IFRS measure) as profit/(loss) for the year adjusted for share-based compensations (a non-cash item). We define adjusted net margin (a non-IFRS measure) as adjusted profit for the year (a non-IFRS measure) as a percentage of our total revenue.

	2022	2023	2024
	(in thousands, except for percentages)		
Profit for the year	2,519,821	3,041,827	3,676,855
Add:			
Share-based compensation	—	54,260	161,375
Adjusted profit for the year (a non-IFRS measure)	2,519,821	3,096,087	3,838,230
Adjusted net margin (a non-IFRS measure)	5.4%	5.7%	5.5%

In 2024, we recorded an adjusted profit for the year (a non-IFRS measure) of RMB3,838.2 million and an adjusted net margin (a non-IFRS measure) of 5.5%, as compared with an adjusted profit for the year (a non-IFRS measure) of RMB3,096.1 million and an adjusted net margin (a non-IFRS measure) of 5.7% in 2023, primarily due to growth in our smartphones and computers related revenue.

FINANCIAL INFORMATION

PRINCIPAL COMPONENTS OF RESULTS OF OPERATIONS

Revenue

During the Track Record Period, we mainly generated revenue from the provision of precision manufacturing solutions for a wide variety of end-uses, including smartphones and computers, smart vehicles and cockpits, intelligent head-mounted displays and smart wearables and other smart devices. These solutions include structural parts, functional modules and complete device assembly.

By product end use

	2022		2023		2024	
	RMB	%	RMB	%	RMB	%
(in thousands, except for percentages)						
Smartphones and computers						
Structural parts and functional modules	37,710,398	80.7%	36,868,430	67.7%	43,234,267	61.9%
Complete device assembly . . .	503,413	1.1%	8,032,202	14.7%	14,519,902	20.7%
Subtotal	38,213,811	81.8%	44,900,632	82.4%	57,754,169	82.6%
Smart vehicles and cockpits . . .	3,583,820	7.7%	4,998,464	9.2%	5,934,795	8.5%
Intelligent head-mounted displays and smart wearables .	3,538,691	7.6%	3,103,753	5.7%	3,488,408	5.0%
Other smart devices	171,817	0.4%	164,872	0.3%	1,408,378	2.0%
Others ¹	1,190,407	2.5%	1,323,013	2.4%	1,311,026	1.9%
Total	<u>46,698,546</u>	<u>100.0%</u>	<u>54,490,734</u>	<u>100.0%</u>	<u>69,896,776</u>	<u>100.0%</u>

Note:

1 Others mainly include revenue generated from sales of scraps and materials, processing fee, leases and others.

During the Track Record Period, smartphones and computers related revenue accounted for a substantial majority of our total revenue, and we expect this to continue to be a major contributor to our total revenue going forward.

We offer a comprehensive suite of structural parts and functional modules for use in smartphones and computers, including cover glass, metal mid-frames and various modules such as touch display module, fingerprint modules and others. In addition to structural parts and functional modules, we also provide complete device assembly for smartphones.

We offer a variety of structural parts and functional modules for smart vehicles and cockpits, which include in-vehicle electronic glass, central control screens and instrument panels, intelligent B-pillars/C-pillars and multi-functional glasses for vehicle side windows, windshields and sunroofs.

We offer structural parts and functional modules for intelligent head-mounted displays and smart wearables, including cover glass and various functional modules.

FINANCIAL INFORMATION

We offer structural parts and functional modules for other smart devices in emerging end markets such as humanoid robots and smart retail. We also provide complete device assembly for these devices. Revenue from complete device assembly for these devices in emerging end markets is recorded under other smart devices.

By region

	2022		2023		2024	
	RMB	%	RMB	%	RMB	%
	(in thousands, except for percentages)					
Offshore						
special supervision territory in						
China	28,896,418	61.9%	24,822,418	45.6%	27,496,661	39.3%
Vietnam	4,871,324	10.4%	5,420,199	9.9%	4,882,063	7.0%
Asia (excluding mainland						
China and Vietnam)	2,811,336	6.0%	4,187,813	7.7%	6,079,024	8.7%
North America ⁽¹⁾	1,544,346	3.3%	2,008,840	3.7%	2,036,548	2.9%
Others ⁽²⁾	143,019	0.3%	367,288	0.6%	484,087	0.7%
	38,266,443	81.9%	36,806,558	67.5%	40,978,383	58.6%
Mainland China (excluding						
special supervision territory) .	8,432,103	18.1%	17,684,176	32.5%	28,918,393	41.4%
Total	46,698,546	100.0%	54,490,734	100.0%	69,896,776	100.0%

Notes:

1 North America includes revenue generated from the United States, Canada and Mexico.

2 Others mainly include revenues generated from Germany, Bulgaria, and Serbia.

Information about our revenue from external customers is presented based on delivery destination or the shipping destination on customs declaration. Our offshore customers are primarily located in Vietnam, South Korea and the United States. Revenue from offshore customers included products first delivered to special supervision territory in China. During the Track Record Period, as a percentage of total revenue, our revenue from mainland China (excluding special supervision territory) increased significantly both in absolute terms and as a percentage of our total revenue, primarily as we expanded our cooperation with a number of customers in mainland China during the Track Record Period.

As advised by our PRC Legal Advisor, sales of goods by our domestic entities during the Track Record Period to special supervision territory in China are subject to export tax policies and can be regarded as offshore sales for tax purposes. Products entering the special supervision

FINANCIAL INFORMATION

territory from place other than the special supervision territory in China are treated as exports and thus eligible for export tax rebates. Under the PRC regulations, most exported goods are exempt from export tariffs, with the applicable export tariff rate being 0%. Our export products qualify for this 0% tariff treatment. Materials entering and stored in the special supervision territory from overseas are not treated as import and thus exempt from PRC import tax.

Sales Volume and Average Selling Price

	2022		2023		2024	
	Sales volume	Average selling price ²	Sales volume	Average selling price	Sales volume	Average selling price
	(units'000)	(RMB)	(units'000)	(RMB)	(units'000)	(RMB)
Smartphones and computers						
Structural parts and functional modules	1,042,552	36.2	894,582	41.2	1,157,304	37.4
Complete device assembly	10,214	49.3	14,574	551.1	20,132	721.2
Subtotal	1,052,766	36.3	909,156	49.4	1,177,436	49.1
Smart vehicles and cockpits	6,139	583.8	11,944	418.5	13,087	453.5
Intelligent head-mounted displays and smart wearables	59,029	59.9	67,248	46.2	110,555	31.6
Other smart devices	4,178	41.1	4,188	39.4	13,759	102.4
Others	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹
Total/Overall²	<u>1,122,113</u>	<u>41.6</u>	<u>992,536</u>	<u>54.9</u>	<u>1,314,837</u>	<u>53.2</u>

Notes:

- (1) Others mainly include revenue generated from sales of scraps and materials, processing fee and leases, which cannot be quantified into units.
- (2) The overall average selling price is calculated by dividing the total revenue, excluding others, by the total sales volume as stated in the table above.

Our sales volume decreased by 11.6% from 1,122.1 million units in 2022 to 992.5 million in 2023, primarily due to a decrease in the sales volume of structural parts and functional modules as we sold camera lens protectors and back panels on smartphones as one integrated unit in 2023 instead of two units. Our sales volume increased by 32.5% from 992.5 million units in 2023 to 1,314.8 million units in 2024, due to increased sales across our product end uses, which in turn were due to increased global demand for consumer electronic products and smart vehicles. Our average selling price increased by 32.0% from RMB40.6 in 2022 to RMB53.6 in 2023, primarily as a result of the increase in average selling price of our complete device assembly from RMB49.3 in 2022 to RMB551.1 in 2023, since as an increasing portion of our complete device assembly was

FINANCIAL INFORMATION

performed under the buy-and-sell model. Our average selling price decreased by 2.6% from RMB53.6 in 2023 to RMB52.2 in 2024, primarily due to a 31.6% decrease in intelligent head-mounted displays and smart wearables’ average selling price from RMB46.2 in 2023 to RMB31.6 in 2024 as a result of change in our customers’ product mix.

Cost of Sales

Our cost of sales consists of raw materials costs, labor costs, manufacturing costs and others, which primarily includes transportation costs, product quality assurance losses and taxes.

	2022		2023		2024	
	RMB	%	RMB	%	RMB	%
	(in thousands, except for percentages)					
Raw material costs	21,836,868	57.2%	29,983,732	65.2%	42,652,499	71.4%
Labor costs	8,238,092	21.6%	7,751,054	16.9%	8,512,435	14.3%
Manufacturing costs	7,784,941	20.4%	7,937,924	17.3%	8,102,582	13.6%
Others	291,729	0.8%	326,160	0.6%	445,767	0.7%
Total	<u>38,151,630</u>	<u>100.0%</u>	<u>45,998,870</u>	<u>100.0%</u>	<u>59,713,283</u>	<u>100.0%</u>

Gross Profit and Gross Margin

By product end use

	2022		2023		2024	
	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin
	(in RMB thousands, except for percentages)					
Smartphones and computers						
Structural parts and functional modules	6,554,143	17.4%	6,338,393	17.2%	7,767,219	18.0%
Complete device assembly	(8,222)	(1.6%)	207,245	2.6%	183,251	1.3%
Subtotal	6,545,921	17.1%	6,545,638	14.6%	7,950,470	13.8%
Smart vehicles and cockpits	698,364	19.5%	734,791	14.7%	518,202	8.7%
Intelligent head-mounted displays and smart wearables	559,927	15.8%	433,417	14.0%	636,531	18.2%
Other smart devices	20,290	11.8%	10,781	6.5%	270,069	19.2%
Others	722,414	60.7%	767,237	58.0%	808,221	61.6%
Total/Overall	<u>8,546,916</u>	<u>18.3%</u>	<u>8,491,864</u>	<u>15.6%</u>	<u>10,183,493</u>	<u>14.6%</u>

FINANCIAL INFORMATION

Other Income

Our other income consists of (i) various government grants we received from PRC government authorities, (ii) interest income, (iii) compensation income and (iv) others, which primarily consists of deduction for value-added tax. There were no unfulfilled conditions or contingencies relating to these government subsidies.

	2022		2023		2024	
	RMB	%	RMB	%	RMB	%
(in thousands, except for percentages)						
Government grants	492,534	72.6%	759,006	74.6%	224,841	39.7%
Interest income	147,893	21.8%	218,288	21.5%	254,979	45.0%
Compensation income . . .	17,458	2.6%	20,828	2.0%	32,567	5.7%
Others	20,691	3.0%	19,087	1.9%	54,637	9.6%
Total	678,576	100.0%	1,017,209	100.0%	567,024	100.0%
<i>as % of total revenue</i>		1.5%		1.9%		0.8%

Selling Expenses

Our selling expenses include (i) salaries, compensations and benefits for personnel engaging in the sales function, (ii) sorting costs in screening, selecting and finalizing (such as cleaning) our products after deliveries to our customers, (iii) intermediary service fees, (iv) samples and packaging fees, (v) business entertainment expenses and (vi) others, which mainly includes travel expenses, material consumables, professional service fees and depreciation of fixed assets.

	2022		2023		2024	
	RMB	%	RMB	%	RMB	%
(in thousands, except for percentages)						
Salaries, compensations and benefits	318,106	44.9%	317,534	47.1%	377,481	53.5%
Sorting costs	159,843	22.5%	108,070	16.0%	117,130	16.6%
Intermediary service fees .	79,165	11.2%	81,638	12.1%	56,072	7.9%
Samples and packaging fees	82,097	11.6%	53,864	8.0%	64,950	9.2%
Business entertainment expenses	12,897	1.8%	15,886	2.4%	24,540	3.5%
Others	56,741	8.0%	97,065	14.4%	65,426	9.3%
Total	708,849	100.0%	674,057	100.0%	705,599	100.0%
<i>as % of total revenue</i>		1.5%		1.2%		1.0%

FINANCIAL INFORMATION

Administrative Expenses

Our administrative expenses include (i) salaries, compensations and benefits for personnel engaging in the administrative function, (ii) depreciation of properties and equipment related to administrative function, (iii) recruiting fees, (iv) impairment losses recognized on property, plant and equipment, (v) office expenses, (vi) professional service fees, (vii) amortization of intangible assets, (viii) maintenance costs, (ix) property taxes, (x) environmental protection fees, (xi) disability insurance, (xii) land use taxes, (xiii) stamp duties and (xiv) others, which mainly includes contributions to water conservancy construction fund, entertainment expenses, land value-add tax from intra-Group land transfer and travel expenses.

	2022		2023		2024	
	RMB	%	RMB	%	RMB	%
(in thousands, except for percentages)						
Salaries, compensations and benefits	1,069,497	33.0%	1,128,381	38.8%	1,289,992	38.3%
Depreciation of properties and equipment	649,241	20.0%	597,967	20.5%	576,904	17.1%
Recruiting fees	360,772	11.1%	153,323	5.3%	180,280	5.4%
Impairment losses recognized on property, plant and equipment . . .	273,077	8.4%	73,242	2.5%	226,942	6.7%
Amortization of intangible assets	214,397	6.6%	221,873	7.6%	221,292	6.6%
Property taxes	193,594	6.0%	220,043	7.6%	235,243	7.0%
Maintenance costs	58,840	1.8%	84,262	2.9%	143,067	4.2%
Office expenses	68,052	2.1%	67,793	2.3%	78,936	2.3%
Professional service fees . .	29,265	0.9%	50,253	1.7%	37,944	1.1%
Environmental protection costs	52,807	1.6%	38,261	1.3%	32,261	1.0%
Disability insurance	39,989	1.2%	41,162	1.4%	40,869	1.2%
Land use taxes	32,207	1.0%	32,010	1.1%	33,304	1.0%
Stamp duties	30,333	0.9%	40,212	1.4%	47,499	1.4%
Others	167,419	5.4%	161,517	5.6%	224,422	6.7%
Total	3,239,490	100.0%	2,910,299	100.0%	3,368,955	100.0%
<i>as % of total revenue</i>		6.9%		5.3%		4.8%

FINANCIAL INFORMATION

Research and Development Expenses

Our research and development expenses include (i) salaries, compensations and benefits for personnel engaging in the research and development function, (ii) materials and consumables used in the research and development process, (iii) depreciation of properties and equipment related to research and development function, (iv) power cost and (v) others which primarily includes maintenance costs, professional service fees, inspection fees and sample fees.

	2022		2023		2024	
	RMB	%	RMB	%	RMB	%
(in thousands, except for percentages)						
Salaries, compensations and benefits	910,004	43.2%	1,120,035	48.3%	1,324,724	47.6%
Materials and consumables used	835,935	39.7%	706,468	30.5%	890,282	32.0%
Depreciation of properties and equipment	199,556	9.5%	219,632	9.5%	240,263	8.6%
Power costs	131,988	6.3%	115,948	5.0%	120,443	4.3%
Others	27,493	1.3%	154,536	6.7%	209,101	7.5%
Total	<u>2,104,976</u>	<u>100.0%</u>	<u>2,316,619</u>	<u>100.0%</u>	<u>2,784,813</u>	<u>100.0%</u>
<i>as % of total revenue</i>		4.5%		4.3%		4.0%

Finance Costs

Our finance costs include interest on borrowings, interest on loans from related parties and interest on lease liabilities.

	2022		2023		2024	
	RMB	%	RMB	%	RMB	%
(in thousands, except for percentages)						
Interest on borrowings . . .	569,573	92.4%	471,022	92.4%	382,959	98.6%
Interest on loan from a related party	44,826	7.3%	37,514	7.4%	1,457	0.4%
Interest on lease liabilities	<u>1,817</u>	<u>0.3%</u>	<u>1,450</u>	<u>0.2%</u>	<u>4,022</u>	<u>1.0%</u>
Total	<u>616,216</u>	<u>100.0%</u>	<u>509,986</u>	<u>100.0%</u>	<u>388,438</u>	<u>100.0%</u>
<i>as % of total revenue</i>		1.3%		0.9%		0.6%

FINANCIAL INFORMATION

Other Gains and Losses

Our other gains and losses primarily represent net foreign exchange gains, net gain from changes in fair value of financial assets at FVTPL and loss on disposal of property, plant and equipment.

In 2022, 2023 and 2024, our other gains and losses amounted to RMB321.0 million, RMB218.7 million and RMB384.4 million, representing less than 0.7% of our total revenue in each of the respective periods.

Impairment Losses under Expected Credit Loss Model, Net of Reversal

Our impairment losses under expected credit loss model, net of reversal represents our net impairment losses recognized on trade and bills receivables and other receivables.

In 2022, 2023 and 2024, our impairment losses under expected credit loss model, net of reversal amounted to RMB44.0 million, RMB1.3 million and RMB(33.9) million, representing less than 0.1% of our total revenue in each of the respective periods.

Other Expenses

Our other expenses primarily represent donations to third parties such as donations on education and natural disaster reliefs.

In 2022, 2023 and 2024, our other expenses amounted to RMB10.0 million, RMB6.8 million and RMB8.2 million, representing less than 0.1% of our total revenue in each of the respective periods.

Share of Results of Investments Accounted for Using the Equity Method

Our share of results of investments accounted for using the equity method reflects our investment in associates and the corresponding share of results of these associates.

In 2022, 2023 and 2024, our share of results of investments accounted for using the equity method amounted to RMB4.0 million, RMB(57.3) million and RMB3.9 million, representing less than 0.1% of our total revenue in each of the respective periods.

Income Tax Expense

We are subject to income tax on an entity basis on profits arising in or derived from the tax jurisdictions in which the members of our Group are domiciled and operate. Our income tax expense comprises current tax and deferred tax.

The Company and several of our subsidiaries were accredited as “High New Tech Enterprise” during the Track Record Period and were therefore entitled to a preferential income tax rate of 15% for certain years during the Track Record Period. In addition, several of our subsidiaries were eligible as “Small Low-profit Enterprise” and were subject to preferential tax treatments. For details, see note 11 to Appendix I — Accountants’ Report.

FINANCIAL INFORMATION

As of the Latest Practicable Date and during the Track Record Period, we had fulfilled all our tax obligations and did not have any unresolved tax disputes.

YEAR-ON-YEAR COMPARISON OF RESULTS OF OPERATIONS

2024 Compared to 2023

Revenue

	2023	2024	% change
	(in RMB thousands, except for percentages)		
Revenue			
Smartphones and computers			
Structural parts and functional modules	36,868,430	43,234,267	17.3%
Complete device assembly	8,032,202	14,519,902	80.7%
Subtotal	44,900,632	57,754,169	28.6%
Smart vehicles and cockpits	4,998,464	5,934,795	18.7%
Intelligent head-mounted displays and smart wearables	3,103,753	3,488,408	12.4%
Other smart devices	164,872	1,408,378	754.2%
Others	1,323,013	1,311,026	(0.9%)
Total	54,490,734	69,896,776	28.3%

Our revenue increased by 28.3% from RMB54,490.7 million in 2023 to RMB69,896.8 million in 2024, primarily due to a 28.6% increase in smartphones and computers related revenue from RMB44,900.6 million in 2023 to RMB57,754.2 million in 2024.

Smartphones and computers

Our smartphones and computers related revenue increased by 28.6% from RMB44,900.6 million in 2023 to RMB57,754.2 million in 2024, primarily due to:

- a 80.8% increase in our complete device assembly related revenue from RMB8,032.2 million in 2023 to RMB14,519.9 million in 2024, which was attributable to (i) a 37.7% increase in the sales volume of our complete devices from 14.6 million units in 2023 to 20.1 million units in 2024, which in turn was the result of the ramp up of our complete device assembly business as we increased in our capacity and capability in complete device assembly and deepened cooperation with select key customers to serve the increased demand of their products, and (ii) a 30.9% increase in the average selling price of our complete device, as our customers continued to introduce and upgrade their products and our revenue under the buy-and-sell model in our complete device assembly business increased; and

FINANCIAL INFORMATION

- a 17.3% increase in our structural parts and functional modules related revenue from RMB36,868.4 million in 2023 to RMB43,234.3 million in 2024, which was primarily attributable to a 29.4% increase in sales volume of structural parts and functional modules from 894.6 million units in 2023 to 1,157.3 million units in 2024, as a result of the growth in consumers’ demand, which in turn was driven by the upgrading demand for products with new features or incorporating new technologies such as AI. Such increase in sales volume was partially offset by a decrease in average selling price of structural parts and functional modules from RMB41.2 in 2023 to RMB37.4 in 2024, which in turn was the result of a change in product mix.

Smart vehicles and cockpits

Our smart vehicles and cockpits related revenue, which represents the sales of structural parts and functional modules, increased by 18.7% from RMB4,998.5 million in 2023 to RMB5,934.8 million in 2024, primarily due to (i) a 9.6% increase in sales volume of structural parts and functional modules for smart vehicles and cockpits from 11.9 million units in 2023 to 13.1 million units in 2024, which in turn was the result of the growth in consumers demand for smart vehicles driven by product iterations associated with innovative technologies and features, and (ii) a 8.4% increase in average selling price of structural parts and functional modules for smart vehicles and cockpits from RMB418.5 in 2023 to RMB453.5 in 2024, primarily driven by increased orders for higher-value products such as central control screens and intelligent B-pillars, which was a further validation to our core strengths.

Intelligent head-mounted displays and smart wearables

Our intelligent head-mounted displays and smart wearables related revenue, which represents the sales of structural parts and functional modules, increased by 12.4% from RMB3,103.8 million in 2023 to RMB3,488.4 million in 2024, primarily due to a 64.6% increase in the sales volume of structural parts and functional modules for intelligent head-mounted displays and smart wearables from 67.2 million units in 2023 to 110.6 million units in 2024, which in turn was the result of higher market demand for smart watches our customers offered. Such increase in sales volume was partially offset by a 31.6% decrease in the average selling price of structural parts and functional modules for intelligent head-mounted displays and smart wearables from RMB46.2 in 2023 to RMB31.6 in 2024, primarily due to a change in our customers’ product mix and their higher order volumes for lower-priced structural parts and functional modules in smart watches.

Other smart devices

Our other smart devices related revenue increased significantly from RMB164.9 million in 2023 to RMB1,408.4 million in 2024, primarily due to (i) a 228.5% increase in sales volume of structural parts and functional modules for other smart devices from 4.2 million units in 2023 to 13.8 million units in 2024, which in turn was the result of increased business in smart retail devices as our planning and technological development in advance paid off, and (ii) a 159.9% increase in average selling price of structural parts and functional modules for other smart devices from RMB39.4 to RMB102.4, which in turn was the result of higher unit prices from our smart retail devices.

FINANCIAL INFORMATION

Cost of sales

	2023	2024	% change
	(in RMB thousands, except for percentages)		
Cost of sales			
Raw material costs	29,983,732	42,652,499	42.3%
Labor costs	7,751,054	8,512,435	9.8%
Manufacturing costs	7,937,924	8,102,582	2.1%
Others	<u>326,160</u>	<u>445,767</u>	<u>36.7%</u>
Total	<u>45,998,870</u>	<u>59,713,283</u>	<u>29.8%</u>
<i>as % of total revenue</i>	<i>84.4%</i>	<i>85.4%</i>	

Our cost of sales increased by 29.8% from RMB45,998.9 million in 2023 to RMB59,713.3 million in 2024 primarily due to a 42.3% increase in our raw material costs, which in turn was the result of a 32.5% increase in our sales volume and a change of product mix.

Gross profit and gross margin

	2023		2024	
	Gross profit	Gross margin	Gross profit	Gross margin
	(in RMB thousands, except for percentages)			
Smartphones and computers				
Structural parts and functional modules	6,338,393	17.2%	7,767,219	18.0%
Complete device assembly	207,245	2.6%	183,251	1.3%
Subtotal	6,545,638	14.6%	7,950,470	13.8%
Smart vehicles and cockpits	734,791	14.7%	518,202	8.7%
Intelligent head-mounted displays and smart wearables	433,417	14.0%	636,531	18.2%
Other smart devices	10,781	6.5%	270,069	19.2%
Others	<u>767,236</u>	<u>58.0%</u>	<u>808,221</u>	<u>61.6%</u>
Total/Overall	<u>8,491,864</u>	<u>15.6%</u>	<u>10,183,493</u>	<u>14.6%</u>

Our gross profit increased by 19.9% from RMB8,491.9 million in 2023 to RMB10,183.5 million in 2024, primarily due to an increase in smartphones and computers related gross profit, partially offset by a decrease in smart vehicles and cockpits related gross profit. Our gross margin

FINANCIAL INFORMATION

decreased from 15.6% in 2023 to 14.6% in 2024, primarily due to an increase in revenue contribution from complete device assembly which had a lower gross margin and a decrease in our smart vehicles and cockpits related gross margin.

Smartphones and computers

Our smartphones and computers related gross profit increased by 21.5% from RMB6,545.6 million in 2023 to RMB7,950.5 million in 2024, primarily due to:

- a 22.5% increase in our structural parts and functional modules related gross profit from RMB6,338.4 million in 2023 to RMB7,767.2 million in 2024, which was primarily attributable to an increase in our structural parts and functional modules related revenue. Our structural parts and functional modules related gross margin increased from 17.2% in 2023 to 18.0% in 2024, primarily due to better cost control measures such as switching certain material purchases to self-production and increasing automation to reduce labor costs and higher production yield rate achieved through continuous improvement of our manufacturing capability; and
- partially offset by a 11.6% decrease in our complete device assembly related gross profit from RMB207.2 million in 2023 to RMB183.3 million in 2024, as we priced more competitively for our customers. Our complete devices assembly related gross margin decreased from 2.6% in 2023 to 1.3% in 2024 primarily due to our competitive pricing and increased sales and revenue contribution under the buy-and-sell model. In particular, under the buy-and-sell model, we purchased certain raw materials and components for the device from our customer and sold the completed device to our customer, and the sales price of the completed device is recorded as our revenue on a gross basis. As such, complete devices sold under the buy-and-sell model are associated with much higher selling prices but lower gross profit margin. See “Business — Raw Materials and Supply Chain — Buy-and-sell model” for more details.

Despite the growth in gross margin for our structural parts and functional modules from 2023 to 2024, the increase in revenue contribution and the decrease in gross margin from complete device assembly resulted in a decrease in our smartphones and computers related gross margin from 14.6% in 2023 to 13.8% in 2024.

Smart vehicles and cockpits

Our smart vehicles and cockpits related gross profit decreased by 29.5% from RMB734.8 million in 2023 to RMB518.2 million in 2024, primarily due to a decrease in our smart vehicles and cockpits related gross margin. Our smart vehicles and cockpits related gross margin decreased from 14.7% in 2023 to 8.7% in 2024, primarily because (i) we produced an increased portion of structural parts and functional modules for smart vehicles and cockpits in our overseas production facilities that led to higher transportation costs and raw material costs for products produced in those facilities. Increasing the utilization of our overseas production facilities is part of our efforts in expanding our global footprint to respond quickly to customer demand, and (ii) some of our customers imposed stricter testing and inspection requirements, leading to additional testing costs.

FINANCIAL INFORMATION

Intelligent head-mounted displays and smart wearables

Our intelligent head-mounted displays and smart wearables related gross profit increased by 46.9% from RMB433.4 million in 2023 to RMB636.5 million in 2024, primarily due to an increase in our intelligent head-mounted displays and smart wearables related revenue. Our intelligent head-mounted displays and smart wearables related gross margin increased from 14.0% in 2023 to 18.2% in 2024 mainly due to higher production yield rate, which in turn was the result of our efforts in optimizing our production flow for our smart watches products.

Other smart devices

Our other smart devices related gross profit increased significantly by 2,405.1% from RMB10.8 million in 2023 to RMB270.1 million in 2024 and our other smart devices related gross margin increased from 6.5% in 2023 to 19.2% in 2024, primarily due to a change in our product mix. In particular, revenue contribution from our smart retail devices, which carried a higher gross margin increased significantly.

Other income

	<u>2023</u>	<u>2024</u>	<u>% change</u>
	(in RMB thousands, except for percentages)		
Other income	1,017,209	567,024	(44.3%)
as % of total revenue	1.9%	0.8%	

Our other income decreased by 44.3% from RMB1,017.2 million in 2023 to RMB567.0 million in 2024, primarily due to a decrease in government grants received as a result of a policy change. For the same reason, our other income as a percentage of our total revenue decreased from 1.9% in 2023 to 0.8%.

Selling expenses

	<u>2023</u>	<u>2024</u>	<u>% change</u>
	(in RMB thousands, except for percentages)		
Selling Expenses	674,057	705,599	4.7%
as % of total revenue	1.2%	1.0%	

Our selling expenses increased by 4.7% from RMB674.1 million in 2023 to RMB705.6 million in 2024, mainly reflecting (i) an increase of RMB59.9 million in salaries, compensation and benefits, and (ii) an increase of RMB9.1 million in sorting costs, which was in line with the expansion of our business. Our selling expenses as a percentage of our total revenue remained relatively stable at 1.2% in 2023 and 1.0% in 2024.

FINANCIAL INFORMATION

Administrative expenses

	<u>2023</u>	<u>2024</u>	<u>% change</u>
	(in RMB thousands, except for percentages)		
Administrative Expenses	2,910,299	3,368,955	15.8%
as % of total revenue	5.3%	4.8%	

Our administrative expenses increased by 15.8% from RMB2,910.3 million in 2023 to RMB3,369.0 million in 2024, mainly reflecting an increase of RMB161.6 million in salaries, compensation and benefits and an increase of RMB153.7 million in impairment losses recognized on property, plant and equipment. Our administrative expenses as a percentage of our total revenue decreased from 5.3% in 2023 to 4.8% in 2024 primarily due to an improved economies of scale.

Research and development expenses

	<u>2023</u>	<u>2024</u>	<u>% change</u>
	(in RMB thousands, except for percentages)		
Research and Development Expenses	2,316,619	2,784,813	20.2%
as % of total revenue	4.3%	4.0%	

Our research and development expenses increased by 20.2% from RMB2,316.6 million in 2023 to RMB2,784.8 million in 2024, primarily due to (i) an increase of RMB204.7 million in salaries, compensation and benefits, which reflects our continuous commitment in research and development, and (ii) an increase of RMB183.8 million in materials and consumables used, reflecting the larger number of research and development projects we undertook in 2024. Our research and development expenses as a percentage of our total revenue remained relatively stable at 4.3% in 2023 and 4.0% in 2024.

Finance costs

	<u>2023</u>	<u>2024</u>	<u>% change</u>
	(in RMB thousands, except for percentages)		
Finance Costs	509,986	388,438	(23.8%)
as % of total revenue	0.9%	0.6%	

Our finance costs decreased by 23.8% from RMB510.0 million in 2023 to RMB388.4 million in 2024, primarily because we repaid part of our long-term bank loans in 2024. Our finance costs as a percentage of our total revenue remained relatively stable at 0.9% in 2023 and 0.6% in 2024.

Other gains and losses

Our other gains and losses increased by 75.8% from RMB218.7 million in 2023 to RMB384.4 million in 2024, primarily due to an increase of RMB133.8 million in net foreign exchange gains as a result of the appreciation of foreign currencies against the RMB in 2024.

FINANCIAL INFORMATION

Impairment losses under expected credit loss model, net of reversal

Our impairment losses under expected credit loss model, net of reversal shifted from RMB1.3 million in 2023 to loss of RMB33.9 million in 2024, primarily due to an increase in the balance of our trade and bills receivables as of December 31, 2024 as compared to December 31, 2023.

Other expenses

Our other expenses increased by 20.6% from RMB6.8 million in 2023 to RMB8.2 million in 2024, primarily due to donations in 2024 to areas affected by flood.

Share of results of investments accounted for using the equity method

Our share of results of investments accounted for using the equity method was a loss of RMB57.3 million in 2023 and a gain of RMB3.9 million in 2024, primarily attributable to the gain related to one of our associates engaged in production and processing of sapphire materials that turned profitable in 2024.

Income tax expense

Our income tax expense decreased by 18.9% from RMB212.1 million in 2023 to RMB172.1 million in 2024 despite a 18.3% increase in our profit before tax, primarily due to the application of tax credits for certain of our subsidiaries which incurred losses in previous years. For the same reason, our effective tax rate decreased from 6.5% in 2023 to 4.5% in 2024.

2023 Compared to 2022

Revenue

	2022	2023	% change
	(in RMB thousands, except for percentages)		
Revenue			
Smartphones and computers			
Structural parts and functional modules	37,710,398	36,868,430	(2.2%)
Complete device assembly	503,413	8,032,202	1,495.6%
Subtotal	38,213,811	44,900,632	17.5%
Smart vehicles and cockpits	3,583,820	4,998,464	39.5%
Intelligent head-mounted displays and smart wearables	3,538,691	3,103,753	(12.3%)
Other smart devices	171,817	164,872	(4.0%)
Others	1,190,407	1,323,013	(11.1%)
Total	46,698,546	54,490,734	16.7%

FINANCIAL INFORMATION

Our revenue increased by 16.7% from RMB46,698.5 million in 2022 to RMB54,490.7 million in 2023, primarily due to a 17.5% increase in smartphones and computers related revenue from RMB38,213.8 million in 2022 to RMB44,900.6 million in 2023.

Smartphones and computers

Our smartphones and computers related revenue increased by 17.5% from RMB38,213.8 million in 2022 to RMB44,900.6 million in 2023, primarily due to:

- a 1,495.6% increase in our complete device assembly related revenue from RMB503.4 million in 2022 to RMB8,032.2 million in 2023, which was attributable to (i) a 42.7% increase in the sales volume of our complete devices from 10.2 million units in 2022 to 14.6 million units in 2023, which in turn was the result of the ramp up of our complete device assembly business as we improved our capacity and capability in complete device assembly to serve the increased demand of our customers’ products, and (ii) a 1,017.8% increase in the average selling price of our complete device from RMB49.3 in 2022 to RMB551.1 in 2023, as an increasing portion of our complete device assembly was performed under the buy-and-sell model; and
- partially offset by a 2.2% decrease in our structural parts and functional modules related revenue from RMB37,710.4 million in 2022 to RMB36,868.4 million in 2023 as the consumer electronics market moderated in 2023. In 2023, the global consumer electronics industry experienced a moderation in overall demand, primarily due to macroeconomic factors. These challenges contributed to a general decline in global shipments of consumer electronics, affecting procurement volumes across the supply chain. In addition, the 14.2% decrease in the sales volume of structural parts and functional modules from 1,042.6 million units in 2022 to 894.6 million units in 2023 was the result of decreased sales in camera lens protectors on smartphones, which carried a lower unit price, which in turn led to an increase in the average selling price of structural parts and functional modules by 13.8% from RMB36.2 in 2022 to RMB41.2 in 2023.

Smart vehicles and cockpits

Our smart vehicles and cockpits related revenue, which represents the sales of structural parts and functional modules, increased by 39.5% from RMB3,583.8 million in 2022 to RMB4,998.5 million in 2023, primarily due to a 94.6% increase in sales volume of structural parts and functional modules for smart vehicles and cockpits from 6.1 million units in 2022 to 11.9 million units in 2023, which in turn was attributable to (i) increased demand for our customers’ products as the global smart vehicles market continued to grow, and (ii) the fact that we started to offer our customers lowered-price structural parts and functional modules such as battery plates as we deepened our cooperation with our customers. The sale of battery plates for smart vehicles was the primary reason of a 28.3% decrease in the average selling price of structural parts and functional modules for smart vehicles and cockpits from RMB583.8 in 2022 to RMB418.5 in 2023. Excluding the sales of battery plate, our average selling price remained relatively stable.

FINANCIAL INFORMATION

Intelligent head-mounted displays and smart wearables

Our intelligent head-mounted displays and smart wearables related revenue, which represents the sales of structural parts and functional modules, decreased by 12.3% from RMB3,538.7 million in 2022 to RMB3,103.8 million in 2023, primarily due to a 23.0% decrease in the average selling price of structural parts and functional modules for intelligent head-mounted displays and smart wearables from RMB59.9 in 2022 to RMB46.2 in 2023, which in turn was the result of a change in our product mix. Such decrease was partially offset by a 13.9% increase in the sales volume of structural parts and functional modules for intelligent head-mounted displays and smart wearables from 59.0 million units in 2022 to 67.2 million units in 2023, primarily due to increased sales in VR glasses and structural parts for smart watches.

Other smart devices

Our other smart devices related revenue decreased by 4.0% from RMB171.8 million in 2022 to RMB164.9 million in 2023, primarily due to a 4.1% decrease in the average selling price of structural parts and functional modules for other smart devices from RMB41.1 in 2022 to RMB39.4 in 2023.

Cost of sales

	<u>2022</u>	<u>2023</u>	<u>% change</u>
	(in RMB thousands, except for percentages)		
Cost of sales			
Raw material costs	21,836,868	29,983,732	37.3%
Labor costs	8,238,092	7,751,054	(5.9%)
Manufacturing costs	7,784,941	7,937,924	2.0%
Others	<u>291,729</u>	<u>326,160</u>	<u>11.8%</u>
Total	<u>38,151,630</u>	<u>45,998,870</u>	<u>20.6%</u>
<i>as % of total revenue</i>	<i>81.7%</i>	<i>84.4%</i>	

Our cost of sales increased by 20.6% from RMB38,151.6 million in 2022 to RMB45,998.9 million in 2023, in line with our revenue growth.

FINANCIAL INFORMATION

Gross profit and gross margin

	2022		2023	
	Gross profit	Gross margin	Gross profit	Gross margin
	(in RMB thousands, except for percentages)			
Smartphones and computers				
Structural parts and functional modules	6,554,143	17.4%	6,338,393	17.2%
Complete device assembly	(8,222)	(1.6%)	207,245	2.6%
Subtotal	6,545,921	17.1%	6,545,638	14.6%
Smart vehicles and cockpits	698,364	19.5%	734,791	14.7%
Intelligent head-mounted displays and smart wearables	559,927	15.8%	433,417	14.0%
Other smart devices	20,290	11.8%	10,781	6.5%
Others	<u>722,415</u>	<u>60.7%</u>	<u>767,236</u>	<u>58.0%</u>
Total/Overall	<u>8,546,916</u>	<u>18.3%</u>	<u>8,491,864</u>	<u>15.6%</u>

Our gross profit decreased by 0.6% from RMB8,546.9 million in 2022 to RMB8,491.9 million in 2023, primarily due to a decrease in our intelligent head-mounted displays and smart wearables related gross profit, partially offset by an increase in our smart vehicles and cockpits related gross profit. Our gross margin decreased from 18.3% in 2022 to 15.6% in 2023, primarily due to the substantial increase in revenue contribution from the buy-and-sell model which had a lower gross margin compared to our other businesses.

Smartphones and computers

Our smartphones and computers related gross profit slightly decreased from RMB6,545.9 million in 2022 to RMB6,545.6 million in 2023, primarily due to:

- a 3.3% decrease in our structural parts and functional modules related gross profit from RMB6,554.1 million in 2022 to RMB6,338.4 million in 2023, which was attributable to a decrease in our structural parts and functional modules related revenue as the consumer electronics market moderated. Our structural parts and functional modules related gross margin remained stable at 17.4% in 2022 and 17.2% in 2023; and
- partially offset by our complete device assembly related gross profit in 2023. In 2022, our complete device assembly business was still in the ramp-up stage, and we therefore experienced a complete device assembly related gross loss of RMB8.2 million. The lower utilization rate in the ramp-up stage resulted in higher per-unit depreciation and amortization costs, which led to a gross loss. In 2023, as we successfully scaled up our complete device assembly business and achieved a higher utilization rate of our

FINANCIAL INFORMATION

production facilities, we achieved a gross profit of RMB207.2 million and a gross profit margin of 2.6% for our complete device assembly business. In particular, the utilization rate of our complete device assembly facilities increased from 85.2% in 2022 to 91.8% in 2023, and the sales volume of our complete device increased by 42.7% from 2022 to 2023. The higher utilization rate and production volume improved our economies of scale by significantly lowering the per-unit depreciation and amortization costs.

However, despite the growth in our complete device assembly related gross margin from 2022 to 2023, the significant increase in revenue contribution from complete device assembly business resulted in a decrease in our smartphones and computers related gross margin from 17.1% in 2022 to 14.6% in 2023.

Smart vehicles and cockpits

Our smart vehicles and cockpit related gross profit increased by 5.2% from RMB698.4 million in 2022 to RMB734.8 million in 2023, primarily due to an increase in our smart vehicles and cockpits related revenue. Our smart vehicles and cockpits related gross margin decreased from 19.5% in 2022 to 14.7% in 2023, primarily due to our increased investment in new production facilities, which resulted in higher equipment depreciation and amortization costs as these production facilities were ramping up in 2023. In particular, the production capacity of our production facilities for smart vehicles and cockpits structural parts and functional module increased by approximately 133.3% and the utilization rate of our production facilities for smart vehicles and cockpits structural parts and functional modules decreased from 83.5% in 2022 to 71.4% in 2023. Despite a higher sales volume in 2023, the unutilized new capacity resulted in a higher per-unit depreciation and amortization costs. To a lesser extent, the decrease in gross margin was also attributable to the higher transportation and raw material costs we incurred from our overseas production facilities.

Intelligent head-mounted displays and smart wearables

Our intelligent head-mounted displays and smart wearables related gross profit decreased by 22.6% from RMB559.9 million in 2022 to RMB433.4 million in 2023, primarily due to a decrease in intelligent head-mounted displays and smart wearables related revenue. Our intelligent head-mounted displays and smart wearables related gross margin decreased from 15.8% in 2022 to 14.0% in 2023, primarily because we started to produce smart wearables products for certain customers at our new production center in addition to our existing relevant production center, which resulted in higher per-unit depreciation and amortization costs since the relevant order volumes for these products did not increase in tandem with the increased production capacity.

Other smart devices

Our other smart devices related gross profit decreased by 46.9% from RMB20.3 million in 2022 to RMB10.8 million in 2023, and our other smart devices related gross margin decreased from 11.8% in 2022 to 6.5% in 2023 due to the introduction of certain new products such as photovoltaic glass products that were loss-making.

FINANCIAL INFORMATION

Other income

	<u>2022</u>	<u>2023</u>	<u>% change</u>
	(in RMB thousands, except for percentages)		
Other income	678,576	1,017,209	49.9%
as % of total revenue	1.5%	1.9%	

Our other income increased by 49.9% from RMB678.6 million in 2022 to RMB1,017.2 million in 2023, and, as a percentage of our total revenue, our other income increased from 1.5% in 2022 to 1.9% in 2023, primarily due to an increase in government grants as our operations expanded and received more government grants based on our business scale.

Selling expenses

	<u>2022</u>	<u>2023</u>	<u>% change</u>
	(in RMB thousands, except for percentages)		
Selling Expenses	708,849	674,057	(4.9%)
as % of total revenue	1.5%	1.2%	

Our selling expenses decreased by 4.9% from RMB708.9 million in 2022 to RMB674.1 million in 2023, primarily due to a decrease in sorting costs as a result of our improvement in production efficiency and product yields, which led to lower sorting costs relating to the sortation at our customers’ sites.

Administrative expenses

	<u>2022</u>	<u>2023</u>	<u>% change</u>
	(in RMB thousands, except for percentages)		
Administrative Expenses	3,239,490	2,910,299	(10.2%)
as % of total revenue	6.9%	5.3%	

Our administrative expenses decreased by 10.2% from RMB3,239.5 million in 2022 to RMB2,910.3 million in 2023, primarily due to (i) a shift in the labor market dynamics and accordingly our revised recruitment policies, (ii) impairment losses recognized on property, plant and equipment recorded in 2022 in connection with certain outdated equipment and machinery that were required to be replaced in that year, and (iii) a decrease in our depreciation of properties and equipment, since we sold certain equipment in 2022 and accordingly recorded lower depreciation and amortization costs in 2023, partially offset by (iv) an increase in salaries, compensations and benefits as we gave continued service bonuses to certain employees. As a result, and because of the increase in our total revenue in 2023, our administrative expenses as a percentage of our total revenue decreased from 6.9% in 2022 to 5.3% in 2023.

FINANCIAL INFORMATION

Research and development expenses

	2022	2023	% change
	(in RMB thousands, except for percentages)		
Research and Development Expenses	2,104,976	2,316,619	10.1%
as % of total revenue	4.5%	4.3%	

Our research and development expenses increased by 10.1% from RMB2,105.0 million in 2022 to RMB2,316.6 million in 2023, primarily due to increased spending on materials and consumables as we undertook more research and development projects, some of which involved complex production processes or techniques and therefore required increased usage of consumables and materials. Our research and development expenses as a percentage of our total revenue decreased slightly from 4.5% in 2022 to 4.3% in 2023, primarily due to the growth in our revenue.

Finance costs

	2022	2023	% change
	(in RMB thousands, except for percentages)		
Finance Costs	616,216	509,986	(17.2%)
as % of total revenue	1.3%	0.9%	

Our finance costs decreased by 17.2% from RMB616.2 million in 2022 to RMB510.0 million in 2023, primarily due to a decrease in interest on borrowings from our early repayment of loans. Our finance costs as a percentage of our total revenue decreased from 1.3% in 2022 to 0.9% in 2023 due to the same reason.

Other gains and losses

Our other gains and losses decreased by 31.9% from RMB321.0 million in 2022 to RMB218.7 million in 2023, primarily due to a decrease in net foreign exchange gains due to fluctuations in foreign currencies, partially offset by a decrease in loss on disposal of property, plant and equipment and impairment losses recognized on property, plant and equipment, due to the disposal of certain assets of one of our non-material subsidiaries.

Impairment losses under expected credit loss model, net of reversal

Our impairment losses under expected credit loss model, net of reversal decreased by 97.1% from RMB44.0 million in 2022 to RMB1.3 million in 2023, primarily because we collected certain receivables in 2023.

Other expenses

Our other expenses decreased by 32% from RMB10.0 million in 2022 to RMB6.8 million in 2023, primarily due to our decreased spending in donations.

FINANCIAL INFORMATION

Share of results of investments accounted for using the equity method

Our share of results of investments accounted for using the equity method was a gain of RMB4.0 million in 2022 and a loss of RMB57.3 million in 2023. The loss in 2023 primarily reflected disposal of our holdings in some of our associates.

Income tax expense

Our income tax expense decreased by 46.3% from RMB395.1 million in 2022 to RMB212.1 million in 2023, primarily because we recognized deferred tax expenses of RMB14.8 million in 2022, as compared to deferred tax gains of RMB275.6 million in 2023, as one of the subsidiaries acquired by us obtained the “High-Tech Enterprise” qualification in 2023, which in turn led to our adjustment in the deferred tax liabilities arising from the difference between the assessed value at the time of acquisition and the book value. Our effective tax rate decreased from 13.6% in 2022 to 6.5% in 2023, mainly due to the same reason.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we financed our operations primarily through a combination of cash generated from operations and borrowings. As of December 31, 2024 and April 30, 2025, we had bank balances and cash of RMB10,936.8 million and RMB9,167.8 million, respectively.

Going forward, we believe our liquidity requirements will be satisfied by using funds from a combination of cash generated from operations and net [REDACTED] from the [REDACTED]. As of April 30, 2025, we had bank loan facilities of RMB47,054.0 million, of which RMB32,601.8 million remained unutilized.

Taking into account the net [REDACTED] from the [REDACTED] and cash generated from operations, our Directors believe that we have sufficient working capital to meet our present and future cash requirements for at least the next 12 months from the date of publication of this Document.

FINANCIAL INFORMATION

Net Current Assets/Liabilities

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

	As of December 31,			As of
	2022	2023	2024	April 30,
	RMB'000			2025
				(unaudited)
Current assets				
Inventories	6,685,009	6,682,659	7,160,553	6,507,853
Trade and bills receivables . .	9,022,460	9,308,444	10,865,736	8,751,540
Bills receivables at FVTOCI	3,697	112,288	9,779	86,763
Prepayments and other				
receivables	804,110	1,025,482	1,000,455	1,169,561
Amounts due from related				
parties	32,235	29,754	24,873	7,967
Financial assets at fair value				
through profit or loss				
(“FVTPL”)	355,266	349,665	354,917	1,116,364
Income tax recoverable	22,614	53,391	45,976	169,425
Time deposits	—	—	322,412	327,568
Restricted bank deposits . . .	3,673	25,474	51,276	52,850
Bank balances and cash	<u>11,682,255</u>	<u>10,493,519</u>	<u>10,936,804</u>	<u>9,167,752</u>
Total current assets	<u>28,611,319</u>	<u>28,080,676</u>	<u>30,772,781</u>	<u>27,357,643</u>
Current liabilities				
Trade and other payables . . .	12,209,236	13,171,801	16,365,834	16,433,244
Financial liabilities at				
FVTPL	—	—	9,620	5,895
Amounts due to related				
parties	21	94	26	26
Income tax payable	88,319	178,764	110,787	11,524
Borrowings	9,848,393	5,669,812	6,518,634	7,051,185
Lease liabilities	13,503	27,726	47,659	58,828
Contract liabilities	<u>7,589</u>	<u>8,119</u>	<u>12,601</u>	<u>21,769</u>
Total current liabilities	<u>22,167,061</u>	<u>19,056,316</u>	<u>23,065,161</u>	<u>23,582,471</u>
Net current assets	<u>6,444,258</u>	<u>9,024,360</u>	<u>7,707,620</u>	<u>3,775,172</u>

FINANCIAL INFORMATION

Comparison between April 30, 2025 and December 31, 2024

Our net current assets decreased from RMB7,707.6 million as of December 31, 2024 to RMB3,775.2 million as of April 30, 2025, primarily due to a decrease in trade and bills receivables and inventories, partially offset by a decrease in trade and other payables and other payables and accruals.

Comparison between December 31, 2024 and December 31, 2023

Our net current assets decreased from RMB9,024.4 million as of December 31, 2023 to RMB7,707.6 million as of December 31, 2024, primarily due to an increase in trade and other payables and borrowings, and a decrease in bills receivables at FVTOCI and income tax recoverable, partially offset by a decrease in income tax payable and an increase in inventories and trade and bills receivables.

Comparison between December 31, 2023 and December 31, 2022

Our net current assets increased from RMB6,444.3 million as of December 31, 2022 to RMB9,024.4 million as of December 31, 2023, primarily due to an increase in trade and bills receivables and prepayments and other receivables, and a decrease in borrowings.

SELECTED BALANCE SHEET ITEMS

Inventories

Our inventories include raw materials, work in progress, finished goods, goods in transit and consumables and others. The table below sets forth the breakdown of our inventories as of the dates indicated.

	As of December 31,		
	2022	2023	2024
	(in RMB thousands)		
Raw materials	1,312,565	958,587	1,151,628
Work in progress	1,646,929	1,836,533	1,938,450
Finished goods	2,701,904	3,150,286	3,286,086
Goods in transit	1,296,412	982,358	1,029,114
Consumables and others	229,714	158,392	206,631
Less: provision	(502,515)	(403,497)	(451,356)
Total	<u>6,685,009</u>	<u>6,682,659</u>	<u>7,160,553</u>

Our inventories remained stable at RMB6,685.0 million as of December 31, 2022 and RMB6,682.7 million as of December 31, 2023. Our inventories increased by 7.2% to RMB7,160.6 million as of December 31, 2024 as our operational scale continued to grow.

FINANCIAL INFORMATION

Aging analysis

The table below sets forth an aging analysis of our inventories as of the dates indicated.

	As of December 31,		
	2022	2023	2024
	(in RMB thousands)		
Within three months	6,011,198	6,067,134	6,889,377
Three to six months	442,495	391,735	303,848
Six months to one year	448,401	214,914	139,901
One to two years	142,301	307,453	104,230
Two to three years	89,635	49,580	133,908
Three to five years	52,982	54,720	40,018
Over five years	512	620	627
Total	<u>7,187,524</u>	<u>7,086,156</u>	<u>7,611,909</u>

Turnover days

The table below sets forth the turnover days of our inventories for the periods indicated. Our inventory turnover days for each period equals the average of the beginning and ending balances of inventories for that period divided by cost of sales for that period and multiplied by 360 days in that period.

	2022	2023	2024
Inventory turnover days	<u>67.3</u>	<u>55.9</u>	<u>44.3</u>

Our inventory turnover days decreased from 67.3 days in 2022 to 55.9 days in 2023, and further decreased to 44.3 days in 2024, primarily due to (i) an increase in complete device assembly related revenue under the buy-and-sell model, because we were able to finish the assembly and ship out the devices efficiently, and the buy-and-sell model thus increased our cost of sales without corresponding increase in our inventory, and (ii) shift of our product structures which led to quicker inventory turnover management.

Subsequent utilization

As of April 30, 2025, 81.1% of our total inventories as of December 31, 2024, or RMB5,805.6 million, were utilized or sold.

Trade and Bills Receivables

Our trade and bills receivables primarily arise from sales of our products on credit. We usually grant credit periods ranging between one month to two months to our major customers.

FINANCIAL INFORMATION

The table below sets forth the breakdown of our trade and bills receivables as of the dates indicated.

	As of December 31,		
	2022	2023	2024
	(in RMB thousands)		
Trade receivables	9,153,534	9,436,891	11,006,529
Bills receivables	1,392	6,167	7,519
Less: allowance for ECL	<u>(132,466)</u>	<u>(134,614)</u>	<u>(148,312)</u>
Total	<u>9,022,460</u>	<u>9,308,444</u>	<u>10,865,736</u>

Our trade and bills receivables increased by 3.2% from RMB9,022.5 million as of December 31, 2022 to RMB9,308.4 million as of December 31, 2023, and further increased by 16.7% to RMB10,865.7 million as of December 31, 2024, in line with our revenue and business growth.

Aging analysis

The table below sets forth an aging analysis of our trade receivables as of the dates indicated.

	As of December 31,		
	2022	2023	2024
	(in RMB thousands)		
Not past due	8,673,984	8,995,893	10,610,390
Past due:			
0–90 days	429,868	397,664	363,411
91–180 days	21,054	17,646	9,396
181–365 days	21,423	12,453	4,236
Over one year	<u>7,205</u>	<u>13,235</u>	<u>19,096</u>
Total	<u>9,153,534</u>	<u>9,436,891</u>	<u>11,006,529</u>

Turnover days

The table below sets forth the turnover days of our trade and bills receivables for the periods indicated. Trade and bills receivable turnover days for each period equals the average of the beginning and ending balances of trade and bills receivables for that period divided by revenue for that period and multiplied by 360 days in that period.

	2022	2023	2024
Trade and bills receivable turnover days	<u>73.5</u>	<u>61.4</u>	<u>52.7</u>

FINANCIAL INFORMATION

Our trade and bills receivable turnover days decreased from 73.5 days in 2022 to 61.4 days in 2023, and further decreased to 52.7 days in 2024, primarily due to our tighter control over our trade and bills receivables and increased our collection efforts.

Subsequent settlement

As of April 30, 2025, 98.7% of our total trade and bills receivables as of December 31, 2024, or RMB10,866.5 million, were settled.

Prepayments and Other Receivables

Our prepayments and other receivables primarily include prepayments for property, plant and equipment, value-added tax recoverable, refundable deposits for land use rights, prepayments for materials and others, refundable deposits for project performance, rental and other deposits, dividend receivable and other receivables.

The table below sets forth the breakdown of our prepayments and other receivables as of the dates indicated.

	As of December 31,		
	2022	2023	2024
	(in RMB thousands)		
Prepayments for property, plant and equipment	783,318	673,682	1,020,338
Value-added tax recoverable	389,766	296,627	344,998
Refundable deposits for land use rights	200,000	200,000	200,000
Prepayments for materials and others	60,129	126,382	174,304
Refundable deposits for project performance . .	—	250,000	150,000
Rental and other deposits	46,713	38,444	48,213
Dividend receivable	—	648	—
Other receivables	140,603	151,120	141,181
Less: allowance for ECL	(33,101)	(23,427)	(40,265)
Total	<u>1,587,428</u>	<u>1,713,476</u>	<u>2,038,769</u>

Our prepayments and other receivables increased by 7.9% from RMB1,587.4 million as of December 31, 2022 to RMB1,713.5 million as of December 31, 2023, as a result of an increase in refundable deposits for project performance. Our prepayments and other receivables further increased by 19.0% to RMB2,038.8 million as of December 31, 2024, primarily because of increase in prepayments for property, plant and equipment.

Subsequent settlement

As of April 30, 2025, 40.1% of our total prepayments and other receivables as of December 31, 2024, or RMB832.7 million, were settled.

FINANCIAL INFORMATION

Trade and Other Payables

Trade and bills payables

Our trade and bills payables primarily include trade payables to our suppliers. Our suppliers usually grant us a credit period of within 120 days to settle our purchases of goods.

The table below sets forth the breakdown of our trade and bills payables as of the dates indicated.

	As of December 31,		
	2022	2023	2024
	(in RMB thousands)		
Trade payables	6,950,751	7,829,164	10,388,566
Bills payables	—	13,012	91,623
Total	<u>6,950,751</u>	<u>7,842,176</u>	<u>10,480,189</u>

Our trade and bills payables increased by 12.8% from RMB6,950.8 million as of December 31, 2022 to RMB7,842.2 million as of December 31, 2023, and further increased by 33.6% to RMB10,480.2 million as of December 31, 2024, as a result of increased purchases during the Track Record Period, in line with our business expansion.

Aging analysis

The table below sets forth an aging analysis of our trade payables as of the dates indicated.

	As of December 31,		
	2022	2023	2024
	(in RMB thousands)		
Within 1 year	<u>6,950,751</u>	<u>7,829,164</u>	<u>10,388,566</u>

Turnover days

The table below sets forth the turnover days of our trade and bills payables for the periods indicated. Trade and bills payable turnover days for each period equals the average of the beginning and ending balances of trade and bills payables for that period divided by cost of sales for that period and multiplied by 360 days in that period.

	2022	2023	2024
Trade and bills payable turnover days	<u>66.4</u>	<u>57.9</u>	<u>55.2</u>

FINANCIAL INFORMATION

Our trade and bills payable turnover days decreased from 66.4 days in 2022 to 57.9 days in 2023, and our trade and bills payable turnover days further decreased to 55.2 days in 2024, mainly as a result of better management in payment schemes with our suppliers.

Subsequent settlement

As of April 30, 2025, 87.2% of our total trade and bills payables as of December 31, 2024, or RMB9,113.5 million, were settled.

Other payables and accruals

Our other payables and accruals primarily represent accrued employees’ benefits, other accrued charges, other tax payables and deposits received.

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

	As of December 31,		
	2022	2023	2024
	(in RMB thousands)		
Accrued staff cost	1,479,944	1,327,597	1,532,142
Construction payables	3,179,412	3,290,317	3,616,325
Other accrued charges	335,474	305,873	306,028
Other tax payables	140,269	248,432	267,313
Deposits received	90,732	137,415	86,499
Others	32,654	19,991	77,338
Total	<u>5,258,485</u>	<u>5,329,625</u>	<u>5,885,645</u>

Our other payables and accruals decreased slightly by 1.4% from RMB5,258.5 million as of December 31, 2022 to RMB5,329.6 million as of December 31, 2023, as a result of a decrease in accrued employees’ benefits as we ramped up our automation process. Our other payables and accruals increased by 10.4% to RMB5,885.6 million as of December 31, 2024, primarily because of an increase in accrued employees’ benefits as we paid out more bonuses and incentives in sync with our business growth.

FINANCIAL INFORMATION

Goodwill

	2022	2023	2024
	RMB'000	RMB'000	RMB'000
The Group			
COST AND CARRYING VALUES			
As at 1 January and 31 December	<u>2,970,144</u>	<u>2,970,144</u>	<u>2,970,144</u>

Goodwill acquired in a business combination of Lens Taizhou in 2020 is tested for impairment annually. For the purposes of impairment testing, goodwill has been allocated to cash-generated unit (“CGU”), comprising the assets and liabilities that generate cash flows together with the related goodwill (the “Taizhou CGU”).

The recoverable amount of Taizhou CGU has been determined based on value in use calculations. The value in use calculation is based on cash flow projections with reference to financial budgets approved by our management covering a five-year period, and a pre-tax discount rate of 10.9%, 10.7% and 10.6% at December 31, 2022, 2023 and 2024. Cash flows beyond the five-year period are extrapolated using a steady growth rate of 0%, 0% and 0% at December 31, 2022, 2023 and 2024. Expected cash inflows/outflows, which include estimations of growth rates of business volume, unit price and cost of sales, have been determined based on past performance and management’s expectations of the market development. The discount rate used reflects the cost of capital of Taizhou CGU and the industry specific factors.

The Group engages an independent qualified valuer, Beijing Zhonglin Assets Appraisal Co., Ltd. to assess the growth rates and discount rates used in the value in use calculation.

In 2022, 2023 and 2024, our management determined that there was no impairment of the Taizhou CGU as the recoverable amount exceeds its carrying amount by RMB259.9 million, RMB362.8 million and RMB 554.1 million, respectively. If the pre-tax discount rate was changed to 11.1%, 11.0 % and 11.1%, respectively, while other parameters remain constant, the recoverable amount of Taizhou CGU would equal its carrying amount. Our management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of the Taizhou CGU to exceed the recoverable amount determined.

Restricted Bank Deposits

We had restricted bank deposits of RMB3.7 million, RMB25.5 million and RMB51.3 million as of December 31, 2022, 2023 and 2024. In particular, we had restricted bank deposits of RMB41.5 million as of December 31, 2024 due to an ongoing litigation case brought against Lens Shenzhen and Shenzhen Lens Wang for contractual disputes relating to the defendants’ alleged failure to perform minimum purchase obligations under a sales contract. As of the Latest Practicable Date, the case was being transferred from a district court in Chengdu, the original court where the plaintiff sued, to a district court in Changsha on account of jurisdiction. We believe that the amount sought by the plaintiff is not in accordance with either the contract or the relevant

FINANCIAL INFORMATION

regulations. Nonetheless, we decided to treat RMB41,500,000 as restricted bank deposits since the relevant funds were frozen by the court because of the ongoing litigation. Considering the amount involved, we do not expect this case to have any material impact on our business operations or financial condition.

CASH FLOWS

The table below sets forth our cash flows for the periods indicated.

	<u>2022</u>	<u>2023</u>	<u>2024</u>
		RMB'000	
Operating cash flows before movements in			
working capital	7,471,246	8,341,908	9,154,875
Changes in working capital	1,863,689	1,386,278	2,148,190
Income tax paid	<u>(154,402)</u>	<u>(427,988)</u>	<u>(414,224)</u>
Net cash from operating activities	9,180,533	9,300,198	10,888,841
Net cash used in investing activities	(5,576,695)	(5,367,384)	(6,050,290)
Net cash used in financing activities	<u>(2,416,316)</u>	<u>(5,136,912)</u>	<u>(4,454,405)</u>
Net increase (decrease) in cash and			
cash equivalents	1,187,522	(1,204,098)	384,146
Cash and cash equivalents at beginning of			
the year	<u>10,216,339</u>	<u>11,682,255</u>	<u>10,493,519</u>
Effect of foreign exchange rate changes	<u>278,394</u>	<u>15,362</u>	<u>59,139</u>
Cash and cash equivalents at ending of			
the year	<u>11,682,255</u>	<u>10,493,519</u>	<u>10,936,804</u>

Operating Activities

In 2024, we had net cash generated from operating activities of RMB10,888.8 million, primarily consisting of our profit for the year of RMB3,676.9 million, adjusted for items mainly including (i) non-cash and non-operating items, primarily comprising depreciation of property, plant and equipment of RMB4,770.8 million, and (ii) changes in working capital, primarily comprising (a) an increase in trade and other payables of RMB3,928.4 million, and (b) an increase in trade and bills receivables of RMB1,511.3 million.

In 2023, we had net cash generated from operating activities of RMB9,300.2 million, primarily consisting of our profit for the year of RMB3,041.8 million, adjusted for items mainly including (i) non-cash and non-operating items, primarily comprising depreciation of property, plant and equipment of RMB4,633.0 million, and (ii) changes in working capital, primarily comprising an increase in trade and other payables of RMB1,455.0 million.

FINANCIAL INFORMATION

In 2022, we had net cash generated from operating activities of RMB9,180.5 million, primarily consisting of our profit for the year of RMB2,519.8 million, adjusted for items mainly including (i) non-cash and non-operating items, primarily comprising depreciation of property, plant and equipment of RMB4,340.7 million, and (ii) changes in working capital, primarily comprising (a) a decrease in trade and bills receivables of RMB1,450.0 million, (b) a decrease in prepayments and other receivables of RMB485.6 million and (c) a decrease in trade and other payables of RMB217.1 million.

Investing Activities

In 2024, we had net cash used in investing activities of RMB6,050.3 million, primarily consisting of purchase of financial assets/derivatives at FVTPL of RMB1,719.7 million and purchase of property, plant and equipment of RMB6,237.7 million, partially offset by proceeds from disposal of financial assets/derivatives at FVTPL of RMB1,932.0 million.

In 2023, we had net cash used in investing activities of RMB5,367.4 million, primarily consisting of purchase of financial assets/derivatives at FVTPL of RMB1,185.6 million and purchase of property, plant and equipment of RMB5,085.3 million, partially offset by proceeds from disposal of financial assets/derivatives at FVTPL of RMB1,387.0 million.

In 2022, we had net cash used in investing activities of RMB5,576.7 million, primarily consisting of purchase of financial assets/derivatives at FVTPL of RMB7,342.2 million and purchase of property, plant and equipment of RMB6,824.3 million, partially offset by proceeds from disposal of financial assets/derivatives at FVTPL of RMB8,702.3 million.

Financing Activities

In 2024, we had net cash used in financing activities of RMB4,454.4 million, primarily consisting of repayment of borrowings of RMB6,661.4 million and dividends paid to the shareholders of the Company of RMB1,482.2 million, partially offset by new borrowings raised of RMB5,120.2 million.

In 2023, we had net cash used in financing activities of RMB5,136.9 million, primarily consisting of repayment of borrowings of RMB11,236.3 million and dividends paid to the shareholders of the Company of RMB986.2 million, partially offset by new borrowings raised of RMB7,533.7 million.

In 2022, we had net cash used in financing activities of RMB2,416.3 million, primarily consisting of repayment of borrowings of RMB17,978.2 million and interest paid for borrowings of RMB558.7 million, partially offset by new borrowings raised of RMB17,584.2 million.

FINANCIAL INFORMATION

INDEBTEDNESS

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

	As of December 31,			As of
	2022	2023	2024	April 30,
	(in RMB thousands)			2025
				(unaudited)
Current				
Borrowings	9,848,393	5,669,812	6,518,634	7,051,185
Lease liabilities	13,503	27,726	47,659	58,828
Non-current				
Borrowings	9,122,890	9,588,264	7,807,931	6,718,940
Lease liabilities	34,145	20,773	151,529	159,442
Loans from related parties . . .	1,027,632	1,065,146	—	—
Total	20,046,563	16,371,721	14,525,753	13,988,395

As of April 30, 2025, being the most recent practicable date for the purpose of the statement of indebtedness, we had total indebtedness of RMB13,988.4 million, including (i) borrowings of RMB13,770.1 million; and (ii) lease liabilities of RMB218.3 million.

Borrowings

As of December 31, 2022, 2023 and 2024, we had borrowings of RMB18,971.3 million, RMB15,258.1 million and RMB14,326.6 million, respectively. As of April 30, 2025, we had bank borrowings of RMB13,770.1 million, which were unsecured and unguaranteed. The table below sets forth the maturity profile of our borrowings as of the dates indicated.

	As of December 31,			As of
	2022	2023	2024	April 30,
	(in RMB thousands)			2025
				(unaudited)
Within one year	9,848,393	5,669,812	6,518,634	7,051,185
Between one to two years	4,451,040	5,903,733	4,640,250	4,023,465
Between two to five years	4,671,850	3,684,531	3,097,525	2,695,475
More than five years	—	—	70,156	—
Total	18,971,283	15,258,076	14,326,565	13,770,125

FINANCIAL INFORMATION

During the Track Record Period and up to the Latest Practicable Date, our outstanding borrowings contained certain customary covenants, and we had not defaulted on any covenants on these outstanding borrowings. In addition, we had not experienced any difficulty in obtaining bank loans or other borrowings during the Track Record Period and up to the Latest Practicable Date.

Loans From Related Parties

As of December 31, 2022, 2023 and 2024 and as of April 30, 2025, we had loans from related parties of RMB1,027.6 million, RMB1,065.1 million, nil, and nil, respectively. These loans were mainly used for supplementing our working capital and optimizing our debt structure by repaying certain loans from financial institutions and were non-trade in nature.

Lease Liabilities

Our lease liabilities increased from RMB47.6 million as of December 31, 2022 to RMB48.5 million as of December 31, 2023 and our lease liabilities increased from RMB48.5 million as of December 31, 2023 to RMB199.2 million as of December 31, 2024, both as a result of new leases entered into for new factories and employees’ housing. As of April 30, 2025, we had lease liabilities of RMB218.3 million, among which, RMB137.2 million were unsecured and unguaranteed, RMB81.1 million were secured and unguaranteed. Our lease liabilities increased from RMB199.2 million as of December 31, 2024 to RMB218.3 million as of April 30, 2025, primarily due to the same foregoing reason.

Except as disclosed above, and apart from intra-group liabilities and normal trade payables as of April 30, 2025, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees, or material contingent liabilities.

CAPITAL EXPENDITURE AND COMMITMENTS

Capital Expenditure

The table below sets forth our capital expenditure for the periods indicated.

	<u>2022</u>	<u>2023</u>	<u>2024</u>
	(in RMB thousands)		
Purchase of property, plant and equipment . . .	6,824,316	5,085,273	6,237,734
Payments for leasehold land	<u>—</u>	<u>277,654</u>	<u>118,320</u>
Total	<u>6,824,316</u>	<u>5,362,927</u>	<u>6,356,054</u>

FINANCIAL INFORMATION

During the Track Record Period, our capital expenditure was primarily for purchase of property, plant and equipment used in our production and payments for leasehold land.

Capital Commitments

The table below sets forth our capital commitments as of the dates indicated.

	As of December 31,		
	2022	2023	2024
	(in RMB thousands)		
Capital expenditure contracted for but not provided for in the Historical Financial Information			
— Property, plant and equipment	<u>820,472</u>	<u>1,352,626</u>	<u>2,217,417</u>

KEY FINANCIAL RATIOS

	For the year ended/as of December 31,		
	2022	2023	2024
Gross margin ¹	18.3%	15.6%	14.6%
Net profit margin ²	5.4%	5.6%	5.3%
Return on assets ³	3.3%	3.9%	4.6%
Return on equity ⁴	5.8%	6.7%	7.7%
Current ratio ⁵	1.3	1.5	1.3
Quick ratio ⁶	1.0	1.1	1.0
Gearing ratio ⁷	42.8%	32.8%	29.3%

Notes:

- (1) Gross margin is calculated as gross profit for the year divided by revenue for the corresponding year and multiplied by 100%.
- (2) Net profit margin is calculated as net profit for the year divided by revenue for the corresponding year and multiplied by 100%.
- (3) Return on assets is calculated as net profit for the year divided by the average total assets and multiplied by 100%. Average total assets is the sum of the balance of total assets at the beginning and at the end of the year, divided by two.
- (4) Return on equity is calculated as net profit for the year divided by the average total equity and multiplied by 100%. Average total equity is the sum of the balance of total equity at the beginning and at the end of the year, divided by two.
- (5) Current ratio is calculated as total current assets as at the end of the year divided by total current liabilities as at the end of the corresponding year.
- (6) Quick ratio is calculated as total current assets less inventories as at the end of the year and divided by total current liabilities as at the end of the corresponding year.
- (7) Gearing ratio is calculated as the total bank loans as at the end of the year divided by total equity as at the end of the corresponding year and multiplied by 100%.

FINANCIAL INFORMATION

DISCLOSURE ABOUT FINANCIAL RISKS

We are exposed to a variety of financial risks including currency risk, interest risk, credit risk and liquidity risk. For details of our risk exposure and sensitivity analysis, see note 41 to Appendix I — Accountants’ Report.

Currency Risk

Currency risk arises when recognized financial assets and liabilities are denominated in a currency that is not the same as an entity’s functional currency. We have certain sales, purchases, bank balances and borrowings denominated in foreign currencies, which exposes us to currency risk. We manage and monitor our exposure to currency risk to ensure appropriate measures are implemented in a timely and effective manner.

Specifically, if the RMB strengthened 10% against the U.S. dollar, we would have recorded RMB 551.2 million, RMB586.9 million and RMB854.9 million less of profit for the year in 2022, 2023 and 2024.

Interest Risk

We are exposed to fair value interest rate risk in relation to our pledged and restricted bank deposits, fixed-rate bank borrowings and lease liabilities. We are exposed to cash flow interest rate risk in relation to variable-rate bank balances and borrowings.

Credit Risk

Credit risk refers to the risk that our counterparties may default on their contractual obligations resulting in financial losses to us. Our credit risk exposures primarily relate to our trade and bills receivables and bank balances. We do not hold any collateral or other credit enhancements to cover our credit risks associated with our financial assets.

Liquidity Risk

Liquidity risk is the risk that we will encounter difficulty in meeting financial obligations due to shortage of funds. To manage our liquidity risk, we monitor and maintain a level of bank balances and cash deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flows.

Capital Management

The primary objectives of our capital management are to safeguard our ability to continue as a going concern and to maximize our return to shareholders through the optimization of our debt and equity balance. Our overall strategy remained unchanged during the Track Record Period.

Our capital structure consists of net debt, which includes borrowings and lease liabilities, net of bank balances and cash and total equity, mainly comprising issued share capital, share premium and retained profits, other reserves and non-controlling interests.

FINANCIAL INFORMATION

Our management reviews our capital structure on a regular basis. As part of this review, they consider the cost of capital and risks associated with the capital. Based on recommendations of our management, we will balance our overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

RELATED PARTY TRANSACTIONS

Related party transactions are set out in note 42 to Appendix I — Accountants’ Report. Our Directors confirm that these transactions were conducted in the ordinary course of our business, on an arm’s length basis and with normal commercial terms between the relevant parties.

OFF-BALANCE SHEET ARRANGEMENTS

During the Track Record Period, we did not enter into any off-balance sheet arrangements.

DIVIDEND POLICY

In 2022, 2023 and 2024, our Company declared dividends of RMB493.1 million, RMB986.2 million and RMB1,482.2 million, all of which had been paid in full. See Note 15 to the Accountants’ Report included in Appendix I to this document for details.

We do not have a fixed dividend distribution ratio. PRC laws require that dividends be paid only out of our distributable profits. Distributable profits are our after-tax profits, less appropriations to statutory and other reserves that we are required to make. Our dividend policy sets forth that, subject to the condition that the Company has recorded a net profit for the year and maintains a positive balance of accumulated undistributed profits, and provided that such distribution would not impair the Company’s ability to sustain ongoing operations and long-term development, the Company shall prioritize profit distribution by way of cash dividends in the absence of any significant capital expenditure plans. The amount of profits distributed by cash dividends shall not be less than 15% of the distributable profits realized for that year. Over any three-year period, the total profits distributed by way of cash dividends shall not be less than 30% of the average annual distributable profits realized during the same three-year period. Pursuant to our Articles of Association, our Board may declare dividends in the future after taking into account our results of operations, financial conditions, cash requirements and availability, and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents, applicable PRC laws and approval by our Shareholders.

After the [REDACTED], we may declare and pay dividends mainly by cash or by stock that we consider appropriate. Decisions to declare or to pay any dividends in the future will depend on, among other things, our Company’s profitability, operations and development plans, external financing environment, costs of capital, our Company’s cash flows and other factors that our Directors may consider relevant. Our ability to distribute dividends in the future also depends on whether we can receive dividends from our subsidiaries.

FINANCIAL INFORMATION

DISTRIBUTABLE RESERVE

As of December 31, 2024, we had retained profits attributable to owners of the Company of RMB15,717.1 million.

DISCLOSURE REQUIRED UNDER RULES 13.13 TO 13.19 OF THE HONG KONG LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to Rules 13.19 of the Hong Kong Listing Rules.

UNAUDITED [REDACTED] FINANCIAL INFORMATION

Please refer to Appendix II — Unaudited [REDACTED] Financial Information for details.

[REDACTED] EXPENSES

[REDACTED] expenses represent professional fees, [REDACTED] commission and fees incurred in connection with the [REDACTED] and the [REDACTED]. Our [REDACTED] expenses are estimated to be approximately HK\$[REDACTED] (including [REDACTED] commission), accounting for [REDACTED]% of the gross [REDACTED] of the [REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per H Share, being the mid-point of the [REDACTED] range stated in this document, and no exercise of the [REDACTED] or the [REDACTED]). Among our [REDACTED] expenses, approximately HK\$[REDACTED] is directly attributable to the issuance of H Shares and will be charged to equity upon completion of the [REDACTED], and approximately HK\$[REDACTED] has been charged to our consolidated statements of profit or loss and other comprehensive income. The [REDACTED] expenses we incurred during the Track Record Period and expect to incur would consist of approximately HK\$[REDACTED] [REDACTED] related expenses and fees (including but not limited to commissions and fees), approximately HK\$[REDACTED] non-[REDACTED]-related expenses and fees of the Sole Sponsor, legal advisors and reporting accountant and approximately HK\$[REDACTED] for other non-[REDACTED]-related fees and expenses.

The [REDACTED] expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

NO MATERIAL ADVERSE CHANGE

Our Directors confirmed that, as of the date of this Document, there has been no material adverse change in our financial position since December 31, 2024, and there has been no event since December 31, 2024 that would materially affect the information as set out in the Accountants’ Report in Appendix I to this Document.