Goertek

1. Financial statements signed and sealed by the Company's person in charge, the chief accountant, and the person in charge of accounting department (accounting supervisor);

2. The originals of the 2025 annual report and its abstract signed by the Company's person in charge;

3. The originals of the auditor's report with the seal of Zhongxi CPAs (Special General Partnership) and the signature and seal of the certified public accountants;

4. The originals of all documents and announcements publicly disclosed on the media designated by the China Securities Regulatory Commission (CSRC) during the reporting period.

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Section III Management Discussion and Analysis

During the reporting period, the Company serves the global leading clients in the technology and consumer electronics industry with vertically integrated product solutions of precision components and smart hardware, as well as R&D and manufacturing services.

The Company's main business includes three segments: precision components business, smart audio device business and smart hardware business. The precision components business focuses on product directions such as acoustics, optics, microelectronics, structural components, etc. The related products include micro speaker/receiver, speaker module, haptic component (actuator), wireless charging device, antenna, MR optical devices and modules, AR optical devices and modules, micro-nano optical devices, 3D structured light modules, AR HUD modules, MEMS acoustic sensors, other MEMS sensors, SiP, precision structural parts, etc. The above-mentioned precision components are widely applied in devices such as smartphones, tablets, AI smart glasses, MR, AR, smart wearable devices, smart wireless earphones, smart home devices, and automotive electronics devices. Smart audio device business focuses on providing products related to intelligent noise reduction, AI interaction, and spatial audio. The main products include smart wireless earphones, smart speakers, etc. Smart hardware business focuses on providing products related to leisure and entertainment, smart assistant, sports and health, and home security. The main products include AI smart glasses, MR, AR, smart wearable devices, gaming consoles and accessories, smart home devices, etc.

The Company has innovative competitive advantages in the fields of acoustics, optics, MEMS microelectronics and precision manufacturing, and owns many intellectual property rights in the field of precision parts and components. In addition, the Company has accumulated rich experience in product projects by cooperating with industry-leading clients in the field of smart hardware through "ODM", "JDM" and other business modes. During the reporting period, the Company continued to strengthen its long-term cooperative relationships with leading clients in the global technology and consumer electronics industry. As a result, the Company has been highly recognized by clients for its product solutions and services, and occupies a leading market position in the fields of micro speakers, MEMS microphones, AI smart glasses, MR, smart wearable devices, smart wireless earphones, gaming consoles and accessories, etc.

During the reporting period, the Company won multiple honors, including being ranked the 6th in the 2025 Top 100 Backbone Electronic Components Enterprises of China, 16th in the 2025 Top 100 Competitive Enterprises in China's Electronics Information Industry, 102nd in the 2025 Top 500 Private Enterprises in China, 71st in the 2025 Top 500 Private Manufacturing Enterprises in China and 135th in the 2025 Top 500 Chinese Brands. The company was named to Fortune China's Tech 50 in 2025, and received several honors including the First Prize for Scientific and Technological Progress of the China Electronic Components Industry Association in 2025, as well as the Red Dot Product Design Award from Germany.

In 2025, AI technology made remarkable progress, with continuous improvements in model inference and multimodal capabilities. AI agents have progressively matured and continued to evolve toward intelligent assistants. AI technology has been widely applied across both the industrial and consumer sectors. In the industrial sector, AI has been progressively deeply embedded throughout the entire chain of enterprise decision-making, R&D, production and sales, becoming a key productivity driver for improving quality and efficiency. In the consumer sector, AI technology and AI agents have been progressively integrated into consumers' daily lives, work, learning and content creation, continuously building new application scenarios and consumption habits.

The integration of AI technology with smart hardware products has opened up new development space for the consumer electronics industry, bringing a new round of growth opportunities for industry players. On one hand, leading manufacturers have continuously launched smartphones featuring richer AI functionalities, delivering efficient and convenient intelligent experiences for consumers, while also driving continuous upgrades in the technical specifications of precision components related to edge-side AI features, including chips, MEMS sensors, acoustic components and image sensors, with the market scale steadily growing. On the other hand, AI technology urgently needs to be deployed on terminal devices to continuously acquire natural data for model advancement, build consumer stickiness and complete the business model innovation loop. Supported by improved model inference, enhanced multimodal capabilities and the development of AI agents, industry players have been actively advancing the development of emerging AI-powered smart hardware products such as AI smart glasses and smart wearable devices. In addition, text-to-video generative AI technology made significant strides in 2025, deeply empowering the film and television, gaming, short video and advertising content industries, substantially improving content creation efficiency and reducing production costs, and bringing broader future development prospects for smart hardware products with high content dependency such as MR and smart gaming consoles.

According to IDC, a renowned consulting firm, global smartphone shipments reached approximately 1.26 billion units in 2025, a YoY increase of approximately 2.1%. Global smart wearable product shipments reached approximately 210 million units, a YoY increase

of approximately 8.7%. The global smartphone market showed a moderate recovery as a whole, driving a rebound in the related precision components market. In particular, products such as acoustic sensors related to AI voice interaction continued to show a technology upgrade trend, and the market scale of high-performance sensors increased. The market scale of smart wearable products, represented by smart watches, smart bands and smart rings, continued to maintain steady growth.

According to IDC, a renowned consulting firm, global AI smart glasses shipments grew 241% YoY in 2025, reaching a market scale in the tens of millions of units, making it one of the fastest-growing emerging hardware products in the consumer electronics industry. AI smart glasses products have unique advantages in human-computer interaction and natural data acquisition, and are expected to become an important carrier for the edge-side deployment of large AI models, attracting continuous attention and investment from industry-leading enterprises. On the other hand, driven by active promotion from industry-leading enterprises, AR products equipped with more complex optical display systems and capable of overlaying and integrating virtual content with real-world environmental information are also accelerating their maturity. Related technologies in optics, display, communication and new materials are iterating at an accelerating pace, which is expected to drive the rapid development of AR products in the coming years. In addition, with the rapid development and application of generative AI technology, the MR industry has also seen promising new variables. The substantial improvement in content creation efficiency and the rapid decline in content costs are expected to gradually reverse the constraint on industry development caused by content shortage in the coming years, providing strong support for the long-term development of related hardware products.

Facing the new trend of AI technology integration with smart hardware products and the new opportunities in the consumer electronics industry, the Company will go all out and respond proactively. Building on its existing advantages, the Company will actively invest in R&D and explore emerging product and technology directions, continuously consolidate its core competitiveness, deepen long-term strategic cooperation with industry-leading clients, and actively expand emerging smart hardware and related precision components businesses, promoting the sustained, healthy development of the Company.

1. Industry-leading precision and intelligent manufacturing capabilities

In the fields of technology and consumer electronics, the Company has well-recognized precision manufacturing capabilities and a strong industry reputation. Relying on its core competencies and long-term experience accumulation in precision manufacturing, the Company continuously enhances the processing precision, production efficiency and quality standards of precision components and smart hardware products, achieving self-developed and self-manufactured core raw materials. Through the comprehensive application of ultra-high-precision molds, high-precision metal/non-metal processing, ultrasonic technology, laser technology and various other advanced process technologies, the Company has built industry-leading precision manufacturing capabilities in areas such as micro acoustic components, precision optical components, MEMS sensors, SiP and precision structural components, ensuring high-precision, high-efficiency and high-quality product delivery.

Relying on its advanced equipment development capabilities and flexible automated production advantages, the Company promotes the upgrading of intelligent manufacturing models and continuously improves the GPS. In the fields of automation, machine vision and artificial intelligence related to intelligent manufacturing, the Company continuously invests in independent R&D, while drawing on international leading practices to introduce world-class advanced technologies and core equipment for systematic integration. Through deep application of new-generation AI technologies such as large AI models, digital twins, intelligent sensing and decision optimization, the Company continuously optimizes key processes including warehousing and logistics, production scheduling, process testing, assembly and packaging, quality control, equipment operation and maintenance, as well as energy management, promoting the transformation of its manufacturing model toward digitalization, networking, intelligentization and servitization, and continuously building core intelligent manufacturing capabilities for the future.

2. Multi-technologies integration platform and strong team of R&D personnel

The Company has established a product R&D and manufacturing platform that integrates multiple technologies including materials, structures, electronic circuits, software algorithms, wireless communication, advanced processes, testing and automation. Through cross-domain technology integration, the Company provides clients with advanced, systematic precision components and smart hardware product solutions. The Company has globally assembled and cultivated outstanding talents in disciplines including acoustics, optics, microelectronics, wireless communication, precision manufacturing and automation, building a technical talent team with deep technical strength and extensive product project experience. The Company has also established industry-academia-research cooperation with renowned universities and research institutions including Stanford University, MIT, Tsinghua University, Zhejiang University, Shandong University, Nanjing University and the Chinese Academy of Sciences, forming an open, comprehensive technology R&D platform that supports continuous innovation in technology and product R&D.

In Q2 2025, to address trade disputes and tariff policy fluctuations, enterprises in related industries actively adjusted their overseas supply chain plans and significantly increased production capacity layout in Vietnam and other regions. This led to an unexpected labor shortage issue in Vietnam during the peak production and delivery season in Q4. To ensure client cooperation and production delivery during the peak sales season, the Company's Vietnam production base adopted various measures including increasing recruitment incentive efforts, raising onboarding bonuses and improving wages. The unexpected labor shortage, combined with the industry peak season and project labor demand peak, resulted in a significant unexpected increase in the Company's comprehensive labor costs in Q4 2025, leading to a short-term decline in single-quarter profitability. In response to the above issues, the Company has implemented various measures including optimizing commercial terms, adjusting production capacity distribution and enhancing automation levels. It is expected that the above short-term, seasonal profitability fluctuations caused by international trade situation volatility, unexpected labor shortage and peak project labor demand will be quickly alleviated and will not have a long-term impact on the Company's overall profitability.

During the reporting period, the Company promoted Goertek Optics to integrate high-quality industrial resources through capital operations, significantly enhancing Goertek Optics' competitive advantages and industry position in precision optical components and modules for products such as AI smart glasses, AR and MR. Upon completion of the above integration, the Company remains the largest shareholder of Goertek Optics, and Goertek Optics will continue to serve as an important associate company of the Company, further undertaking and deepening the Company's future business development in the precision optical field.

Looking ahead, the Company will seize the new development opportunities brought by the rapid development of AI technology to the consumer electronics industry, relying on its solid core competitiveness and industry position, actively expand related precision components and emerging smart hardware product business opportunities, and do a good job in business development, client service, project delivery, operational improvement and other important tasks, striving to continuously improve business performance and achieve the Company's long-term healthy development.

During the reporting period, the Company achieved revenue of RMB 96,550.17million, with a 4.36% YoY decline. The Company realized net profit attributable to the shareholders of the company of RMB 3,940.31million, with a 47.85% YoY increase. The Company's operating costs amounted to RMB 85,155.35million, with a 5.13.f1 0 0-6( )-197-151(im)16(p)-6(ro4a)4(n)-19(y)20( )-16(o)-6(f)13( )-16(

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During the reporting period, the Company established 12 subsidiaries, including Weifang Goertek Smart Technology Co., Ltd., Qingdao Goertek Starshine Smart Technology Co., Ltd., Hefei Goertek Technology Co., Ltd., Hangzhou Goertek Technology Co., Ltd., Dongguan Yili Technology Co., Ltd., Hainan Goertek Trading Co., Ltd., Shanghai Goertek IntelliReach Technology Co., Ltd., Goertek Optoelectronics Technology (Qingdao) Co., Ltd., GoerView Technology (HongKong) Co., Limited, Goertek Holdings (HongKong) Co., Limited, Yili Technology Vietnam Company Limited, Goertek Singapore Holdings Pte. Ltd.

During the reporting period, a total of 16 subsidiaries were excluded from the consolidated financial statements, including Goertek Optical Technology Co., Ltd., Goertek Optical Technology (Qingdao) Co., Ltd., Goertek Optical Technology (Shanghai) Co., Ltd., Uphoton Technology (Shaoxing) Co., Ltd., Uphoton Technology (Beijing) Co., Ltd., Jiaxing Uphoton Optoelectronics Technology Co., Ltd., Shaoxing UPhoton Precision Technology Co., Ltd., Hangzhou Uphoton Optoelectronics Technology Co., Ltd., Tianjin Uphoton Technology Co., Ltd., Nanjing Uphoton Technology Co., Ltd., Goertek Optical Technology (HongKong) Holdings Co., Limited, Goertek Optical Technology (HongKong) Co., Limited, Goertek Optoelectronics Technology (Qingdao) Co., Ltd., GoerView Technology (HongKong) Co., Limited, Qingdao Goerpixel Technology Co., Ltd., Xi'an Goerpixel Technology Co., Ltd.

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expected that the above short-term and seasonal profitability fluctuations will be quickly alleviated. During the reporting period, the Company promoted Goertek Optical to integrate high-quality industry resources through capital operations, significantly enhancing Goertek Optical's competitive advantages and industry position in the precision optics field, while also generating considerable investment returns.

Looking ahead to 2026, the

The Company maintains a healthy asset and liability structure, and maintains a good long-term cooperative relationship with banks and other major financial institutions. In 2026, the Company will continue to improve the management of cash, optimize payment terms, control capital expenditure, and enhance the efficiency of funds. The Company will fully evaluate various financing tools to reasonably manage and control the asset-liability ratio and debt structure. The Company will conduct financial derivatives trading activities in a standardized manner, to actively avoid liquidity risks, foreign exchange risks, and interest rate risks, and with all the measures above, to thus provide stable and sufficient financial support to the development of the Company.

5. Future risks

(1) Risk of macroeconomic

The global economy still awaiting recovery, and unfavorable factors suppressing investment and consumption activities continue to exist, which may affect the development of the global technology and consumer electronics industries in the short term. Some smart hardware products, such as smartphones, have experienced slower growth, and the development speed of certain emerging smart hardware product markets may fall short of expectations, which may affect the market demand or sales prices of the Company's related products, thereby impacting the Company's business performance. At the same time, the international political and economic landscape has become increasingly complex and severe, and international trade frictions and geopolitical conflicts have intensified. As the Company's products are supplied to global technology and consumer electronics brand clients, such risks may affect the global industrial chain layout of related customers, thereby bringing potential impact on the Company's production and operations.

(2) Risk of client concentration

The competitive landscape of the global technology and consumer electronics industry, along with the Company's business model and key account strategy, determines a relatively concentrated client structure. As a result, the business income from a few core clients accounts for a large proportion of the Company's overall revenue. Although the aforementioned clients are all leading global industry enterprises with significant competitive advantages and market positions, and have maintained long-term stable cooperative relationships with the Company, if major clients experience fluctuations in their business activities due to various factors, or if the cooperative relationship between the clients and the Company changes, it may bring corresponding fluctuations and risks to the Company's business.

(3) Risk of exchange rate fluctuation

The export business accounts for a high proportion of the Company's overall revenue. At the same time, the Company also imports a considerable amount of raw materials, equipments and other items from overseas. These import and export businesses are primarily settled in US dollars. Although the Company has adopted appropriate risk hedging tools, the significant fluctuation of foreign exchange rates may still bring certain exchange rate risks to the Company.

(4) Risk of loss of core talents

The technology and consumer electronics industry is a talent-intensive industry. Therefore, the demand for core technical and management talents is strong, and the competition for talent is very fierce. Core talents are the key strategic resources for the Company to consolidate its competitive advantages and drive long-term stable development. For this reason, the Company will continue to improve various incentive and restraint mechanisms in order to do a good job in the "selection, cultivation, utilization and retention" of the Company's core talents. Under fierce industry competition, there may still be the loss of core talents, which may weaken the Company's competitiveness and adversely affect the sustainable development of its business.

(5) Risk of patent and technology infringement

The Company has been deeply engaged in technology R&D and innovation, and has mastered a number of independently developed core intellectual property technologies relying on long-term stable resource investment. Although the Company attaches great importance to intellectual property protection, has established full-process patent protection management measures, equipped with dedicated personnel to handle patent application and protection related matters, and signed non-compete agreements and confidentiality agreements with key technical and management personnel to ensure the maximum protection of various patent rights and interests against infringement, with the intensification of industry competition, the Company still faces the risk of its patents and other intellectual property being infringed by others.

Section IV Corporate Governance, Environment and Society

The Company continuously improved the corporate governance structure, optimized the internal management and control system, and steadily carried out corporate governance activities in strict accordance with the requirements of relevant laws, regulations and normative documents such as the *Company Law*, the *Securities Law*, *Basic Standard for Enterprise Internal Control*, *Guidelines for Articles of Association of Listed Companies*, *Code of Corporate Governance for Listed Companies*, *Rules Governing the Listing of Stocks on Shenzhen Stock Exchange* as well as the requirements of the China Securities Regulatory Commission, so as to further standardize the Company's operation and improve the level of corporate governance.

During the reporting period, the Company comprehensively reviewed its relevant governance systems. Furthermore, based on its actual conditions and business development needs, the Company revised 23 related rules including the *Articles of Association*, *Rules of Procedure for the Shareholder Meetings*, *Rules of Procedure of the Board of Directors*, *Independent Director Working System* and *External Guarantee Management System.* The Company also established the *Administrative System for Suspension and Exemption of Information Disclosure*, *Implementation Rules for the Nomination Committee*, *Internal Review System for Information Release and Reply on the Interactive Platforms of the Shenzhen Stock Exchange* and *Public Opinion Management System*.

By the end of the reporting period, the company's practice of corporate governance complied with the relevant requirements of the aforesaid laws, administrative regulations, departmental rules and normative documents, as detailed below:

1. Shareholders and Shareholders' General Meetings: The Company standardizes the procedures for convening, holding and voting at shareholders' general meetings in strict compliance with the *Rules on Shareholders' General Meetings of Listed Companies*, the *Articles of Association* and the *Rules of Procedure for the Shareholder Meetings.* The Company enhances the convenience for small and medium-sized shareholders to participate in shareholders' general meetings by offering a combination of on-site and online voting, thus ensuring that small and medium-sized shareholders can fully exercise their rights. Meanwhile, the Company appoints lawyers to witness the shareholders' general meetings on site and ensure that the convening, holding and voting procedures of each meeting are legal and compliant, thereby effectively safeguarding the legitimate rights and interests of the Company and all shareholders.

2. The Company and the Controlling Shareholder: The Company, with independent operation capacity, is independent of the controlling shareholder in business, personnel, assets, institutions and finance. The Board of Directors and internal institutions of the Company operate independently. The controlling shareholder strictly regulates its own conduct and does not interfere directly or indirectly in the Company's decision-making and business operations beyond the authority of the shareholders' general meeting.

3. Directors and the Board of Directors: The Company elects directors in strict accordance with the procedures stipulated in the *Company Law* and the *Articles of Association*. The Company currently has nine directors in total, including three independent directors, accounting for no less than one-third of the total number of directors. The size and composition of the Board of Directors meet the requirements of relevant laws, regulations and the *Articles of Association*. The Board of Directors convenes and holds board meetings and implements resolutions of shareholders' general meetings in strict accordance with the *Rules of Procedure of the Board of Directors*. All directors of the Company perform their duties in accordance with relevant laws and regulations, diligently attend board meetings and shareholders' general meetings, actively participate in professional training, and earnestly fulfill their obligations of honesty, integrity, due diligence and responsibility.

The Board of Directors has established three specialized committees, namely the Audit Committee, the Remuneration and Assessment Committee and the Nomination Committee. In accordance with the *Articles of Association* and the authorization of the Board of Directors, each committee is respectively responsible for key functions such as financial audit and internal control supervision, formulation of remuneration and performance assessment for directors and senior management, and qualification review for appointment of directors and senior management. The committees conduct comprehensive supervision and guidance over the Company's operation and management to ensure compliance and efficiency in relevant matters.

4. Performance evaluation and incentive-restraint mechanisms: The Company has established a relatively robust performance evaluation and incentive-restraint mechanism, linking operational performance, sustainable development and other indicators to the performance of senior management. The shareholders' general meeting exercises its statutory authority to determine the remuneration of directors. The Remuneration and Assessment Committee is responsible for formulating and implementing assessment standards for directors and senior management in accordance with the *Implementation Rules of the Remuneration and Assessment Committee.*

During the reporting period, the Company continued to promote the implementation of employee stock ownership plans and stock option incentive plans, fully mobilizing the initiative and enthusiasm of senior management, core business personnel and key technical personnel, and effectively achieving the close integration of the interests of shareholders, the Company and employees.

5. Stakeholders: The Company fully respects and protects the legitimate rights and interests of stakeholders, actively communicates with stakeholders to balance the interests of the Company, shareholders, employees, customers, the public and other parties, and jointly promotes the sound and sustainable development of the Company.

6. Information disclosure: In strict compliance with the *Measures for the Administration of Information Disclosure of Listed Companies*

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The pre-tax allowance for independent directors of the 6th Board of Directors is RMB 180,000 per person per year, and for independent directors of the 7th Board of Directors is RMB 210,000 per person per year, paid on a monthly basis.

Proposal on the remuneration of senior management of the Company:

The remuneration for the Company's senior management is based on the remuneration standard for their respective positions or the provisions of their employment contracts. The remuneration for senior management consists of basic remuneration and performance-based remuneration. Among them, the basic remuneration shall be determined by the Company with reference to the market or industry remuneration standards in combination with their positions, responsibilities, abilities and other factors, and will be paid on a monthly basis. The performance-based remuneration shall be determined on the basis of factors such as the score of the performance appraisal period and the position weight of each senior management with reference to the Company's relevant performance appraisal management regulations. The remuneration will then be submitted to the Company's Remuneration and Assessment Committee for approval.

Additional explanation of the above proposal:

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During the reporting period, the directors of the Company carried out work in strict accordance with the provisions of *the Company Law*, *the Securities Law*, *Code of Corporate Governance for Listed Companies*, *Rules Governing the Listing of Stocks on Shenzhen Stock Exchange*, *Self-Regulatory Guidelines No. 1 for Companies Listed on Shenzhen Stock Exchange - Normative Operation of Listed Companies on the Main Board*, *Articles of Association* and *Rules of Procedure of the Board of Directors*. They fulfilled their duty of due diligence through full discussion on major governance and business matters of the Company, ensured the decision-making process being scientific, timely, and efficient, and resolutely supervised and drove the implementation of the relevant resolutions, so as to play a positive role in the sustainable, healthy and stable development of the Company, and effectively safeguard the legitimate rights and interests of the Company and all shareholders.

During the reporting period, the Company's independent directors carried out their work in strict accordance with the *Measures for the Administration of Independent Directors of Listed Companies*, *Articles of Association*, *Rules of Procedure of the Board of Directors*, and *Independent Director Working System*. They maintained communication with other directors, senior management, and relevant personnel through on-site and remote methods to actively understand the Company's production and operating conditions as well as its financial status. Based on their professional expertise, they made positive suggestions for improving corporate governance. These suggestions effectively ensured the fairness and objectivity of board decisions, and played a positive role in perfecting the Company's supervision mechanism and governance structure, thereby safeguarding the legitimate rights and interests of the Company and all shareholders.

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The Company always adheres to the cultural philosophy of "We Make, We Share, We Thrive". It is committed to continuously building a distinctive compensation and incentive system with competitiveness and differentiation, while improving all-round welfare guarantees. Covering basic guarantees and targeted care services, the Company fully enhances employees' sense of gain and happiness.

The Company integrates remuneration incentives with employees' joint value creation, and strives to build a remuneration system with market competitiveness. It continuously carries out remuneration benchmarking and optimizes the remuneration distribution mechanism for all employees, ensuring that the remuneration strategy is tilted toward strategic businesses and key positions to reflect value differences. In 2025, the Company formulated all-round compensation policies including competitive salaries and retention incentives for outstanding fresh graduates from top universities, so as to strengthen the attraction and reserve of high-quality talents. For talents in core businesses and key positions, the Company has implemented robust special salary adjustments as well as incentive measures such as the incentive project of "Moat" and retention incentives, to realize targeted talent retention and motivation.

The Company continues to deepen the construction of incentive mechanisms and adheres to the guidance of "high performance and high incentives". Resource allocation is inclined to employees with outstanding contributions and key positions, ensuring that outstanding talents can obtain more competitive returns. At the same time, the Company attaches importance to the traction of long-term incentives and sets up equity incentive plans for employees. In 2025, the Company launched the "Home No. 8" Employee Stock Ownership Plan and the 2025 Stock Option Incentive Plan, covering more than 6,000 core key employees, which further strengthens the joint value creation between employees and the Company.

The Company strictly abides by national and local laws and regulations to protect the basic welfare rights and interests of all employees in terms of five social insurances and one housing fund, medical insurance and other aspects, and builds a compliant, comprehensive

and caring employee security system. Always adhering to the people-oriented concept and taking employees' needs as the orientation, the Company has established an all-round and multi-level "eight major welfare categories" system. It covers more than 50 segmented welfare items including catering, comfortable accommodation, education, health care, thoughtful care, delightful entertainment, considerate life services and pleasant vacation arrangements. It comprehensively covers employees' work and life scenarios ranging from daily life, clothing, food, housing and transportation to physical and mental health, as well as family protection and personal growth, making intimate care within easy reach for all employees.

In 2025, the Company deeply integrated major strategic projects and business development needs into its talent development system. While continuously consolidating foundational programs in leadership, professional competencies, and cultural values, the Company

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(1) The 2021 Stock Option Incentive Plan (hereinafter referred to as the "2021 Incentive Plan")

On April 16, 2021, the Company convened the 19th meeting of the 5th Board of Directors and the 14th meeting of the 5th Board of Supervisors, at which the *Proposal on the 2021 Stock Option Incentive Plan (Draft) and Its Abstract of Goertek Inc.* and other related proposals were approved. The incentive participants of the 2021 Incentive Plan were the key management and key business personnel serving in the Company and its wholly-owned and controlled subsidiaries. On May 7, 2021, the Company held the 2020 Annual General Shareholders' Meeting and approved the aforesaid relevant proposals. The 2021 Incentive Plan was approved, and the 2020 Annual General Shareholders' Meeting authorized the Board of Directors to handle matters related to the 2021 Incentive Plan.

On April 21, 2025, the Company convened the 25th meeting of the 6th Board of Directors and the 20th meeting of the 6th Board of Supervisors, at which the *Proposal on Cancellation of Stock Options Granted and Unexercised at the Expiration of the Second Exercise Period of the Reserved Portion under the Company's 2021 Stock Option Incentive Plan* was reviewed and approved. In accordance with the above resolution and the authorization granted by the 2020 Annual General Shareholders' Meeting, the Company cancelled a total of 937,895 stock options granted to incentive participants of the reserved grant portion under the 2021 Incentive Plan, which had been granted but had expired without being exercised. Relevant cancellation procedures were completed on April 24, 2025. Upon completion of the cancellation, the 2021 Incentive Plan of the Company has been fully implemented and concluded.

(2) The 2022 Stock Option Incentive Plan (hereinafter referred to as the "2022 Incentive Plan")

On July 8, 2022, the Company convened the 31st meeting of the 5th Board of Directors and the 25th meeting of the 5th Board of Supervisors, at which the *Proposal on the 2022 Stock Option Incentive Plan (Draft) and Its Abstract of Goertek Inc.* and other related proposals were approved. The incentive participants of the 2022 Incentive Plan were the key management and key business personnel serving in the Company and its wholly-owned and controlled subsidiaries. On July 26, 2022, the Company held the First Extraordinary General Shareholders' Meeting of 2022 and approved the aforesaid relevant proposals. The 2022 Incentive Plan was approved, and the First Extraordinary General Shareholders' Meeting of 2022 authorized the Board of Directors to handle matters related to the 2022 Incentive Plan.

On March 26, 2025, the Company convened the 23rd meeting of the 6th Board of Directors and the 19th meeting of the 6th Board of Supervisors, at which the *Proposal on Cancellation of Stock Options for the First Granted Portion under the Company's 2022 Stock Option Incentive Plan Due to Failure to Meet the Exercise Conditions for the Second Exercise Period* was reviewed and approved. In accordance with the above resolution and the authorization granted by the First Extraordinary General Shareholders' Meeting of 2022, the Company cancelled a total of 23,994,510 stock options of the initially granted portion under the 2022 Incentive Plan, which failed to satisfy the exercise conditions due to the Company's failure to meet the performance assessment targets for the second exercise period. The relevant cancellation procedures have been completed, and the 2022 Incentive Plan of the Company has been fully implemented.

(3) The 2023 Stock Option Incentive Plan (hereinafter referred to as the "2023 Incentive Plan")

On July 19, 2023, the Company convened the 7th meeting of the 6th Board of Directors and the 6th meeting of the 6th Board of Supervisors, at which the *Proposal on the 2023 Stock Option Incentive Plan (Draft) and Its Abstract of Goertek Inc.* and other related proposals were approved. The incentive participants of the 2023 Incentive Plan were the key management and business personnel of the Company and its subsidiaries. On August 8, 2023, the Company held the First Extraordinary General Shareholders' Meeting of 2023 and approved the aforesaid relevant proposals. The 2023 Incentive Plan was approved, and the First Extraordinary General Shareholders' Meeting of 2023 authorized the Board of Directors to handle matters related to the 2023 Incentive Plan.

On June 4, 2025, the Company convened the 27th meeting of the 6th Board of Directors and the 22nd meeting of the 6th Board of Supervisors, at which the *Proposal on the Adjustment of the Exercise Price under the 2023 Stock Option Incentive Plan,* the *Proposal on the Adjustment of the List of Incentive Recipients and Grant Sizes for the Reserved Granted Portion under the 2023 Stock Option Incentive Plan and the Cancellation of Certain Stock Options,* and the *Proposal on the Achievement of the Exercise Conditions for the First Exercise Period of the Reserved Granted Portion under the 2023 Stock Option Incentive Plan* were approved. In accordance with the above resolutions and the authorization granted by the First Extraordinary General Shareholders' Meeting of 2023, the Company adjusted the exercise price of the initially granted portion and the reserved granted portion under the 2023 Incentive Plan from RMB 18.12 per share to RMB 17.97 per share. The total number of incentive recipients for the reserved granted portion was adjusted from 945 to 905, and a total of 1,127,600 granted stock options that failed to meet the exercise conditions were cancelled. The relevant cancellation procedures were completed on June 12, 2025. After the cancellation, the number of stock options under the reserved grant portion was adjusted from 15,025,900 to 13,898,300. The Board of Directors holds that the exercise conditions for the first exercise period of the reserved grant portion under the 2023 Incentive Plan have been met, and incentive recipients may exercise their rights in accordance with the relevant provisions of the 2023 Incentive Plan.

On August 21, 2025, the Company convened the 30th meeting of the 6th Board of Directors and the 25th meeting of the 6th Board of Supervisors, at which the *Proposal on the Adjustment of the List of Incentive Recipients and Grant Sizes for the Initial Grant under the Company's 2023 Stock Option Incentive Plan and the Cancellation of Certain Stock Options,* the *Proposal on the Achievement of the*

Exercise Conditions for the Second Exercise Period of the Initial Grant under the Company's 2023 Stock Option Incentive Plan were approved.The Company adjusted the total number of incentive recipients for the initially granted portion under the 2023 Incentive Plan from 5,002 to 4,735. The number of stock options of the initially granted portion (excluding the vested and unexercised portion of the first exercise period of the initially granted portion) was adjusted from 116,266,320 to 110,142,661, and a total of 6,123,659 granted stock options that failed to meet the exercise conditions were cancelled. The relevant cancellation procedures were completed on August 25, 2025. The Board of Directors holds that the exercise conditions for the second exercise period of the initially granted portion under the 2023 Incentive Plan have been met, and incentive participants may exercise their rights in accordance with the relevant provisions of the 2023 Incentive Plan.

On August 27, 2025, the Company convened the 31st meeting of the 6th Board of Directors and the 26th meeting of the 6th Board of Supervisors, at which the *Proposal on Cancellation of Unexercised Stock Options upon Expiration of the First Exercise Period of the Initial Grant under the Company's 2023 Stock Option Incentive Plan* was approved.The Company cancelled a total of 69,000 stock options granted to incentive participants of the initially granted portion under the 2023 Incentive Plan, which had been granted but expired without being exercised.The relevant cancellation procedures were completed on August 28, 2025.

On October 24, 2025, the Company convened the 35th meeting of the 6th Board of Directors and the 29th meeting of the 6th Board of Supervisors, at which the *Proposal on the Adjustment of the Exercise Price under the Company's Stock Option Incentive Plan* was approved. The Company adjusted the exercise price under the 2023 Incentive Plan from RMB 17.97 per share to RMB 17.82 per share.

As of the end of the reporting period, the initially granted portion of the 2023 Incentive Plan is within the second exercise period, and the reserved grant portion is within the first exercise period.

(4) The 2025 Stock Option Incentive Plan (hereinafter referred to as the "2025 Incentive Plan")

On May 8, 2025, the Company convened the 26th meeting of the 6th Board of Directors and the 21st meeting of the 6th Board of Supervisors, at which the *Proposal on the 2025 Stock Option Incentive Plan (Draft) and Its Abstract of Goertek Inc.* and other related proposals were approved. The incentive participants of the 2025 Incentive Plan were the key management and core business personnel of the Company and its subsidiaries.On September 30, 2025, the Company held the First Extraordinary General Shareholders' Meeting of 2025, approved the aforesaid related proposals, and authorized the Board of Directors to handle matters in connection with the 2025 Incentive Plan.

On October 20, 2025, the Company convened the 34th meeting of the 6th Board of Directors and the 28th meeting of the 6th Board of Supervisors, at which the *Proposal on the Adjustment of Incentive Recipients and Grant Sizes under the Company's 2025 Stock Option Incentive Plan*, and the *Proposal on the Grant of Stock Options to Incentive Recipients* were approved.The Company adjusted the total number of incentive participants under the 2025 Incentive Plan from 6,302 to 5,972, and revised the total number of stock options granted to incentive participants from 68,060,000 to 59,716,520. The Company designated October 20, 2025 as the grant date for the stock options under the 2025 Incentive Plan.

On October 24, 2025, the Company convened the 35th meeting of the 6th Board of Directors and the 29th meeting of the 6th Board of Supervisors, at which the *Proposal on the Adjustment of the Exercise Price under the Company's Stock Option Incentive Plan* was approved. The Company adjusted the exercise price under the 2025 Incentive Plan from RMB 22.21 per share to RMB 22.06 per share.

On November 19, 2025, the Company completed the grant and registration procedures of the 2025 Incentive Plan, and granted a total of 58,068,320 stock options to 5,943 incentive participants who met the grant conditions. As of the end of the reporting period, the 2025 Incentive Plan is within the vesting period.

For details, please refer to the relevant announcements published in *CNINFO* (http://www.cninfo.com.cn), *Securities Times*, *China Securities Journal*, *Shanghai Securities News*, and *Securities Daily*.

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The remuneration standard for senior management shall be formulated by the remuneration and assessment committee, and implemented after approval by the Board of Directors.

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During the reporting period, upon the expiration of the applicable lock-up period, the Company's "Home No. 6" Employee Stock Ownership Plan disposed of a portion of its holdings in accordance with relevant provisions. As of the end of the reporting period, the Company's "Home No. 6" Employee Stock Ownership Plan held 30,179,120 shares of the Company, accounting for 0.85% of the total share capital.

During the reporting period, the Company's Employee Stock Ownership Plan exercised shareholders' rights to received in cash dividends for the fiscal year 2024, and for the first three quarters of 2025.

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None

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The Company has implemented a rigorous and effective internal control system that is tailored to its specific needs in strict compliance with the *Basic Standard for Enterprise Internal Control*, as well as relevant laws, regulations, and normative documents. The internal audit department is responsible for overseeing and assessing the implementation of this system. The Board of Directors conducts an annual self-evaluation of the Company's internal controls and discloses the *Internal Control Evaluation Report*. Simultaneously, the Company engages an accounting firm to conduct an internal control audit of the Company.

The Company continuously improves its internal control level in compliance with applicable laws, regulations, normative documents and the *Articles of Association of the Company*. During the reporting period, all operational activities of the Company were conducted in compliance with relevant systems and provisions. The Company manages major internal control businesses and matters in a strict, adequate and effective manner, including governance structure, organizational structure, social responsibility, corporate culture, human resources, procurement business, sales business, asset management, capital activities, research and development, engineering projects, financial reporting, related party transactions, external guarantees, investment management, financing management, information disclosure, internal supervision, and integrity construction.

During the reporting period, the Company did not have any material or significant deficiencies in its internal control of financial and non-financial reports. The Company has maintained effective internal control in all material respects in accordance with the requirements of the corporate internal control standard system and relevant regulations.

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Not applicable

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Not applicable

Whether the listed company and its major subsidiaries are included in the list of enterprises required to legally disclose environmental information

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Section V Important Matters

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There were no changes in accounting policies, accounting estimates, or corrections of material accounting errors during the reporting period.

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During the reporting period, the Company established 12 subsidiaries, including Weifang Goertek Smart Technology Co., Ltd., Qingdao Goertek Starshine Smart Technology Co., Ltd., Hefei Goertek Technology Co., Ltd., Hangzhou Goertek Technology Co., Ltd., Dongguan Yili Technology Co., Ltd., Hainan Goertek Trading Co., Ltd., Shanghai Goertek IntelliReach Technology Co., Ltd., Goertek Optoelectronics Technology (Qingdao) Co., Ltd., GoerView Technology (HongKong) Co., Limited,Goertek Holdings (HongKong) Co., Limited, Yili Technology Vietnam Company Limited, Goertek Singapore Holdings Pte. Ltd.

During the reporting period, a total of 16 subsidiaries were excluded from the consolidated financial statements, including Goertek Optical Technology Co., Ltd., Goertek Optical Technology (Qingdao) Co., Ltd., Goertek Optical Technology (Shanghai) Co., Ltd., Uphoton Technology (Shaoxing) Co., Ltd., Uphoton Technology (Beijing) Co., Ltd., Jiaxing Uphoton Optoelectronics Technology Co., Ltd., Shaoxing UPhoton Precision Technology Co., Ltd., Hangzhou Uphoton Optoelectronics Technology Co., Ltd., Tianjin

Uphoton Technology Co., Ltd., Nanjing Uphoton Technology Co., Ltd., Goertek Optical Technology (HongKong) Holdings Co., Limited, Goertek Optical Technology (HongKong) Co., Limited, Goertek Optoelectronics Technology (Qingdao) Co., Ltd., GoerView Technology (HongKong) Co., Limited, Qingdao Goerpixel Technology Co., Ltd., Xi'an Goerpixel Technology Co., Ltd.

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During the reporting period, the Company engaged Zhongxi CPAs (Special General Partnership) as the internal control audit accounting firm and paid the internal control audit fee of RMB 800,000 that has been included in the total compensation of RMB 3 million (tax-inclusive) paid to Zhongxi CPAs (Special General Partnership).

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On September 12, 2025, the Company convened the 32nd meeting of the 6th Board of Directors, at which it reviewed and approved the Proposal on *the Subsidiary Equity Transaction* and the Proposal on *the Capital Increase of Goertek Optical Technology Co., Ltd. and Related Party Transactions*. The Board resolved that the Company and Goertek Optical would enter into relevant agreements with the transaction counterparties. Under the agreed terms, Goertek Optical would acquire 100% equity interests in Sunny OmniLight NanoOptics Co., Ltd. and Sunny OmniLight NanoOptics Information Technology Co., Ltd. (collectively the "Share Exchange Transaction") by issuing new registered capital of RMB 529,511,488 to Sunny OmniLight Technology Co., Ltd. ("Ningbo OmniLight") and the counterparty's employee shareholding platform.

Upon completion of the Share Exchange Transaction, the Company and Ningbo OmniLight each made a capital contribution of RMB 200 million to subscribe for the newly issued registered capital of RMB 55,640,600 of Goertek Optical. As of the end of the reporting period, the Company had fully completed the aforesaid transactions and capital increases. As a result, the Company's shareholding in Goertek Optical dropped from 56.6560% to 38.5713%. In accordance with *Accounting Standards for Business Enterprises No. 33 - Consolidated Financial Statements*, Goertek Optical was no longer included in the Company's scope of consolidation.

In accordance with the requirements of laws and regulations, the Company has disclosed the significant matters that should be disclosed and occurred during the reporting period on http://www.cninfo.com.cn, *Securities Times*, *China Securities Journal*, *Shanghai Securities News* and *Securities Daily*. Other than that, no other significant matters occurred.

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On January 20, 2025, Goertek Microelectronics submitted an application for the initial public offering of overseas listed foreign shares (H shares) and their listing on the main board of the Hong Kong Stock Exchange to the Stock Exchange of Hong Kong Limited (hereinafter referred to as "HKEX"), and published the application materials for such offering and listing on the website of HKEX (www.hkexnews.hk).

On March 4, 2025, Goertek Microelectronics submitted the filing documents regarding this issuance and listing to the China Securities Regulatory Commission (CSRC) in accordance with relevant regulations, and the CSRC has acknowledged receipt of the materials.

For details, please refer to the relevant announcements published in *CNINFO (http://www.cninfo.com.cn)*, *Securities Times*, *China Securities Journal*, *Shanghai Securities News*, and *Securities Daily*.

Section VI Changes in Shares and Shareholders' Information

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Section VII Bonds

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Section VIII Financial Report

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(2) Performed analytical review procedure to analyze the rationality of changes in the revenue and gross profits;

(3) Identified the contractual terms related to the transfer of risks and rewards of ownership of goods, evaluated whether the accounting policies for revenue recognition in different modes were appropriate, and evaluated whether the time point for revenue recognition of the Company was consistent with the requirements in the Accounting Standards for Business Enterprises by audit procedures such as checking the major sales contracts or orders, understanding the policies for receipt and return of goods, communicating with the management;

(4) Selected samples to check the supporting documents related to revenue recognition, and executed external confirmation procedures on a sampling basis;

(5) Selected samples of revenue recognized before and after the balance sheet date to evaluate whether the revenue was recognized in the appropriate accounting period by verifying relevant supporting documents.

(II) Disposal of Subsidiaries

1. Description of the matter

For the accounting policy for the disposal of long-term equity investments, please refer to"14. Long-term Equity Investments" in "III. Significant Accounting Policies and Accounting Estimates" of notes to the financial statements. In 2025, Goertek disposed the equity of three subsidiaries: namely Goertek Optical Technology Co., Ltd., Qingdao Goerpixel Technology Co., Ltd., and Xi'an Goerpixel Technology Co., Ltd., respectively, resulting in a total disposal gain of RMB 2,132.6263 million. This includes: a loss of RMB 7.5729 million recognized from the disposal of equity, and a remeasurement gain of RMB 2,140.1992 million due to the remaining equity remeasured at fair value after losing control.

Due to the critical accounting judgments involved in equity disposal transactions regarding the assessment of control transfer, the nature of transaction, the fairness of transaction price, and disclosure of the disposal transactions, and the significant impact of the related investment income on the financial statements, we have identified the disposal of subsidiary equity transactions as a key audit matter.

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We performed the following audit procedures for the disposal transaction of subsidiary equity:

(1) Understood, evaluated, and tested the design and the effectiveness of the internal control related to equity disposal;

(2) Understood the reasons for the equity disposal transactions, and obtained relevant supporting documentation for the disposal of long-term equity investments, analyzed the rationality of the equity disposal transaction, and evaluated whether the measurement method for the remaining equity after disposal was appropriate;

(3) Reviewed agreements for equity disposal transactions, such as board resolutions, shareholder meeting resolutions, announcement documents, handover procedures, etc.and verified whether the relevant decision-making procedures were appropriate and whether the transactions had commercial substance;

(4) Evaluated the capability, professionalism and objectivity of external valuers engaged by the management, obtained and reviewed the valuation results of the external valuers, assessed whether the valuation models, assumptions, and key parameters used were appropriate to evaluate whether the transaction price was fair;

(5) Performed analysis and recalculation procedures to verify the accuracy of the accounting treatment related to equity disposal transactions;

(6) Reviewed the adequacy and appropriateness of the disclosure of the equity disposal transactions in the financial statements.

The Management of Goertek Inc. (the Management) is responsible for Other Information. Other Information includes information covered in the 2025 Annual Report of Goertek Inc. but excludes financial statements and auditor's reports.

Our auditor's opinions on financial statements do not cover Other Information. We also do not express any kind of verification conclusion on Other Information.

In combination with our audit of the financial statements, we're obliged to read the Other Information. In the process, we consider whether the Other Information is materially inconsistent with the financial statements or the information we learned during the audit, or whether there is a material misstatement.

Based on the work that we have already done, if we determine that the Other Information contains material misstatements, we should report the fact. In this regard, we have nothing to report.

The Management of Goertek Inc. is responsible for the preparation and fair presentation of the financial statements in accordance with the Accounting Standards for Business Enterprises, and for the design, implementation and maintenance of such internal control necessary to ensure that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the ability of Goertek Inc. to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management intends to liquidate Goertek Inc. or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of Goertek Inc.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

As part of an audit in accordance with the Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements due to fraud or error, design and perform audit procedures to address those risks, and obtain audit evidence that is sufficient and appropriate as the basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit to design appropriate audit procedures.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

4. Conclude on the appropriateness of Management's use of the going concern basis of accounting. And, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Goertek Inc.'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to express a modified opinion. Our conclusions are based on the information obtained up to the date of our auditor's report. However, future events or conditions may cause Goertek Inc. to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, and whether the financial statements fairly represent the underlying transactions and events.

6. Obtain sufficient and appropriate audit evidence on the financial information of entities or business activities within Goertek Inc. to express an opinion on the financial statements. We are responsible for the instruction, supervision and execution of the Group's audit, and assume full responsibility for the auditor's opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to affect our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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The financial statements have been prepared by the Group in compliance with the requirements of the Accounting Standards for Business Enterprises, and give a true and fair view of the financial position of the Company and the Group as at December 31, 2025, as well as the business performance, and cash flows and other relevant information for the year 2025. In addition, the financial statements of the Company and the Group comply in all material respects with the requirements concerning disclosure of the financial statements and the notes specified in " Preparation Rules for Information Disclosure by Companies Offering Securities to the Public No. 15 - General Provisions on Financial Reports (2023 Revision) " issued by CSRC.

The accounting period of the Group is divided into annual accounting period and interim accounting period. Interim accounting period means a reporting period that is shorter than a complete accounting year. The Group adopts the calendar year as its accounting year, namely January 1 to December 31 of each year.

The normal business cycle means the period from the Group's purchase of the assets for processing to realization of cash and cash equivalents. The Group takes 12 months as a business cycle and adopts the business cycle as the liquidity classification standard for assets and liabilities.

RMB is the currency of the primary economic environment in which the Company and its domestic subsidiaries operate, and the Company and its domestic subsidiaries use RMB as the functional currency. Goertek (HongKong) Co., Limited, Goertek Technology (HongKong) Co., Limited, Goertek Microelectronics (HongKong) Co., Limited, OPTIMAS CAPITAL PARTNERS FUND LP, Goertek Microelectronics Holdings Co., Ltd., Goermicro Technology Development Company Limited, Goertek Singapore Pte. Ltd., GMI SEMICONDUCTOR SDN. BHD., Goertek Holdings (HongKong) Co., Limited, Goertek Singapore Holdings Pte. Ltd. use USD as their functional currency, and all other overseas subsidiaries of the Company use the lawful currency of the country or region where their registered addresses are located as their functional currency. The currency adopted by the Group in preparing these financial statements is RMB.

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	The amount of single provision accounts for 10% or more of the total amount of bad debt provisions for various receivables and is more than RMB 10 million
	Individual prepayments with an aging of more than one year account for 10% or more of the total prepayments and the amount is more than RMB 10 million
	Single budget is more than RMB 100 million and closing balance is more than RMB 50 million
	The individual amount accounts for 10% or more of the total goodwill and is more than RMB 100 million
	Individual accounts payable with an aging of more than one year account for 10% or more of the total accounts payable and the amount is more than RMB 10 million
	Individual contract liabilities with an aging of more than one year account for 10% or more of the total contract liabilities and the amount is more than RMB 10 million
	Individual other payables with an aging of more than one year account for 10% or more of the total other payables and the amount is more than RMB 10 million

	A single investment activity accounts for 10% or more of the total cash inflow or outflow related to the investment activity received or paid, and the amount is more than RMB 500 million
	The balance of a single capitalized R&D project accounts for 10% of the total development expenditure and is more than RMB 50 million
	The total assets or revenue accounts for 10% or more of those of the Group
	The value of a single investment accounts for 2% or more of the total assets of the Group and the amount is more than RMB 500 million.

Business combination means the transaction or matter in which two or more separate enterprises are combined into one reporting entity. Business combination is divided into business combination of enterprises under common control and business combination of enterprises not under common control.

(1) Business combination of enterprises under common control

Business combination of enterprises under common control is the combination in which enterprises combined are controlled by the same party or parties before and after the combination, and such control is not temporary. In the business combination of enterprises under common control, the party that acquires control of other enterprises in the business combination is the acquirer and the other enterprises in the business combination are the acquirees. Business combination date is the date on which the acquirer actually acquires the control of the acquirees.

The assets and liabilities acquired by the acquirer are measured on the basis of carrying value of acquirees on the business combination date. The difference between the carrying value of the net assets acquired by the acquirer and the carrying value of the consideration paid for the combination (or total par value of the shares issued) is adjusted to capital surplus (share capital premiums). Adjustments shall be made to retained earnings in the event that the capital surplus (share capital premiums) is not sufficient for write-down.

Any direct costs incurred by the acquirer as a result of the business combination are recognized in the profit or loss for the current period when incurred.

(2) Business combination of enterprises not under common control

Business combination of enterprises not under common control is the combination in which the enterprises combined are not controlled by the same party or parties before and after the business combination. In the business combination of enterprises not under common control, the party that acquires control of other enterprises in the business combination on the acquisition date is the acquirer and the other enterprises in the business combination are the acquired parties. Acquisition date is the date on which the acquiring party actually acquires the control of the acquired parties.

In the business combination of enterprises not under common control, the cost of combination includes the fair value of assets paid, liabilities incurred or assumed and equity securities issued by the acquiring party in exchange for the control of the acquired parties on the acquisition date. The audit, legal service, assessment, consulting and other intermediary fees and other management fees incurred for the business combination are recognized in the profit or loss for the current period when incurred. The costs of the acquiring party for issuing equity or debt securities as part of the business consideration for the business combination are included in the initially recognized amount of these equity or debt securities. The contingent business consideration shall be included in the combination cost at its fair value on the acquisition date, and the goodwill shall be adjusted accordingly if the contingent consideration needs to be adjusted when new or further evidence arises in connection with the circumstances existing on the acquisition date within 12 months after the acquisition date. The combination cost incurred by the acquiring party and the identifiable net assets acquired in the business combination shall be measured at the fair value on the acquisition date. If the combination cost is higher than the fair value of the acquirer's share of the identifiable net assets acquired from the acquired parties on the acquisition date, the difference thereof shall be recognized as goodwill. If the combination cost is lower than the fair value of the acquirer's share of the identifiable net assets acquired from the acquired parties in the business combination, the fair value of the identifiable assets, liabilities and contingent liabilities as well as the measurement of the combination cost shall be first reviewed. If upon review, the combination cost is still lower than the fair value of the acquirer's share of the identifiable net assets acquired from the acquired parties in the business combination, such difference shall be recognized in the profit or loss for the current period.

If the deductible temporary difference acquired by the acquiring party from the acquired parties is not recognized for failure to meet the conditions for recognition of the deferred tax assets on the acquisition date, and if new or further information is obtained within 12

months after the acquisition date, showing that relevant circumstances on the acquisition date have already existed and it is expected that the economic benefits brought about by the deductible temporary difference of the acquired parties on the acquisition date may be realized, relevant deferred tax assets shall be recognized and the goodwill shall be reduced. If the goodwill is insufficient for write-down, the difference will be recognized in the profit or loss for the current period. In addition to the above condition, the deferred tax assets recognized in connection with the combination of enterprises shall be recognized in the profit or loss for the current period.

If the business combination of enterprises not under common control is realized step by step through multiple transactions, whether such transactions fall within a "package deal" shall be judged according to the standards for judgment of "package deal" in the *Notice by the Ministry of Finance of Issuing the Interpretation No. 5 of the Accounting Standards for Business Enterprises (Finance and Accounting [2012] No. 19)* and Article 51 of the *Accounting Standards for Business Enterprises No. 33 - Consolidated Financial Statements (see 7 (2) of Note V)*. If they fall within "package deal", see the description in the previous paragraphs of this part and 18. "Long-term equity investments" of Note V for accounting treatment. If they do not fall within "package deal", relevant accounting treatment shall be distinguished for individual financial statements and consolidated financial statements:

In the individual financial statements, the sum of the carrying value of the equity investment of the acquired parties held before the acquisition date and the increased investment cost on the acquisition date shall be taken as the initial investment cost of such investment. If other comprehensive income is involved in the equity of the acquired parties held before the acquisition date, the accounting treatment of other comprehensive income while disposing such investment, shall be conducted on the same basis as the direct disposal of related assets or liabilities by the acquired parties.

In the consolidated financial statements, the equity of the acquired parties held before the acquisition date shall be remeasured at the fair value of such equity on the acquisition date, and the difference between the fair value and its carrying value shall be recognized in investment income in the current period. If other comprehensive income is involved in the equity of the acquired parties held before

The shareholders' equity and current net profits or losses of the subsidiaries which are not owned by the Company shall be separately listed under the shareholders' equity and net profit in the consolidated financial statements as minority interests and minority interest profit or loss. These current profits or losses of the subsidiaries which are attributable to the minority interest shall be presented as "minority interest profit or loss" under the net profit of the consolidated financial statements. If the losses of the subsidiaries attributed to the minority shareholders exceed the shareholders' equity owned by the minority shareholders in such subsidiaries at the beginning of the period, the excess shall be deducted from the minority interests.

If the control of the previous subsidiaries is lost due to disposal of some equity investments or for any other reasons, the remaining equity shall be re-measured at fair value on the date when control is lost. The difference between the sum of consideration received from disposal of equity and the fair value of the remaining equity, and the Company's share of the previous subsidiaries' net assets calculated at the previous shareholding proportion from the acquisition date, shall be recognized in investment income in the period when control is lost. Other comprehensive income related to the equity investment of the previous subsidiaries shall be conducted on the same basis as the direct disposal of related assets or liabilities by the acquired parties when the control is lost (Except for the change caused by the re-measurement of net liabilities or net assets of the defined benefit plan in the previous subsidiary, the remaining part shall be converted into investment income for current period). Thereafter, such remaining equity shall be subject to subsequent measurement according to the *Accounting Standards for Business Enterprises No. 2 - Long-term Equity Investments or Accounting Standards for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments* and other relevant regulations. For details, please refer to 18. "Long-term equity investments" of Note V or 10. "Financial instruments" of Note V.

If the Group disposes of the equity investment of the subsidiaries step by step through multiple transactions until it loses the control thereof, it is necessary to determine whether such transactions fall within "a package deal". The multiple transactions shall be taken as a "package deal" for accounting treatment, if the terms, conditions, and economic impacts of the transactions undertaken to dispose of the equity investment of the subsidiaries meet one or more of the following conditions: these transactions are entered into at the same time or with their impacts on each other considered; a complete business result may be achieved only when these transactions are taken as a whole; one transaction depends on at least one of the other transactions; one transaction is not economical on its own, but it is economical when considered together with other transactions. If they do not fall within a "package deal", each of them shall be subject to accounting treatment according to the principles applicable to "Partial disposal of the long-term equity investments in the subsidiaries without losing control" (for details, please refer to (2) of 18 of Note V) and "Loss of control of the previous subsidiaries due to disposal of some equity investments or for any other reasons", as appropriate. If the transactions taken to dispose of the equity investment in the subsidiaries until loss of control are recognized as "package deal", these transactions shall be subject to accounting treatment as one transaction in which the subsidiaries are disposed and the control is lost. However, the difference between the price for each disposal before the control is lost and share of such subsidiaries' net assets as a result of disposal of investment, shall be recognized in other comprehensive income in the consolidated financial statements, and be included in profit or loss for the period when the control is lost.

Cash and cash equivalents of the Group include cash on hand, deposits available at any time for payment, and short-term (generally due within three months from the date of purchase) and highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

(1) Translation method of foreign currency transactions

A foreign currency transaction of the Group is translated into the functional currency at initial recognition, using the spot exchange rate prevailing at the date of the transaction (i.e., in most cases, the central parity rate of the foreign exchange rate announced by the

Non-monetary items denominated in foreign currency that are measured at historical cost shall still be measured at the functional currency amount translated at the spot exchange rate of the transaction date. Non-monetary items denominated in foreign currency that are measured at fair value are converted by using the exchange rate at the date when fair value is determined and the difference between the converted functional currency amount and the original amount in functional currency is recorded as profit or loss arising from a change in fair value (including exchange rate change) for the current period or other comprehensive income.

(3) Translation method of foreign currency financial statements

The foreign currency financial statements of overseas operations shall be converted into RMB financial statements in accordance with the following methods: Assets and liabilities items in the balance sheet are translated at the spot exchange rate on the balance sheet date; except for "Retained earnings", other items of shareholders' equity are converted at the spot exchange rate at the time of occurrence. Revenues and expenses in the income statement are translated using the average exchange rates prevailing in the period in which the transactions occur. Retained earnings in the beginning of the year are the retained earnings at the end of the prior year as translated; retained earnings at the end of the period are calculated and presented according to the translated profit distributions; exchange differences from translation between translated assets and translated liabilities and equities are recognized in other comprehensive income as exchange differences from translation. When the Group disposes of, and loses the control over, an overseas operation, exchange differences from translation which are presented in "shareholders' equity" of the balance sheet and related to the overseas operation are all or proportionally transferred to the profit or loss of the period of disposal.

Cash flows denominated in foreign currencies and cash flows of overseas subsidiaries are translated using the average exchange rates prevailing in the period of the cash flows. Any impact of exchange rate changes on cash is presented as a separate adjusting item in the cash flow statement.

The opening balances and comparative figures for the prior year are presented based on the translated amounts of the prior year's financial statements.

When all the equity of the Group in an overseas operation is disposed of, or the control over an overseas operation is lost due to a disposal of partial equity investments or any other reason, exchange differences which are presented in "shareholders' equity" of the balance sheet, related to the overseas operation and attributable to the owners of the parent company are all transferred to the profit or loss of the period of disposal.

If the proportion of equities in an overseas operation declines (but the control over that overseas operation is not lost) for a disposal of partial equity investments or any other reason, exchange differences which are related to that partial disposal are attributed to minority interests and not transferred to the profit or loss of the period of disposal. When the disposal of overseas operation involves a part of the equities in an associate or joint venture, exchange differences from translation which are related to the overseas operation are, based on the disposal proportion, transferred to the profit or loss of the period of disposal.

For any monetary item denominated in a foreign currency that constitutes a net investment in an overseas operation, in the consolidated financial statements, exchange differences from the exchange rate changes are recognized in other comprehensive income as "exchange differences from translation", and when the overseas operation is disposed of, are transferred to the profit or loss of the period of disposal.

A financial asset or financial liability shall be recognized when the Group becomes a party to a financial instrument contract.

(1) Classification, recognition and measurement of financial assets

Pursuant to the business model of managing financial assets and the contractual cash flow characteristics of financial assets, financial assets are classified by the Group into financial assets at amortized cost, financial assets at fair value through other comprehensive income, and financial assets at fair value through profit or loss.

Financial assets, when initially recognized, shall be measured at fair value. For the financial assets at fair value through profit or loss, the related transaction costs shall be included directly into current profit or loss. For the financial assets of other categories, the related transaction costs shall be included in the initially recognized amount. For the accounts receivable or notes receivable arising from the sale of products or the provision of services, which do not include or consider major financing components, the amount of consideration that the Group is expected to be entitled to is taken as the initially recognized amount.

Financial assets measured at amortized cost

The Group's business model for managing financial assets is aimed to collect contractual cash flow, and the contractual cash flow characteristics of such financial assets are consistent with the basic lending arrangement, i.e., the cash flow generated on a specific date is only the payment of principal and interest based on the amount of outstanding principal. For such financial assets, the Group shall

perform subsequent measurements at the amortized cost by the effective interest method. The gains or losses arising from amortization or impairment shall be included in current profit or loss.

Financial assets measured at fair value with changes recognized in other comprehensive income

The Group's business model for managing this type of financial assets aims both to collect the contractual cash flow and to sell it, and the characteristics of contractual cash flow of this type of financial assets shall be consistent with the basic lending arrangement. The Group measures these financial assets at fair value and the changes thereof shall be included in other comprehensive income, but the impairment losses or gains, exchange gains and losses and interest income calculated by the effective interest method shall be included in current profit or loss.

Apart from that, the Group shall designate some investments in non-trading equity instruments as financial assets at fair value through other comprehensive income. The Group will recognize the relevant dividend income of this type of financial assets in current profit or loss, and the changes in fair value into other comprehensive income. Upon derecognition of financial assets, the accumulated gains or losses previously included in other comprehensive income shall be transferred out of other comprehensive income and transferred to the retained earnings, other than being included in current profit or loss.

Financial assets at fair value through profit or loss

The financial assets except those classified into financial assets measured at amortized cost and financial assets at fair value through other comprehensive income as mentioned above, are classified by the Group into financial assets at fair value through profit or loss. In addition, at initial recognition, part of the financial assets can be recognized by the Group as financial assets at fair value through profit or loss, to eliminate or significantly reduce accounting mismatch. The financial assets are subsequently measured by the Group at fair value, and changes in fair value are included in current profit or loss.

(2) Classification, recognition and measurement of financial liabilities

At initial recognition, financial liabilities are classified into financial liabilities at fair value through profit or loss, and other financial liabilities. For the financial liabilities at fair value through profit or loss, the related transaction costs shall be included directly in current profit or loss. For other financial liabilities, the related transaction costs shall be included in the initially recognized amount.

Financial liabilities at fair value through profit or loss

The financial liabilities at fair value through profit or loss shall include financial liabilities held for trading (including derivatives falling into the category of financial liabilities) and financial liabilities designated as those measured at fair value through profit or loss at initial recognition.

Financial liabilities held for trading (including derivatives falling into the category of financial liabilities) shall be subsequently measured at fair value. Except for hedging accounting, changes in fair value shall be included in current profit or loss.

The amount of change in the fair value of a financial liability which is designated as those measured at fair value through profit or loss due to change in the Group's own credit risks shall be included in other comprehensive income. Upon derecognition of such liability, the accumulative change in its fair value caused by the change of its own credit risk included in other comprehensive income is transferred to retained earnings. The changes in its fair value shall be recognized in current profit or loss. If the treatment of the impact on the credit risk change of the financial liabilities in the above manner will cause or expand the accounting mismatch in profit or loss, the Group will recognize all the gains or losses (including the changes in the Group's own credit risks) of the financial liabilities in current profit or loss.

Other financial liabilities

Other financial liabilities except those caused by the transfer of financial assets that do not conform to the conditions for derecognition or continue to relate to the transferred financial assets and financial guarantee contracts shall be classified as financial liabilities measured at amortized cost, which shall be subsequently measured at amortized cost, and the gains or losses arising from derecognition or amortization shall be included in current profit or loss.

(3) Principle of recognition and measurement method of financial asset transfer

The financial asset shall be derecognized if: The contractual right to receive cash flows of the financial asset is terminated; The financial asset has been transferred and substantially all risks and rewards in the ownership of the financial asset have been transferred to the transferee; or The financial asset has been transferred and the enterprise has neither transferred nor retained substantially all risks and rewards in the ownership of the financial asset, but has relinquished its control over the financial asset.

If the enterprise does not transfer or retain substantially all of the risks and rewards related to the ownership of a financial asset and if the enterprise does not relinquish its control over the financial asset, it shall, according to the extent of its continuous involvement in the transferred financial asset, recognize the relevant financial asset and recognize the relevant liabilities accordingly. The extent of involvement in the financial asset transferred, refers to the company's exposure to changes in the value of the financial assets.

If the overall transfer of a financial asset meets the conditions for de-recognition, the difference between the carrying value of the transferred financial asset and the sum of the transfer consideration received and the change in fair value originally recognized in other comprehensive income will be recognized in current profit or loss.

If the partial transfer of financial assets meets the conditions for derecognition, the carrying value of the transferred financial assets is apportioned between the derecognized part and the non-derecognized part according to their respective relative fair values, and the difference between the sum of the transfer consideration received and the change in fair value originally recognized in other comprehensive income and apportioned to the de-recognition component and the aforesaid attributed carrying value will be recognized in current profit or loss.

If a financial asset is sold with the right of recourse or an endorsement, the Group needs to determine whether substantially all the risks and rewards related to the ownership of the financial asset have been transferred. If substantially all the risks and rewards related to the ownership of the financial asset have been transferred to the transferee, the Group shall de-recognize the financial asset;If substantially all the risks and rewards related to the ownership of the financial asset have been retained, the Group shall not de-recognize the financial asset. If none of the risks and rewards related to the ownership of the financial asset has been transferred or retained, the Group shall continue to determine whether it retains the control over the asset, and the accounting standard stated in the aforesaid paragraphs shall apply.

(4) Derecognition of financial liabilities

When the current obligations of a financial liability (or part of it) have been discharged, the financial liability (or that part of the financial liability) shall be derecognized by the Group accordingly. When the Group (borrower) signs an agreement with a lender to replace a financial liability with a new one, in case of substantially different terms of contract between the new one and the original one, the Group shall derecognize the original one and recognize the new one. If a substantial modification is made to all (or part of) the original financial liabilities by the Group, the original financial liabilities shall be derecognized, and at the same time, a new financial liability shall be recognized in accordance with the modified terms.

If all (or a part of) the financial liability is derecognized, the difference between the carrying value allocated to the derecognized part and the consideration paid (including the transferred non-cash assets or the liabilities assumed) is included in current profit or loss by the Group.

(5) Offset of financial assets and financial liabilities

When the Group has the legal right to offset the recognized financial assets and financial liabilities, which is enforceable for the time being, and the Group plans to settle on a netting basis or realize the financial assets and settle the financial liabilities, any net amount from netting of financial assets and financial liabilities shall be included in the balance sheet. Otherwise financial assets and financial liabilities shall be included separately in the balance sheet and shall not offset each other.

(6) Method of determining the fair value of financial assets and financial liabilities

Fair value refers to the price that market participants can receive by selling an asset or need to pay by transferring a liability in the orderly transactions on the measurement date. The fair value of a financial instrument in an active market is determined by the Group at the price quoted in the active market. The quotation in an active market refers to the price that is easily acquired from exchanges, brokers, industry associations, pricing service agencies, and the like on a regular basis and represents the actual market transactions in fair trade. If there is no financial instrument in an active market, its fair value shall be determined by the Group via valuation techniques. Valuation techniques include referring to the prices used in recent market transactions by parties who are familiar with the situation and trade voluntarily and the current fair value of other financial instruments which are essentially the same, as well as using the discounted cash flow method, the option pricing model and the like. During valuation, the Group shall adopt the valuation techniques applicable under the current circumstances and supported by sufficient available data and other information, select the input values consistent with the characteristics of assets or liabilities considered by market participants in the transactions of related assets or liabilities, and give priority to the relevant observable input values as much as possible. When observable input values are unavailable or impractical to obtain, unobservable input values are used.

(7) Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's issuance (including refinancing), repurchase, sales or cancellation of an equity instrument shall be accounted for as a change to equity. Transaction costs of an equity transaction are accounted for as a deduction from equity. The Group does not recognize changes in the fair value of equity instruments.

If the Group's equity instruments distribute dividends (covering "interest" incurred by instruments classified as equity instruments) during the existence thereof, the dividends shall be treated as profit distribution.

The financial assets for which the Group needs to recognize the impairment losses are financial assets measured at amortized cost, which mainly include notes receivable, accounts receivable, other receivables, contract assets, and so on.

(1) Method for recognizing provision for impairment

Based on the expected credit loss, the Group shall make provision for impairment of the aforementioned items by its applicable measurement method (general approach or simplified approach) of expected credit loss and recognize the credit impairment losses.

Credit loss means the difference between all contractual cash flows receivable by the Group in accordance with the contract and all cash flows expected to be received, discounted at the original effective interest rate, i.e., the present value of all cash shortages. Purchased or originated credit-impaired financial assets shall be discounted by the Group according to the credit-adjusted effective interest rate of such financial assets.

The general approach to measure expected credit losses means that the Group evaluates whether the credit risk of the financial assets (including other applicable items; the same hereinafter) has increased significantly since the initial recognition at each balance sheet date. If the credit risk of the financial instrument has increased sig

Except for accounts receivable for which credit risk is assessed separately, depending on their credit risk characteristics, accounts receivable are classified into different groups:

Item	Basis for determining groups
Accounts receivable aging portfolio	Except for the receivables for which the loss allowance of impairment has been calculated separately, the Group shall determine, through analysis of current conditions, the proportion of allowance for bad debt based on the expected credit loss rate of identical or similar receivables in previous years with similar credit risk characteristics classified by aging
Related party group	The parent and subsidiary companies included in the consolidated financial statements are divided into groups according to equity relationship.

Other receivables and factoring receivables

The Group measures impairment losses based on whether the credit risk of other receivables and factoring receivables has increased significantly since initial recognition, using an amount equivalent to expected credit loss within the next 12 months or entire lifetime.

Receivables financing

Receivables financing are primarily classified as notes receivable and accounts receivable which are measured at fair value through other comprehensive income and are presented under "Receivables financing" if they have original maturity of up to one year (including one year) or under other debt investments if they have original maturity more than one year as from the initial recognition date.

Depending on their credit risk characteristics, receivables financing are classified into different portfolios:

Item	Basis for determining groups
Bank acceptance notes	The acceptor is a bank with low credit risk
Commercial acceptance notes	Classified by the acceptor's credit risk, the same as that of the "Accounts receivable" group
Accounts receivable	Same as that of the "Accounts Receivable" group

For further details, please refer to Note V 10. "Financial instruments" and 11. "Impairment of financial assets".

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The Group presents as contract assets in the balance sheet the rights to receive consideration from customers for performance obligations that the Group has satisfied, but which are not unconditional (i.e., dependent only on the passage of time). Contract assets and contract liabilities under the same contract are presented on a net basis. Contract assets and contract liabilities under different contracts are not offset.

For details of the method for determining and accounting for the expected credit loss of contract assets, please refer to Note V 11. "Impairment of financial assets".

(1) Classification of inventory

Inventory types include among others raw materials, finished goods, turnover materials and work in progress.

(2) Valuation methods of inventory acquired and sold

"package transaction", all transactions shall be treated as one transaction to obtain control. If they do not constitute a "package transaction", the Group regards the share of the carrying amount of the acquiree's shareholders' equity in the consolidated financial statements of the final controller at the date of combination as the initial cost of the long-term equity investment. The difference between the initial investment cost of the long-term equity investment on the combination date and the sum of the carrying value of the long-term equity investment before the merger plus the carrying value of the new share payment consideration on the combination date shall be used to adjust the capital surplus. Where the capital surplus is insufficient to absorb the difference, retained earnings should be adjusted. Other comprehensive income recognized as a result of equity investments held before the combination date that were measured using the equity method or as financial assets at fair value through other comprehensive income will not be accounted for temporarily.

For the acquisition of long-term equity investments involving enterprises not under common control, the Group regards the busineuvgnized as ld ti

invested or sold asset does not constitute a business, unrealized profits or losses resulting from the transactions are recognized as investment income or loss to the extent that those attributable to the Group's equity interest are eliminated. However, unrealized losses resulting from the Group's transactions with its investee in respect of impairment losses on the transferred assets should not be eliminated. If the asset invested by the Group to its associates and joint ventures constitutes a business, to the extent that the investor realizes long-term equity investments other than control, the fair value of the invested business shall be the initial investment cost of the additional long-

other comprehensive income and profit distributions, shall be transferred to current profit or loss when control over the investee is lost. Where the remaining equity after disposal is calculated using the equity method, other comprehensive income and other shareholders' equity are transferred in proportion. If the remaining equity after disposal is calculated in accordance with the standards for recognition and measurement of financial instruments, other comprehensive income and other shareholders' equity are transferred in full.

If joint control or significant influence over the investee is lost by the Group due to the disposal of some equity investments, the remaining equity after disposal is calculated according to the financial instrument recognition and measurement standards. The difference between the fair value and the carrying value on the day when joint control or significant influence is lost is recognized in the current profit or loss. Other comprehensive income of the equity investment previously recognized using the equity method is subject to the accounting treatment applicable to the assets or liabilities related to the direct disposal of the investee when the Group stops using the equity method. Shareholders' equity recognized by the Group, other than the change in net profit or loss, other comprehensive income and profit distribution of the investee, is reclassified to profit or loss in full when the Group stops using the equity method.

Where the equity investment in a subsidiary is disposed of step-by-step by the Group through multiple transactions until control is lost, the aforementioned transactions, if they constitute a "package transaction", are accounted for as one transaction for the disposal of the equity investment in the subsidiary and the loss of control. The difference between the price of each disposal before control is lost and the carrying value of the long-term equity investment related to the disposed equity is recognized in other comprehensive income, and then transferred to the profit or loss of the current period when control is lost.

Measurement of investment property

Measurement by cost method

Depreciation or amortization method

Investment property refers to property held to earn rentals or for capital appreciation, or both. It includes land use rights that have been leased, land use rights held for transfer upon appreciation, and leased buildings. In addition, vacant buildings held by the Group for the purpose of leases will also be reported as investment properties, if the board of directors (or similar authority) adopts a written resolution expressly indicating that the buildings will be used for leases and the intention of holding them will not change in the short term.

Investment property is initially measured at cost. Subsequent expenses related to investment property shall, if economic benefits associated with the property are probable to flow to the Group and its costs can be measured reliably, be capitalized as part of the cost of the investment property. Other subsequent expenditures are recognized in current profit or loss when incurred.

The Group adopts the cost model for subsequent measurement of investment property. The investment property is depreciated or amortized in accordance with policies consistent with those for buildings or land use rights.

When self-use properties or inventories are converted into investment property, or investment property is converted into self-use properties, the carrying value before the conversion is recognized as the carrying amount after the conversion.

When investment property is disposed of or permanently withdrawn from use and is not expected to generate economic benefits from its disposal, the investment property shall be derecognized. The disposal income from the sale, transfer, abandonment or destruction of investment property less its carrying value and relevant taxes shall be recognized in current profit or loss.

Fixed assets are tangible assets held with a useful life exceeding one fiscal year for the production of goods, provision of services, leasing or management. Fixed assets are recognized only when the following conditions are met: Economic benefits relating to the fixed asset are probable to flow to the Group, and the cost of the fixed asset can be measured reliably. Fixed assets are initially measured at cost, with the influence of estimated abandonment cost taken into account.

Borrowing costs include interest on borrowings, amortization of discounts or premiums, ancillary expenses and exchange differences arising from foreign currency borrowings, etc. Borrowing costs that are directly attributable to the acquisition, construction or production of assets eligible for capitalization shall be capitalized when asset expenditures have been incurred, borrowing costs have been incurred, and the acquisition, construction or production activities necessary to make the asset reach the intended serviceable or salable state have started. Capitalization shall cease when the assets eligible for capitalization reach the intended serviceable or salable state. The remaining borrowing costs are recognized as expenses in the period in which they are incurred.

The amount of borrowing costs to be capitalized for specific borrowings is the actual interest expenses incurred during the period, less any interest income earned from unused borrowing funds deposited in banks or any investment income arising from the temporary investment of those funds. The amount of borrowing costs to be capitalized for general borrowings is calculated by applying a capitalization rate to the weighted average of the excess of cumulative expenditures on the asset over the specific borrowings. The capitalization rate is calculated and determined based on the weighted average interest rate of general borrowings.

During the period of capitalization, exchange differences arising from specific foreign currency borrowings shall be fully capitalized, and exchange differences arising from general foreign currency borrowings shall be recognized in profit or loss.

Assets eligible for capitalization refer to fixed assets, investment property, inventories and other assets that require a substantial period of time to undergo acquisition, construction or production activities to reach the intended serviceable or salable state.

If an abnormal interruption occurs in the process of acquisition, construction or production of assets eligible for capitalization and continues for more than 3 consecutive months, the capitalization of borrowing costs shall be suspended until the acquisition, construction or production of such assets resumes.

Intangible assets are identifiable non-monetary assets without physical substance owned or controlled by the Group.

Intangible assets are initially measured at cost. Expenditures related to intangible assets are recognized in the cost of intangible assets when it is probable that the associated economic benefits will flow to the Group and the associated costs can be measured reliably. Other expenditures related to intangible assets are recognized in profit or loss for the period in which they are incurred.

The acquired land use right is generally recognized as intangible assets. Expenses related to land use rights and construction costs of buildings such as self-built factories, etc., are recognized as intangible assets and fixed assets, respectively. In the case of purchased buildings, related costs are allocated between the cost of land use rights and the cost of buildings. The related costs that cannot be allocated reasonably are recognized as fixed assets.

When intangible assets with a finite useful life are available for use, their original cost is amortized over their estimated useful life using the straight-line method. Intangible assets with indefinite useful life shall not be amortized.

The amortization method for intangible assets with limited useful life is as follows:

Category	Estimated useful life	Amortization method	Basis
Land-use right	37-50 years	Straight-line method	Duration of registration of property right
Non-patented technology	2-10 years	Straight-line method	Expected years of economic benefits
Patent right	7-10 years	Straight-line method	Expected years of economic benefits
Trade mark	5 years	Straight-line method	Expected years of economic benefits
Software	3-10 years	Straight-line method	Expected years of economic benefits

For intangible assets with a finite useful life, the Group reviews their useful life and amortization method at the end of the period, and accounts for any change as a change in accounting estimates. For intangible assets with indefinite useful life, the Group reviews their useful life. Iws their

program from the date when employees stop providing services until their statutory retirement dates, provided that the conditions for recognizing provisions are satisfied.

If other long-term employee benefits provided by the Group for its employees constitute a defined contribution plan, the accounting treatment for defined contribution plans applies. In any other circumstance, the accounting treatment for defined benefit plans applies.

Obligations relating to contingencies are recognized as provisions when they meet the following conditions: (1) the Group has a present obligation related to a contingency; (2) it is probable that an outflow of economic benefits will be required to settle the obligation; and (3) the amount of the obligation can be measured reliably.

Provisions are measured at the best estimate of the expenditure required to settle the present obligation at the balance sheet date, taking into account factors relating to contingencies such as risks, uncertainties and the time value of money.

If all or part of the expenditure required to settle the provision is expected to be compensated by a third party, the amount of compensation is recognized separately as an asset when it is virtually certain that it can be received, and the recognized compensation amount does not exceed the carrying value of the provision.

(1) Accounting treatment of share-based payment

Share-based payment is a transaction where equity instruments are granted or equity instrument-based liabilities are assumed in consideration of services provided by employees or other parties. Share-based payment is classified into cash-settled share-based payment and equity-settled share-based payment.

Equity-settled share-based payment

Equity-settled share-based payments made in consideration of services provided by employees are measured at the fair value of equity instruments on the grant date. If the equity instruments vest after the completion of services in the vesting period or upon satisfaction of stipulated performance conditions, the fair value is recognized in relevant costs or expenses using the straight-line method, based on the best estimate of the number of equity instruments expected to vest during the vesting period. If the equity instruments vest immediately after the grant, they are recognized in relevant costs or expenses on the grant date, and the capital reserve is increased accordingly.

At each balance sheet date during the vesting period, the Group makes the best estimate based on the latest available subsequent information, such as changes in the number of employees with vested rights, and revises the estimated number of equity instruments expected to vest. The impact of the above estimation is recognized in the costs or expenses of the current period, and the capital reserve is adjusted accordingly.

Equity-settled share-based payments made in consideration of services provided by other parties shall, if the fair value of the services can be measured reliably, be measured at fair value at the date of acquisition, and if the fair value of the services cannot be measured reliably but the fair value of the equity instruments can be measured reliably, be measured at fair value at the date of acquisition. They are recognized in the cost or expense, and the shareholders' equity is increased accordingly.

Share-based payment settled in cash

Cash-settled share-based payments are measured according to the fair value of the liabilities determined based on shares or other equity instruments undertaken by the Group. If the rights vest immediately after the grant, they are recognized in relevant costs or expenses, and the liability is increased accordingly. If the rights vest only after the completion of services in the vesting period or upon satisfaction of stipulated performance conditions, at each balance sheet date within the vesting period, based on the best estimate of the vesting condition and according to the fair value of the liabilities assumed by the Group, the services acquired in the current period are recognized in costs or expenses, and the liability is increased accordingly.

On each balance sheet date and settlement date before the settlement of related liabilities, the fair value of liabilities shall be re-measured, and the changes shall be recognized in the current profit or loss.

(2) Accounting treatment related to modification and termination of share-based payment plan

When the Group modifies the share-based payment plan, if the fair value of the granted equity instruments is increased by modification, the increase in the services acquired shall be recognized according to the increase of the fair value of the equity instruments. The increase of fair value of equity instruments refers to the difference between the fair values of equity instruments before and after modification on the modification date. If the total fair value of share-based payment is reduced by modification or other ways that are unfavorable to employees, the accounting treatment of the acquired services will continue, as if the change never happened unless the Group cancels some or all of the granted equity instruments.

During the vesting period, if the granted equity instruments are canceled, the Group treats the cancellation of the granted equity instruments as accelerated vesting, immediately recording the amount that would have been recognized over the remaining vesting period into the current profit or loss, and recognizes the capital reserve at the same time. If the employee or other party can choose to meet the non-vesting condition but fails to meet it during the vesting period, the Group treats it as a cancellation of the granted equity instruments.

(3) Accounting treatment for share-based payment transactions involving the Group and shareholders or actual controllers of the Company

For share-based payment transactions involving the Group and shareholders or actual controllers of the Company, where either the settling entity or the service-receiving entity is within the Group and the other is outside the Group, the accounting treatment in the consolidated financial statements of the Group shall be conducted as follows:

If the settling entity settles with its own equity instruments, the share-based payment transaction shall be treated as an equity-settled share-based payment; Otherwise, it shall be treated as a cash-settled share-based payment.

If the settling entity is an investor in the service-receiving entity, the share-based payment transaction shall be recognized as a long-term equity investment in the service-receiving entity based on the fair value of the equity instruments granted at the grant date or the fair value of the liability assumed. In addition, capital reserves (other capital reserves) or liabilities shall be recognized.

If the service-receiving entity has no settlement obligation or grants its own equity instruments to its employees, the share-based payment transaction shall be treated as an equity-settled share-based payment; If the service-receiving entity has a settlement obligation and grants its employees an instrument other than its own equity instruments, the share-based payment transaction shall be treated as a cash-settled share-based payment.

For share-based payment transactions occurring between entities within the Group, if the service-receiving entity and the settling entity are not the same entity, the recognition and measurement of the share-based payment transaction in the individual financial statements of the service-receiving entity and the settling entity shall be processed in accordance with the above principles.

Disclose the accounting policies adopted for revenue recognition and measurement according to the type of business

Revenue is defined as the total inflow of economic benefits arising from the Group's ordinary activities that would result in an increase in shareholders' equity. It is not related to the capital invested by shareholders. If a contract between the Group and a cus

up to now in the entire contract period. The performance schedule is determined by output method or input method according to the nature of the goods transferred. If the performance schedule cannot be reasonably determined and the incurred costs of the Group are expected to be compensated, the revenue is recognized according to the amount of the incurred costs until the performance schedule can be reasonably determined.

If none of the above conditions is met, the Group will, at the point of time when the customer obtains control over the goods, recognize the part of the transaction price apportioned to the individual performance obligation as revenue. To determine whether the customer obtains the control over the goods, the Group considers the following indications: the Group enjoys the current right to be paid for the goods, and the customer has the current obligation to pay for the goods; the Group has transferred legal ownership of the goods to the customer, and the customer has legal ownership over the goods; the Group has delivered the goods physically to the customer, and the customer has possessed the goods in kind; the Group has passed on to the customer major risks and rewards of the ownership of the goods, and the customer has received the major risks and rewards of the ownership of the goods; the customer has accepted the goods; and any other indication that the customer has obtained the control over the goods.

Specific methods for product sales revenue recognition

The sales business of the Group is divided into domestic sales and overseas sales. Both domestic and overseas sales of the Group have a general model and a VMI model, with specific sales revenue recognition policies as follows:

Domestic sales

A. General sales mode

The Group arranges production according to a sales contract or order with a customer; upon shipment from the warehouse, the products are transported and delivered to the place of delivery designated by the customer; the customer's warehousing employee checks the quantity of the products and also carries out a spot check for the quality of the products; after the quantity and quality are accepted, the employee will sign and stamp on the receipt for confirmation. The revenue is recognized when the Group obtains the signed and sta wr thed

the contract; such costs enhance resources of the Group that will be used in satisfying performance obligations in the future; and such costs are expected to be recoverable.

Assets related to contract costs are amortized on the same basis as the recognition of revenue of the goods or services to which the asset relates, and are charged to profit or loss. However, if the amortization period for the asset does not exceed one year, the asset shall be charged to profit or loss when incurred.

The Company recognizes an impairment loss and makes a provision to the extent that the carrying amount of an asset related to contract costs exceeds the difference between:

the remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates;

the costs expected to be incurred to provide those goods or services.

If the impairment provision for the above assets is subsequently reversed, the carrying amount of the asset after reversal shall not exceed the carrying amount of the asset e arf1e arf.

Where any recognized government grants need to be returned, in the case of a related deferred income balance, the carrying amount of the deferred income balance shall be written down, and any excess shall be recognized in the profit or loss of the current period. In other cases, the returned government grant is directly recognized in the profit or loss of the current period.

(1) Current income taxes

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods are measured at the amount expected to be paid to (or recovered from) the taxation authorities according to the requirements of tax laws. The taxable profit used as a basis for the current income tax expense is calculated after appropriate adjustment is made to the pre-tax accounting profit of the reporting period according to the requirements of tax laws.

(2) Deferred tax assets and liabilities

For temporary differences between the carrying amounts of certain assets or liabilities and their tax bases, or between the carrying amounts of items not recognized as assets or liabilities and their tax bases determined according to tax laws, deferred tax assets and liabilities are recognized using the balance sheet liability method.

For the temporary difference arising from the initial recognition of goodwill, no corresponding deferred tax liability is recognized. For temporary differences arising from the initial recognition of assets or liabilities in transactions other than business combinations that affect neither accounting profit nor taxable profit (or deductible losses), and such initial recognition does not result in equal taxable and deductible temporary differences, the corresponding deferred tax assets and deferred tax liabilities are not recognized. In addition, for the taxable temporary differences associated with investments in subsidiaries, associates, and joint ventures, if the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future, no deferred tax liability is recognized. Except for the above exceptions, the Group recognizes deferred tax liabilities arising from all other taxable temporary differences. For the deductible temporary differences associated with investments in subsidiaries, associates, and joint ventures, the corresponding deferred tax asset shall not be recognized if it is not probable that the temporary difference will reverse in the foreseeable future, or if it is not probable that taxable profits will be available in the future against which the temporary difference can be utilized. Except for the above exceptions, deferred tax assets for other deductible temporary differences are recognized by the Group to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized.

For deductible losses and tax credits that can be carried forward to later years, the corresponding deferred tax assets are recognized to the extent that the future taxable profit that can be used to offset the deductible losses and tax credits is probable.

At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates, according to tax laws, that are expected to be applicable when the asset is realized or the liability is settled.

On the balance sheet date, the carrying amount of deferred tax assets shall be reviewed. If it is no longer probable that sufficient taxable profit will be available in the future to offset the deductible temporary differences related to deferred tax assets, the carrying amount of the deferred tax assets shall be written down. When it is probable that sufficient taxable profit will be available, such written-down amount shall be subsequently reversed.

(3) Income tax expenses

Income tax expenses include current income tax and deferred income tax.

Except that current income taxes and deferred taxes arising from transactions or events recognized in other comprehensive income or directly recognized in shareholders' equity are recognized in other comprehensive income or shareholders' equity, and that deferred taxes arising from business combinations adjust the carrying amount of goodwill, all other current income taxes and deferred tax expenses or gains are recognized in the profit or loss of the current period.

(4) Income tax offset

When the Group has a legally enforceable right to set off the recognized amounts, and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously, the current income tax assets and current income tax liabilities of the Group are offset and presented as a net amount.

When the Group has a legally enforceable right to set off current income tax assets and current income tax liabilities, and the deferred tax assets and deferred tax liabilities are related to the income tax levied by the same tax authority on the same taxpayer or to different taxpayers, but in each future period of reversing material deferred tax assets and liabilities, the taxpayers involved intend to settle the current income tax assets and liabilities on a net basis or realize assets and settle liabilities at the same time, the deferred tax assets and deferred tax liabilities of the Group are offset and presented as a net amount.

The categories of leased assets in the Group mainly include buildings and structures.

Initial measurement

On the lease commencement date, the Group recognizes the right to use the leased asset during the lease term as a right-of-use asset and recognizes the present value of the unpaid lease payments as a lease liability, except for short-term leases and low-value asset leases. When measuring the present value of the lease payments, the Group uses the interest rate implicit in the lease as the discount rate, and adopts the incremental borrowing rate of the lessee as the discount rate if the interest rate implicit in the lease is not determinable.

Subsequent measurement

The Group calculates depreciation on right-of-use assets in accordance with the depreciation provisions set forth in the *Accounting Standards for Enterprises No. 4 - Fixed Assets* (see Note V 20. "Fixed assets"). If it can be reasonably determined that the ownership of the leased asset can be acquired at the end of the lease term, the Group shall depreciate the asset over its remaining useful life. If the Group cannot reasonably determine that it will obtain the ownership of leased assets when the lease term expires, the right-of-use asset is depreciated over the shorter of the lease term and the remaining useful life of the leased assets.

For lease liabilities, the Group calculates its interest expenses for each period of the lease term at a fixed periodic interest rate and recognizes them in current profit or loss or related asset costs. Variable lease payments not included in the measurement of lease liabilities, when actually incurred, shall be recognized in the current profit or loss or related asset costs.

From the lease commencement date, if there is any change to the in-substance fixed payments, the estimated amount to be paid according to the guaranteed residual value, the index or rate referred to for calculating the lease payment, the assessment results of the call option, renewal option or termination option or the actual exercise of the aforesaid options, in which cases the Group will re-measure the lease liability according to the changed lease payment and the present value, and the carrying amount of the right-of-use asset will be adjusted accordingly. If the carrying amount of the right-of-use asset has already been reduced to zero but the lease liability is subject to further reduction, the Group recognizes the remaining amount in current profit or loss.

Short-term lease and low-value asset lease

For short-

The actual payment amount to acquire the Company's own shares for reasons such as capital reduction or employee incentives, shall be recorded as treasury stock, with memorandum registration. The difference between the actual amount received from transferring treasury stock and the carrying value of the treasury stock shall be offset against capital reserve. If the capital reserve is insufficient to cover the offset, retained earnings shall be reduced. When canceling treasury stock, the share capital shall be reduced by the par value and the number of shares canceled. The difference between the book balance of the canceled treasury stock and the par value shall be offset against capital reserve. If the capital reserve is insufficient to cover the offset, retained earnings shall be reduced. No gains or losses shall be recognized when repurchasing, transferring, or canceling the Company's shares.

In accordance with the relevant regulations of the Ministry of Finance and the Ministry of Emergency Management, the Group accrues a specific reserve for production safety. The specific reserve is mainly used for safety expenditures incurred during the process of production and operation.

The provision for the specific reserve is recognized as a relevant cost or profit or loss for the current period, and it is also included in the specific reserve account. The specific reserve is written down when the safety production funds are utilized for expense expenditures. If the expenditure is of a capital nature, the expenditure incurred is accumulated in 'Construction in progress' and recognized as a fixed asset when the project is completed and ready for its intended use; meanwhile, the specific reserve is written down by the amount of the cost of the fixed asset, and accumulated depreciation is recognized at the same amount. Consequently, such fixed assets are not depreciated in subsequent periods.

In the application of accounting policies, due to the inherent uncertainty in operating activities, the Group needs to make judgments, estimates, and assumptions about the carrying amounts of items in the financial statements which cannot be measured accurately. These judgments, estimates, and assumptions are made based on the historical experience of the Group's management and other factors that are considered to be relevant. These judgments, estimates, and assumptions affect the reported amounts of revenue, expenses, assets, and liabilities, as well as the disclosure of contingent liabilities at the balance sheet date. However, the actual results arising from the uncertainty of these estimates may differ from the current estimates made by the Group's management, which may result in significant adjustments to the carrying amounts of the affected assets or liabilities in future periods.

The above judgments, estimates, and assumptions are reviewed periodically by the Group on a going-concern basis. If a change in accounting estimates only affects the period in which the change occurs, the effect is recognized in the period in which the change occurs. If the change affects both the period in which the change occurs and future periods, the effect is recognized in the period in which the change occurs and the future periods.

At the balance sheet date, the key areas in which the Group is required to make judgments, estimates, and assumptions regarding the amounts in the financial statements are as follows:

(1) Revenue recognition

As stated in Note V. 30 "Revenue", the Group's revenue recognition involves the following significant accounting judgments and estimates: identification of customer contracts; estimation of the recoverability of the consideration to which the Group is entitled due to the transfer of goods to customers; identification of performance obligations in contracts; estimation of the variable consideration in a contract and the amount of accumulated recognized revenue that is highly probable not to be significantly reversed when the relevant uncertainty is eliminated; whether there is a significant financing component in a contract; estimation of stand-alone selling prices of individual performance obligations in a contract; determination of whether the performance obligation shall be performed over time or at a point in time; and determination of performance progress.

The Group makes judgments based on historical experience and practices, and major changes in judgments and estimates would have an impact (and even a significant impact) on the change of operating income, operating cost, and profit or loss during the current or future periods.

(2) Lease

Identification of a lease

While identifying that a contract is or contains a lease, the Group needs to assess whether there is an identified asset and the customer controls the use of the asset for a certain period. During assessment, the Group shall consider the nature and substantive substitution rights of the asset, and whether the customer has the right to obtain almost all economic benefits arising from the use of the asset during the period and can control the use of the asset.

Classification of a lease

The Group as the lessor classifies leases into operating leases and finance leases. In the classification process, the management needs to make appropriate analysis and judgment on whether substantially all risks and rewards related to the ownership of leased assets have been substantially transferred to the lessee.

Lease liabilities

The Group, as a lessee, initially measures the lease liabilities at the present value of lease payments that are unpaid at the lease commencement date. For measuring the present value of the lease payments, the Group estimates the discounting rate in use and the lease term of the lease contract with an option of renewal or termination. For assessing the lease term, the Group considers all the facts and circumstances related to the economic benefits brought by the exercise of the option by the Group, including expected changes in the facts and circumstances from the lease commencement date to the option exercise date. Different judgments and estimates would affect the recognition of lease liabilities and right-of-use assets and further affect the profit or loss of subsequent periods.

(3) Impairment of financial assets

The Group assesses impairments of financial instruments using the expected credit loss model, where the Group is required to make significant judgments and estimates, as well as consider all reasonable and evidence-based information, including forward-looking information. In making the judgments and estimates, the Group predicts expected changes in the debtor's credit risk based on historical data, as well as economic policies, macroeconomic indicators, industry risks, external market conditions, technical conditions, changes in customer conditions and other factors.

(4) Provisions for the decline in value of inventories

Under accounting policies for inventories, the Group measures inventories according to the lower of cost and net realizable value. For the inventories with a cost higher than the net realizable value as well as obsolete and unsalable inventories, the Group calculates provisions for the impairment of inventories. The inventories are impaired to their net realizable value, depending on the assessment of salability of inventories and their net realizable value. To identify inventory impairment, the management is required to make judgments and estimates after obtaining conclusive evidence, as well as considering the purpose of inventories held, the impact of events occurring after the balance sheet date and other factors. Any difference between actual results and prior estimates will, in the period when relevant estimates are changed, affect the carrying amount of inventories and the provision for inventory impairment or reversal thereof.

(5) Fair value of financial instruments

If there is no active trading market for a financial instrument, its fair value is determined by the Group through various valuation methods. The valuation techniques include discounted cash flow modeling, etc. In the valuation process, the Group needs to estimate future cash flow, credit risk, market volatility and correlation, etc. and choose an appropriate discounting rate. These relevant assumptions are uncertain, and their changes would affect the fair value of financial instruments. For investments in equity instruments or contracts with public quotes, the Group will not regard costs as the best fair value estimate.

(6) Impairment provision for long-term assets

For non-current assets other than financial assets, the Group will, at the balance sheet date, judge whether there is an indication of impairment. For intangible assets with an indefinite useful life, the impairment test will be carried out annually and when there is an indication of impairment. The impairment test will be carried out for non-current assets other than financial assets, when there is an indication that the carrying amount cannot be recovered.

When the carrying value of an asset or group of assets is higher than the recoverable amount, the higher of the net fair value less costs of disposal and the present value of estimated future cash flows indicates impairment.

The net fair value less costs of disposal is determined by the sales agreement price or observable market price of similar assets in an arm's length transaction reduced by incremental costs directly attributable to the disposal of the asset.

Important judgments shall be made on the output, selling price, related operating costs and discount rate used in calculating the present value of the asset (or a group of assets) in the estimation of the present value of future cash flows. When estimating the recoverable amount, the Group uses all relevant information available, including the output, selling price and related operating costs predicted on the basis of reasonable and evidence-based assumptions.

The Group tests goodwill for impairment at least annually. This requires estimating the present value of future cash flows of an asset group or combination of asset groups to which goodwill has been allocated. When estimating the present value of future cash flows,

the Group needs to predict cash flows generating from an asset group or combination of asset groups in the future, and chooses an appropriate discount rate to determine the present value of future cash flows.

(7) Depreciation and amortization

The Group depreciates and amortizes investment property, fixed assets and intangible assets over their respective useful lives, using the straight-line method, with their respective residual values taken into account. The Group periodically reviews the useful lives of assets to determine the amounts of depreciation and amortization expenses for each reporting period. The useful life is determined by the Group based on its historical experience acquired on similar assets and expected technical development. For significant changes in prior estimates, depreciation and amortization expenses will be adjusted in the coming periods.

(8) Development expenditure

When determining capitalized amounts, the Group's management needs to assume estimated future cash flows, appropriate discount rates and expected benefit periods of relevant assets.

The Group's management believes that the products with its self-developed proprietary technology have a broad market and good prospects, and the market reaction to the products produced with these intangible assets also supports the management's pre-estimated income arising from the project. However, the increasing competition makes the management reconsider the assumptions about market share and estimated gross profits of the products. After a thorough review, the Group's management believes that the carrying value of intellectual properties can be fully recovered notwithstanding a lowered rate of return of the products. The Group will continue to pay close attention to relevant developments. Once there is an indication that it is necessary to adjust the assumptions of relevant accounting estimates, the Group will make adjustment in the period when that indication appears.

(9) Deferred tax assets

To the extent that it is probable that there will be sufficient taxable profit to cover the losses, the Group recognizes deferred tax assets for all unused tax losses. In this case, the Group's management shall make important judgments to estimate the time and amount of future taxable profit and, by taking into account its tax plan, to determine the amount of deferred tax assets that should be recognized.

(10) Income tax

In normal operating activities of the Group, there are some transactions with certain uncertainties in final tax treatment and calculation. Tax deductible expenses for some items are subject to review and approval by the tax authority. Any difference between final results and initially estimated amounts due to these tax matters exerts impact on income taxes and deferred income taxes of the period when the final results are determined.

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The enterprise income tax preferential period is from January 1, 2023 to December 31, 2025, and the Company applied an enterprise income tax rate of 15% for the fiscal year 2025.

(2) According to *the Announcement on the Filing of the Second Batch of High-tech Enterprises Recognized and Reported by Shandong Provincial Recognition Authority in 2023*, issued by the Office of the National Leading Group for High-tech Enterprise Recognition and Administration on December 28, 2023, three subsidiaries, Weifang Goertek Electronics Co., Ltd., Weifang Goertek Microelectronics Co., Ltd., and Weifang Lokomo Precision Industry Co., Ltd., have been recognized as High-tech Enterprises for a validity period of 3 years. The enterprise income tax preferential period is from January 1, 2023 to December 31, 2025, and these subsidiaries adopted an enterprise income tax rate of 15% for the year 2025.

(3) According to *the Public Notice on the Filing of the Second Batch of High-tech Enterprises Recognized and Reported by the Qingdao Recognition Authority in 2025* issued by the Office of the National Leading Group for High-tech Enterprise Recognition and Administration on December 19, 2025, the subsidiary Goertek Microelectronics Inc. has been recognized as a High-tech Enterprise, and the qualification is valid for 3 years. The preferential enterprise income tax period is from January 1, 2025 to December 31, 2027. Goertek Microelectronics Inc. was entitled to an enterprise income tax rate of 15% in 2025.

(4) According to *the Public Notice on the Filing of the First Batch of High-tech Enterprises Recognized and Reported by Shandong Provincial Recognition Authority in 2025* issued by the Office of the National Leading Group for High-tech Enterprise Recognition and Administration on December 8, 2025, the subsidiary, Yili Precision Manufacturing Co., Ltd. has been recognized as a High-tech Enterprise, and the qualification is valid for 3 years. The preferential enterprise income tax period is from January 1, 2025 to December 31, 2027. Yili Precision Manufacturing Co., Ltd. was entitled to an enterprise income tax rate of 15% in 2025.

(5) According to *the Public Notice on the Filing of the Third Batch of High-tech Enterprises Recognized and Reported by Guangdong Provincial Recognition Authority in 2024* issued by the Office of the National Leading Group for High-tech Enterprise Recognition and Administration on December 11, 2024, the subsidiary, Dongguan Yili Precision Manufacturing Co., Ltd. has been recognized as a High-tech Enterprise, and the qualification is valid for 3 years. The preferential enterprise income tax period is from January 1, 2024 to December 31, 2026. Dongguan Yili Precision Manufacturing Co., Ltd. was entitled to an enterprise income tax rate of 15% in 2025.

(6) According to *the Public Notice on the Filing of the First Batch of High-tech Enterprises Recognized and Reported by Qingdao Recognition Authority in 2025* issued by the Office of the National Leading Group for High-tech Enterprise Recognition and Administration on December 19,

(11) The subsidiary, Goertek (HongKong) Co., Limited, is a qualifying entity under the two-tiered profits tax rates regime. The applicable tax rate is 8.25% for assessable profits not exceeding HKD 2,000,000 and 16.5% for the portion of assessable profits exceeding HKD 2,000,000.

(12) According to *the Announcement of the Ministry of Finance and the State Taxation Administration on the Relevant Tax and Fee Policies for Further Supporting the Development of Micro and Small Enterprises and Individual Industrial and Commercial Households* (Announcement No. 12 of 2023 issued by the Ministry of Finance and the State Taxation Administration), from January 1, 2023, to December 31, 2027, for small and low-profit enterprises, the portion of annual taxable profit not exceeding RMB 3 million shall be included in the taxable profit at a rate of 25%, and enterprise income tax will be levied at the rate of 20%. The subsidiaries, Beijing Goertek Microelectronics Co., Ltd., Wuxi Goertek Microelectronics Co., Ltd., Shenzhen Goertek Microelectronics Co., Ltd., Shanghai Goertek Microelectronics Co., Ltd., Qingdao MicroSense Intelligent Technology Co., Ltd., Beijing Goertek Investment Management Co., Ltd., Chongqing Goertek Auto Technology Co., Ltd., Chengdu Goertek Technology Co., Ltd., Hefei Goertek Technology Co., Ltd., Hangzhou Goertek Technology Co., Ltd., Dongguan Yili Technology Co., Ltd., Hainan Goertek Trading Co., Ltd. and Shanghai Goertek IntelliReach Technology Co., Ltd., are eligible for the aforementioned preferential tax policies.

(13) According to the laws of Vietnam, the subsidiaries, GOERTEK MICROELECTRONICS VIETNAM COMPANY LIMITED, Goertek Smart Technology Vina Co., Ltd., Goertek Electronics Vietnam Co., Ltd., Goertek Precision Industry Vietnam Co., Ltd., and Yili Technology Vietnam Company Limited, enjoy preferential corporate income tax policies in Vietnam on the basis of a 15-year incentive period, adopting a tax arrangement of four-year full exemption and nine-year 50% reduction. Specifically, they are subject to corporate income tax at a reduced rate of 10% within 15 years commencing from the year of generating operating revenue. Meanwhile, starting from the first profit-making year, corporate income tax shall be fully exempted for the first four years and reduced by 50% from the fifth to the thirteenth year. If an enterprise generates no taxable profits within 3 years from the commencement of its qualified preferential business activities, the tax exemption and reduction periods shall commence from the fourth year of operation. The main business income of the above subsidiaries is exempt from corporate income tax for the year 2025.

(14) According to the laws of Vietnam, Goertek Technology Vina Co., Ltd., a subsidiary of the Company, enjoys the corporate income tax preferential policy of four-year exemption and nine-year 50% reduction on the basis of a 15-year incentive period. That is, it shall pay corporate income tax at a reduced rate of 10% within 15 years starting from the date of operating revenue recognition. Meanwhile, from the first profit-making year, it is exempted from corporate income tax for the first to fourth years and entitled to a 50% reduction in corporate income tax from the fifth to the thirteenth years. If the enterprise has no taxable profits within 3 years from the commencement of its preferential tax business activities, the tax exemption and reduction periods shall commence from the fourth year of operation. The main business income is eligible for the 50% preferential tax policy in 2025.

(15) The subsidiary, Goertek (Korea) Technology Inc., qualifies for the comprehensive employment tax credit. In accordance with South Korea's local employment-promotion tax incentive policies, corporate income tax is reduced based on the annual average increase in the number of employees.

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For further details, please refer to Note V. 11. "Impairment of financial assets"

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Note: The total amount of notes payable due and unpaid at the end of this period is RMB 0.00 (December 31, 2024: RMB 0.00).

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Other comprehensive income that cannot be reclassified into profit or loss: Under the item of changes in the fair value of other equity instruments, RMB -14,302,666.94 is attributable to minority shareholders after tax, of which RMB -12,772,990.55 is the equity of other partners of the fund company. This amount is presented under other non-current liabilities.

Other comprehensive income that will be reclassified into profit or loss: Under the item of difference from translation of financial statements in foreign currency, RMB -5,777,227.47 is attributable to minority shareholders after tax, of which RMB -2,166,986.24 is the equity of other partners of the fund company. This amount is presented under other non-current liabilities.

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According to *Company Law* and *Articles of Association*, the Company allocates 10% of net profits to the statutory surplus reserve. The Company does not need to allocate further amounts if the cumulative amount of the statutory surplus reserve reaches more than 50% of the registered capital.

Unit: RMB

Item	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Reserve for risks in financing factoring business	6,081,200.00	567,483.32		6,648,683.32

Note: According to *Notice of the General Office of the China Banking and Insurance Regulatory Commission on Strengthening the Supervision and Administration of Commercial Factoring Enterprises (YBJBF [2019] No. 205)*, the Group has set aside risk provisions at a rate of no less than 1% of the ending balance of financing factoring business.

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For the information on right-of-use assets and lease liabilities, please refer to Note VII 16 and 35.

Information on items recognized in current profit or loss and relevant asset costs

Unit: RMB

Item	Amount of current period	Amount in previous period
Short-term lease expense (simplified treatment applies)	109,293,913.65	66,361,239.17
Interest on lease liabilities included in financial expenses	33,304,022.73	31,948,563.01
Income from subleasing right-of-use assets		3,630,981.59

Cash outflow related to leases

Unit: RMB

Item	Category of cash flow	Amount of current period	Amount in previous period
Cash paid for repayment of principal and interest of lease liabilities	Cash outflow from financing activities	203,482,961.99	131,360,091.14
Cash paid for short-term leases and low-value asset leases (simplified treatment applies)	Cash outflow from operating activities	109,293,913.65	66,361,239.17
Total		312,776,875.64	197,721,330.31

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Unit: RMB

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Explanation of structured entities not recognized in the consolidated financial statements:
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The major financial instruments of the Group include equity investments, accounts receivable, borrowings and accounts payable, etc. For details on the financial instruments, please refer to Note VII. Relevant Items. Risks related to the financial instruments and the Group's risk management policy used for reducing these risks are stated as follows. The Group's management manages and monitors these exposures to ensure that these risks are controlled within a limited scope.

The Group analyzes the impact of reasonably possible changes in risk variables on the current profit or loss or shareholders' equity using sensitivity analysis techniques. As risk variables rarely change in isolation, and the correlation between risk variables plays a significant role in determining the final impact of changes in a specific risk variable, the following disclosures are made assuming that each variable changes independently.

(I) Risk management goals and policies

The Group's risk management aims to reach an appropriate balance between risks and returns, to minimize the negative impact of risks on the Group's operating results, and to maximize the interests of shareholders and other equity investors. Based on these risk management goals, the Group's basic strategy for risk management is to identify and analyze various risks faced by the Group, establish appropriate risk tolerance thresholds, implement risk management measures, and supervise various risks in a timely and reliable manner to control the risks within a limited scope.

1) Market risk

Exchange rate risk

Exchange risk refers to the risk of loss due to exchange rate changes. The Group's exposure to exchange rate risk is primarily related to USD. Except for the Company and several subsidiaries which make purchases and sales in USD, EUR, JPY, VND, DKK, HKD, TWD and KRW, other main business of the Group is measured and settled in RMB. As of December 31, 2025, the foreign currency monetary items of the Company are detailed in Note VII. 65. Apart from the assets or liabilities, certain trading financial assets, certain financial liabilities held for trading, some investments in other equity instruments, some other non-current financial assets, and some other non-current assets set out in that table which have foreign currency balances, the Group's assets and liabilities are mainly recognized in RMB. The exchange risks arising from the assets and liabilities denominated in foreign currencies may have an impact on the operating results of the Group.

The Group closely monitors the impact of exchange rate changes on the Group's exchange risks. The Company has a large volume of export sales, and also needs to import a portion of raw materials. Some equipment for research, development, production and testing of the Company also needs to be purchased from abroad. The Company's export sales and imported raw materials are mainly settled in USD. The depreciation of USD and the appreciation of RMB will reduce the procurement cost of imported raw materials, but adversely affect the competitiveness of the Company's products in overseas markets. Considering the import of raw materials and export of products, the appreciation of RMB against USD will to some extent affect the Company's profitability.

Exchange rate risk sensitivity analysis:

Assuming all other variables remain constant, the impact of reasonably possible changes in the US dollar exchange rate on profit or loss and shareholders' equity for the current period is as follows:

Item	Change in exchange rate	2025		2024	
		Impact on net profit (RMB)	Impact on equity attributable to owners of the parent company (RMB)	Impact on net profit (RMB)	Impact on equity attributable to owners of the parent company (RMB)
USD	3% appreciation against RMB	-114,173,391.79	-116,417,542.14	64,758,442.82	61,834,110.57
USD	3% depreciation against RMB	114,173,391.79	116,417,542.14	-64,758,442.82	-61,834,110.57

Interest rate risk

The Group's interest rate risk arises primarily from long-term bank loans and other long-term interest-bearing debts. Floating-rate financial liabilities expose the Group to cash flow interest rate risk, while fixed-rate financial liabilities expose the Group to fair value interest rate risk. The Group determines the relative proportion of fixed-rate and floating-rate contracts based on the prevailing market conditions. As of December 31, 2025, the Group's long-term interest-bearing debts were mainly floating-rate contracts denominated in USD or RMB, including RMB 3,259,500,000 and USD 42,963,500 (as of December 31, 2024: 3,064,000,000 and USD 85,927,000).

The Group continuously monitors the interest rate levels. An increase in interest rates will raise the cost of newly incurred interest-bearing debts and the Group's outstanding interest expenses on floating-rate interest-bearing debts, significantly adversely affecting the Group's financial performance. Management will make timely adjustments based on the latest market conditions, which may include arrangements for interest rate swaps to reduce interest rate risk.

As of December 31, 2025, if the interest rate on floating-rate borrowings increases or decreases by 50 base points with other factors unchanged, the net profit of the Group will decrease or increase by about RMB 16,300,000 (December 31, 2024: Net profit will decrease or increase by approximately RMB 12,890,000).

Other price risks

None

2) Credit risk

As of December 31, 2025, the maximum credit risk exposure that may cause the Group's financial loss mainly arises from the loss on the Group's financial assets caused by the counterparty's failure to fulfill its contractual obligations.

In order to reduce credit risk, the Group established a team responsible for setting the credit limits, conducting credit approval, and implementing other monitoring procedures to ensure that necessary measures are taken to recover overdue receivables. Additionally, the Company cooperates with commercial insurance institutions to take out insurance coverage for high-risk customers, so as to reduce the risk of bad debt arising from credit sales. In addition, the Group reviews the recovery of each individual receivable at each balance sheet date to ensure that adequate bad debt provision is made for unrecoverable amounts. Therefore, the Group's management believes that the credit risk undertaken by the Group has been greatly reduced.

The Group has put in place necessary policies to ensure that all its customers have good credit records.

The Group's non-cash monetary funds are mainly deposited with financial institutions of good credit standing. Management assesses that there is no significant credit risk, and no material losses are expected to arise from counterparty defaults.

There is no overdue but unimpaired amount in the Group's receivables;

Analysis of financial assets with individual impairment, including the judgment on factors to be considered in the impairment of such financial assets

None

3) Liquidity risk

When managing liquidity risk, the Group maintains and monitors cash and cash equivalents that the management deems sufficient to meet the Group's business needs and reduce the impact of cash flow fluctuations. The management of the Group monitors the use of bank borrowings and ensures the compliance with borrowing agreements.

The Group uses bank borrowings and issuance of equity instruments as its main sources of funds. As of December 31, 2025, the unused bank credit line of the Group was RMB 59.877 billion (December 31, 2024: RMB 48.758 billion).

(II) Transfer of financial assets

1) Derecognized financial assets that have not yet matured

Items	Transfer method	Amount derecognized (RMB)	Gains or losses related to derecognition (RMB)
Receivables financing	Notes endorsed, discount	131,863,156.25	-237,187.97
Accounts receivable	Buyout factoring	2,460,492,995.00	-15,100,227.39

2) Assets and liabilities formed by transferring financial assets with continuing involvement

Items	Transfer method of assets	The amount of assets formed by continuing involvement (RMB)	The amount of liabilities formed by continuing involvement (RMB)
Notes receivable	Notes discount	300,000,000.00	300,000,000.00

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The closing price at the end of the year is used as the basis for determining the market price of the shares of domestic and foreign listed companies held by the Company.

Directly or indirectly observable input values for the related assets or liabilities, other than Level 1 inputs.

The fair value is determined based on valuations using the income approach and the asset-based approach, as well as the net book asset value.

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The exercise price for the initial grant under the 2023 Stock Option Incentive Plan is RMB 17.82 per share, with a remaining contract term of 8 months;

The exercise price of the reserved portion of the 2023 Stock Option Incentive Plan is RMB 17.82 per share, with a remaining contract term of 6 months;

The exercise price of the 2025 Stock Option Incentive Plan is RMB 22.06 per share, with remaining contract terms of 10 months and 22 months;

The exercise price for Goertek Microelectronics Inc.'s 2020 Stock Option Incentive Plan is RMB 14 per share, with a remaining contract term of 4 months.

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The Group determines its operating segments based on its internal organizational structure, management requirements, and internal reporting system, and determines its reporting segments and discloses segment information on the basis of operating segments.

An operating segment is a component of the Group that meets all of the following conditions: (1) The component can generate income and expense in daily activities; (2) The management of the Group can regularly evaluate the operating results of such component so as to determine the allocation of resources to it and evaluate its performance; (3) The Group can obtain the accounting information of the component, such as the financial status, operating results, cash flow, etc. If two or more operating segments have similar economic characteristics and meet certain conditions, they will be combined into one operating segment.

Since over 90.00% of the Group's revenue and performance come from the electronic products business, segment information was not presented.

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For further details, please refer to Note V. 11. "Impairment of financial assets"

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For further details, please refer to Note V. 11. "Impairment of Financial Assets"

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For further details, please refer to Note V. 10. "Financial Instruments" and 11. "Impairment of Financial Assets"

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