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**INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON HISTORICAL
FINANCIAL INFORMATION OF HAO MIN INVESTMENT HOLDING LIMITED***
豪民投資控股有限公司

INTRODUCTION

We report on the historical financial information of Hao Min Investment Holding Limited* (豪民投資控股有限公司, the “**Target Company**”) and its subsidiaries (collectively referred to as the “**Target Group**”) set out on pages II-4 to II-52, which comprises the consolidated statements of financial position as at 31 December 2023, 2024 and 2025, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the three years ended 31 December 2023, 2024 and 2025 (the “**Relevant Periods**”) and material accounting policy information and other explanatory information (together the “**Historical Financial Information**”). The Historical Financial Information set out on pages II-5 to II-52 forms an integral part of this report, which has been prepared for inclusion in the circular of Transtech Optelecom Science Holdings Limited (the “**Company**”) dated 26 June 2026 (the “**Circular**”) in connection with the proposed acquisition of 100% equity interest in the Target Company by the Company.

DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

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

The directors of the Company are responsible for the contents of this Circular in which the Historical Financial Information of the Target Group is included, and such information is prepared based on accounting policies materially consistent with those of the Company.

* *English name is for identification purpose only.*

REPORTING ACCOUNTANTS' RESPONSIBILITY

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depended on reporting accountants’ judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Target Company, as well as evaluating the overall presentation of the Historical Financial Information.

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

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of the Target Group’s consolidated financial position as at 31 December 2023, 2024 and 2025, and of the Target Group’s consolidated financial performance and consolidated cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2 to the Historical Financial Information, which indicates that as at 31 December 2024 and 2025, the Target Group had net current liabilities of approximately RMB4,019,000 and RMB38,139,000, respectively and during the years ended 31 December 2023, 2024 and 2025, the Target Group reported losses of approximately RMB216,511,000, RMB47,164,000 and RMB43,783,000 respectively. As at 31 December 2023, 2024 and 2025, the Target Group's cash and cash equivalents amount to approximately RMB157,000, RMB22,360,000 and RMB243,000, respectively. As at 31 December 2024 and 2025, the Target Group's outstanding other borrowings amounting to approximately RMB39,299,000 and RMB46,120,000, respectively, are due for repayment within one year. These conditions, along with other matters as set forth in Note 2 to the Historical Financial Information, indicate that a material uncertainty exists that may cast significant doubt on the Target Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

The Historical Financial Information, is stated after making such adjustments to the Underlying Financial Statements as defined on page II-4 as were considered necessary.

Dividends

We refer to Note 13 to the Historical Financial Information which states that no dividend has been declared or paid by the Target Company in respect of the Relevant Periods.

No historical financial statements for the Target Company

No financial statements have been prepared for the Target Company since its incorporation.

Moore CPA Limited

Certified Public Accountants

A handwritten signature in black ink that reads "Moore CPA Limited". The signature is written in a cursive, slightly slanted style.

Hung Wan Fong Joanne

Practising Certificate Number: P05419

Hong Kong, 26 June 2026

HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of the Historical Financial Information

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

The Historical Financial Information in this report was prepared based on the financial statements of Futong Optoelectronic Technology (Hangzhou) Co., Ltd.* (富通光電技術(杭州)有限公司) (formerly known as Hangzhou SEI-Futong Optical Fiber Co., Ltd.* (富通住電光纖(杭州)有限公司) (the “**Hangzhou Company**”) for the Relevant Periods. The financial statements have been prepared in accordance with the accounting policies that conform with HKFRS Accounting Standards issued by the HKICPA and were audited by Moore CPA Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the “**Underlying Financial Statements**”).

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

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three years ended 31 December 2023, 2024 and 2025

	Notes	Year ended 31 December		
		2023	2024	2025
		RMB'000	RMB'000	RMB'000
Revenue	5	22,094	24,411	21,341
Cost of sales		<u>(50,863)</u>	<u>(59,809)</u>	<u>(53,911)</u>
Gross loss		(28,769)	(35,398)	(32,570)
Other income and gains and losses, net	5	1,316	321	306
Selling and distribution expenses		(649)	(563)	(594)
Administrative expenses		(9,816)	(9,382)	(8,859)
Other expenses		(337)	(5)	(15)
Impairment loss on due from related parties		(169,483)	(724)	(578)
Finance costs	7	<u>(509)</u>	<u>(1,413)</u>	<u>(1,473)</u>
Loss before income tax	6	(208,247)	(47,164)	(43,783)
Income tax expense	11	<u>(8,264)</u>	<u>–</u>	<u>–</u>
Loss and total comprehensive loss for the year		<u><u>(216,511)</u></u>	<u><u>(47,164)</u></u>	<u><u>(43,783)</u></u>
Loss and total comprehensive loss for the year attributable to:				
– Owners of the Target Company		(110,421)	(24,054)	(22,329)
– Non-controlling interests		<u>(106,090)</u>	<u>(23,110)</u>	<u>(21,454)</u>
		<u><u>(216,511)</u></u>	<u><u>(47,164)</u></u>	<u><u>(43,783)</u></u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 31 December 2023, 2024 and 2025

		As at 31 December		
	Notes	2023	2024	2025
		RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	14	61,133	51,364	42,332
Right-of-use assets	15	17,941	17,385	16,829
Intangible assets	16	<u>236</u>	<u>96</u>	<u>21</u>
Total non-current assets		<u>79,310</u>	<u>68,845</u>	<u>59,182</u>
Current assets				
Inventories	17	42,179	29,753	26,037
Prepayments and other receivables	18	1,514	218	364
Due from related parties	19	48,228	1,515	5,518
Cash and cash equivalents	20	<u>157</u>	<u>22,360</u>	<u>243</u>
Total current assets		<u>92,078</u>	<u>53,846</u>	<u>32,162</u>
Current liabilities				
Trade payables	21	2,538	3,172	4,700
Other payables and accruals	22	4,204	3,586	4,871
Interest-bearing bank and other borrowings	23	38,598	39,299	46,120
Due to related parties	25	<u>14,058</u>	<u>11,808</u>	<u>14,610</u>
Total current liabilities		<u>59,398</u>	<u>57,865</u>	<u>70,301</u>
Net current assets/(liabilities)		<u>32,680</u>	<u>(4,019)</u>	<u>(38,139)</u>
Total assets less current liabilities, net assets		<u>111,990</u>	<u>64,826</u>	<u>21,043</u>
Capital and reserves				
Share capital	24	104,606	104,606	104,606
Reserves		<u>(47,488)</u>	<u>(71,542)</u>	<u>(93,871)</u>
		57,118	33,064	10,735
Non-controlling interests		<u>54,872</u>	<u>31,762</u>	<u>10,308</u>
Total equity		<u>111,990</u>	<u>64,826</u>	<u>21,043</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the three years ended 31 December 2023, 2024 and 2025

	Attributable to owners of the Target Company					
	Share capital	Statutory reserve	Retained earnings/ (accumulated losses)	Sub-total	Non- controlling interest	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 24)</i>					
At 1 January 2023	104,606	30,630	32,303	167,539	160,962	328,501
Loss and total comprehensive loss for the year	-	-	(110,421)	(110,421)	(106,090)	(216,511)
At 31 December 2023 and 1 January 2024	104,606	30,630	(78,118)	57,118	54,872	111,990
Loss and total comprehensive loss for the year	-	-	(24,054)	(24,054)	(23,110)	(47,164)
At 31 December 2024 and 1 January 2025	104,606	30,630	(102,172)	33,064	31,762	64,826
Loss and total comprehensive loss for the year	-	-	(22,329)	(22,329)	(21,454)	(43,783)
At 31 December 2025	104,606	30,630	(124,501)	10,735	10,308	21,043

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three years ended 31 December 2023, 2024 and 2025

	Notes	Year ended 31 December		
		2023	2024	2025
		RMB'000	RMB'000	RMB'000
Operating activities				
Loss before income tax		(208,247)	(47,164)	(43,783)
Adjustments for:				
Finance costs	7	509	1,413	1,473
Interest income from bank	5	(1)	(65)	(177)
Interest income from related parties	5	(23)	(75)	(4)
Gain on disposal of property, plant and equipment	6	(124)	(4)	(6)
Amortisation of intangible assets	6	140	140	75
Depreciation of property, plant and equipment	6	10,170	9,988	9,147
Depreciation of right-of-use assets	6	556	556	556
Impairment loss on due from related parties	19	169,483	724	578
Write-down of inventories	6	375	–	–
		<u> </u>	<u> </u>	<u> </u>
Net cash used in operating activities				
before changes in working capital		(27,162)	(34,487)	(32,141)
(Increase)/decrease in inventories		(8,366)	12,426	3,716
(Increase)/decrease in prepayments and other receivables		(40)	1,296	(146)
Decrease in due from related parties		1,530	44,272	423
(Decrease)/increase in trade payables		(3,516)	634	1,528
(Decrease)/increase in other payables and accruals		(823)	(194)	1,157
Increase/(decrease) in due to related parties		<u>2,108</u>	<u>(2,250)</u>	<u>2,802</u>
		<u> </u>	<u> </u>	<u> </u>
Net cash (used in)/generated from operating activities		<u>(36,269)</u>	<u>21,697</u>	<u>(22,661)</u>

				Year ended 31 December		
				2023	2024	2025
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>			
Cash flow from investing activities						
Interest received from bank	1	65	177			
Interest received from loans receivable	23	75	4			
Proceeds from collecting repayment of loans receivable	25(c) –	1,717	1,600			
Loans granted to related parties	25(c) (1,609)	–	(6,604)			
Purchases of property, plant and equipment	(146)	(223)	(121)			
Purchases of intangible assets	(112)	–	–			
Proceeds from disposal of property, plant and equipment	<u>259</u>	<u>8</u>	<u>12</u>			
Net cash (used in)/generated from investing activities	<u>(1,584)</u>	<u>1,642</u>	<u>(4,932)</u>			
Cash flow from financing activities						
Proceeds from bank borrowings	27 35,066	6,987	–			
Proceeds from other borrowings	27 8,350	30,949	29,820			
Interest paid on bank borrowings	27 (56)	(1,042)	–			
Interest paid on other borrowings	27 (26)	(795)	(1,345)			
Repayment of bank borrowings	27 (6,041)	(37,235)	–			
Repayment of other borrowings	27 –	–	(22,999)			
Net cash generated from/(used in) financing activities	<u>37,293</u>	<u>(1,136)</u>	<u>5,476</u>			
Net (decrease)/increase in cash and cash equivalents	<u>(560)</u>	<u>22,203</u>	<u>(22,117)</u>			
Cash and cash equivalents at the beginning of the reporting period	<u>717</u>	<u>157</u>	<u>22,360</u>			
Cash and cash equivalents at the end of the reporting period, represented by cash and cash equivalent	<u><u>157</u></u>	<u><u>22,360</u></u>	<u><u>243</u></u>			

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

For the three years ended 31 December 2023, 2024 and 2025

1. GENERAL INFORMATION

Hao Min Investment Holding Limited (豪民投資控股有限公司) (the “**Target Company**”) is a limited liability company incorporated in Hong Kong on 23 February 2026. In the opinion of the directors of the Target Company, the parent and the ultimate holding company of the Target Company is Optel Technology Limited (豪達爾科技有限公司) (“**Optel Technology**”), a private company incorporated in Hong Kong and Mr. Cao Dongdong (“**Mr. Cao**”) is the ultimate controlling party of the Target Company. The registered office and principal place of business of the Target Company are located at Room 1201, 12/F., Shanghai Industrial Investment Building, 48–62 Hennessy Road, Wanchai, Hong Kong.

The Target Company is an investment holding company. The Target Company and its subsidiaries (hereinafter collectively referred to as the “**Target Group**”) are primarily engaged in production and sales of fiber optic preforms and optical fibers, research and development, after-sales service, and technical services for the aforementioned products (the “**Business**”) in the mainland of People’s Republic of China (the “**PRC**”).

On 13 April 2026, Transtech (Hong Kong) Investment Limited (the “**Buyer**”, a wholly-owned subsidiary of Transtech Optelecom Science Holdings Limited (the “**Company**”)) entered into an acquisition agreement with Optel Technology (the “**Seller**”), pursuant to which the Buyer agreed to purchase, and the Seller agreed to sell the Sale Shares, representing the entire equity interest in the Target Company (the “**Acquisition**”).

2. REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION

2.1 Reorganisation

Prior to the incorporation of the Target Company and the completion of the reorganisation (the “**Reorganisation**”), the Business was principally operated by Hangzhou Company, a limited liability company incorporated in the PRC throughout the years ended 31 December 2023, 2024 and 2025 (the “**Relevant Periods**”).

Hangzhou Company was owned as to 51% by Optel Technology as at 31 December 2025 and as to 49% by Futong Group Co., Ltd. (富通集團有限公司) (“**Futong China**”) during the Relevant Periods.

For the purpose of this report, the financial information of the Business was included throughout the Relevant Periods.

The Reorganisation was undertaken subsequent to 31 December 2025 pursuant to which certain equity interest of Hangzhou Company were transferred to the Target Group through following arrangement:

Firstly, the Target Company was set up by Mr. Cao with registered share capital of HK\$10,000;

Then, the Target Company set up a wholly owned subsidiary, Hangzhou Hao Min Information Technology Co., Ltd. (杭州豪民信息技術有限公司), in PRC, with registered capital of RMB10,000,000; and

Finally, 51% of equity interest in Hangzhou Company was transferred to Hangzhou Hao Min Information Technology Co., Ltd. for cash.

Pursuant to the Reorganisation described above, the Target Company has become the holding company of the companies now comprising the Target Group on 30 March 2026. As at the date of this report, the Target Company indirectly owned 51% equity interest of Hangzhou Company.

As the Reorganisation involved inserting newly formed entities as the new holding companies of Hangzhou Company and has not resulted in any change of economic substance, the Historical Financial Information has been prepared and presented as a continuation of the financial statements of Hangzhou Company with the assets and liabilities recognised and measured at their historical carrying amounts prior to the Reorganisation. The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Target Group for the Relevant Periods have been prepared as if the current group structure had been in existence throughout the Relevant Periods, or since the respective dates of incorporation/establishment of the relevant companies now comprising the Target Group where this is a shorter period. The consolidated statements of financial position of the Target Group as at 31 December 2023, 2024 and 2025 have been prepared to present the assets and liabilities of the companies now comprising the Target Group as if the current group structure were in existence at those dates.

No other statutory financial statements of Hangzhou Company were issued during the Relevant Periods where there are no statutory audit requirements.

2.2 Basis of preparation and presentation of the historical financial information

The Historical Financial Information presents the financial track record of the Target Group for the Relevant Periods and is prepared for the purposes of inclusion in a circular of the Company to its shareholders for the Acquisition, using the accounting policies which are materially consistent with those of the Company as applied in the Company's consolidated financial statements for the year ended 31 December 2025.

The Historical Financial Information has been prepared based on accounting policies which conform with HKFRS Accounting Standards issued by the HKICPA, which collective term includes all applicable individual Hong Kong Financial Reporting Standards (“**HKFRSs**”), Hong Kong Accounting Standards (“**HKASs**”) and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong.

The Historical Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

The HKICPA has issued a number of new/revised HKFRS Accounting Standards during the Relevant Periods. For the purpose of the preparation of the Historical Financial Information, the Target Group has consistently applied the accounting policies which conform with HKFRS Accounting Standards, which are effective for the accounting period beginning on 1 January 2025 throughout the Relevant Periods.

Going concern

The Historical Financial Information has been prepared in conformity with the principles applicable to a going concern basis. The applicability of these principles is dependent upon continued availability of adequate finance or attaining profitable operations in future and the success of the below plans and measures.

As at 31 December 2024 and 31 December 2025, the Target Group has net current liabilities of approximately RMB4,019,000 and RMB38,139,000, respectively. As at 31 December 2024 and 31 December 2025, Hangzhou Company's outstanding other borrowings amounting to approximately RMB39,299,000 and RMB46,120,000, respectively, are due for repayment within one year. Such other borrowings are entrusted loans from Hangzhou Company's related party, Sumitomo Electric Investment (Shanghai) Co., Ltd. (住友電工投資(上海)有限公司, “**SMS**”), and Yinhu Optical Fiber (Tianjin) Co., Ltd. (銀湖光纖(天津)有限公司, “**Tianjin Yinhu**”) (formerly known as Tianjin SEI-Futong Optical Fiber Co., Ltd., 富通住電光纖(天津)有限公司). Moreover, the Target Group reported losses of approximately RMB216,511,000, RMB47,164,000 and RMB43,783,000 during the year ended 31 December 2023, 2024 and 2025, respectively.

These conditions indicate an uncertainty exists that may cast doubt on the Target Group's ability to continue as a going concern. Therefore, the Target Group may not be able to realise its assets and discharge its liabilities in the normal course of business. The consolidated financial statements have been prepared on the assumptions that the Target Group will continue to operate as a going concern notwithstanding the conditions prevailing as at 31 December 2025 and subsequently thereto up to the date of this report.

The directors of the Target Company have reviewed the cash flow projections prepared by management, which cover a period of twelve months from the date of this report. In the opinion of the directors of the Target Company, after taking into account the anticipated cash flows to be generated from the Target Group's operations, the Target Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2025. Accordingly, the directors of the Target Company consider that it is appropriate to prepare the Historical Financial Information on a going concern basis.

The measurement basis used in the preparation of the Historical Financial Information is historical cost. The Historical Financial Information are presented in Renminbi ("RMB"), unless otherwise stated, which is the same as the functional currencies of the Target Company and its subsidiaries. All values are rounded to the nearest thousand except when otherwise indicated.

3. MATERIAL ACCOUNTING POLICY INFORMATION

Non-controlling interests

The Target Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS Accounting Standards.

Impairment of non-financial assets

Where an indication of impairment exists, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-

generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset. An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated statements of profit or loss and other comprehensive income in the period in which it arises.

Related parties

A party is considered to be related to the Target Group if:

- (a) the party is a person or a close member of that person's family and that person:
 - (i) has control or joint control over the Target Group;
 - (ii) has significant influence over the Target Group; or
 - (iii) is a member of the key management personnel of the Target Company or of a parent of the Target Group; or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Target Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Target Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (vii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the parent of the Target Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.5% to 8.1%
Machinery	10.0%
Tools and equipment	10.0%
Motor vehicles	20.0%
Electronic equipment	20.0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on disposal or retirement recognised in the profit or loss in the year/period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses and is not depreciated. It is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software

The Target Group's software are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 3 to 5 years, commencing from the date when the products are put into commercial production.

Leases

The Target Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Target Group as a lessee

The Target Group applies a single recognition and measurement approach for all leases. The Target Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets as separate line items in the statements of financial position.

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Equipments	7 years
Land use rights	50 years

(b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Target Group and payments of penalties for termination of a lease, if the lease term reflects the Target Group exercising the option to terminate the lease.

In calculating the present value of lease payments, the Target Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Target Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Target Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Target Group has applied the practical expedient are measured in accordance with HKFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Target Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace are recognised on the trade date, that is, the date that the Target Group commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Target Group's statements of financial position) when the rights to receive cash flows from the asset have expired.

When the Target Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target Group continues to recognise the transferred asset to the extent of the Target Group's continuing involvement. In that case, the Target Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target Group has retained.

Impairment of financial assets

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

General approach

ECLs are recognised in three stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Target Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Target Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Target Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Target Group considers a financial asset in default when contractual payments are 90 days to 150 days past due. However, in certain cases, the Target Group may also consider a financial asset to be in default when internal or external information indicates that the Target Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Target Group.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Target Group applies the practical expedient of not adjusting the effect of a significant financing component, the Target Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Target Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Target Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

All financial liabilities are recognised initially at fair value, net of directly attributable transaction costs.

The Target Group's financial liabilities include trade payables, financial liabilities included in other payables and accruals, due to related parties, interest-bearing bank and other borrowings and lease liabilities.

Subsequent measurement

After initial recognition, financial liabilities are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and necessary to make the sale.

Cash and cash equivalents

Cash and cash equivalents in the statements of financial position comprise cash on hand and at banks, excluding bank balances that are subject to regulatory restrictions, and short-term highly liquid deposits with a maturity of generally within three months that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value and held for the purpose of meeting short-term cash commitments.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Target Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Target Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Target Group expects to be entitled in exchange for those goods or services.

Other employee benefits

Pension scheme

The employees of the Target Group which operates in PRC are required to participate in a central pension scheme operated by the local municipal government. The Target Group are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statements of profit or loss and other comprehensive income as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

Termination benefits are recognised at the earlier of when the Target Group can no longer withdraw the offer of those benefits and when the Target Group recognises restructuring costs involving the payment of termination benefits.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Grants that compensate the Target Group for expenses incurred are recognised in profit or loss on a systematic basis in the periods in which the expenses are recognised. The grants are presented in the statements of profit or loss and other comprehensive income as a reduction of the related expense.

Key sources of estimation uncertainty

In the application of the Target Group's accounting policies, the directors of the Target Group are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In addition to information disclosed elsewhere in these consolidated financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

Impairment of non-financial assets

The Target Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period, which are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. As at 31 December 2023, 2024 and 2025, the aggregate carrying amount of the non-financial assets was approximately RMB79,310,000, RMB68,845,000 and RMB59,182,000, respectively.

Estimated impairment of trade receivables

The Target Group recognises lifetime ECL for trade receivables. When measuring ECL, the Target Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

The Target Group uses a provision matrix to calculate ECL for trade receivables. The provision matrix is based on the Target Group's historical default rates taking into consideration reasonable and supportable forward-looking information that is available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables which are credit impaired are assessed for ECL individually. The information about the ECL and trade receivables are disclosed in Note 19.

Net realisable value of inventories

The carry amounts of inventories at each year/period end included in the statements of financial position, which are stated at the lower of the cost and net realisable value. The Target Group recognises write-down on inventories based on an assessment of the net realisable value of the inventories. Write-down is applied to the inventories where events or changes in circumstances indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimates, such difference will impact carrying value of the inventories and write-down on inventories charged to profit or loss in the period in which such estimate has been changed. As at 31 December 2023, 2024 and 2025, the carrying amount of inventories was approximately RMB42,179,000, RMB29,753,000 and RMB26,037,000 respectively (Note 17).

Recognition of income taxes and deferred tax assets

Determining income tax provision involves judgement on the future tax treatment of certain transactions and when certain matters relating to the income taxes have not been confirmed by the local tax bureau. Management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of deductible temporary differences and unused tax losses. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and the losses can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is revised as necessary and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered. As at 31 December 2023, 2024 and 2025, the deferred tax assets was approximately RMB8,264,000, nil and nil, respectively (Note 11).

Future changes in HKFRS Accounting Standards

At the date of this report, the HKICPA has issued the following new and amendments to HKFRS Accounting Standards that are not yet effective for the Relevant Periods, which the Target Group has not early adopted:

		Effective for annual periods beginning on or after
Amendments to HKFRS 9 and HKFRS 7	Amendments to the Classification and Measurement of Financial Instruments	1 January 2026
Amendments to HKFRS 9 and HKFRS 7	Contracts Referencing Nature – dependent Electricity	1 January 2026
Amendments to HKFRS Accounting Standards	Annual improvements to HKFRS Accounting Standards – Volume 11	1 January 2026
HKFRS 18	Presentation and Disclosure in Financial Statements	1 January 2027
Amendments to HKFRS 19	Amendments to Subsidiaries without Public Accountability: Disclosures	1 January 2027
Amendments to HKAS 21	Translation to a Hyperinflationary Presentation Currency	1 January 2027
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

Except for the new HKFRS Accounting Standard mentioned below, the directors of the Target Group anticipate that the application of all other amendments to HKFRS Accounting Standards will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 18 Presentation and Disclosure of Financial Statements

This standard introduces the following three sets of new requirements to improve entities' reporting of financial performance and give investors a better basis for analysing and comparing entities:

- Presentation of new defined subtotals in the statement of profit or loss;
- Disclosures about management-defined performance measures; and
- Enhanced requirements for grouping (aggregation and disaggregation) of information.

HKFRS 18 supersedes HKAS 1 "Presentation of Financial Statements". Requirements in HKAS 1 that are unchanged have been transferred to HKFRS 18 and other HKFRS Accounting Standards. HKFRS 18 is effective for annual periods beginning on or after 1 January 2027 with earlier application permitted. It is expected to affect the structure and presentation of the consolidated statement of profit or loss and other comprehensive income. The Target Group is still currently assessing the impact that HKFRS 18 will have on the Target Group.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Target Group is organised into one single business unit that includes primarily the manufacture and sale of fibre products and the provision of fiber processing services. Management reviews the results of the Target Group as a whole when making decisions about allocating resources and assessing the performance of the Target Group. Accordingly, no segment analysis is presented.

The principal assets employed by the Target Group are located in Hangzhou, Zhejiang Province, the PRC. Therefore, no segment information based on the geographical location of non-current assets is presented for the Relevant Periods.

During the Relevant Periods, all of the Target Group's revenue was derived from activities carried out and from customers located in the PRC and no geographical segment analysis is prepared.

The Target Group is primarily engaged in the production and sales of optical fiber preforms and optical fibers and providing fiber processing services in the PRC. Revenue from sales of optical fiber and preform products is recognised when control of the assets is transferred to the customer, which typically occurs upon delivery of the optical fiber and fiber preform products, where the performance obligation is satisfied. Revenue relating to fiber processing services is recognised over time throughout the processing period because the Target Group's performance enhances an asset that its customer controls as the asset is enhanced. The Target Group applies the practical expedient of not disclosing the transaction price allocated to performance obligations that were unsatisfied as the Target Group's contract period between contract date and transfer of the associated goods or service is less than one year.

Information about major customers

Details of the customers (including entities under common control) individually accounting for 10% or more of aggregate revenue of the Target Group during the Relevant Periods are as follows:

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Customer A	15,396	Note	Note
Customer B	5,074	21,849	7,951
Customer C	Note	2,559	2,101
Customer D	<u>Note</u>	<u>Note</u>	<u>6,203</u>

Note: Customer A did not contribute revenue in the year ended 31 December 2024 and 2025, customer C contributed less than 10% of the total revenue of the Target Group in the year ended 31 December 2023 and customer D did not contribute revenue in the year ended 31 December 2023 and 2024.

There is certain significant concentration of credit risk arising from these customers.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue, other income and gains is as follow:

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Revenue from contracts with customers			
Sale of goods, recognised at a point in time	22,065	21,849	19,185
Service of fiber processing, recognised over time	<u>29</u>	<u>2,562</u>	<u>2,156</u>
	<u>22,094</u>	<u>24,411</u>	<u>21,341</u>
Other income and gains and losses, net			
Government grants (<i>note</i>)	1,122	109	94
Bank interest income	1	65	177
Interest income from related parties	23	75	4
Others	<u>170</u>	<u>72</u>	<u>31</u>
	<u>1,316</u>	<u>321</u>	<u>306</u>

Note:

Government grants represented the subsidies received from the local government in support of the business operation. There was no condition to be fulfilled by the Target Group in relation to the subsidies.

Details of the disaggregation of the Target Group's revenue and revenue recognition policies are set out in note 4.

6. LOSS BEFORE INCOME TAX

The Target Group's loss before income tax is arrived at after charging/(crediting):

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Auditor's remuneration	–	–	412
Amortisation of intangible assets (included in cost of sales and administrative expenses) (Note 16)	140	140	75
Cost of inventories sold	50,250	51,515	43,073
Depreciation of property, plant and equipment (Note 14)	10,170	9,988	9,147
Depreciation of right-of-use assets (Note 15)	556	556	556
Employee benefit expense (Note 9)	21,897	21,188	17,587
Gain on disposal of property, plant and equipment	(124)	(4)	(6)
Write-down of inventories to net realisable value	<u>375</u>	<u>–</u>	<u>–</u>

7. FINANCE COSTS

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Interest on bank borrowings	509	617	–
Interest on other borrowings	<u>–</u>	<u>796</u>	<u>1,473</u>
Total	<u>509</u>	<u>1,413</u>	<u>1,473</u>

8. DIRECTOR'S EMOLUMENT

The directors of the Target Company consider the presentation of directors' emolument is not meaningful for the purpose of this report.

9. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' REMUNERATION (NOTE 8))

	Year ended 31 December		
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefit expense (including directors' remuneration (<i>note 8</i>)):			
Wages, salaries and other benefits	15,851	15,608	12,784
Pension scheme contributions (defined contribution scheme)	<u>6,046</u>	<u>5,580</u>	<u>4,803</u>
	<u><u>21,897</u></u>	<u><u>21,188</u></u>	<u><u>17,587</u></u>

10. FIVE HIGHEST PAID INDIVIDUALS

The directors of the Target Company consider the presentation of individual with highest emolument information is not meaningful for the purpose of this report.

11. INCOME TAX EXPENSE

Hangzhou Company is subject to the PRC enterprise income tax, adjusted in accordance with relevant PRC income tax laws based on a statutory rate of 25%. Details of income tax recognised during the Relevant Periods are set out below:

	Year ended 31 December		
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax	–	–	–
Deferred tax	<u>8,264</u>	<u>–</u>	<u>–</u>
Total	<u><u>8,264</u></u>	<u><u>–</u></u>	<u><u>–</u></u>

A reconciliation of the tax expense applicable to loss before income tax to the income tax expense is as follows:

	Year ended 31 December		
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loss before income tax	<u>(208,247)</u>	<u>(47,164)</u>	<u>(43,783)</u>
Tax at the statutory tax rate of 25%	(52,062)	(11,791)	(10,946)
Expenses not deductible for tax	73	39	4
Tax losses not recognised due to improbable future taxable profits	9,585	11,481	10,707
Reversal of deferred tax assets	8,264	–	–
Effect of temporary differences not recognised	<u>42,404</u>	<u>271</u>	<u>235</u>
Income tax expense for the year	<u>8,264</u>	<u>–</u>	<u>–</u>

At 31 December 2023, 2024 and 2025, the Target Group has tax losses of RMB68,838,000, RMB114,758,000 and RMB157,584,000 respectively, the tax losses will expire in one to five years for offsetting against future taxable profits. Relevant deferred tax assets have not been recognised due to improbable future taxable profits. Deferred tax assets have not been recognised in respect of these losses as the Target Group is loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be recognised.

Tax effect of temporary differences not recognised mainly represents tax effect of temporary differences related to depreciation of property, plant and equipment, and provision for asset impairment. Deferred tax assets have not been recognised in respect of the temporary differences as it is not considered probable that taxable profit will be available against which the deductible temporary differences can be utilised.

12. LOSS PER SHARE

No loss per share information is presented as its inclusion, for the purpose of the Historical Financial Information, is not considered meaningful.

13. DIVIDEND

The directors of the Target Company did not recommend payment of any dividends for the Relevant Periods.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery RMB'000	Tools and equipment RMB'000	Motor vehicles RMB'000	Electronic equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 2023	73,724	253,394	7,063	623	8,446	846	344,096
Addition	–	–	–	–	–	146	146
Transfer	–	316	7	–	669	(992)	–
Disposal	–	(1,124)	–	–	(1,134)	–	(2,258)
At 31 December 2023	73,724	252,586	7,070	623	7,981	–	341,984
Addition	–	–	–	–	–	223	223
Transfer	–	102	109	–	12	(223)	–
Disposal	–	(30)	(15)	–	–	–	(45)
At 31 December 2024	73,724	252,658	7,164	623	7,993	–	342,162
Addition	–	–	–	–	–	121	121
Transfer	–	–	114	–	7	(121)	–
Disposal	–	–	(4)	–	(50)	–	(54)
At 31 December 2025	73,724	252,658	7,274	623	7,950	–	342,229
Accumulated depreciation							
At 1 January 2023	(40,883)	(218,862)	(5,421)	(442)	(7,196)	–	(272,804)
Charge for the year	(3,342)	(6,087)	(317)	(77)	(347)	–	(10,170)
Disposal	–	1,101	–	–	1,022	–	2,123
At 31 December 2023	(44,225)	(223,848)	(5,738)	(519)	(6,521)	–	(280,851)
Charge for the year	(3,342)	(5,990)	(266)	(42)	(348)	–	(9,988)
Disposal	–	28	13	–	–	–	41
As at 31 December 2024	(47,567)	(229,810)	(5,991)	(561)	(6,869)	–	(290,798)
Charge for the year	(3,342)	(5,302)	(208)	–	(295)	–	(9,147)
Disposal	–	–	3	–	45	–	48
As at 31 December 2025	(50,909)	(235,112)	(6,196)	(561)	(7,119)	–	(299,897)
Net carrying amount							
At 31 December 2023	<u>29,499</u>	<u>28,738</u>	<u>1,332</u>	<u>104</u>	<u>1,460</u>	<u>–</u>	<u>61,133</u>
At 31 December 2024	<u>26,157</u>	<u>22,848</u>	<u>1,173</u>	<u>62</u>	<u>1,124</u>	<u>–</u>	<u>51,364</u>
At 31 December 2025	<u>22,815</u>	<u>17,546</u>	<u>1,078</u>	<u>62</u>	<u>831</u>	<u>–</u>	<u>42,332</u>

As the Target Group incurs continuous losses during the Relevant Periods, management of the Target Group concludes there are impairment indicators for non-financial assets as at 31 December 2023, 2024, and 2025, impairment assessments are performed at each reporting date. The impairment test is based on the recoverable amount of the non-financial assets which are estimated individually. The recoverable amount was based on the fair value less cost to disposal. The fair values of non-financial assets are established by market approach. The market approach considers prices recently paid for similar assets with adjustment made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative. Based on the impairment assessments, no impairment loss is recognised.

15. RIGHT-OF-USE ASSETS

	Land use rights <i>RMB'000</i>
Cost	
At 1 January 2023, 31 December 2023, 31 December 2024 and 31 December 2025	<u>26,239</u>
Accumulated depreciation	
At 1 January 2023	7,742
Charge for the year	<u>556</u>
At 31 December 2023	8,298
Charge for the year	<u>556</u>
At 31 December 2024	8,854
Charge for the year	<u>556</u>
At 31 December 2025	<u>9,410</u>
Net carrying amount	
At 31 December 2023	<u><u>17,941</u></u>
At 31 December 2024	<u><u>17,385</u></u>
At 31 December 2025	<u><u>16,829</u></u>

The Target Group leases land use rights to operate its production. The leases of land use rights are made for fixed periods of seven to fifty years. Lease terms are negotiated on an individual basis and contain various terms and conditions. The lease agreements do not impose any covenants.

As management of the Target Group concluded there are impairment indicators for non-financial assets of the Target Group as at 31 December 2023, 2024, and 2025, therefore, impairment assessments were performed at each reporting date. The key assumptions that management used in the valuation is disclosed in note 14.

16. INTANGIBLE ASSETS

	Software <i>RMB'000</i>
Cost	
At 1 January 2023	15,845
Addition	<u>112</u>
At 31 December 2023, 31 December 2024 and 31 December 2025	<u>15,957</u>
Accumulated amortisation	
At 1 January 2023	15,581
Charge for the year	<u>140</u>
At 31 December 2023	15,721
Charge for the year	<u>140</u>
At 31 December 2024	15,861
Charge for the year	<u>75</u>
At 31 December 2025	<u>15,936</u>
Net Carrying Amount	
At 31 December 2023	<u><u>236</u></u>
At 31 December 2024	<u><u>96</u></u>
At 31 December 2025	<u><u>21</u></u>

As management of the Target Group concluded there are impairment indicators for non-financial assets of the Target Group. as at 31 December 2023, 2024, and 2025, therefore, impairment assessments were performed at each reporting date. The key assumptions that management used in the valuation is disclosed in note 14.

17. INVENTORIES

Inventories in the consolidated statements of financial position comprise:

	At 31 December		
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	20,061	17,985	15,852
Work in progress	8,938	11,736	10,153
Finished goods	<u>13,180</u>	<u>32</u>	<u>32</u>
	<u><u>42,179</u></u>	<u><u>29,753</u></u>	<u><u>26,037</u></u>

The management of the Target Group determined the net realisable value of the inventories by reference to the estimated selling prices of the inventories, which takes into account a number of factors including prevailing market conditions in the PRC, estimated costs to completion, and costs necessary to make the sales.

18. PREPAYMENTS AND OTHER RECEIVABLES

	At 31 December		
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other receivables	107	104	1
Prepayments	<u>1,407</u>	<u>114</u>	<u>363</u>
	<u><u>1,514</u></u>	<u><u>218</u></u>	<u><u>364</u></u>

The Target Group applies a general approach in calculating ECLs for other receivables. Other receivables related to debtors that are in default are classified as Stage 3 and the lifetime ECL rate was estimated to be 100% based on historical credit loss experience. The remaining other receivables are classified as Stage 1 without any significant increase in credit risk tracked since initial recognition.

19. DUE FROM RELATED PARTIES

	At 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Trade receivables	206,734	161,729	160,868
Prepayments and other receivables	<u>10,977</u>	<u>9,993</u>	<u>15,435</u>
Due from related parties	<u>217,711</u>	<u>171,722</u>	<u>176,303</u>
Less: impairment of due from related parties	<u>(169,483)</u>	<u>(170,207)</u>	<u>(170,785)</u>
Net carrying amount	<u><u>48,228</u></u>	<u><u>1,515</u></u>	<u><u>5,518</u></u>

As at 1 January 2023, the net carrying amount of trade receivables from contracts with customers included in due from related parties is approximately RMB209,110,000.

For the purpose of ECL assessment of due from related parties, save for the trade and other receivables due from Yinhu Optical Fiber (Jiaxing) Co., Ltd. (銀湖光纖(嘉興)有限公司, “**Jiaxing Yinhu**”) (formerly known as Jiaxing SEI-Futong Optical Fiber Co., Ltd., 富通住電光纖(嘉興)有限公司), which has the same controlling shareholder, Sumitomo Electric Industries, Ltd. (“**SEI**”, 住友電氣工業株式會社) before 22 October 2025 and Optel Technology from 22 October 2025, as disclosed below and other receivables, these balances are classified as Stage 1 applying the simplified approach of HKFRS 9 as at 31 December 2023, 2024 and 2025. HKEX-31

As at 31 December 2023, 2024 and 2025, included in the balance is an amount due from one of the Target Group’s related parties, Jiaxing Yinhu, of approximately RMB150,339,000, RMB104,701,000 and RMB105,278,000, respectively, which has been in default and are classified as Stage 3 and the lifetime ECL rate was estimated to be 100% based on historical credit loss experience and expected subsequent settlement. Certain agreements were entered into between Hangzhou Company with Jiaxing Yinhu in respect of the settlement arrangement dated 1 September 2018 to 31 March 2022. Pursuant to the agreements, for each day of delay in payment, Jiaxing Yinhu shall pay liquidated damages for overdue payment to Hangzhou Company at an annual interest rate of 5.22%.

For other receivables due from related parties, in order to minimise the credit risk, the management of the Target Group closely monitors the follow-up action taken to recover any past due balances. In addition, the Target Group monitors subsequent recovery or settlement of each of the balances to ensure that adequate impairment losses are made for irrecoverable amounts. In addition, the Target Group has applied the general approach in HKFRS 9 to measure the ECL

allowance at 12-month ECL, since there has not been a significant increase in credit risk since initial recognition for the balances, save for other receivables due from Jiaxing Yinhu from which ECL is included in below disclosure.

The trading terms with its related parties are mainly on credit and the credit period is generally 30 to 90 days. An ageing analysis of the trade receivables included in due from related parties, based on the invoice date and net of loss allowance, is as follows:

	At 31 December		
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 – 180 days	–	1,358	497
181 – 270 days	–	–	–
271 – 365 days	–	–	–
Over 365 days	<u>46,362</u>	<u>–</u>	<u>–</u>
Total	<u><u>46,362</u></u>	<u><u>1,358</u></u>	<u><u>497</u></u>

The movements in loss allowance for impairment of due from related parties are as follows:

	Year ended 31 December		
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Lifetime ECL – credit impaired			
At 1 January	–	169,483	170,207
Provision for impairment losses	<u>169,483</u>	<u>724</u>	<u>578</u>
As at 31 December	<u><u>169,483</u></u>	<u><u>170,207</u></u>	<u><u>170,785</u></u>

The credit quality of due from related parties is as follows:

	Current (not past due) RMB'000	Less than 3 months past due RMB'000	3 to 6 months past due RMB'000	Over 6 months past due RMB'000	Total RMB'000
As at 31 December 2023					
ECL rate	93.46%	100.00%	100.00%	72.20%	77.85%
Gross carrying amount	28,521	16,060	6,351	166,779	217,711
ECL	(26,655)	(16,060)	(6,351)	(120,417)	(169,483)
As at 31 December 2024					
ECL rate	87.04%	83.77%	100.00%	100.00%	99.12%
Gross carrying amount	11,301	308	3,776	156,337	171,722
ECL	(9,836)	(258)	(3,776)	(156,337)	(170,207)
As at 31 December 2025					
ECL rate	65.37%	–	–	100.00%	96.87%
Gross carrying amount	15,931	–	–	160,372	176,303
ECL	<u>(10,413)</u>	<u>–</u>	<u>–</u>	<u>(160,372)</u>	<u>(170,785)</u>

20. CASH AND CASH EQUIVALENTS

	At 31 December		
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and bank balances included in cash and cash equivalents	<u>157</u>	<u>22,360</u>	<u>243</u>

At 31 December 2023, 2024 and 2025, all of the Target Group's cash and bank balances are denominated in RMB.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

21. TRADE PAYABLES

An aging analysis of the trade payables of the Target Group as at the end of the reporting period, based on the invoice date, is as follows:

	At 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Within 30 days	1,451	1,171	2,949
31 to 60 days	535	1,246	1,221
61 to 90 days	101	583	358
91 to 120 days	118	–	–
121 to 365 days	159	2	–
Over 365 days	<u>174</u>	<u>170</u>	<u>172</u>
	<u>2,538</u>	<u>3,172</u>	<u>4,700</u>

The trade payables are unsecured, non-interest-bearing and are normally settled on terms of 30 to 60 days.

22. OTHER PAYABLES AND ACCRUALS

	At 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Other payables and accruals (<i>Note</i>)	897	652	2,039
Payroll and bonus payables	1,782	1,811	2,161
Interest payables	427	3	131
Other tax payables	<u>1,098</u>	<u>1,120</u>	<u>540</u>
	<u>4,204</u>	<u>3,586</u>	<u>4,871</u>

Note: Other payables are unsecured, non-interest-bearing and repayable on demand.

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (% per annum)	Maturity	Current RMB'000
Short-term bank borrowings			
At 31 December 2023			
Secured	3.34%	2024	<u>30,248</u>
Short-term other borrowings			
At 31 December 2023			
Unsecured	3.30%	2024	<u>8,350</u>
At 31 December 2024			
Unsecured	3.30%	2025	<u>39,299</u>
At 31 December 2025			
Unsecured	3.30%	2026	<u>46,120</u>
At 31 December			
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank and other borrowings repayable:			
Within one year	<u>38,598</u>	<u>39,299</u>	<u>46,120</u>

As at 31 December 2023, bank borrowings with variable rate amounting to RMB30,248,000 are guaranteed by SEI, the then controlling shareholder holding 51% equity interest of Hangzhou Company before 22 October 2025.

As at 31 December 2023, 2024 and 2025, other borrowings are entrusted loan from Hangzhou Company's related party, SMS and Tianjin Yinhu, amounting to RMB8,350,000, RMB39,299,000 and RMB46,120,000, respectively. The entrusted loan is with fixed interest of 3.30% per annum and unsecured. In November 2025, all outstanding entrusted loan's maturity period was extended to November 2026. Subsequent to the year ended 31 December 2025, Hangzhou Company made aggregate repayment of RMB46,120,000 to Tianjin Yinhu.

24. SHARE CAPITAL

	At 31 December		
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Issued and fully paid (<i>note</i>)	<u>104,606</u>	<u>104,606</u>	<u>104,606</u>

Note:

For the purpose of this report, the share capital of the Target Group as at 31 December 2023, 2024 and 2025 represented the 51% share capital of Hangzhou Company held by the respective shareholders during the Relevant Periods. The remaining 49% share capital of Hangzhou Company of approximately RMB100,461,000 is held by Futong China and recognised as non-controlling interest as at each reporting date.

25. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Name and relationship

Name of related party	Relationship
– SEI	Shareholder holding 51% equity interest of Hangzhou Company (before 22 October 2025)
– Optel Technology	Ultimate controlling shareholder holding 51% equity interest of Hangzhou Company (from 22 October 2025)
– Futong China	Non-controlling shareholder holding 49% equity interest of Hangzhou Company
– SUMITOMO ELECTRIC ASIA LTD (“ SEA ”)	<i>Note (i)</i>
– Sumitomo Electric Investment (Shanghai) Co., Ltd. (“ SMS ”) 住友電工投資(上海)有限公司	<i>Note (i)</i>
– Sumitomo Electric Trading (Shenzhen) Co., Ltd. (“ SET Shenzhen ”) 住友電工貿易(深圳)有限公司	<i>Note (i)</i>
– Futong Technology Research Institute Co., Ltd. (“ Futong Technology ”) 富通技術研究院有限公司	<i>Note (iii)</i>
– Hangzhou Futong Communication Technology Co., Ltd. (“ Hangzhou Futong Communication ”) 杭州富通通信技術股份有限公司	<i>Note (iii)</i>
– Zhejiang Futong Optical Fibre Technology Co., Ltd. (“ Zhejiang FTO ”) 浙江富通光纖技術有限公司	<i>Note (iii)</i>
– Tianjin Yinhu	<i>Note (ii)</i>

Name of related party	Relationship
– Jiaxing Yinhu	<i>Note (ii)</i>
– Jiaxing Yinhu Optelecom Technology Co., Ltd. (“ Jiaxing Optelecom ”) (formerly known as Jiaxing SEI-Futong Optelecom Technology Co., Ltd.) 銀湖光導科技(嘉興)有限公司 (曾用名：富通住電光導科技(嘉興)有限公司)	<i>Note (ii)</i>
– Chengdu SEI Optical Fiber Co., Ltd. (“ SEI Chengdu ”) 成都中住光纖有限公司	<i>Note (i)</i>
– Transtech Optical Communication Company Limited. (“ Transtech ”) 高科橋光通信有限公司	<i>Note (iv)</i>
– Futong (Jiashan) Optical Communication Technology Co., Ltd. (“ Futong Jiashan Optical Communication ”) 富通(嘉善)光通信技術有限公司	<i>Note (iii)</i>
– Futong Group (Jiashan) Communication Technology Co., Ltd. (“ Futong Jiashan ”) 富通集團(嘉善)通信技術有限公司	<i>Note (iii)</i>

Notes:

- (i) Fellow subsidiary of Hangzhou Company before 22 October 2025.
- (ii) Common controlling shareholders (note 19) and associate of non-controlling interest throughout the Relevant Periods.
- (iii) Subsidiary of non-controlling interest throughout the Relevant Periods.
- (iv) Subsidiary of the Group throughout the Relevant Periods.

(b) Related party transactions

In addition to the transactions/information disclosed elsewhere in the Historical Financial Information, during the Relevant Periods, the Target Group had the following transactions with related parties:

	Year ended 31 December		
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sales of goods to related parties (Note (i))			
Hangzhou Futong Communication	15,396	–	–
Tianjin Yinhu	1,595	–	–
SET Shenzhen	5,074	21,849	7,951
Futong Jiashan Optical Communication	–	–	6,203
Optel Technology	–	–	1,717
Transtech	<u>–</u>	<u>–</u>	<u>1,706</u>
Technical development service income to related parties (Note (ii))			
SEI Chengdu	25	2,559	2,101
Tianjin Yinhu	<u>4</u>	<u>3</u>	<u>55</u>
Purchase of goods from related parties (Note (iv))			
SEA	–	732	1,166
SEI	544	782	39
Zhejiang FTO	345	–	–
Tianjin Yinhu	5,475	1,542	7,883
Jiaxing Optelecom	<u>–</u>	<u>18</u>	<u>–</u>

	Year ended 31 December		
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Technical development service expenses			
from related parties			
SEI	302	139	–
SMS	657	519	–
Futong China	549	621	330
Hangzhou Futong Communication	486	360	–
Jiaxing Yinhu	–	15	31
Jiaxing Optelecom	<u>–</u>	<u>–</u>	<u>12</u>
Interest expense charged by related parties			
<i>(Note (vi))</i>			
Tianjin Yinhu	–	530	847
SMS	<u>–</u>	<u>266</u>	<u>626</u>
Purchase of property, plant and			
equipment from related parties			
<i>(Note (vii))</i>			
SEI	<u>61</u>	<u>–</u>	<u>–</u>
Reimbursement of expenses paid on behalf			
of related parties (Note (vii))			
SEI	<u>676</u>	<u>585</u>	<u>508</u>

Note:

- (i) The sales of goods to related parties were made according to the prices and terms agreed between the related parties.
- (ii) The technical development service income from related parties was made according to the prices and terms offered by the related party.
- (iii) The management service fee charged to related parties was made according to the prices and terms offered by the related party.
- (iv) The purchases of goods from related parties were made according to the prices and terms offered by the related parties.
- (v) The lease payment to related party was based on the prices and terms agreed between the related parties.

(vi) The interest expense are from entrusted loan with related parties.

(vii) The expenses are personal income tax of foreign staff from SEI.

(c) Outstanding balances with related parties

	At 31 December		
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Due from related parties			
Jiaxing Yinhu (<i>note (ii)</i>)	46,362	–	1,000
SEI	149	157	17
SET Shenzhen	–	1,358	–
Jiaxing Optelecom (<i>note (i)</i>)	1,717	–	–
Futong Technology (<i>note (ii)</i>)	–	–	4,004
Transtech	–	–	497
	<u>–</u>	<u>–</u>	<u>497</u>
Total	<u>48,228</u>	<u>1,515</u>	<u>5,518</u>
Due to related parties			
Zhejiang FTO	1,170	1,170	1,170
Jiaxing Yinhu	–	6	119
Hangzhou Futong Communication	561	967	978
Tianjin Yinhu	–	45	8,308
SEI	3,071	1,827	1,917
Futong China	681	166	66
SMS	1,505	2,057	–
Futong Technology	–	–	50
SEA	7,070	5,570	–
Futong Jiashan Optical Communication	–	–	1,170
Futong Jiashan	–	–	832
	<u>–</u>	<u>–</u>	<u>832</u>
Total	<u>14,058</u>	<u>11,808</u>	<u>14,610</u>

Notes:

(i) The balance represented the entrusted loan granted by Hangzhou Company which was fully repaid during the year ended 31 December 2024.

(ii) The balance represented loans receivable granted by Hangzhou Company which was fully repaid before 31 March 2026.

(d) **Other borrowings, entrusted loans from related parties**

	At 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
SMS (Note 23)	–	22,999	–
Tianjin Yinhu (Note 23)	<u>8,350</u>	<u>16,300</u>	<u>46,120</u>
	<u>8,350</u>	<u>39,299</u>	<u>46,120</u>

(e) **Key management compensation**

Compensation for key management other than those for directors as disclosed in Note 8 during the Relevant Periods is as follows:

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Salaries, allowances, discretionary bonus and other benefits in kind	<u>519</u>	<u>586</u>	<u>597</u>

26. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets – at amortised cost

	At 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Financial assets included in other receivables (Note 18)	107	104	1
Due from related parties	48,228	1,465	5,518
Cash and cash equivalents	<u>157</u>	<u>22,360</u>	<u>243</u>
Total	<u>48,492</u>	<u>23,929</u>	<u>5,762</u>

Financial liabilities – at amortised cost

	At 31 December		
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	2,538	3,172	4,700
Financial liabilities included in other payables and accruals (<i>Note 22</i>)	1,324	655	2,170
Interest-bearing bank and other borrowings	38,598	39,299	46,120
Due to related parties	<u>14,058</u>	<u>11,808</u>	<u>14,610</u>
Total	<u><u>56,518</u></u>	<u><u>54,934</u></u>	<u><u>67,600</u></u>

27. NOTES TO THE STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities are as follows:

	Interest-bearing bank borrowings	Interest-bearing other borrowings	Interest payables	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 31 December 2023				
At 1 January 2023	1,223	–	–	1,223
Changes from financing cash flows	29,025	8,350	(82)	37,293
Interest expense	<u>–</u>	<u>–</u>	<u>509</u>	<u>509</u>
At 31 December 2023	<u><u>30,248</u></u>	<u><u>8,350</u></u>	<u><u>427</u></u>	<u><u>39,025</u></u>
As at 31 December 2024				
At 1 January 2024	30,248	8,350	427	39,025
Changes from financing cash flows	(30,248)	30,949	(1,837)	(1,136)
Interest expense	<u>–</u>	<u>–</u>	<u>1,413</u>	<u>1,413</u>
At 31 December 2024	<u><u>–</u></u>	<u><u>39,299</u></u>	<u><u>3</u></u>	<u><u>39,302</u></u>
As at 31 December 2025				
At 1 January 2025	–	39,299	3	39,302
Changes from financing cash flows	–	6,821	(1,345)	5,476
Interest expense	<u>–</u>	<u>–</u>	<u>1,473</u>	<u>1,473</u>
At 31 December 2025	<u><u>–</u></u>	<u><u>46,120</u></u>	<u><u>131</u></u>	<u><u>46,251</u></u>

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group's principal financial instruments comprise bank and other borrowings, cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Target Group's operations. The Target Group has various other financial assets and liabilities, such as due from related parties, other receivables and trade and other payables, due to related parties, which arise directly from its operations.

The main risks arising from the Target Group's financial instruments are interest rate risk, credit risk and liquidity risk. The management of the Target Group reviews and agrees policies for managing each of these risks and they are recognised below.

Interest rate risk

The Target Group's exposure to the risk of changes in market interest rates relates primarily to the Target Group's interest-bearing bank borrowings with a floating interest rate. The Target Group's policy is to manage its interest cost using a mix of fixed and variable rate debts.

As at 31 December 2023, if the interest rates had been 100 basis points higher/lower with all other variables held constant, profit/loss before tax for the year/period would have been RMB226,000 lower/higher, mainly as a result of higher/lower interest expense on floating rate bank borrowings. As at 31 December 2024 and 2025, the other borrowings bear fixed interest rates with insignificant interest rate risk.

Credit risk

Credit risk is the risk that a counterparty cannot meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Target Group is exposed to credit risk from its operating activities (primarily amounts due from related parties and other receivables).

The Target Group trades only with recognised and credit worthy third parties and related parties. It is the Target Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The Target Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Target Group has significant exposure to individual customers. At the end of each reporting date, the Target Group's concentration of credit risk is not significant. The Target Group's

exposure to credit risk is influenced mainly by the historical settlement pattern of the customers. The credit risk of due from related parties at the end of each reporting period are disclosed in Note 19.

Other financial assets at amortised cost are other receivables. In order to minimise the credit risk of other receivables, the management would make periodic collective and individual assessment on the recoverability of other receivables based on historical settlement records and past experience as well as current external information. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In these regards, the credit risk of prepayments and other receivables is considered to be low. It is not the Target Group's policy to request collateral from its other debtors.

The management is of opinion that there is no significant increase in credit risk on these other receivables since initial recognition as the risk of default is low and, thus, the impact of ECL is insignificant for the years ended 31 December 2023, 2024 and 2025.

As at 31 December 2023, 2024 and 2025, substantially all the Target Group's bank balances are deposited with major financial institutions incorporated in the PRC Mainland, of which management believes are high credit quality without significant credit risk.

The carrying amounts of cash and cash equivalents, financial assets included in other receivables and due from related parties in the consolidated statement of financial position represent the Target Group's maximum exposure to credit risk in relation to its financial assets. The Target Group has no other financial assets which carry significant exposure to credit risk.

Liquidity risk

The Target Group's policy is to monitor regularly the current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

The maturity profile of the Target Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	Weighted average interest rate per annum	On	Less than	3 to 12	1 to 5	Over 5	Total
		demand	3 months	months	years	years	
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2023							
Interest-bearing bank and other borrowings	3.34%	702	4,312	34,286	–	–	39,300
Trade payables		2,538	–	–	–	–	2,538
Financial liabilities included in other payables and accruals		1,324	–	–	–	–	1,324
Due to related parties		<u>14,058</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>14,058</u>
Total		<u><u>18,622</u></u>	<u><u>4,312</u></u>	<u><u>34,286</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>57,220</u></u>
31 December 2024							
Interest-bearing bank and other borrowings	3.30%	939	–	39,299	–	–	40,238
Trade payables		3,172	–	–	–	–	3,172
Financial liabilities included in other payables and accruals		655	–	–	–	–	655
Due to related parties		<u>11,808</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>11,808</u>
Total		<u><u>16,574</u></u>	<u><u>–</u></u>	<u><u>39,299</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>55,873</u></u>
31 December 2025							
Interest-bearing bank and other borrowings	3.30%	1,395	–	46,120	–	–	47,515
Trade payables		4,700	–	–	–	–	4,700
Financial liabilities included in other payables and accruals		2,170	–	–	–	–	2,170
Due to related parties		<u>14,610</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>14,610</u>
Total		<u><u>22,875</u></u>	<u><u>–</u></u>	<u><u>46,120</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>68,995</u></u>

Capital management

The primary objectives of the Target Group's capital management are to safeguard the Target Group's ability to continue as a going concern and to maintain healthy capital ratios to support its business and maximise shareholders' value.

The Target Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Target Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Target Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Target Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. The Target Group includes, within net debt, trade payables, other payables and accruals, interest-bearing bank and other borrowings, and due to related parties, less cash and cash equivalents. The gearing ratios at the end of each of the reporting periods were as follows:

	At 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Trade payables	2,538	3,172	4,700
Other payables and accruals (Note 22)	4,204	3,586	4,871
Interest-bearing bank and other borrowings	38,598	39,299	46,120
Due to related parties (Note 25)	14,058	11,808	14,610
Less: Cash and cash equivalents (Note 20)	<u>(157)</u>	<u>(22,360)</u>	<u>(243)</u>
Net debt	59,241	35,505	70,058
Total equity	<u>111,990</u>	<u>64,826</u>	<u>21,043</u>
Total equity and net debt	<u>171,231</u>	<u>100,331</u>	<u>91,101</u>
Gearing ratio	<u>34.60%</u>	<u>35.39%</u>	<u>76.90%</u>

29. EMPLOYEE RETIREMENT BENEFIT

Defined contribution retirement plans

Pursuant to the relevant labour rules and regulations in the PRC, the Target Group's PRC subsidiaries participate in a defined contribution retirement benefit scheme (the "Scheme") organised by the PRC municipal government authority in Hangzhou whereby Hangzhou Company is required to make contributions to the Scheme at rates of 16% of the eligible employees' relevant salaries. The local government authority is responsible for the entire pension obligations payable to retired employees. The Target Group has no legal or construction obligations to pay further contributions after payment of the fixed contributions.

30. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 31 December 2025, save as disclosed elsewhere in the Historical Financial Information, the Target Group has not had any significant subsequent events.

31. SUBSEQUENT CONSOLIDATED FINANCIAL STATEMENTS

No audited consolidated financial statements have been prepared in accordance with HKFRS Accounting Standards and/or other applicable financial reporting standards for the Target Group in respect of any period subsequent to 31 December 2025.