

POWER XINCHEN

新 晨 动 力

XINCHEN CHINA POWER HOLDINGS LIMITED

新晨中國動力控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1148



2025

ANNUAL REPORT



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Corporate Information

BOARD OF DIRECTORS

Mr. Zhang Wei (*Chairman*)
Mr. Deng Han (*Chief Executive Officer*)
Mr. Yang Ming[#]
Mr. Chi Guohua*
Mr. Wang Jun*
Ms. Dong Yan*

[#] *non-executive director*

* *independent non-executive director*

AUTHORISED REPRESENTATIVES

Mr. Deng Han
Ms. Ngai Ka Yan

CHIEF FINANCIAL OFFICER

Mr. Ng Yiu Fai (FCPA)

COMPANY SECRETARY

Ms. Ngai Ka Yan

REGISTERED OFFICE

Windward 3
Regatta Office Park
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 3303, 33rd Floor
The Henderson
2 Murray Road, Central
Hong Kong

AUDITOR

Grant Thornton Hong Kong Limited
*Certified Public Accountants and Registered Public Interest
Entity Auditor*
11th Floor, Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

PRINCIPAL BANKERS

China Minsheng Bank
CZBank
Fubon Bank (China)
Industrial Bank Company Limited
Liaoning Rural Commercial Bank
Postal Savings Bank of China

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-16
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

LEGAL ADVISORS TO THE COMPANY

Appleby
Loeb & Loeb LLP

STOCK CODE

The Main Board of The Stock Exchange of
Hong Kong Limited: 1148

Financial Highlights

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF XINCHEN CHINA POWER HOLDINGS LIMITED (THE “COMPANY”) AND ITS SUBSIDIARIES (ALL TOGETHER THE “GROUP”)

(Amounts in thousands of Renminbi (“RMB”) except earnings per share)

	Year ended and as at 31 December				
	2025 RMB'000	2024 RMB'000	2023 RMB'000	2022 RMB'000	2021 RMB'000
Income Statement Data:					
Revenue	4,712,300	6,082,391	5,340,830	1,652,481	1,462,777
Profit/(Loss) before Income Tax Expense	29,407	42,378	48,515	(110,731)	(399,660)
Income Tax (Expense)/Credit	(9,250)	(4,207)	(7,444)	(5,098)	6,887
Other Comprehensive (Loss)/Income	36	(36)	22	139	(161)
Profit/(Loss) and Total Comprehensive Income/(Loss) for the Year Attributable to Owners of the Company	20,193	38,135	41,093	(115,690)	(392,934)
Basic Profit/(Loss) per Share	RMB0.016	RMB0.030	RMB0.032	RMB(0.090)	RMB(0.306)
Diluted Profit/(Loss) per Share	RMB0.016	RMB0.030	RMB0.032	RMB(0.090)	RMB(0.306)
Statement of Financial Position Data:					
Non-current Assets	2,078,084	2,248,001	2,488,630	2,668,042	2,896,847
Current Assets	1,776,233	3,229,708	3,012,473	1,488,089	1,067,978
Current Liabilities	(1,849,224)	(3,293,002)	(3,308,163)	(1,815,665)	(1,974,757)
Non-current Liabilities	(242,286)	(430,553)	(476,921)	(665,540)	(199,452)
Shareholders' Equity	1,762,807	1,754,154	1,716,019	1,674,926	1,790,616

Note:

The shares of the Company (the “Shares”) were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 13 March 2013.

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors, I hereby present the annual results of Xincheng China Power Holdings Limited for the year ended 31 December 2025.

According to the latest statistics from the China Association of Automobile Manufacturers, the automobile industry achieved a growth of 9.4% year-on-year in vehicle sales, totaling approximately 34.4 million units in 2025. This represents a landmark sales figure, as it is the first time annual vehicle sales have exceeded 34 million units, maintaining China's position as the world's largest automotive market for the 17th consecutive year. This growth occurred despite challenges such as declining consumer confidence, macroeconomic pressures including slower gross domestic product growth, and the gradual scaling back of government subsidies for new energy vehicles ("NEV"). The results were driven by robust domestic demand and strong export performance. In 2025, sales of passenger vehicles (including sedans, sport-utility vehicles, and multi-purpose vehicles) amounted to about 30.1 million units, up by 9.2% year-on-year, while sales of commercial vehicles reached 4.3 million units, up by 10.9%. NEV sales totaled 16.49 million units, up by 28.2% year-on-year, accounting for approximately 47.9% of the country's total vehicle sales in 2025. This penetration rate indicates substantial remaining growth potential in the NEV sector. Thus, NEV continued to provide solid support for overall vehicle sales in 2025, and the NEV market's expansion is expected to accelerate further in the coming years.

The People's Republic of China ("PRC") government has extended the reduction of the value-added tax rate on used cars from 3.0% to 0.5% until the end of 2027, while encouraging the financial sector to offer more attractive credit services to consumers in order to revitalize the automobile industry. In 2025, China's annual automobile sales continued to account for approximately 35.6% of global sales, underscoring its pivotal role in the worldwide market. In particular, the scale of China's NEV market accounted for approximately 66% of all NEV sold worldwide in 2025. China's State Council outlined a development blueprint for the NEV industry from 2021 to 2035, targeting a 20% share of NEV in the country's total sales by 2025. This goal was achieved well ahead of schedule, with NEV sales representing about 47.9% of total vehicle sales in 2025. Current market projections suggest that NEV penetration could advance further to around 75% by 2030, driven by ongoing policy support and technological advancements. The entire industry is undergoing a process of transformation and upgrading, and we remain optimistic about its future. We will strive to capture a share of this monumental growth through strategic acquisitions or collaborations with key industry players.

During the year, demand for plug-in hybrids (including range-extended types) showed a slight decline amid intense competition and advancing battery technology, including plug-in hybrid electric vehicles ("PHEV")/range-extended electric vehicles ("REEV") decreasing modestly to contribute around 35.5% of total NEV sales during the period. Range-extended models remained a significant subset, powering vehicles from leading brands and accounting for a notable portion of hybrid volumes. In comparison, pure battery electric vehicles ("BEV") continued robust expansion, rising substantially year-on-year and regaining share to approximately 64.5% of NEV (up from prior periods where PHEV gained rapidly).

Chairman's Statement (Cont'd)

Overall, China's NEV market maintained strong momentum, solidifying its position as the world's largest one. The PRC government continues to provide substantial support through policies such as vehicle purchase tax exemptions, license plate quota exemptions in select cities, and exemptions from traffic restrictions, alongside ongoing incentives that favor NEV adoption. These measures, combined with market maturity and infrastructure improvements, underpin a sustained demand.

Our joint venture company (the "JVC") with Li Auto Inc. ("**Li Auto**"), focused on marketing range-extended models, has aligned well with prevailing NEV trends in China — particularly the enduring appeal of range-extended solutions for consumers seeking flexibility in longer-range driving. As noted, the JVC represents the Group's inaugural strategic entry into the NEV sector and serves as a key platform for long-term collaboration with Li Auto, ensuring a reliable, high-quality supply of range extenders for Li Auto's popular models (e.g. L9, L8, L7, and L6).

Range-extending technology has solidified its position as a mainstream hybrid approach for passenger vehicles in China. Beyond our partnership with Li Auto, we have successfully collaborated with other manufacturers, such as Rox Motor, achieving targeted sales volumes. We are actively expanding cooperation with additional passenger vehicle producers, including overseas customers, to integrate our range extenders. Furthermore, this technology extends beyond passenger cars to applications in inter-city logistics vehicles (with ranges exceeding 300 km), cold chain vehicles, and other logistics solutions, broadening its market potential.

China's commercial vehicle market experienced a strong recovery in 2025, with full-year sales totaling around 4.30 million units — both posting double-digit year-on-year growth amid policy support, improved logistics demand, and rising exports.

New energy commercial vehicles (including pure electric, plug-in hybrid, and range-extended types) achieved significant acceleration, with annual sales climbing sharply to approximately 871,000 units (up 63.7% year-on-year). This represented a penetration rate of about 25% across the commercial segment, up notably around 17% from prior year's levels. Range-extended commercial vehicles, while still a smaller subset within the NEV mix, hold substantial market potential — particularly for applications requiring extended operational ranges, reduced charging time, or hybrid flexibility in medium- and heavy-duty segments.

To capitalize on this accelerating electrification trend, the Group has intensified collaboration with commercial vehicle customers, developing tailored extended-range solutions for large and medium-sized vans, light trucks, and pickup trucks. These initiatives position range extenders as a promising new growth driver for the Group.

Chairman's Statement (Cont'd)

Furthermore, the Group is broadening range extender applications beyond traditional passenger vehicle transportation into off-road and aviation sectors, including mining trucks, mobile energy replenishment units, and drones. As disclosed in our announcement dated 27 November 2025, we formed a strategic alliance with an aerospace equipment manufacturer in an attempt to enter into the high-barrier aircraft industry, and integrate into national and local development strategies in the low-altitude economy market. On 20 January 2026, we also acquired a majority stake in a Shanxi company which focuses on special-purpose vehicles including modification business, manufacture of container, square cabin and military truck business, and also heavy-duty automated guided vehicles (“AGV”) and truck chassis business. By acquiring this company, the Group will be able to quickly enter the non-road special vehicle market, military products, heavy-duty AGV transport vehicle market and other fields, thereby expanding the Group's business scope. These projects are currently advancing, paving the way for diversified revenue streams as China's push for sustainable energy solutions extends across industrial domains.

Over the recent years, the competitive landscape has evolved from earlier phases focused on capturing demand to a battle for maintaining market share in an increasingly saturated environment. Intense price competition persisted throughout much of 2025, initiated by aggressive moves from big players early in the year and followed by widespread reductions across domestic, joint-venture, and imported brands. Discounts spanned the full spectrum — from entry-level commuter models to premium luxury segments — resulting in compressed margins industry-wide and prompting regulatory attention to curb unsustainable practices.

Concurrently, the emphasis has shifted toward technological differentiation as a primary competitive niche. Advancements in intelligent driving (including advanced driver assistance systems and higher-level autonomy), extended driving range (particularly via range-extended/REEV architectures), ultra-fast charging, and vehicle-to-everything connectivity have emerged as critical barriers to entry. These innovations require substantial ongoing research and development investment from companies throughout the value chain. The rapid pace of technological advancement has made robust technological capabilities essential for long-term market positioning and differentiation amid fierce rivalry.

As disclosed in the interim report for the six months ended 30 June 2025, there was a slight increase in trading of range extenders produced by the JVC and also in sales of traditional gasoline and diesel engines. However, in the second half of the year, the trading of the range extenders faced a slump, caused by the intense competition in the NEV market. In 2025, the Group recorded a total sales of approximately RMB4,712.30 million, representing a decrease of approximately 22.53% as compared to 2024. Such a decrease was mainly due to the decrease in trading of range extenders produced by the JVC.

Chairman's Statement (Cont'd)

In respect of the component business, BMW AG officially nominated us as the non-exclusive Bx8 engine crankshaft supplier and connecting rod supplier and the supply period is until 2030. In addition, BMW AG has fully affirmed our pursuit of excellent quality, and it is another milestone in the development components business. So far, we have delivered over 4.9 million crankshafts and 10.2 million connecting rods to BMW Brilliance Automotive Ltd. (“**BMW Brilliance Automotive**”). During the year, we also supplied crankshafts to BYD and Chery, connecting rods to BYD and Li Auto, and we look forward to becoming a long term supplier to them.

The Group will continue to pursue strategic cooperation opportunities with key partners, including BMW AG, BMW Brilliance Automotive, Li Auto, BYD, Chery and others, while exploring expansion into emerging markets such as Vietnam and the Middle East to adapt to the rapidly evolving trends in the global automotive industry. In particular, the Group remains committed to proactively identifying and pursuing potential merger and acquisition opportunities — building on the successful acquisition completed in January 2026 — to further diversify its product portfolio and enhance its core competitiveness.

On behalf of the board of directors, I would like to take this opportunity to express my sincere appreciation to our shareholders, business partners, management team and all other employees for their continued support and dedication to the Group.

Zhang Wei
Chairman
26 March 2026

Management's Discussion & Analysis

BUSINESS REVIEW

In 2025, the Group achieved total consolidated sales of approximately RMB4,712.30 million, representing a decrease of approximately 22.53% compared to 2024 (approximately RMB6,082.39 million). The decrease was mainly due to the decrease in trading of range extenders produced by the JVC. The decrease in trading of range extenders was due to the slowing demand for the plug-in hybrids vehicles, in particular the range extender types, during the second half of the reporting period.

In respect of the engines business segment, the Group recorded approximately 26.86% decrease in segment revenue, from approximately RMB5,396.31 million in 2024 to approximately RMB3,946.98 million in 2025. Sales volume of engines decreased by approximately 26.20% from around 519,000 units in 2024 to around 383,000 units in 2025. The decrease was mainly due to the decrease in the trading of range extenders produced by the JVC during the reporting period.

In respect of the engine components segment, the Group recorded approximately 11.55% increase in segment revenue, from approximately RMB686.08 million in 2024 to approximately RMB765.32 million in 2025. The increase was mainly due to more servicing income during the reporting period. The Group sold around 360,000 units of crankshafts to BMW Brilliance Automotive in 2025, representing a decrease of approximately 14.29% from around 420,000 units in 2024. There was also a decrease in the demand for connecting rods. The Group sold around 847,000 units of connecting rods to BMW Brilliance Automotive in 2025, down by approximately 3.2% from around 875,000 units in 2024.

The consolidated cost of sales in 2025 amounted to approximately RMB4,526.26 million, down by approximately 23.27% when compared to approximately RMB5,898.83 million in 2024. The decrease in cost of sales was due to the decrease in trading of range extenders.

The gross profit margin of the Group increased from approximately 3.02% in 2024 to approximately 3.95% in 2025, which was mainly due to the lower proportion of trading of range extenders which derived a lower profit margin.

Other income increased from approximately RMB50.81 million in 2024 to approximately RMB64.08 million in 2025, representing an increase of approximately 26.10%. It is mainly comprised of government grants and rental income under operating lease. The increase was mainly due to bad debt recovery.

There was reversal of impairment loss of approximately RMB94.48 million in 2024 due to the settlement of certain impaired amount due from related companies whereas there was only approximately RMB1.83 million reversal in 2025.

Other gains and losses increased from losses of approximately RMB2.07 million in 2024 to gains of approximately RMB0.2 million in 2025. The gain was mainly due to the gain on disposal of scrap materials.

Selling and distribution expenses decreased slightly by approximately 1.91%, from approximately RMB25.12 million in 2024 to approximately RMB24.64 million in 2025, representing approximately 0.41% and approximately 0.52% of the revenue in 2024 and 2025, respectively. The slight decrease in value was mainly due to the decrease in business volume.

Administrative expenses decreased by approximately 28.21%, from approximately RMB157.61 million in 2024 to approximately RMB113.15 million in 2025, representing approximately 2.59% and approximately 2.40% of the revenue in 2024 and 2025, respectively. The decrease in value was mainly due to the decrease in research and salary expenses, professional fees and general office expenses.

Finance costs decreased by approximately 20.38%, from approximately RMB47.75 million in 2024 to approximately RMB38.02 million in 2025. The decrease was mainly due to the decrease in interest rate and the decrease in finance charge on lease liabilities.

Management's Discussion & Analysis (Cont'd)

Other expenses decreased by approximately 26.33% from approximately RMB33.78 million in 2024 to approximately RMB24.89 million in 2025, which was mainly due to the decrease in general research expenses incurred in 2025.

Share of loss of the associate was approximately RMB22.08 million during the reporting period comparing to the shared loss of approximately RMB20.15 million in 2024.

The Group's profit before tax was approximately RMB29.41 million in 2025 as compared to the Group's profit before tax which was approximately RMB42.38 million in 2024.

Income tax expenses increased by approximately 119.87%, from approximately RMB4.21 million in 2024 to approximately RMB9.25 million in 2025. The increase was due to more deferred tax and withholding tax on dividend declared by subsidiaries recognised during the reporting period.

For the year ended 31 December 2025, the profit attributable to owners of the Company was approximately RMB20.16 million, as compared to the profit attributable to owners of the Company of approximately RMB38.17 million for the year ended 31 December 2024. Basic earnings per share in 2025 amounted to approximately RMB0.016, as compared to basic earnings per share of approximately RMB0.030 in 2024.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2025, the Group had approximately RMB272.55 million in cash and cash equivalents (31 December 2024: RMB85.57 million), and approximately RMB40.99 million in pledged bank deposits (31 December 2024: RMB101.42 million). The Group had trade and other payables of approximately RMB461.25 million (31 December 2024: RMB566.35 million), borrowings due within one year in the amount of approximately RMB551.71 million (31 December 2024: RMB446.15 million), and borrowings due after one year in the amount of approximately RMB107.80 million (31 December 2024: RMB156.75 million).

CAPITAL STRUCTURE

As at 31 December 2025, the Group's total assets was approximately RMB3,854.32 million (31 December 2024: RMB5,477.71 million), which was funded by the following: (1) share capital of approximately RMB10.46 million (31 December 2024: RMB10.46 million), (2) reserves of approximately RMB1,752.35 million (31 December 2024: RMB1,743.69 million) and (3) total liabilities of approximately RMB2,091.51 million (31 December 2024: RMB3,723.56 million).

CONTINGENT LIABILITIES

During the year, the Group (i) endorsed certain bills receivable for the settlement of trade and other payables; and (ii) discounted certain bills receivable to banks for raising cash. The Group considers that the risk of default in payment of the endorsed and discounted bills receivable is low because all endorsed and discounted bills receivable are issued and guaranteed by reputable banks in the PRC.

PLEDGE OF ASSETS

As at 31 December 2025, the Group pledged certain of its receivables with an aggregate gross amount, before impairment loss, of approximately RMB1.51 million (31 December 2024: RMB1.51 million) to secure general banking facilities granted to the Group.

As at 31 December 2025, the Group has pledged certain land use rights, buildings, plant and machinery with an aggregate carrying value of approximately RMB64.03 million (31 December 2024: RMB119.43 million) to certain banks to secure general banking facilities and other borrowing granted to the Group.

As at 31 December 2025 the Group pledged bank deposits in the amount of approximately RMB40.99 million (31 December 2024: RMB100.59 million) to secure general banking facilities and other borrowing granted to the Group.

Management's Discussion & Analysis (Cont'd)

GEARING RATIO

As at 31 December 2025, the debt-to-equity ratio, computed by dividing total liabilities by total equity attributable to owners of the Company, was approximately 1.19 (31 December 2024: 2.12). The decrease in the debt-to-equity ratio was mainly due to the decrease in amount due to an associate and lease liabilities during the reporting period.

As at 31 December 2025, the gearing ratio, computed by dividing borrowings by total equity attributable to owners of the Company, was approximately 37.41% (31 December 2024: 34.37%). The increase in gearing ratio was mainly due to the increase in bank borrowings in 2025.

FOREIGN EXCHANGE RISKS

The Group's functional currency is RMB. Since the Group has certain assets and liabilities, such as receivables, payables, bank borrowings and cash and cash equivalents, denominated in foreign currencies, such as United States Dollar and Hong Kong Dollar, the Group is exposed to foreign currency translation risk.

The Group has monitored and will continue to monitor its foreign exchange risks and may consider hedging its foreign currency exposure, if and when necessary.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2025, the Group employed approximately 957 employees (31 December 2024: approximately 1,002 employees). Employee costs amounted to approximately RMB138.48 million for the year ended 31 December 2025 (31 December 2024: approximately RMB145.76 million). The Group will endeavour to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' remuneration is based on their performance.

SIGNIFICANT INVESTMENTS

As disclosed in the Company's announcement dated 16 October 2025, Mianyang Xincheng Engine Co., Ltd.* (綿陽新晨動力機械有限公司), a wholly-owned subsidiary of the Company (as the Purchaser), the Company (as the Subscriber), entered into an equity acquisition agreement with Shanxi Lantian Industrial Group Co., Ltd.* (山西蘭田實業集團有限公司) (as the Vendor) in relation to the acquisition of majority stake in Zhonghang Lantian Equipment Manufacturing Co., Ltd.* (中航蘭田裝備製造有限公司) (as the Target Company) in Jinzhong City, Shanxi Province, the PRC. The Target Company is principally engaged in businesses including manufacturing of motor vehicles, special equipment, and mining machinery, as well as the production of automotive parts, industrial robots, and intelligent material handling equipment.

Save as disclosed in the above announcement, there were no other significant investments, material acquisitions or disposals of subsidiaries, associates and joint ventures by the Group during the year ended 31 December 2025.

CAPITAL COMMITMENT

As at 31 December 2025, the Group had capital commitments of approximately RMB132.74 million (31 December 2024: RMB125.49 million), among which contracted capital commitments amounted to approximately RMB94.73 million (31 December 2024: RMB90.06 million), which is primarily related to capital expenditure in respect of acquisition of property, plant and equipment, capital injection to an associate and subsidiary, and new engine development.

* for identification purposes only

Directors, Senior Management and Company Secretary

EXECUTIVE DIRECTORS

Mr. Zhang Wei (張巍), aged 52, is the chairman of the Company. He was appointed as an executive director of the Company on 8 November 2024. He has been an executive director and the executive vice president of Brilliance China Automotive Holdings Limited (“**Brilliance China**”, a company listed on the Main Board of the Stock Exchange) (stock code: 1114) since 12 September 2016 and 1 October 2022, respectively. Mr. Zhang is also a member of the subsidiary senior management appointment committee of Brilliance China. Mr. Zhang has also been a director of BMW Brilliance Automotive since November 2024. Mr. Zhang is currently the chairman and general manager of Shenyang XingYuanDong Automobile Component Co., Ltd., a wholly owned subsidiary of Brilliance China, a director, general manager and the chairman of Shenyang JinBei Automotive Industry Holdings Co., Ltd., a wholly owned subsidiary of Brilliance China, and a director and the chairman of Jinbei (Shenyang) Automotive Co., Ltd. (formerly known as “Renault Brilliance Jinbei Automotive Company Limited”), a subsidiary of Brilliance China. He is also currently a director and the chairman of Brilliance-BEA Auto Finance Co., Ltd., a director of Key Choices Group Limited and Brilliance Investment Holdings Limited, all of which are subsidiaries of Brilliance China. Mr. Zhang joined Huachen Automotive Group Holdings Company Limited (“**Huachen**”) in 2003 and held various positions in Huachen, including but not limited to senior project manager of assets operation department, secretary of president, division leader of human resources department, deputy manager of administrative office and assistant to president. Mr. Zhang was the secretary of the board of directors of Huachen from March 2016 to June 2019. From July 1996 to February 1997, and from February 1997 to January 2003, Mr. Zhang was a specialist of import and export department and a project manager, respectively, of Liaoning Branch of China Metallurgical Import and Export Company (中國冶金進出口遼寧公司). Mr. Zhang obtained a bachelor’s degree in engineering from Shenyang University of Technology in 1996. Mr. Zhang also received a master’s degree of science, majoring in business and information technology, from University of Salford in 2001.

Mr. Deng Han (鄧晗), aged 50, is the chief executive officer of the Company. He was appointed as an executive director of the Company on 26 June 2023. He has over 25 years of experience in the automotive industry. Mr. Deng has been serving as a director of Mianyang Xincheng Engine Co., Ltd. (“**Mianyang Xincheng**”) since February 2023. He was the general manager of Mianyang Xinhua Internal Combustion Engine Joint Stock Company Limited (“**Xinhua Combustion Engine**”) (now known as Mianyang Xinhua Intelligent Drive Technology Co., Ltd. (“**Xinhua Intelligent**”)) from August 2016 to June 2023, and the deputy general manager of Xinhua Combustion Engine from January 2012 to August 2016. From January 2003 to January 2012, he held various positions in Mianyang Xincheng, including assistant to the general manager, general manager of sales company, factory manager, super visor of assembly workshop, deputy super visor of assembly workshop, and engaged in quality management work and administration management work. From September 2000 to January 2003, he was a workshop technician of Xinhua Combustion Engine. Mr. Deng obtained a bachelor’s degree in metallic material and heat treatment from Xi’an Technological Institute (西安工業學院) (now known as Xi’an Technological University (西安工業大學)) in July 2000.

NON-EXECUTIVE DIRECTOR

Mr. Yang Ming (楊明), aged 57, was appointed as a non-executive director of the Company on 7 November 2016. Mr. Yang has been serving as a senior manager of Sichuan Yibin Pushi Group Co., Ltd. (四川省宜賓普什集團有限公司) (“**Pushi Group**”) since June 2025. From December 2016 to April 2023, he was a director of Mianyang Xincheng. Mr. Yang was a deputy secretary of the Communist Party of China and general manager of Pushi Group from August 2021 to June 2025, and a committee member of the Communist Party of China and vice president of Pushi Group from May 2020 to August 2021. From May 2016 to May 2020, he was a committee member of the Communist Party of China and vice president of Pushi Group, the chairman of Sichuan Yibin Pushi Dies Co., Ltd. (四川省宜賓普什模具有限公司) (“**Pushi Dies**”) and the chairman and general manager of Chengdu Pushi Vehicle Dies Co., Ltd. (成都普什汽車模具有限公司). From May 2014 to May 2016, Mr. Yang was a committee member of the Communist Party of China and vice president of Pushi Group and the general manager and branch secretary of the Communist Party of China of Pushi Dies. From December 2007 to May 2014, he was a committee member of the Communist Party of China of Pushi Group and the general manager and branch secretary of the Communist Party of China of Pushi Dies. From June 2006 to December 2007, he was a committee member of the Communist Party of China of Pushi Group and the deputy general manager, chairman of the labour union and branch secretary of the Communist Party of China of Pushi Dies. From July 2003 to December 2007, he was the deputy general manager, chairman of the labour union and branch secretary of the Communist Party of China of Pushi Dies. From August 2002 to July 2003, Mr. Yang was the super visor at the vehicle dies workshop of Pushi Dies. From July 1988 to August 2002, he worked at the tools factory of Chongqing Changan Machinery Factory (重慶長安機械製造廠工具分廠) and the dies centre of Chongqing Changan Automobile Co., Ltd. (重慶長安汽車股份責任公司模具中心). Mr. Yang graduated from the department of mechanical engineering of Beijing Institute of Technology (北京理工大學), majoring in mechanical manufacturing process and automation in July 1988.

Directors, Senior Management and Company Secretary (Cont'd)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chi Guohua (池國華), aged 51, was appointed as an independent non-executive director of the Company on 22 November 2012. He is a certified public accountant (non-practicing member) in the PRC. From March 2000 to October 2017, Mr. Chi was a teaching assistant, lecturer, associate professor and professor of the School of Accounting of Dongbei University of Finance and Economics (東北財經大學). From October 2015 to October 2025, he was a professor in Nanjing Audit University, and also an associate dean of the Audit Science Graduate School and a dean of the School of Internal Audit of China Institute of Internal Audit. He has been the professor of Minjiang University since November 2025. Furthermore, Mr. Chi has also been serving as an independent director of Nanjing Hujiang Composite Materials Co., Ltd. (南京滬江復合材料股份有限公司) since May 2021. From May 2016 to July 2022, he was an independent director of Zhejiang XinNong Chemical Co., Ltd. (浙江新農化工股份有限公司). From September 2017 to September 2023, he was an external director of Jiangsu Huilong Assets Management Co., Ltd. (江蘇省惠隆資產管理有限公司). From December 2020 to January 2024, he was an independent director of Forewin Flex Limited Corporation (福萊盈電子股份有限公司). From February 2005 to February 2006, Mr. Chi was the head of the strategic investment department of Shenyang Machine Tool (Group) Co., Ltd. (瀋陽機床(集團)有限公司); and from March 2006 to March 2007, he was the financial adviser of Shenyang Machine Tool (Group) Co., Ltd. (瀋陽機床(集團)有限公司). From February 2017 to October 2023, he was a consultant in the Committee on Internal Control Standards for the Ministry of Finance of the PRC (中國財政部內部控制標準委員會). Mr. Chi has also been a member of the Internal Control Committee of Accounting Society of China (中國會計學會內部控制專業委員會) since 2014. He was awarded the leading accounting representative of the Ministry of Finance of the PRC (中國財政部全國會計學術領軍人才) in November 2014. Mr. Chi obtained a post doctorate certificate in business administration from the Xiamen University (廈門大學) in January 2008 and a doctorate degree in management (accounting studies) from Dongbei University of Finance and Economics in April 2005.

Mr. Wang Jun (王隽), aged 64, was appointed as an independent non-executive director of the Company on 24 April 2012. He has over 35 years of experience in the legal field, especially in corporate compliance operation, risk control, corporate law, litigation and arbitration. Since February 2009, Mr. Wang has been practising law at the Beijing Office of Dacheng Law Offices (北京大成律師事務所). From April 2000 to February 2009, he practised law at the Beijing Jian Yuan Law Offices (北京市建元律師事務所). From September 1987 to March 2000, he was employed by China University of Petroleum (中國石油大學) as a teacher. From September 1983 to September 1985, he served as the cadre of the Railway Transport High Court (鐵路運輸高級法院). Mr. Wang obtained a postgraduate degree in economic law in July 1987 and a bachelor's degree in law from the department of law in July 1983, both from the China University of Political Science and Law (中國政法大學).

Ms. Dong Yan (董艷), aged 47, was appointed as an independent non-executive director of the Company on 19 June 2023. She is currently a finance professor and doctoral advisor at the Southwestern University of Finance and Economics (西南財經大學) ("SWUFE") in the PRC. Since June 2025, Ms. Dong has been the Executive Dean of the Research Institute of Economics and Management (經濟與管理研究院執行院長) of SWUFE. She previously held various positions at SWUFE, including Executive Vice Dean (常務副院長) from July 2022 to June 2025, Secretary of the Branch Party Committee (分黨委書記) from March 2017 to July 2022, Vice Dean and Deputy Secretary (副院長兼副書記) from July 2013 to March 2017 and Associate Professor from December 2006 to December 2015. Ms. Dong also served as a visiting professor at Lingnan University in Hong Kong in 2008 and a part-time economics lecturer at the University of Essex from October 2003 to December 2006. Ms. Dong obtained a bachelor's degree in Economics from the China University of Geosciences (中國地質大學) in June 2000, a master's degree in Finance and Economics from the London School of Economics and Political Science in July 2002 and a doctorate degree in Economics from the University of Essex in March 2007.

SENIOR MANAGEMENT

Mr. Le Ji Xiang (樂吉祥), aged 48, is the executive vice general manager of Mianyang Xinchun. Mr. Le has over 25 years of experience in the automotive industry and is primarily responsible for the research and development and sales business of the Group. He has been serving as the executive vice general manager of Mianyang Xinchun since July 2018. From June 2015 to June 2018, he served as a vice general manager of Mianyang Xinchun. From March 2012 to May 2015, he was an assistant to the general manager of Mianyang Xinchun as well as the project director of N20 engine. From October 2006 to March 2012, he held various positions in Mianyang Xinchun, including the head of product development of the technology centre, the head of technical planning and the head of quality assurance. Mr. Le graduated from the department of automotive engine in Sichuan University of Science and Technology (四川工業學院) (now merged into Xihua University (西華大學)) in 2001 and received a master of engineering degree in software engineering from the University of Electronic Science and Technology of China (電子科技大學) in 2010. He was certified as a senior engineer by Sichuan Provincial Department of Human Resources and Social Security (四川省人力資源和社會保障廳) in December 2018.

Directors, Senior Management and Company Secretary (Cont'd)

Mr. Wang Jianzhong (汪建忠), aged 51, is the vice general manager and the director of the technical center of Mianyang Xincheng. Mr. Wang has over 27 years of experience in the automotive industry and is primarily responsible for research and development business of the Group. He has been serving as the vice general manager and the director of the technical center of Mianyang Xincheng since November 2022. From July 2020 to October 2022, he was the technical director of Mianyang Xincheng. From February 2014 to June 2020, he served as the assistant to the general manager and the deputy director of the technical center of Mianyang Xincheng. From July 1998 to January 2014, he held various positions in Mianyang Xincheng, including the engineer of the technical center, the project manager, the laboratory director, the deputy director of the technical center and the head of the product development department. Mr. Wang graduated from the department of automotive engine in Sichuan University of Science and Technology (四川工業學院) (now merged into Xihua University (西華大學)) in July 1998, and subsequently obtained a master's degree in vehicle engineering from Xihua University in December 2006. He was certified as a principal senior engineer by Sichuan Provincial Department of Human Resources and Social Security (四川省人力資源和社會保障廳) in July 2021. From September 2006 to July 2007, Mr. Wang was a visiting scholar of the 3rd "Light of the West" (「西部之光」) program organised by the Organization Department of the Central Committee of the Communist Party of China (Department of Automotive, Tsinghua University).

Mr. Lan Xingping (蘭興平), aged 50, is the vice general manager of Mianyang Xincheng. Mr. Lan has over 27 years of experience in the automotive industry and is primarily responsible for components business of the Group. He has been serving as the vice general manager of Mianyang Xincheng since July 2020. From November 2015 to June 2020, he was an assistant to the general manager of Mianyang Xincheng. From July 2006 to October 2015, he held various positions in Mianyang Xincheng, including regional manager of sales company, marketing manager, deputy general manager and general manager of sales company. From July 1998 to June 2006, he held various positions in Mianyang Xincheng, including workshop staff, engineer of technical center, and engineer of technology and quality department. Mr. Lan graduated from the department of automotive engine in Sichuan University of Science and Technology (四川工業學院) (now merged into Xihua University (西華大學)) in June 1998.

Mr. Ng Yiu Fai (吳耀輝), aged 51, is the senior vice president and the chief financial officer of the Company. Mr. Ng joined the Company as the senior vice president in May 2017 and was appointed as the chief financial officer on 22 February 2020. He is primarily responsible for the Group's financial management, investor relations, capital markets and financial reporting matters. Mr. Ng holds a bachelor's degree of business administration majoring in accounting from the Hong Kong University of Science and Technology. Mr. Ng has more than 28 years of experience in financial management and corporate finance. Prior to joining the Company, he worked at KPMG and several Hong Kong-listed companies serving in several positions from 1997 to 2017, culminating in the position of chief financial officer, including being the Chief Financial Officer and Company Secretary of CNQC International Holdings Limited (a company listed on the Main Board of the Stock Exchange (stock code: 1240)) between May 2014 and May 2017. Mr. Ng is a qualified accountant and a fellow member of the Hong Kong Institute of Certified Public Accountants.

Mr. Wan Xing (萬幸), aged 51, is the vice president of the Company and the chief financial officer of Mianyang Xincheng. Mr. Wan started his career in the internal audit of a domestic well-known home appliance enterprise group, and has over 25 years of experience in automotive industry and 16 years of experience in overseeing financial management in several multinational corporations. Mr. Wan participated in a number of new plant establishments, mergers and acquisitions, and led the restructuring of enterprises. He is primarily responsible for the financial management of the Group. He served as the chief financial officer of Company and the chief financial officer of Mianyang Xincheng from June 2018 to February 2020 and re-joined the Group in June 2021. He was the chief financial officer and financial controller of several multinational companies before joining the Group and he served as the vice president of other listed company during leaving the Group. Mr. Wan obtained a Master degree in Business Administration from the Chongqing University of China (中國重慶大學) in 2009.

COMPANY SECRETARY

Ms. Ngai Ka Yan (魏嘉茵), aged 43, is the company secretary of the Company. Ms. Ngai joined the Company in March 2015. Ms. Ngai is a fellow member of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute, and awarded with the dual designations of Chartered Secretary and Chartered Governance Professional. Ms. Ngai has extensive experience in company secretarial and compliance matters and has worked for various listed companies in Hong Kong. Ms. Ngai obtained a Bachelor of Business degree from Queensland University of Technology in Australia and a Master of Corporate Governance degree from the Hong Kong Polytechnic University.

Report of Directors

The directors of the Company present this report together with the audited financial statements of the Group for the year ended 31 December 2025.

PRINCIPAL ACTIVITIES

The Company is a holding company. The principal activities of the Group are the development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles and manufacture of engine parts and components of passenger vehicles in the PRC. The principal activities of the Company's subsidiaries are set out in note 44 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2025 is set out on pages 8 to 9 and in the following paragraphs.

1. Principal risks and uncertainties

We have identified in 2025 the following principal risks and uncertainties that may be faced by the Group:

Financial risk

The Group does not have any foreign currency loans. Therefore, the Group is not exposed to any exchange rate risk resulting from the appreciation of foreign currency against RMB. The Group's activities are exposed to other financial risks, including interest rate risk arising from bank loans and finance leases, credit risk arising from trade receivables, bills receivable and trade-related amounts due from related companies, as well as liquidity risk arising from operating activities, which are highlighted on pages 135 to 142 of this annual report.

Market risk

(i) Recent recovery in the growth of the PRC automobile market

According to the latest data released by the China Association of Automobile Manufacturers, China's automobile production and sales volume in 2025 both exceeded 34 million vehicles, hitting a new record high. Specifically, 7.098 million vehicles were exported, a year-on-year increase of 21.1%, further consolidating China's position as the largest automobile exporter in the world. Latest data also showed that in 2025, the production and sales volume of NEV in China amounted to 16.626 million and 16.490 million units respectively, representing year-on-year growths of 29% and 28.2% respectively. Sales of new NEV accounted for 47.9% of the total sales of new vehicles, and NEV exports reached 2.615 million units, a year-on-year increase of 100%. Against a backdrop of the guiding national automotive consumption policy, rapid NEV development, emerging domestic brands and the implementation of the carbon peak and carbon neutrality strategies, the Group strives to strengthen and enlarge our market share by improving product technologies and widening our product mix. In particular, the mass production of high-performance range extenders has allowed the major customers supported by the Group to rank among the best in the range extender industry, and the Group has manufactured over 1.2 million units of range extender. We will continue to tackle the risk by establishing more product platforms for our existing customers, such as developing new high-performance engines, range extenders and powertrains that meet the requirements of the existing customers as well as pursuing potential customers without their own engine production capability as well as customers that manufacture extended-range electric vehicles.

Report of Directors (Cont'd)

(ii) Fierce industry competition

Competition amongst manufacturers in the PRC engine and engine part and component industry will intensify due to new emission and fuel-consumption regulations implemented by the State. The application of new technologies in the industry will be accelerated while technologies that do not meet regulatory and market requirements will be abandoned. Thus, the market expansion of independent engine manufacturers might be hindered by factors such as the stagnation of some Chinese automobile manufacturers with proprietary brands, the rapid development of the NEV industry, the risk of imported part and component supply and the rise in prices of raw materials. Although the Group's performance may be adversely affected in light of fierce competition, the Group will continue to dedicate itself to strengthening product research and development capability, improving technical standards of its products, expanding product line-up to keep up with and exceed technical progress in the automobile market and securing exclusive sales of certain product lines to existing customers with better cost control and customer satisfaction.

(iii) Regulatory risk

As the PRC automobile industry is highly regulated by the State, government and industry policies have a huge impact on the industry's development and performance. The Group, therefore, is subject to increasingly stringent regulatory requirements in respect of emission and fuel consumption. By upgrading and developing its products in collaboration with its customers, the Group has continuously complied with the regulatory requirements.

2. Environment and laws and regulations

Environmental policies and performance

The Group is concerned about preservation of natural resources and environmental protection, abides by national laws and regulations on environmental protection, pays attention to legal disposal of environmentally hazardous substances, establishes necessary environmental protection facilities, such as sewage treatment plants, ventilation and dust collection systems and solid waste collection stations that comply with environmental standards, reduces the emission of air pollutants, and disposes of various wastes according to law to mitigate the environmental and climate impact of its business operations in full measure. The Group also requires its suppliers to abide by relevant national laws and rules on environmental protection and obtain necessary approvals and permits from the PRC environment regulation authority. In 2025, the national, provincial and municipal environmental monitoring centers have conducted environmental inspections of the relevant production areas and found that all results met the required standards.

Compliance with laws and regulations

The Group operates in accordance with relevant laws and regulations in the PRC and Hong Kong. During the year ended 31 December 2025 and as at the date of this report, we have complied with all relevant laws and regulations in the PRC and Hong Kong.

3. Key relationships

Employees

To realise sustainable development, the Group has established a sound system that categorises its employees into four groups, namely management, technical, professional and skill, set up four career development schemes, namely career managers, engineering technologies, professional management and skilled technicians, that cater to each of these groups, tailored individual development plans for staff members at all professions and all levels by refining its qualification frameworks and appraisal system, and focused on strengthening product research and development, skill, quality as well as the professional competence and creativity, according to its strategies and annual business development plans. The Group ensures its sustainable growth and also secures human resources with high potentials that are in line with its future development directions and strategic plans through continuously improving its training system, university-business cooperation and campus recruitment programs, and establishing talent pools and reserves to identify candidate of the right calibre.

Report of Directors (Cont'd)

On top of the current comprehensive remuneration and benefit scheme, the Group has engaged professional and experienced external consultant to analyse and adjust the existing remuneration structure based on positions and levels, and to establish an all-round performance-oriented remuneration system, so as to ensure that the remuneration aligns with the value of each position and supports the business situation.

The Group respects employees' opinions, and collects them through a number of channels. It also praises and rewards employees who have given golden ideas and suggestions that can promote its sustainable development. The Group conducts an employee satisfaction survey each year and considers all valuable feedback on improving work efficiency and creating a harmonious working atmosphere.

Customers

We are devoted to providing our customers with marketable products that are in compliance with regulations and feature reliable quality, advanced technology, outstanding performance, and great value for money. We maintain close communication and cooperation with our customers to improve and develop our products based on customers' needs and the development trend of the industry so as to ensure the marketability of our products and strive for market leadership. We fortify our market by establishing strategic partners through, amongst other things, joint planning and product development with key clients. Through communication with potential clients in regard to marketing projects, company website, industrial exhibitions, public relations activities, marketing materials and social media, we promote our products and maintain dialogue with and understand the needs from potential customers. We attach importance to the interests of end users and provide them with convenient and speedy aftersales service. To this end, we have set up a nationwide network of specialised maintenance shops and provide after-sale technical training to the maintenance shop network in collaboration with the clients in order to offer quality services to our end users. We mitigate the risk of losing business from our major customers by developing high-performance new products, expanding market presence, improving service quality, securing new customers and enlarging the existing market share.

Suppliers

We uphold a high-end, global cooperation philosophy, and are committed to deepening collaboration with leading international suppliers. We have already established long-term and stable strategic partnerships with several top global suppliers. Based on mainstream and authoritative European automotive industry standards, we have built a standardized supplier access review and full lifecycle performance evaluation system. This system certifies and dynamically manages qualified suppliers, with evaluation indicators including key modules such as technological research and development strength, corporate strategic foresight, large-scale production capacity, brand industry standing, professional experience, and end-user and market feedback. Our cooperation is carried out through written contracts, framework cooperation agreements, and formal purchase orders, clearly defining the boundaries of rights and responsibilities to ensure that all cooperative activities comply with laws, regulations, regulatory requirements, and industry standards. Internally, we promote employee professional ethics standards and incorporate anti-bribery policies into the mandatory clauses of supplier cooperation, requiring all suppliers to strictly adhere to them, thus jointly building a compliant, transparent, and clean supply chain cooperation environment.

FINANCIAL RESULTS

The results of the Group for the year ended 31 December 2025 are set out in the consolidated financial statements of the Group on pages 72 to 150.

CASH FLOW POSITION

The cash flow position of the Group for the year ended 31 December 2025 is set out and analysed in the consolidated statement of cash flows on pages 76 to 77.

Report of Directors (Cont'd)

FINAL DIVIDEND

The board of directors of the Company (the “**Board**”) did not recommend the payment of any final dividend for the year ended 31 December 2025 (for the year ended 31 December 2024: HK0.97 cent per Share).

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The Company’s forthcoming annual general meeting will be held at 10:00 a.m. on Wednesday, 17 June 2026.

The Hong Kong branch register of members of the Company will be closed from Friday, 12 June 2026 to Wednesday, 17 June 2026, both dates inclusive, during which period no transfer of Shares will be registered. Only shareholders of the Company whose names appear on the register of members of the Company on Friday, 12 June 2026 or their proxies or duly authorised corporate representatives are entitled to attend the annual general meeting. In order to qualify for attending the annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 11 June 2026.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 3.

RESERVES

Movements in the reserves of the Group during the year ended 31 December 2025 are set out in the consolidated statement of changes in equity on page 75.

PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment of the Group during the year ended 31 December 2025 are set out in note 16 to the consolidated financial statements.

CONTRACTS OF SIGNIFICANCE

Save as disclosed under the section headed “Continuing Connected Transactions” in this Report of Directors:

- (i) no contracts of significance in relation to the business of the Group, to which the Company or any of its subsidiaries was a party and in which a controlling shareholder of the Company or any of its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time throughout the year ended 31 December 2025; and
- (ii) no contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries subsisted at the end of the year or at any time throughout the year ended 31 December 2025.

Report of Directors (Cont'd)

SHARE CAPITAL

Details of the Company's share capital as at 31 December 2025 are set out in note 33 to the consolidated financial statements.

SHARE INCENTIVE SCHEME ESTABLISHED BY LEAD IN

The share incentive scheme (the "**Incentive Scheme**") was established in 2011 to serve as a retention tool, and to align the interests of certain directors, management, employees and relevant personnel of the Group (the "**Beneficiaries**") with that of the Company. Lead In Management Limited ("**Lead In**") was incorporated for the purpose of holding the Shares on trust for the Beneficiaries pursuant to the Incentive Scheme.

Lead In was incorporated in the British Virgin Islands on 18 May 2011 and is currently owned as to 100% by Mr. Deng Han, an executive director of the Company. On 31 October 2011, Lead In subscribed for 93,999,794 Shares, at a consideration of HK\$101,681,967.73, which was determined based on a valuation report of Mianyang Xinchen carried out by an independent valuer. Lead In held such Shares on trust for the Beneficiaries under two separate trust arrangements, namely the "Fixed Trust" and the "Discretionary Trust".

The Company ceased the operation and further implementation of the Incentive Scheme with effect from 6 December 2021. The Company would explore and adopt other methods as retention tool in replacement of the Incentive Scheme to meet the current company operating conditions and market environment. Following the cessation of the operation and further implementation of the Incentive Scheme by the Company, depending on, among others, the prevailing trading prices of the Shares, Lead In may in future dispose of the Shares held under the Discretionary Trust gradually and in an orderly manner and use the sale proceeds to repay the loan advanced by the Company to Lead In. The particulars of such loan is set out in note 22 to the consolidated financial statements.

All Shares under the Fixed Trust were awarded to the Beneficiaries. No Share had been awarded under the Discretionary Trust during the year ended 31 December 2025. As at 31 December 2025, Lead In held 33,993,385 Shares under the Discretionary Trust.

SHARE OPTION SCHEME

The Company adopted a share option scheme by an ordinary resolution passed by the shareholders of the Company at the annual general meeting of the Company held on 19 June 2023 (the "**Share Option Scheme**"). The purpose of the Share Option Scheme is to provide an incentive or reward for the grantees of options for their contribution or potential contribution to the Group.

The participants of the Share Option Scheme include any full-time or part-time employee participants as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), related entity participants as defined in the Listing Rules and Service Providers (as defined below) who, in the sole opinion of the Board, will contribute or has contributed to the Group. For the purposes of the Share Option Scheme, Service Provider(s) means any person who provides services to the Group on a continuing or recurring basis in its ordinary and usual course of business which are in the interests of the long term growth of the Group, including (i) persons or entities (as independent contractors, consultants, advisors or otherwise) that provide support or any advisory, consultancy, professional or other services to any member of the Group (such as, without limitation, support or services in relation to research and development, strategic or commercial planning on corporate image, investor relations, product quality control, and regulations and policies); and (ii) suppliers of goods or services to any member of the Group (such as, without limitation, suppliers of raw materials and machinery, and machinery maintenance services), but excluding placing agents or financial advisers providing advisory services for fundraising, mergers or acquisitions and professional service providers such as auditors or valuers who provide assurance or are required to perform their services with impartiality and objectivity.

The Share Option Scheme will remain in force for a period of 10 years from 19 June 2023. The period during which an option may be exercised will be determined by the directors of the Company at their absolute discretion, save that no option shall be exercised later than 10 years from the date of grant.

Report of Directors (Cont'd)

The exercise price of options granted under the Share Option Scheme shall, subject to adjustments as provided in the rules of the Share Option Scheme, be at the discretion of the directors of the Company, provided that it must be at least the highest of:

- (a) the closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange on the date of offer;
- (b) the average closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the five (5) business days immediately preceding the date of offer; and
- (c) the nominal value of a Share.

The maximum number of shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme (the “**Scheme Mandate Limit**”) was 128,221,179 Shares, representing 10% of the shares in issue as at the date of adoption of the Share Option Scheme and as at the date of this report. The maximum entitlement of each individual eligible participant as defined in the Share Option Scheme in any 12-month period must not exceed 1% of the shares in issue, provided that the maximum entitlement for any grantee being a substantial shareholder or an independent non-executive director or any of their respective associates shall be capped at 0.1% of the shares in issue. Any grant exceeding these individual limits shall be subject to shareholders’ approval, with (a) with respect to any grant exceeding the aforesaid 1% limit, the relevant grantee and his/her close associates (or associates if the relevant grantee is a connected person); and (b) with respect to any grant exceeding the aforesaid 0.1% limit, the relevant grantee, his/her associates and all core connected persons of the Company, abstaining from voting.

An offer of options must be accepted within 14 days from the date of offer, upon payment of HK\$1.00 as a consideration for the grant. In general, option must be held by its holder for at least 12 months before the option can be exercised. The exact length of vesting period of an option will be determined by the directors of the Company on a case-by-case basis.

The number of share options available for grant under the Scheme Mandate Limit and the Service Provider sublimit of the Share Option Scheme were 128,221,179 Shares and 12,822,117 Shares respectively as at 1 January 2025 and 31 December 2025. No share options had been granted by the Company under the Share Option Scheme since its inception and during the year ended 31 December 2025 and no expenses were recognised by the Group for 2025 (2024: nil).

DIRECTORS

The directors of the Company who held office during the year ended 31 December 2025 and up to the date of this annual report were:

Executive directors:

Mr. Zhang Wei (*Chairman*)

Mr. Deng Han (*Chief Executive Officer*)

Non-executive director:

Mr. Yang Ming

Independent non-executive directors:

Mr. Chi Guohua

Mr. Wang Jun

Ms. Dong Yan

Report of Directors (Cont'd)

Pursuant to Article 108 of the Articles of Association of the Company and code provision B.2.2 as contained in Part 2 of the Corporate Governance Code set out in Appendix C1 to the Listing Rules, Mr. Chi Guohua and Mr. Wang Jun will retire by rotation at the forthcoming annual general meeting of the Company to be held on 17 June 2026 (the “2026 AGM”).

Each of Mr. Chi Guohua and Mr. Wang Jun, being eligible, will offer himself for re-election and the Board has recommended them for re-election at the 2026 AGM.

Details of the directors of the Company standing for re-election at the 2026 AGM are set out in the circular published on the website of the Company and the website of the Stock Exchange together with this annual report.

CHANGE IN DIRECTORS' INFORMATION

Mr. Deng Han, the chief executive officer and an executive director of the Company, was entitled to an annual executive director's fee of USD400,000 (the “Director's Fee”) which was payable in equal instalments monthly in arrears. With effect from 1 January 2026, the Company shall directly pay Mr. Deng USD250,000 of the Director's Fee in equal instalments monthly in arrears, while Mianyang Xincheng shall pay the remaining USD150,000 of the Director's Fee on behalf of the Company. With respect to the aforementioned USD150,000 to be paid by Mianyang Xincheng, 50% shall be disbursed on a regular basis, while the remaining 50% (or the relevant part of it) shall be disbursed annually on condition that the annual performance evaluation of Mr. Deng for the relevant year, which evaluation shall be carried out by the board of directors of Mianyang Xincheng, reaches the prescribed performance metrics approved by Mianyang Xincheng for the relevant year.

Save as disclosed above, there is no change in information of the directors of the Company as required to be disclosed under Rule 13.51B(1) of the Listing Rules since the date of the 2025 interim report up to the date of this annual report.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2025, so far as known to the directors or chief executives of the Company, each of the following persons (other than a director or chief executive of the Company) had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (the “SFO”):

Name of Shareholder	Capacity	Number of Shares	Approximate percentage of shareholding ⁽⁵⁾
Brilliance Investment Holdings Limited (“Brilliance Investment”)	Beneficial owner	400,000,000	31.20%
Brilliance China ⁽¹⁾	Interest in a controlled corporation	400,000,000	31.20%
Xinhua Investment Holdings Limited (“Xinhua Investment”)	Beneficial owner	400,000,000	31.20%
Xinhua Intelligent ⁽²⁾ (formerly known as Xinhua Combustion Engine)	Interest in a controlled corporation	400,000,000	31.20%
Pushi Group ⁽³⁾	Interest in a controlled corporation	400,000,000	31.20%
Sichuan Province Yibin Wuliangye Group Co., Ltd. (“Wuliangye”) ⁽⁴⁾	Interest in a controlled corporation	400,000,000	31.20%

Report of Directors (Cont'd)

Notes:

- (1) *Brilliance Investment is wholly-owned by Brilliance China and Brilliance China is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Brilliance Investment is interested.*
- (2) *Xinhua Investment is a direct wholly-owned subsidiary of Xinhua Intelligent and Xinhua Intelligent is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Xinhua Investment is interested.*
- (3) *Xinhua Intelligent is a direct non wholly-owned subsidiary of Pushi Group and Pushi Group is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Xinhua Investment is interested.*
- (4) *Pushi Group is a direct wholly-owned subsidiary of Wuliangye and Wuliangye is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Xinhua Investment is interested.*
- (5) *These percentages are calculated on the basis of 1,282,211,794 Shares in issue as at 31 December 2025.*

Save as disclosed herein, as at 31 December 2025, there was no other person (other than a director or chief executive of the Company) so far as known to the directors or chief executives of the Company, as having an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2025, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange, are set out below:

Interest in the shares of the Company

<u>Name of Director</u>	<u>Nature of interest</u>	<u>Number and class of Shares</u>	<u>Approximate percentage of shareholding ⁽²⁾</u>
Mr. Deng Han ⁽¹⁾	Beneficial owner	2,994,258 ordinary	0.23%
	Trustee and interest in a controlled corporation	33,993,385 ordinary	2.65%

Notes:

- (1) *Mr. Deng Han is a trustee of the Discretionary Trust (which holds 33,993,385 Shares for the Beneficiaries) and holds 100% interests in Lead In. Accordingly, Mr. Deng is deemed or taken to be interested in approximately 2.65% of the issued share capital of the Company.*
- (2) *These percentages are calculated on the basis of 1,282,211,794 Shares in issue as at 31 December 2025.*

Save as disclosed above, as at 31 December 2025, none of the directors and chief executives of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

Report of Directors (Cont'd)

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year ended 31 December 2025 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate; and none of the directors of the Company, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries or associates was a party and in which any director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Chi Guohua and Mr. Wang Jun, both of whom are independent non-executive directors of the Company, has entered into a letter of appointment with the Company for a term of three years commencing from 13 March 2025, and such letter of appointment shall be terminated in accordance with the terms of the letter of appointment.

Save as disclosed herein, no director of the Company proposed for re-election at the 2026 AGM has a service contract with members of the Group that is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year ended 31 December 2025, none of the directors of the Company was considered to have interests in business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

PERMITTED INDEMNITY

Pursuant to the Articles of Association of the Company, the directors of the Company shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against the directors of the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2025.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which oblige the Company to offer new Shares on a pro-rata basis to existing shareholders.

Report of Directors (Cont'd)

MAJOR CUSTOMERS AND SUPPLIERS

In 2025, the aggregate sales attributable to the Group's five largest customers represented approximately 91% of the Group's total revenue while the sales attributable to the Group's largest customer was approximately 72% of the Group's total revenue. The Company's substantial shareholders are interested in one customer among the Group's five largest customers. The aggregate purchases attributable to the Group's five largest suppliers during the year represented approximately 47% of the Group's total purchases and the purchases attributable to the Group's largest supplier represented approximately 17% of the Group's total purchases. The Company's substantial shareholder is interested in one supplier among the Group's five largest suppliers.

Save as disclosed above, none of the directors of the Company, their close associates or any shareholders of the Company, which to the knowledge of the directors of the Company, owns more than 5% of the Company's issued share capital, has any interests in the share capital of any of the above five largest customers or suppliers of the Group.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the date of this annual report, the Company maintains the prescribed percentage of public float under the Listing Rules.

UNDER TAKING FROM HUACHEN AND BRILLIANCE CHINA AND DEED OF NON-COMPETITION

Each of Huachen and Brilliance China entered into a deed of undertaking in favour of the Company (the "**First Huachen and Brilliance China Under taking**") on 25 February 2013 pursuant to which each of Huachen and Brilliance China has unconditionally and irrevocably undertaken to the Company (for itself and for the benefit of each other member of the Group) that it will procure its respective subsidiaries (i) to first purchase products from the Group if the products offered by the Group and Shenyang Xinguang Brilliance Automobile Engine Co., Ltd. ("**Shenyang Xinguang**") are of similar quality, specifications and price; and (ii) to maintain or increase the purchases of the products mentioned in (i) above from the Group going for ward. The liquidation process of Shenyang Xinguang was officially completed in July 2021 and Shenyang Xinguang was de-registered on 25 December 2024. As a result, no assessment can be made as to the similarity of the quality of the products produced by the Group with that of the products of Shenyang Xinguang for the purposes of determining whether Huachen and Brilliance China (and their respective subsidiaries) shall first purchase products from the Group as required by the First Huachen and Brilliance China Undertaking. This renders the First Huachen and Brilliance China Undertaking unable to be performed.

Each of Huachen and Brilliance China entered into a deed of undertaking in favour of the Company (the "**Second Huachen and Brilliance China Under taking**") on 25 February 2013 pursuant to which each of Huachen and Brilliance China has unconditionally and irrevocably undertaken to the Company (for itself and for the benefit of each other member of the Group) that it shall abstain from voting in the event that there are discussions on matters that involve both Shenyang Guoqing Power Technology Co., Ltd. ("**Shenyang Guoqing**") (formerly known as Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd.) and the Group during Shenyang Guoqing's board meetings and that it will procure its respective subsidiaries (i) to first purchase products from the Group if the products offered by the Group and Shenyang Guoqing are of similar quality, specifications and price; and (ii) to maintain or increase the purchases of the products mentioned in (i) above from the Group going for ward.

Report of Directors (Cont'd)

On 25 February 2013, Brilliance Investment, Brilliance China, Xinhua Investment, Xinhua Intelligent, Pushi Group and Wuliangye (collectively the “**Controlling Shareholders**”) and Huachen entered into a deed of non-competition (the “**Deed of Non-competition**”) in favour of the Company, pursuant to which each of the Controlling Shareholders and Huachen has unconditionally and irrevocably agreed, undertaken and covenanted with the Company (for itself and for the benefits of each other member of the Group) that it would not, and would procure that its associates (other than any members of the Group) would not, directly or indirectly, either on its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, director, partner, agent, employee or other wise, and whether for profit, reward or other wise) any activity or business which competes or is likely to compete, directly or indirectly, with the business referred to in the prospectus of the Company dated 28 February 2013 and any other business from time to time conducted, carried on or contemplated to be carried on by any member of the Group or in which any member of the Group is engaged or has invested or which any member of the Group has other wise publicly announced its intention to enter into, engage in or invest in (whether as principal or agent and whether undertaken directly or through any body corporate, partnership, joint venture, or other contractual or other arrangement) (the “**Restricted Business**”).

Each of the Controlling Shareholders and Huachen has further unconditionally and irrevocably agreed, undertaken to and covenanted with the Company the following:

- (i) to provide all information requested by the Company which is necessary for an annual review by the independent non-executive directors of the Company of its compliance with the Deed of Non-competition and the enforcement of the Deed of Non-competition;
- (ii) to procure the Company to disclose decisions on matters reviewed by the independent non-executive directors of the Company relating to the compliance and enforcement of the Deed of Non-competition either through the annual report, or by way of announcements to the public; and
- (iii) to make an annual declaration on compliance with its undertaking under the Deed of Non-competition in the annual reports of the Company as the independent non-executive directors of the Company think fit and/or as required by the relevant requirements under the Listing Rules.

The Controlling Shareholders and Huachen have further unconditionally and irrevocably agreed, undertaken to and covenanted with the Company to procure that any business investment or other commercial opportunity which directly or indirectly competes, or may lead to competition with the Restricted Business (the “**New Opportunities**”) given, identified or offered to it and/or any of its associates (other than any members of the Group) (the “**Offeror**”) is first referred to the Company in the following manner:

- (i) each of the Controlling Shareholders and Huachen is required to, and shall procure its associates (other than members of the Group) to, refer, or to procure the referral of, the New Opportunities to the Company, and shall give written notice to the Company of any New Opportunities containing all information reasonably necessary for the Company to consider whether (a) such New Opportunities would constitute competition with the Company’s core business; and (b) it is in the interest of the Group to pursue such New Opportunities, including but not limited to the nature of the New Opportunities and the details of the investment or acquisition costs (the “**Offer Notice**”); and
- (ii) the Offeror will be entitled to pursue the New Opportunities only if (a) the Offeror has received a notice from the Company declining the New Opportunities and confirming that such New Opportunities would not constitute competition with the Company’s core business; or (b) the Offeror has not received such notice from the Company within 10 business days from the receipt of the Offer Notice. If there is a material change in the terms and conditions of the New Opportunities pursued by the Offeror, the Offeror will refer the New Opportunities as so revised to the Company in the manner as set out above.

An annual declaration in respect of the Second Huachen and Brilliance China Undertaking from Huachen and Brilliance China, and the Deed of Non-competition from the Controlling Shareholders and Huachen respectively have been received by the Company in compliance with their respective undertakings thereof.

The directors of the Company (including the independent non-executive directors) have reviewed the compliance with the Deed of Non-competition by the Controlling Shareholders and Huachen and the Second Huachen and Brilliance China Undertaking by Huachen and Brilliance China and confirmed that the respective undertakings have been fully complied with and duly enforced during the year ended 31 December 2025.

Report of Directors (Cont'd)

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2025, the Group conducted various transactions which constituted continuing connected transactions under Chapter 14A of the Listing Rules. All the continuing connected transactions conducted during the year ended 31 December 2025 that need to be disclosed herein are in compliance with the Listing Rules. The actual monetary value of the continuing connected transactions of the Group for the financial year ended 31 December 2025 is set out below:

Connected Person	Nature of Transaction	Actual monetary value for the financial year ended 31 December 2025 RMB'000
<i>Continuing connected transaction exempt from the independent shareholders' approval requirements</i>		
1. Brilliance China and its subsidiaries	Purchase of engine components from Brilliance China and its subsidiaries	3,647
<i>Non-exempt continuing connected transactions</i>		
2. Brilliance China and its subsidiaries	Sale of engines to Brilliance China and its subsidiaries	58,357
3. Wuliangye and its subsidiaries (including Xinhua Intelligent)	Purchase of engine components from Wuliangye and its subsidiaries	18,480

Further information on transactions 1 to 3 are provided as follows:

Transaction 1: Brilliance China is a controlling shareholder of the Company and therefore is a connected person of the Company under Chapter 14A of the Listing Rules. The Group has been purchasing various engine components (mainly comprising intake and exhaust camshafts) from Brilliance China and its subsidiaries.

On 18 October 2024, the Company entered into a purchase framework agreement with Brilliance China (the “**Brilliance China Purchase Agreement**”), pursuant to which the Company agreed to purchase various types of engine components from Brilliance China and its subsidiaries for a term of three years commencing from 1 January 2025 and ending on 31 December 2027. Unless the Brilliance China Purchase Agreement is terminated prior to its expiry date, the agreement is renewable for additional terms of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.

The annual caps of the continuing connected transactions contemplated under the Brilliance China Purchase Agreement for the three financial years ending 31 December 2027 are RMB3,760,000, RMB2,350,000 and RMB1,760,000, respectively. The continuing connected transactions contemplated under the Brilliance China Purchase Agreement for the year ended 31 December 2025 did not exceed the annual cap of RMB3,760,000.

Details of the Brilliance China Purchase Agreement are set out in the announcement of the Company dated 18 October 2024.

Transaction 2: Brilliance China is a connected person of the Company as described in Transaction 1 above. The Group has been selling engines (mainly comprising engines for light duty commercial vehicles) to Brilliance China and its subsidiaries.

Report of Directors (Cont'd)

On 18 October 2024, the Company entered into a sale framework agreement with Brilliance China (the “**Brilliance China Sale Agreement**”), pursuant to which the Company agreed to sell engines to Brilliance China and its subsidiaries for a term of three years commencing from 1 January 2025 and ending on 31 December 2027. Unless the Brilliance China Sale Agreement is terminated prior to its expiry date, the agreement is renewable for additional terms of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.

The annual caps of the continuing connected transactions contemplated under the Brilliance China Sale Agreement for the three financial years ending 31 December 2027 are RMB106,100,000, RMB168,720,000 and RMB217,950,000, respectively. The continuing connected transactions under the Brilliance China Sale Agreement for the year ended 31 December 2025 did not exceed the annual cap of RMB106,100,000.

Details of the Brilliance China Sale Agreement are set out in the announcement of the Company dated 18 October 2024 and the circular of the Company dated 3 December 2024.

Transaction 3: Xinhua Intelligent (formerly known as Xinhua Combustion Engine) is an indirect non wholly-owned subsidiary of Wuliangye and therefore is a connected person of the Company under Chapter 14A of the Listing Rules. Mianyang Xincheng has been purchasing various gasoline and diesel engine components such as crankshafts, exhaust manifolds, cylinder chambers and cylinder heads from Xinhua Intelligent.

On 18 October 2024, Mianyang Xincheng entered into a purchase framework agreement with Xinhua Intelligent (the “**Xinhua Intelligent Purchase Agreement**”), pursuant to which Mianyang Xincheng agreed to purchase various gasoline and diesel engine components from Xinhua Intelligent for a term of three years commencing from 1 January 2025 and ending on 31 December 2027. Unless the Xinhua Intelligent Purchase Agreement is terminated prior to its expiry date, the agreement is renewable for additional terms of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.

The annual caps of the continuing connected transactions contemplated under the Xinhua Intelligent Purchase Agreement for the three financial years ending 31 December 2027 are RMB97,820,000, RMB126,360,000 and RMB191,700,000, respectively. The continuing connected transactions under the Xinhua Intelligent Purchase Agreement for the year ended 31 December 2025 did not exceed the annual cap of RMB97,820,000.

Details of the Xinhua Intelligent Purchase Agreement are set out in the announcement of the Company dated 18 October 2024 and the circular of the Company dated 3 December 2024.

The independent non-executive directors of the Company confirmed that the internal control procedures put in place by the Company are adequate and effective and the above continuing connected transactions 1 to 3 have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better, and in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole. The independent non-executive directors of the Company further confirmed that the annual caps in respect of the above continuing connected transactions 1 to 3 are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The Company’s external auditor, Grant Thornton Hong Kong Limited, was engaged to report on the Group’s continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 (Revised) “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” as issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions 1 to 3 disclosed above in accordance with Rule 14A.56 of the Listing Rules.

The above continuing connected transactions 1 to 3 are also regarded as “related party transactions” under the applicable accounting standards. Details of these transactions are further disclosed in note 40 to the consolidated financial statements of this annual report.

Report of Directors (Cont'd)

Save as disclosed above, in the opinion of the directors of the Company, there are no other related party transactions in note 40 to the consolidated financial statements which constituted connected transactions or continuing connected transactions of the Group that were required to be disclosed pursuant to Chapter 14A of the Listing Rules.

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 28 to 46 of this annual report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Details of the Company's environmental, social and governance practices are set out in the Environmental, Social and Governance Report on pages 47 to 66 of this annual report.

AUDITOR

Grant Thornton Hong Kong Limited, the auditor of the Company, will retire at the conclusion of the 2026 AGM and be eligible to offer themselves for re-appointment. A resolution will be submitted to the 2026 AGM to seek shareholders' approval for the re-appointment of Grant Thornton Hong Kong Limited as the Company's auditor until the conclusion of the next annual general meeting and to authorise the Board to fix their remuneration.

By order of the Board

Zhang Wei
Chairman

Hong Kong,
26 March 2026

Corporate Governance Report

CORPORATE GOVERNANCE

The Company is committed to achieving and maintaining the highest standards of corporate governance consistent with the needs and requirements of the business and its shareholders, and in compliance with the “Corporate Governance Code” (the “CG Code”) set out in Appendix C1 to the Listing Rules. The Group has considered the CG Code and has put in place corporate governance practices to meet the code provisions. The corporate governance principles of the Company emphasize a quality Board, sound internal controls, and transparency and accountability to all shareholders.

Throughout the accounting year ended 31 December 2025, the Group has complied with all the code provisions as set out in the CG Code.

A. CORPORATE PURPOSE, STRATEGY AND GOVERNANCE

A.1 Corporate strategy, business model and culture

We are governed by the Board which assumes the responsibility for leadership and control of the Company. Our directors are collectively responsible for promoting the success of the Company by developing the strategic direction of the Group and directing and supervising the affairs of the Company.

The Board has fiduciary duties and statutory responsibilities towards the Group and is directly accountable to the shareholders.

The Board is responsible for the management of the business and affairs of the Group with the objective of enhancing shareholder value and presenting a balanced, clear and understandable assessment of the Company’s performance, position and prospects in its annual and interim reports, other inside information announcements, other financial disclosures as required under the Listing Rules, reports to regulators, and information required to be disclosed pursuant to statutory requirements. The Board is also required to approve acquisitions or disposals that require shareholders’ notification or approval under the Listing Rules.

Daily management and administration functions are delegated to the management. The responsibilities and matters reserved to the Board are set out in paragraph C “Directors’ Responsibilities, Delegation and Board Proceedings” below.

The Board meets regularly, normally four times each year with a meeting scheduled at approximately three-month intervals and additional meetings will be arranged if and when necessary. Special Board meetings will be held when necessary. Matters on transactions where directors are considered having a conflict of interest which the Board has determined to be material would not be dealt with by way of written resolutions and a separate Board meeting shall be held where independent non-executive directors who have no material interests should be present at the meeting. Directors having a conflict of interest or material interests in a transaction before the meeting of the Board will declare his interest therein in accordance with the Articles of Association of the Company, shall abstain from voting on the resolution approving such transaction and shall not be counted in the quorum present at such Board meeting. Such declaration of interests will be duly noted in the minutes of the relevant Board meeting.

Notices are given to all the directors for attending regular Board meetings fourteen (14) days before such meetings generally. For other Board meetings, reasonable notices are given.

Board meetings involve active participation, either in person or through other electronic means of communication, by all of the directors present. The company secretary assists the Chairman in preparing the meeting agenda, and each director may request the inclusion of items in the agenda. Directors are also consulted to suggest matters to be included in the agenda for all regular Board meetings.

Minutes of the Board meetings are recorded in detail and draft minutes are circulated within a reasonable time after the relevant meeting to all directors for their review and comments before being approved by the Board. All the minutes of the meetings are properly kept by the company secretary and are available for inspection by the directors during normal office hours.

Corporate Governance Report (Cont'd)

Participation of individual directors at the Board meetings in 2025 is as follows:

	Attendance by directors/Number of meetings	Attendance Rate
<i>Executive directors:</i>		
Mr. Zhang Wei (<i>Chairman</i>)	5/5	100%
Mr. Deng Han (<i>Chief Executive Officer</i>)	5/5	100%
<i>Non-executive director:</i>		
Mr. Yang Ming	5/5	100%
<i>Independent non-executive directors:</i>		
Mr. Chi Guohua	5/5	100%
Mr. Wang Jun	5/5	100%
Ms. Dong Yan	5/5	100%
Average attendance rate		100%

Apart from the five (5) Board meetings, consent/approval from the Board had also been obtained by written resolutions on a number of matters.

Participation of individual directors at the general meeting in 2025, including the annual general meeting held on 19 June 2025 is as follows:

	Attendance by directors/Number of meetings	Attendance Rate
<i>Executive directors:</i>		
Mr. Zhang Wei (<i>Chairman</i>)	1/1	100%
Mr. Deng Han (<i>Chief Executive Officer</i>)	1/1	100%
<i>Non-executive director:</i>		
Mr. Yang Ming	1/1	100%
<i>Independent non-executive directors:</i>		
Mr. Chi Guohua	1/1	100%
Mr. Wang Jun	1/1	100%
Ms. Dong Yan	1/1	100%
Average attendance rate		100%

Corporate Governance Report (Cont'd)

A.2 Corporate governance function

The Company has adopted the terms of reference for the corporate governance function on 25 April 2012 (which were amended and restated on 8 February 2013) in compliance with code provision A.2 as contained in Part 2 of the CG Code. Pursuant to the terms of reference of the corporate governance function, the Board shall be responsible for developing, reviewing and/or monitoring the policies and practices on corporate governance of the Company; training and continuous professional development of directors and senior management; and compliance with legal and regulatory requirements of the Company. This corporate governance report has been reviewed by the Board in discharge of its corporate governance function.

B. BOARD COMPOSITION AND NOMINATION

B.1 Board composition, succession and evaluation

Currently, the Board comprises six directors: two executive directors, one non-executive director and three independent non-executive directors. The current composition of the Board is as follows:

	Membership of Board Committee(s)
<i>Executive directors:</i>	
Mr. Zhang Wei (<i>Chairman</i>)	Member of Remuneration Committee Member of Nomination Committee
Mr. Deng Han (<i>Chief Executive Officer</i>)	Member of Remuneration Committee Member of Nomination Committee
<i>Non-executive director:</i>	
Mr. Yang Ming	–
<i>Independent non-executive directors:</i>	
Mr. Chi Guohua	Chairman of Audit Committee Member of Remuneration Committee Member of Nomination Committee
Mr. Wang Jun	Chairman of Nomination Committee Member of Audit Committee Member of Remuneration Committee
Ms. Dong Yan	Chairman of Remuneration Committee Member of Audit Committee Member of Nomination Committee

Pursuant to the Listing Rules, every listed issuer is required to have such number of independent non-executive directors representing at least one-third of the board, and at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. Throughout the year 2025, the number of independent non-executive directors of the Company has met the minimum requirement under the Listing Rules. Mr. Chi Guohua is a certified public accountant (non-practicing member) in the PRC. Mr. Chi has over 23 years of experience in finance, internal control and strategic investment in the PRC. He currently also holds positions in certain academic and professional organizations in the PRC.

Corporate Governance Report (Cont'd)

The current composition of the Board has a strong independence element with an aim to ensuring independent views and input are available to the Board. The Company has also put in place mechanism to ensure independent views and inputs are available to the Board. This is achieved by providing directors with access to external independent professional advice from legal advisers and auditors, as well as the full attendance of all independent non-executive directors at all the meetings of the Board and its relevant committees held during the year. The Board is also responsible for reviewing the implementation and effectiveness of the board independence mechanism on an annual basis.

The Company has received from each of the independent non-executive directors an annual confirmation of independence. The Board has assessed the independence of all the independent non-executive directors and considered that all the independent non-executive directors have met the independence criteria as set out in Rule 3.13 of the Listing Rules.

The Board members do not have any family, financial or business relations with each other. The biographies of the directors are set out on pages 11 to 12 of this annual report.

The list of directors has been published on the website of the Company and the website of the Stock Exchange, and is disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

B.2 Appointment, re-election and removal of directors

Directors of the Company are aware that they should give sufficient time and attention to the affairs of the Company.

Code provision B.2.2 as contained in Part 2 of the CG Code stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Pursuant to Article 112 of the Articles of Association of the Company, a director appointed by the Board to fill a casual vacancy shall hold office until the first annual general meeting while a director appointed by the Board as an addition to the Board shall hold office until the first annual general meeting.

Each of the executive directors was appointed to the Board pursuant to their respective service agreements and each of the non-executive directors and independent non-executive directors was appointed to the Board pursuant to their respective letters of appointment for a term of three (3) years commencing from their respective appointment date and their appointments are subject to the retirement by rotation provisions in the Articles of Association of the Company and the Listing Rules. At every annual general meeting, one-third of the directors for the time being, or if their number is not three or a multiple of three, the number nearest to but not less than one-third, shall retire from office by rotation according to Article 108(a) of the Articles of Association of the Company. All directors of the Company are subject to the retirement by rotation provision in the Articles of Association of the Company and are subject to the retirement by rotation at least once every three years pursuant to code provision B.2.2 as contained in Part 2 of the CG Code.

To comply with code provision B.2.2 as contained in Part 2 of the CG Code and in accordance with Article 108 of the Articles of Association of the Company, Mr. Chi Guohua and Mr. Wang Jun will retire by rotation at the 2026 AGM and have offered themselves for re-election at the 2026 AGM.

Pursuant to code provision B.2.3 as contained in Part 2 of the CG Code, if an independent non-executive director has served more than nine (9) years, his/her further appointment should be subject to a separate resolution to be approved by shareholders. Mr. Chi Guohua and Mr. Wang Jun were appointed as the independent non-executive directors of the Company on 22 November 2012 and 24 April 2012, respectively. Both of them have continuously served as our independent non-executive directors for more than nine (9) years. The latest re-appointment of each of them as our independent non-executive directors has been approved by our shareholders at the annual general meeting held on 20 June 2024 (the "2024 AGM"). The reasons based on which the Board has formed its opinion that each of Mr. Chi Guohua and Mr. Wang Jun are independent and justified to be re-appointed as independent non-executive directors at the 2024 AGM were stated in the circular of the Company dated 24 April 2024.

Corporate Governance Report (Cont'd)

B.3 Nomination Committee

The Board adopts a formal, considered and transparent procedure for appointment of new directors to the Board. The appointment of a new director has been a collective decision of the Board, taking into consideration the candidate's qualification, expertise, experience, integrity and commitment to his/her responsibilities within the Group. In addition, all candidates to be selected and appointed as a director must be able to meet the standards set out in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an independent non-executive director must also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

The Nomination Committee of the Company was established on 25 April 2012 with specific written terms of reference (which was amended and restated on 30 June 2025) which include the duties set out in code provisions B.3.1 as contained in Part 2 of the CG Code. The existing members of the Nomination Committee comprise Mr. Wang Jun, Mr. Chi Guohua and Ms. Dong Yan, all of whom are independent non-executive directors, and Mr. Zhang Wei and Mr. Deng Han, both of whom are executive directors. Mr. Wang Jun is the chairman of the Nomination Committee.

In 2025, the Nomination Committee held one (1) meeting and discharged its responsibilities. Attendance of individual members at the Nomination Committee meeting is as follows:

	Attendance by directors/Number of meetings	Attendance Rate
Mr. Wang Jun (<i>chairman of the Nomination Committee</i>)	1/1	100%
Mr. Chi Guohua	1/1	100%
Ms. Dong Yan	1/1	100%
Mr. Zhang Wei	1/1	100%
Mr. Deng Han	1/1	100%
Average attendance rate		100%

The Nomination Committee is responsible for reviewing the Board's composition and diversity, evaluating the Board's performance, developing the relevant procedures for nomination and appointment of directors and assessing the independence of the independent non-executive directors to ensure that the Board has a balance of expertise, skills and experience and formulating succession plans for executive directors and senior executives. The Nomination Committee is also authorised to obtain outside professional advice and to seek information from employees, and the Company will provide sufficient resources to the Nomination Committee for performance of its duties.

The work performed by the Nomination Committee in 2025 included:

- Evaluated the board performance which covered the key areas including the composition of the Board and its structure in terms of competence, experience, academic background and qualification of its members;
- reassessed the independence of the independent non-executive directors; and
- made recommendation to the Board for re-election of retiring directors at the 2025 AGM.

Full minutes of the Nomination Committee meetings are kept by the company secretary. Draft and final versions of the minutes of the Nomination Committee meetings are sent to all members of the Nomination Committee for comments and approval and all decisions of the Nomination Committee are reported to the Board.

Corporate Governance Report (Cont'd)

The terms of reference of the Nomination Committee are available on the website of the Company and the website of the Stock Exchange.

The Company has adopted a board diversity policy on 17 December 2013 (which was amended and restated on 19 June 2025 and effective from 1 July 2025). Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Board's composition, including gender, ethnicity, age, length of service, is set out below:

	Gender	Ethnicity	Age	Length of Service
Mr. Zhang Wei	Male	Chinese	52	1 year 4 months
Mr. Deng Han	Male	Chinese	50	2 years 9 months
Mr. Yang Ming	Male	Chinese	57	9 years 4 months
Mr. Chi Guohua	Male	Chinese	51	13 years 4 months
Mr. Wang Jun	Male	Chinese	64	13 years 11 months
Ms. Dong Yan	Female	Chinese	47	2 years 9 months

The members of the Nomination Committee are of the opinion that the Board's composition meets with the board diversity policy of the Company.

Commencing from 2023, the Company has appointed a female member to the Board. Currently, out of the current six directors, one director is of a different gender. The Nomination Committee will continue to review the gender diversity of the Board as well as the implementation and effectiveness of the board diversity policy on an annual basis and to ensure the compliance of relevant regulatory requirements and good corporate governance practices. The Board will endeavour to at least maintain female representation on the Board and the Nomination Committee will take opportunities to increase the proportion of female representation on the Board if candidates with suitable qualifications and experience can be identified according to the business need of the Company.

Gender diversity at workforce levels (including our senior management) is disclosed in paragraph "B1 Employment" set out in Environmental, Social and Governance Report of this annual report.

The skills matrix below sets out the skills and expertise of the Board:

	Executive leadership and strategic management	Industry knowledge and manufacturing expertise	Accounting professional/ financial management expertise	Legal professional	Risk management/ internal control
Mr. Zhang Wei	✓	✓			
Mr. Deng Han	✓	✓			
Mr. Yang Ming	✓	✓			
Mr. Chi Guohua			✓		✓
Mr. Wang Jun				✓	✓
Ms. Dong Yan			✓		✓

The diverse skill set and experiences of the directors reinforce the Company's commitment to sustainable development, operational excellence, and stakeholder engagement. Their collective expertise helps uphold the Company's core values of integrity, innovation, and responsibility, fostering a governance environment that emphasizes transparency, accountability, and ethical conduct. By bringing together directors with varied backgrounds and insights, the Board is well-positioned to guide the Company's strategic initiatives. This diversity cultivates a corporate culture that encourages collaboration, continuous learning, and adaptability, which are essential for achieving strategic growth and maintaining competitive advantage.

Corporate Governance Report (Cont'd)

C. DIRECTORS' RESPONSIBILITIES, DELEGATION AND BOARD PROCEEDINGS

C.1 Responsibilities of directors

Newly appointed directors of the Company are provided with a package of orientation materials setting out the required duties and responsibilities of directors under the Listing Rules and other relevant statutory requirements of Hong Kong. An orientation as to a director's duties and obligations under the Listing Rules and relevant legislations will be arranged for all newly appointed directors of the Company. The directors are kept informed from time to time on the latest development of any changes to the regulatory requirements and the progress of compliance of applicable rules and regulations by the Company. The directors will also be updated from time to time on the business development and operation plans of the Company.

The Company has arranged for, and provided fund for, all directors of the Company to participate in continuous professional development organised in the form of in-house training, seminars or other appropriate courses to keep them refreshed of their knowledge, skill and understanding of the Group and its business or to update their skills and knowledge on the latest development or changes in the relevant statutes, the Listing Rules and corporate governance practices. As part of the continuous professional development program, the Company has also updated the directors of the Company on any material changes in the Listing Rules and corporate governance practices from time to time. Directors of the Company are provided with reading materials summarizing the duties and responsibilities in acting as directors from time to time to keep the directors of the Company abreast of such duties and responsibilities.

In addition to directors' attendance at meetings and review of papers and circulars sent by management during 2025, each director of the Company has participated in the continuing professional development training arranged and funded by the Company as follows:

Format and topic	Name of Directors/Number of training hours completed					
	Mr. Zhang Wei	Mr. Deng Han	Mr. Yang Ming	Mr. Chi Guohua	Mr. Wang Jun	Ms. Dong Yan
1. Internal trainings: Briefing sessions conducted by legal advisor relating to corporate governance and Listing Rules updates	1 hour	1 hour	1 hour	1 hour	1 hour	1 hour
2. External trainings: Stock Exchange e-Learning relating to directors' duties, environmental, social and governance, and corporate governance	2 hours 15 minutes	2 hours 15 minutes	2 hours 15 minutes	2 hours 15 minutes	2 hours 15 minutes	2 hours 15 minutes
3. Self-study: Reading articles published by the Stock Exchange, the Accounting and Financial Reporting Council, and Independent Commission Against Corruption relating to directors' duties, corporate governance, risk management and internal control, and industry and business update	8 hours	8 hours	8 hours	8 hours	8 hours	8 hours
<i>Total</i>	11 hours 15 minutes	11 hours 15 minutes	11 hours 15 minutes	11 hours 15 minutes	11 hours 15 minutes	11 hours 15 minutes

Corporate Governance Report (Cont'd)

The functions of non-executive directors of the Company include the functions as specified in code provisions C.1.2 as contained in Part 2 of the CG Code.

All independent non-executive directors of the Company and the non-executive director of the Company have attended the general meeting held in 2025 in person or by way of telephone conference as required by code provision C.1.5 as contained in Part 2 of the CG Code.

The Company has adopted the standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) contained in Appendix C3 to the Listing Rules, in relation to the dealings in securities of the Company by the directors.

Having made specific enquiry of all directors, each director of the Company has confirmed that he has complied with the standards set out in the Model Code during the year ended 31 December 2025.

The Company also established on 25 April 2012 written guidelines on no less exacting terms than the Model Code (the “**Code for Securities Transactions by Employees**”) for securities transactions by the employees of the Company and also the directors and employees of its subsidiaries and its holding company who, because of such office or employment, are likely to be in possession of unpublished inside information of the Group or the securities of the Company.

No incident of non-compliance of the Code for Securities Transactions by Employees by the employees of the Company and the directors and employees of its subsidiaries and its holding company during the year ended 31 December 2025 was noted by the Company.

The Company considers that it has taken out appropriate insurance cover for its directors and officers in respect of legal actions that may be taken against directors and officers. The Company reviews the extent of the insurance coverage every year and was satisfied with the insurance coverage for year 2025.

C.2 Chairman and Chief Executive Officer

Code provision C.2.1 as contained in Part 2 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Company has segregated the roles of the Chairman of the Board and the Chief Executive Officer of the Company. Mr. Zhang Wei is the Chairman of the Board and Mr. Deng Han is the Chief Executive Officer of the Company. On 25 April 2012, the Board adopted a set of guidelines (which were amended and restated on 25 March 2019) regarding the power and duties of each of the Chairman and the Chief Executive Officer.

One meeting was held by the Chairman of the Board with the independent non-executive directors of the Company without other directors present in 2025 in compliance with code provision C.2.7 as contained in Part 2 of the CG Code. This provides an additional platform for direct communication of the independent non-executive directors of the Company with the Chairman of the Board without the presence of other directors.

Corporate Governance Report (Cont'd)

C.3 Management functions

In general, the Board oversees the Company's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group's strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management. The Board is entrusted with the following reserved powers:

1. *Business strategy*

- approval of strategic objectives, annual plans and performance targets for the Group;
- approval of proposals for expansion or closures other than those which have been specifically approved in the strategic objectives and/or annual plans of the Group;
- approval of budgets; and
- approval of performance indicators.

2. *Appointment*

- appointment of any person as director to fill a casual vacancy or as an additional director;
- appointment of the chairman and the chief executive officer;
- appointment of senior executives;
- fixing of auditor's remuneration;
- selection, appointment and dismissal of company secretary; and
- formation of board committees and approval of the membership and terms of reference of the board committees.

3. *Board and senior management*

- delegation of authority to the chairman, chief executive officer, management and board committee(s);
- approval of remuneration and incentive policies;
- approval of Group benefit policies;
- approval of remuneration of directors and senior management; and
- assessment of the performance of the Company and the Board.

Corporate Governance Report (Cont'd)

4. *Relations with the shareholders*

- arrangements for annual general meetings and any other shareholders' meetings;
- matters relating to disclosure as required by the applicable law and regulations; and
- formation of shareholders' communication policy.

5. *Financial matters*

- approval of annual accounts and directors' reports;
- approval of accounting policies;
- approval of any substantial change in the policies of the Company for statements of financial position management including but without limitation capital adequacy, credit, liquidity, debt maturity profile, interest rate and exchange rate risks and asset concentration both geographically and by sector;
- approval of internal audit plan;
- approval of internal control policy and procedures;
- acceptance of auditor's reports including management letters; and
- declaration of interim dividends and making recommendations on final dividends.

6. *Capital expenditures*

- approval of the capital expenditure budget;
- approval of capital commitment, whether or not the same has been provided for in the capital expenditure budget and/or annual budget; and
- approval of priorities.

7. Any transaction that constitutes notifiable transaction or connected transaction for the Company under the Listing Rules (as amended from time to time).

8. To assess the likely impact of unexpected and significant events and other events which can affect price and market activity of the shares of the Company and to decide whether the relevant information would be price-sensitive and need to be disclosed.

Corporate Governance Report (Cont'd)

9. *Risk management*

- risk assessment and insurance; and
- risk management policies.

10. Internal controls and reporting system

- approval and establishment of any effective procedures for monitoring and control of operations including internal procedures for audit and compliance.

11. Use of the company seal(s).

12. Donations and sponsorships (if any) above approved limits.

C.4 Non-executive directors

Each of the non-executive directors of the Company has entered into a letter of appointment with the Company for a term of three years commencing from their respective appointment date.

C.5 Conduct of board proceedings and supply of and access to information

With respect to regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying board papers are sent in full to all directors in a timely manner as permitted under the circumstances. Notices are given to all the directors for attending regular Board meetings fourteen (14) days before such meetings generally. For other Board meetings, reasonable notices are given. It has been the practice of the Board and accepted by all members of the Board that relevant information of Board meetings will be sent to all directors three (3) days in advance of the relevant meetings or any reasonable time before such meetings where it is not practicable to send out the information three (3) days in advance.

Members of the management have been reminded that they have an obligation to supply the Board and the Board committees with adequate information on a timely basis to enable each of them to make informed decisions. The Board and each director have separate and independent access to the Group's senior management.

All directors of the Company are entitled to have access to board papers, minutes and related materials.

C.6 Company Secretary

Ms. Ngai Ka Yan, the company secretary appointed by the Board and an employee of the Company, in the opinion of the Board, possesses the necessary qualification and experience and is capable of performance of the functions of the company secretary and the Company will provide fund for Ms. Ngai to take not less than 15 hours of appropriate professional training in each financial year as required under Rule 3.29 of the Listing Rules. During 2025, Ms. Ngai has attended training programs and seminars arranged by The Hong Kong Chartered Governance Institute and has satisfied the 15 hours professional training requirement of the Listing Rules.

Corporate Governance Report (Cont'd)

D. AUDIT, INTERNAL CONTROL AND RISK MANAGEMENT

D.1 Financial reporting

The management shall provide such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other matters put before the Board for approval. The management shall also provide all members of the Board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each director to discharge their duties.

The directors are responsible for overseeing all financial aspects of the Company and for keeping proper accounting records and preparing financial statements for each financial period, that give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2025, the directors of the Company have:

- approved the adoption of all applicable Hong Kong Financial Reporting Standards which are issued by the Hong Kong Institute of Certified Public Accountants;
- selected and applied consistently appropriate accounting policies;
- made judgments and estimates that are prudent and reasonable; and
- prepared the accounts on a going concern basis.

The Board is accountable to shareholders for a clear and balanced assessment of the Company's financial position and prospects. In this regard, the directors' responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other inside information announcements and other financial disclosures required under the Listing Rules, reports to regulators, and information required to be disclosed pursuant to statutory requirements.

Financial results of the Group are announced in a timely manner in accordance with all statutory requirements, particularly the timeframe stipulated in Rules 13.49(1) and (6) of the Listing Rules.

All directors of the Company acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2025. Currently, the Company's external auditor is Grant Thornton Hong Kong Limited (the "**Auditor**").

In 2025, the audit and non-audit service fees paid or payable by the Company amounted to approximately HK\$1,100,000 and HK\$323,200, respectively. The non-audit services mainly included interim review of condensed consolidated financial statements.

The statement of the Auditor about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 67 to 71 of this annual report.

Corporate Governance Report (Cont'd)

D.2 Risk management and internal control

The Board is entrusted with the responsibility of evaluating and determining the nature and extent of the risks exposure for the Company, and ensuring that the Company has established and maintained appropriate and effective risk management and internal control systems for the Group's various business and operational functions. The Board is also responsible for overseeing such systems' design and implementation on an ongoing basis and reviewing their effectiveness annually so that the interests of the shareholders are well protected. The review has fully covered all important aspects of the Company's operations, including financial, operational and compliance monitoring. It is important to note that such systems are designed to manage rather than eliminate the risks of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company has an internal audit function to review the adequacy and effectiveness of the Group's risk management and internal control systems. The audit and compliance department set up by the Group is responsible for coordinating, monitoring and commenting on the risk management and internal control activities of all departments and subsidiaries. The audit and compliance department holds regular meetings with the heads of departments and subsidiaries to discuss matters in relation to risk management and internal control and the corresponding policies. It also submits annual reports on risk management and internal control to the Board and the Audit Committee. The Board and the Audit Committee are responsible for the final assessment of the work of risk management and internal control as well as the effectiveness of the systems, discussing specific major risks and material failure of internal control; and providing support and comprehensive action plans to the management so as to ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit, financial reporting functions, as well as those relating to the Group's environmental, social and governance performance and reporting.

The Group's risk management and internal control systems focuses on identifying and analysing risks faced by the Group and reviewing the Group's strategies, finance, markets, operations and compliance. It also establishes appropriate risk appetite and risk management, and controls risks in a timely and reliable manner, so as to contain the risks within the established risk appetite. We review the major risks of the Group from five perspectives, namely causes, management strategies, responsible entities, solutions and progress. In case of any material risk, we analyse and deliberate to identify the cause(s) of the risk, formulate risk management strategies for each cause and identify the departments who will be the responsible entities to take charge of the implementation of the strategies. We also adopt effective solutions for controlling and mitigating risks and follow up the implementation progress to ensure effective risk control.

In 2025, the Company also engaged Moore Advisory Services Limited (the "**Internal Control Consultant**") as the independent internal control consultant of the Company to carry out a review of the internal control systems and procedures of the Group and make recommendations for remedial action. For the year ended 31 December 2025 (the "**Reporting Period**"), the Internal Control Consultant has reviewed a number of material internal control areas of the Group, such as compliance review of corporate governance, treasury management and financial reporting management. The result of the review was independently reported to the Board and the Audit Committee. The findings in the report are confirmed with the management of each company of the Group. No significant internal control defects were observed during the Reporting Period.

The Board and the Audit Committee have conducted a review of the effectiveness of the risk management and internal control systems on all major operations of the Group and noted that recommendations on certain areas of improvement identified in previous years have been properly followed up and implemented. The Board and the Audit Committee will continue to improve the effectiveness of the risk management and internal control systems of the Group and to monitor the systems and the progress of improvements. The Board and the Audit Committee considered that the key areas of the Group's risk management and internal control systems are effective and adequate and the Group has fully complied with the relevant code provisions set out in the CG Code regarding risk management and internal control systems generally.

Corporate Governance Report (Cont'd)

In addition, the Company complies with the requirements of the Listing Rules and the SFO to handle and disclose inside information. The Company and its directors maintain strict confidentiality of the inside information until disclosure. Employees are reminded regularly that they must not make any unauthorized disclosure of inside information or make any use of such information for the advantage of himself or herself or others.

A system with good moral integrity and anticorruption mechanism is the cornerstone for a sustainable and healthy development of the Group. The Group strictly forbids any form of corruption, bribery, fraud and all other acts against professional ethics. In order to promote a clean working environment, the Group has established policies and systems related to anti-corruption in accordance with the Prevention of Bribery Ordinance (Chapter 201) and requires all employees to comply with them. In addition, the Group has established a whistleblowing policy and has set up channels for employees and other stakeholders to report to the Audit Committee in an anonymous manner, in order to enhance the effectiveness of monitoring of management within the Group.

D.3 Audit Committee

The Audit Committee of the Company was established on 25 April 2012 with reference to “A Guide for the Formation of an Audit Committee” issued by the Hong Kong Institute of Certified Public Accountants. The terms of reference of the Audit Committee (which was amended and restated on 25 March 2019) include the duties set out in code provisions D.3.3 as contained in Part 2 of the CG Code. The existing members of the Audit Committee comprise Mr. Chi Guohua, Mr. Wang Jun and Ms. Dong Yan, all of whom are independent non-executive directors. Mr. Chi Guohua is the chairman of the Audit Committee. The Audit Committee does not have any former partner of the Group’s existing audit firm as a member. The Company has adopted policy for hiring of employees and former employees of its external auditor on 25 April 2012 (which was amended and restated on 25 March 2019) to ensure judgment and independence of the audit of the Group will not be impaired.

In 2025, the Audit Committee held two (2) meetings and discharged its responsibilities. Attendance of individual members at the Audit Committee meetings is as follows:

	Attendance by directors/Number of meetings	Attendance Rate
Mr. Chi Guohua (<i>chairman of the Audit Committee</i>)	2/2	100%
Mr. Wang Jun	2/2	100%
Ms. Dong Yan	2/2	100%
Average attendance rate		100%

The principal duties of the Audit Committee include reviewing the Company’s financial controls, internal controls and risk management system, annual reports, accounts and half-yearly reports. The Audit Committee is also authorised to obtain outside professional advice and to seek information from employees, and the Company will provide sufficient resources to the Audit Committee for performance of its duties.

Corporate Governance Report (Cont'd)

The following is a summary of the work performed by the Audit Committee in 2025:

- reviewed the auditor's management letter and the management's response;
- reviewed and considered the recently issued accounting standards, the adoption of new accounting standards and the change in significant accounting policies;
- reviewed the audited financial statements, the annual report and the final results announcement for the year ended 31 December 2024;
- reviewed the interim report and the interim results announcement for the six months ended 30 June 2025;
- met with the auditor to go through any significant audit issues or key findings noted during the audit of the Group's 2024 final results;
- met with the auditor to go through any significant key findings on the internal control and financial reporting matters based on the agreed-upon procedures performed for the Group's 2025 unaudited interim results;
- reviewed risk management and internal control systems and the effectiveness of the Company's internal audit function;
- reviewed the continuing connected transactions; and
- made recommendations to the Board regarding the appointment of external auditor and auditor remuneration.

In 2025, all issues raised by the Audit Committee were addressed by the management. The work and findings of the Audit Committee were reported to the Board. In 2025, no issues brought to the attention of the management and the Board were of sufficient importance to require disclosure in this annual report.

The Audit Committee reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2025 in conjunction with the Company's external auditor. Based on the review and discussions with management, the Audit Committee was satisfied that the audited consolidated financial statements of the Group were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended 31 December 2025. The Audit Committee therefore recommended the audited consolidated financial statements of the Group for the year ended 31 December 2025 be approved by the Board.

Full minutes of the Audit Committee meetings are kept by the company secretary. Draft and final versions of the minutes of the Audit Committee meetings are sent to all members of the Audit Committee for comments and approval and all decisions of the Audit Committee are reported to the Board.

The terms of reference of the Audit Committee are available on the website of the Company and the website of the Stock Exchange. This annual report has been reviewed by the Audit Committee.

Corporate Governance Report (Cont'd)

E. REMUNERATION

E.1 Remuneration Committee

The Remuneration Committee of the Company was established on 25 April 2012 with specific written terms of reference. The existing members of the Remuneration Committee comprise Ms. Dong Yan, Mr. Chi Guohua and Mr. Wang Jun, all of whom are independent non-executive directors, and Mr. Zhang Wei and Mr. Deng Han, both of whom are executive directors. Ms. Dong Yan is the chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee are adopted with reference to the CG Code, including the specific duties set out in code provisions E.1.2 as contained in Part 2 of the CG Code.

In 2025, the Remuneration Committee held one (1) meeting and discharged its responsibilities. Attendance of individual members at the Remuneration Committee meeting is as follows:

	Attendance by directors/Number of meetings	Attendance Rate
Ms. Dong Yan (<i>chairman of the Remuneration Committee</i>)	1/1	100%
Mr. Chi Guohua	1/1	100%
Mr. Wang Jun	1/1	100%
Mr. Zhang Wei	1/1	100%
Mr. Deng Han	1/1	100%
Average attendance rate		100%

The Remuneration Committee is responsible for making recommendations to the Board regarding the Group's policy and structure for all remuneration of directors and senior management and approving the remuneration package of the individual executive directors. The Remuneration Committee is authorised to seek any information it requires from any employee of the Group and has the power to request the executive directors and other persons to attend its meetings. The Remuneration Committee is also authorised to obtain outside professional advice and to secure the attendance of other persons with relevant experience and expertise if it considers as necessary, and the Company will provide sufficient resources to the Remuneration Committee for performance of its duties.

The work performed by the Remuneration Committee in 2025 included:

- reviewing the appointment letters of non-executive director and independent non-executive directors;
- approving the remuneration of directors (including the independent non-executive directors);
- approving the bonus payment to the staff of the Group; and
- considering the grant of share options when necessary as a means to provide incentives or rewards to the directors and/or employees of the Group.

Corporate Governance Report (Cont'd)

During the year ended 31 December 2025, since there was no share option granted under the share option schemes of the Company, no material matter relating to the share option scheme has been reviewed by the Remuneration Committee.

The remuneration of directors is determined with reference to their respective qualifications, experience, duties and responsibilities in the Group. When approving the remuneration of directors, no individual directors will be involved in decisions relating to his/her own remuneration.

Full minutes of the Remuneration Committee meeting are kept by the company secretary. Draft and final versions of the minutes of the Remuneration Committee meetings are sent to all members of the Remuneration Committee for comments and approval and all decisions of the Remuneration Committee are reported to the Board subject to applicable restriction.

The terms of reference of the Remuneration Committee are available on the website of the Company and the website of the Stock Exchange.

F. SHAREHOLDERS ENGAGEMENT

F.1 Effective communication and conduct of shareholders meetings

The Company communicates information to the shareholders through different channels, including, among others, its periodical financial announcements and reports, annual general meetings and other general meetings (if any), all the corporate communications and other publications on the Company's website. The Board is responsible for maintaining an on-going dialogue with shareholders and in particular, using formal meetings (including general meetings) to communicate with them and encourage their participation.

The Company attaches great importance to communications with its shareholders. Information on the Group's activities, business, strategies and developments is provided in the Company's annual reports and interim reports. Shareholders of the Company are encouraged to attend the annual general meetings of the Company which offer a valuable forum for dialogue and interaction with management.

In line with the practice of the Company, in respect of each matter to be considered at the annual general meetings and extraordinary general meetings, including the re-election of directors, a separate resolution will be proposed by the Chairman.

An annual general meeting of the Company was held on 19 June 2025 at which the Chairman of the Board and the chairman of each of the Audit Committee, Remuneration Committee and Nomination Committee attended the meeting either in person or by way of telephone conference to answer questions raised by the shareholders at the meeting in accordance with code provision F.1.3 as contained in Part 2 of the CG Code.

The Chairman of the Board, the chairman of each the Audit Committee, Remuneration Committee and Nomination Committee, or in their absence, another member of the relevant committee or an appointed representative, will attend the forthcoming annual general meeting of the Company to answer questions of shareholders.

Pursuant to code provision F.1.3 as contained in Part 2 of the CG Code, the Company will invite representatives of the external auditor to attend the forthcoming annual general meeting of the Company to answer shareholders' questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

At the annual general meeting held on 19 June 2025, the Chairman of the Board provided an explanation of the procedures for conducting a poll at the commencement of the meeting. Poll results were posted on the website of the Stock Exchange and the website of the Company on the day of the holding of the shareholders' meeting.

Corporate Governance Report (Cont'd)

G. SHAREHOLDERS' RIGHT

G.1 Shareholders' right to convene extraordinary general meetings

Pursuant to Article 64 of the Articles of Association of the Company, extraordinary general meetings of the Company shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business or resolution specified in such requisition. Such meeting shall be held within 2 months after deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

G.2 Procedures for putting forward proposals at shareholders' meetings

To put forward proposals at a general meeting of the Company, a shareholder should lodge a written notice of his/her/its proposal with his/her/its detailed contact information to the principal place of business of the Company in Hong Kong. The identity of the shareholder and his/her/its request will be verified with the Company's branch share registrar in Hong Kong and upon confirmation by the branch share registrar that the request is proper and in order and made by a shareholder, the Board will determine in its sole discretion whether the proposal may be included in the agenda for the general meeting.

The Company also adopted a set of guidelines on procedures for shareholders to propose a person for election as a director of the Company on 25 April 2012 (which was amended and restated on 20 December 2024) which is available on the website of the Company.

G.3 Shareholders' enquiries

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available and the Company has an investor relationship personnel to attend to enquiries from the shareholders. Details of the contact person are set out below:

Name	:	The Company Secretary
Telephone	:	2516 6918
Email	:	xce@xinchenpower.com

Shareholders may also make enquiries with the Board at the general meetings of the Company and/or by sending them to the Company's principal place of business in Hong Kong and addressing to the Board.

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's branch share registrar.

H. INVESTOR RELATIONS

H.1 Constitutional documents

Pursuant to a special resolution of the shareholders of the Company passed on 19 June 2023, the second amended and restated memorandum and articles of association of the Company were adopted with effect from 19 June 2023. During the year ended 31 December 2025, there was no change in the memorandum and articles of association of the Company.

The second amended and restated memorandum and articles of association of the Company are available on the website of the Stock Exchange and the website of the Company.

Corporate Governance Report (Cont'd)

H.2 Shareholders' communication policy

The Company adopted a shareholders' communication policy on 25 April 2012 (which was amended and restated on 19 June 2025 and effective from 1 July 2025) which is available on the website of the Company. To promote effective communication with shareholders of the Company, the Company adopts this policy with the objectives to ensure that the Company provides timely, clear and reliable information to the shareholders of the Company to allow them to make informed decisions and assessment of the performance and prospect of the Company, and that views of the shareholders of the Company are communicated to the Company in assistance to the Company's development of appropriate strategies and measures in line with the interests of the shareholders of the Company.

The Board shall be responsible for maintaining effective communication with the shareholders of the Company and shall regularly review this policy to ensure its effectiveness. The Board concluded that such communication policy was effective during the year ended 31 December 2025 because no negative feedback has been received.

I. DIVIDENDS

On 25 March 2019, the Board approved and adopted a dividend policy (the "**Dividend Policy**").

According to the Dividend Policy, the declaration, payment and amount of dividends will be subject to the discretion of the Board with reference to the following factors:

- (a) the operating and financial results of the Group;
- (b) the Group's cash flow position;
- (c) the Group's liquidity position;
- (d) the Group's business conditions and strategies;
- (e) the retained earnings and distributable reserves of the Company;
- (f) the capital requirements and expenditure plans;
- (g) the future prospects, operations and earnings of the Group;
- (h) the interests of the shareholders of the Company; and
- (i) other factors that the Board deems relevant and appropriate.

Any declaration and payment of the dividend by the Company is also subject to any restrictions under the Companies Act (Revised) of the Cayman Islands, any other applicable laws, rules and regulations and the Articles of Association of the Company.

Any declaration and payment of future dividends under the Dividend Policy are subject to the Board's determination that it is in best interests of the Group and the shareholders of the Company as a whole. The Board will review the Dividend Policy from time to time and may exercise at its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time as it deems fit and necessary. There is no assurance that dividends will be paid in any particular amount for any given period.

Environmental, Social and Governance Report

The Group is one of the leading automotive engine manufacturers in the indigenous branded passenger vehicle and light duty commercial vehicle engine market in the PRC. This environmental, social and governance (“ESG”) report (“ESG Report”) covers the Group’s principal operations in the PRC, namely the development, manufacturing and sale of light duty gasoline and diesel engines that are used by domestic passenger vehicle and light duty commercial vehicle manufacturers, and the manufacture and sale of core engine parts and components for domestic passenger vehicles. There was no change in the entities covered by this ESG Report from the ESG report for the year ended 31 December 2024.

This ESG Report covers the period from 1 January 2025 to 31 December 2025. The Group fosters sustainable growth by fulfilling its corporate governance, environmental and social responsibilities. This ESG Report has been reviewed by the Board. For information on corporate governance, please refer to the Corporate Governance Report in this annual report.

The Board has overall responsibility for the Group’s sustainable business development through ESG strategy. The Board regularly reviews and approves the Group’s goals by incorporating the ESG-related social responsibilities and corporate governance issues in the pursuit of business development, and puts forward suggestions for improvement.

As a responsible corporation, the Group is committed to maintaining the highest environmental and social standards to ensure the sustainable development of its business. During the year, the Group has endeavoured to manage, monitor, and make recommendations and report on environmental and social aspects.

The Group has complied with all relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment and the environment. The Group understands a better future depends on everyone’s participation and contribution. Towards that end, it has encouraged employees, customers, suppliers and other stakeholders to participate in environmental and social activities which benefit the community as a whole.

The Group maintains strong relationships with its employees, has enhanced cooperation with its suppliers and has provided high quality products and services to its customers so as to ensure sustainable development.

Reporting Principles

This ESG Report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the “ESG Guide”) as set out in Appendix C2 to the Listing Rules. The preparation of this ESG Report has applied the following principles:

Materiality: In accordance with principles and requirements of the ESG Guide, the Group has identified and selected the ESG factors that are highly relevant. The Group’s management and staff in major functions are involved in the preparation of this ESG Report, so as to assist the Group in reviewing its operations, identifying the relevant ESG factors, and assessing the materiality of those factors to our business and stakeholders by communicating with various stakeholders and enabling them to provide their opinion on the ESG factors of the Group.

Quantitative: The Group monitors regularly statistics on the quantitative key performance indicators (“KPIs”) as stated in the ESG Guide, summarises and discloses them at the end of the year. Information on the standards, its methodologies and assumptions, calculation tools used and sources of conversion factors used have been disclosed in respective sections of this ESG Report when applicable.

Balance: All data disclosed in this ESG Report shall be unbiased. There will not be any misleading presentation format, selection and omission that may inappropriately influence the decision or judgment by stakeholders.

Consistency: Consistent statistical methodologies and presentation of KPIs have been used to allow meaningful comparisons of related data over time.

Environmental, Social and Governance Report (Cont'd)

A. ENVIRONMENTAL

A1 Emissions

Being a mechanical manufacturing corporation, the Group enhances the management of its emissions to mitigate the impacts of its operations on the environment in strict compliance with environmental protection laws and regulations, such as the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Air Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國大氣污染防治法》), the Water Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國水污染防治法》) and the Law of the People's Republic of China on the Prevention and Control of Solid Waste (《中華人民共和國固體廢物防治法》). In 2025, the types of emissions of the Group were as follows:

- Atmospheric: industrial emissions and cooking fumes, the major pollutants of which are mainly nitrogen oxide (NO_x), sulphur dioxide (SO₂) and non-methane hydrocarbons (C₂-C₈) and other pollutants.
- Water: effluents from production activities and domestic sewage, the major pollutants of which are chemical oxygen demand by dichromate (COD_{Cr}), suspended solids (SS), grease, ammoniacal nitrogen (NH₃-N) and other pollutants.
- Solid waste: solid waste (non-hazardous) including non-metal scrap, used packaging materials and domestic waste; and dangerous waste (hazardous) including oil-stained cloth, oil sludge, used mineral oil, used containers, effluents containing mineral oils and generated by sewage treatment plants, and liquid waste generated by online monitoring and aluminium waste.

(I) Mitigate air emissions and effluents

Measures to mitigate air emissions and effluents implemented by the Group in 2025 were as follows:

- Atmospheric emissions were dispersed at higher altitudes using chimney after being treated by mechanical ventilators, dust collectors and fume filters, and fume treatment devices and an online monitoring system were installed, so as to comply with the requirements of environmental protection standards.
- Effluent from production activities was treated in the Group's sewage treatment station before being discharged to the municipal sewer systems so as to meet the required environmental protection standards in terms of COD_{Cr}, SS and other key pollutant treatment indicators.
- Domestic sewage was treated in the sewage treatment facilities of the plants before being discharged into the municipal sewer systems so as to meet level-3 standards under the Integrated Wastewater Discharge Standard (《污水綜合排放標準》) (GB 8978-1996).

(II) Waste treatment

The Group implemented the following measures to further strengthen waste treatment management in 2025:

- Solid waste (non-hazardous) was separated and collected throughout the production processes before being disposed of by local environmental and hygiene bureaus.
- Dangerous waste (hazardous) was disposed of by qualified professional waste disposal companies in strict compliance with the requirements of environmental protection regulations after Reporting to local environmental protection bureaus.

Environmental, Social and Governance Report (Cont'd)

KPIs	Descriptions	What to Report
A1.1	The types of emissions and respective emissions data.	<p>The Group's equipment was mainly powered by electricity with no gaseous fuel consumption.</p> <p>The Group had 3 official vehicles. In 2025, their emissions (in kg) were:</p> <ul style="list-style-type: none"> nitrogen oxides (NO_x): 180 sulphur dioxide (SO₂): 30 particulate matter: 13.5
A1.2	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	<p>Total hazardous waste produced: 52.296 tonnes</p> <p>Per unit data: 0.003 tonne produced per unit of production volume</p>
A1.3	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	<p>Total non-hazardous waste produced: 420.71 tonnes</p> <p>Per unit data: 0.02 tonne produced per unit of production volume</p>
A1.4	Description of emissions target(s) set and steps taken to achieve them.	<p>The Group's emissions target is that the pollutants, such as atmospheric emissions, Effluent, noise, etc. meet the requirements under national environmental protection standards.</p> <p>Major steps taken to mitigate emissions in 2025:</p> <ul style="list-style-type: none"> Atmospheric emissions were dispersed at higher altitudes using chimney after being treated by mechanical ventilators, dust collectors and fume filters. After the treatment, 95% of pollutants such as dust and non-methane total hydrocarbon are removed, bringing the emissions up to the required environmental protection standards.

Environmental, Social and Governance Report (Cont'd)

KPIs	Descriptions	What to Report
A1.5	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	<ul style="list-style-type: none"> • Effluent from production activities was treated in the Group's sewage treatment station before being discharged to the municipal sewer systems so as to meet the required environmental protection standards in terms of CODcr, SS and other key pollutant treatment indicators (concentration after the treatment was approximately 200/100 mg/L, which was far below 500/400 mg/L as required by the Integrated Wastewater Discharge Standard (《污水綜合排放標準》) (GB 8978-1996)). • Domestic sewage was treated in the sewage treatment facilities of the plants (CODcr concentration after the treatment was lower than 200 mg/L) before being discharged into the municipal sewer systems so as to meet level-3 standards under the Integrated Wastewater Discharge Standard (《污水綜合排放標準》) (GB 8978-1996). <p>The Group's target of disposal of hazardous and non-hazardous wastes is to recycle as much as possible and dispose of the remainder in strict compliance with the requirements under environmental protection laws and regulations in order to reduce waste.</p> <p>In 2025, the Group's hazardous and non-hazardous wastes were handled as below:</p> <ul style="list-style-type: none"> • 100% of hazardous waste was disposed of by qualified handling companies approved by environmental protection departments. • Non-hazardous waste was reused to the extent that direct internal reuse is possible, and then collected, recycled and disposed of by environmental and hygiene departments when reuse is not possible. The recycling rate based on the volume generated was 100%. <p>In 2025, the treatment rate of hazardous waste was 100% with no misplacement, leakage, dispersal or other accidents. As to valuable non-hazardous waste, the recycling rate based on the volume generated was 100%.</p>

Environmental, Social and Governance Report (Cont'd)

A2 Use of Resources

The Group attaches great importance to the use of resources, and has formulated a number of documents including the Packaging Standards and Design Control Procedures (《包裝規範與設計控制程序》) and the Delivery Control Procedures (《交付控制程序》) and issued the Hints for Use of Office Air-conditioning (《辦公場所空調使用的溫馨提示》) and the Workplace Protocols (《文明辦公要求的通知》). Staff is encouraged to use resources efficiently in order to avoid wastage.

(I) Energy use efficiency

In 2025, the Group's energy use efficiency in production activities was enhanced through the following initiatives:

- Capitalising on Sichuan's preferential electricity use policies to reduce electricity cost by reasonably arranging production during rainy seasons.
- Energy-saving transformers were used to minimise wear and tear and ensure safe operation.
- LED energy-saving lighting was widely used in office buildings.
- Heating and cooling systems will only be turned on when it is below 18 °C during winter and over 25 °C during summer, respectively, and will be turned off 5 minutes before the closure of the relevant offices or workshops.
- Extended idling of office equipment was prohibited.

(II) Water use efficiency

The Group stresses water recycling in its production activities. Recycled water is used in the cooling systems of laboratories and testing workshops to reduce fresh water consumption and save water. Collected rainwater and river water instead of tap water are used for greening and irrigation.

KPIs	Descriptions	What to Report
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Electricity consumption in total: 11,190,579 kW Energy consumption intensity: 717.81 kW per unit of production volume
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Water consumption in total: 129,908 tonnes Water consumption intensity: 7.32 tonnes per unit of production volume

Environmental, Social and Governance Report (Cont'd)

KPIs	Descriptions	What to Report
A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	<p>In 2025, the Group's target of energy use efficiency is to reduce electricity consumption by 5% year-on-year. The major steps taken were as follows:</p> <ul style="list-style-type: none"> • Capitalising on Sichuan's preferential electricity use policies by reasonably arranging production during rainy seasons. • LED energy-saving lighting was widely used in office buildings. • Heating and cooling systems will only be turned on when it is below 18 ℃ during winter and over 25 ℃ during summer, respectively, and will be turned off 5 minutes before the closure of the relevant offices or workshops. • Extended idling of office equipment was prohibited.
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	<p>There was no issue in sourcing water as all water comes from fresh water supply systems of industrial parks.</p> <p>In 2025, the target of water efficiency is to reduce water consumption while meeting production and operation requirements. The major steps taken were as follows:</p> <ul style="list-style-type: none"> • Water consumption was effectively reduced by reusing water from cooling towers in engine testing and casting workshops. • Water consumption was reduced by using collected rainwater and river water instead of tap water for greening and irrigation.
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	<p>The three major types of packaging materials used by the Group are steel, paper and wood, and plastic. If customers do not have special requests, we deliver our products by steel frames, which are recovered and reused after delivery. In other cases, we deliver our products in wooden boxes, cartons and plastic wrapping film.</p> <p>Total packaging material used for finished products: 177.34 tonnes</p> <p>Material used per unit produced: 0.01 tonne</p>

Environmental, Social and Governance Report (Cont'd)

A3 The Environment and Natural Resources

The Group advocates environmental protection and energy-saving amongst its staff. Actions taken to mitigate any substantial impacts on the environment and natural resources are as follows:

- Email, intranet and centralised printing systems are used to reduce the use of paper.
- Paperless quality inspection reports and electronic filing systems are adopted, and all documents of which the hard copy is required must be printed on both sides in order to reduce the use of paper.
- Corporate shuttle buses take the staff members to and from work collectively to reduce vehicle exhaust fumes.
- Office lighting is minimised by using natural light and turning off lights when the last person leaves the offices.

KPIs	Descriptions	What to Report
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	<p>The Group endeavours to minimise its impact on the environment in its production, manufacturing and technical modification processes. As the manufacturing operation requires the use of natural resources, public facilities and materials, we advocate sustainable improvement of the environment in its product design and production. We persistently improve our products in order to reduce their impact on the environment. Products produced and sold by us comply with national emissions and fuel consumption regulations for vehicles.</p> <p>Major actions taken in 2025:</p> <ul style="list-style-type: none"> • Replacing paper packaging and wooden pallets with reusable metal frames and conserving and recycling more paper to minimise the direct/indirect use of wood and thus indirectly reducing carbon emissions. • Engaging the suppliers to decontaminate and dispose of oilstained sodium salt of carboxymethyl ether of cellulose after grease removal treatment, and reusing the removed grease in the equipment after filtration to produce less hazardous waste, conserve more energy consumed by the suppliers during the disposal process, and directly/indirectly reduce total emissions to the environment and energy consumed during the disposal process.

Environmental, Social and Governance Report (Cont'd)

KPIs	Descriptions	What to Report
		<ul style="list-style-type: none">• Using natural ventilation instead of air-conditioning at offices during summer to reduce energy consumption.• Adopting paperless quality inspection reports and electronic filing systems, and printing all documents of which the hard copy is required on both sides in order to reduce the use of paper.• Using less corporate cars and more public transport.• Using collected rainwater and river water instead of tap water for greening and irrigation.• Turning on heating and cooling systems only when it is below 18 °C during winter and over 25 °C during summer, respectively, and turning them off 5 minutes before the closure of the relevant offices or workshops. Turning off lights before leaving the offices.

B. SOCIAL

Employment and Labour Practices

B1 Employment

(I) Working environment

The Group creates a harmonious and comfortable working environment with 5S (i.e. sort (SEIRI), set in order (SEITON), shine (SEISO), standardise (SETKETSU) and sustain (SHIT-SUK)) and visual management methods. It also provides dormitories, canteens, gym halls, basketball courts and reading rooms to the staff so as to promote work-life balance and mental and physical well-being.

Team-building is fostered to boost collaboration amongst the staff. Performance-based appraisals and open communication channels are maintained for the staff to express their career expectations as well as their opinions on and suggestions for the Group. Four types of career paths have been established to provide the staff with a platform for diverse development. Through a fair working environment, it aims to motivate its staff to work and contribute proactively with passion so as to facilitate the Group's development.

(II) Employment system

The Group has an open, fair and equitable staff recruitment system in place to maximise its human resources by matching employees with positions according to their capability for them to realise their full potential.

Newly-recruited employees must participate in safety, environmental protection, occupational health and other legal training in strict compliance with national, provincial and municipal regulations such as the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》).

Environmental, Social and Governance Report (Cont'd)

The Group has prepared the Guiding Handbook for Human Resources Management (《人力資源管理指導手冊》) and the Staff Handbook (《員工手冊》) that incorporate several rules and systems, such as the Measures for the Administration of Labour Contracts (《勞動合同管理辦法》), the Measures for the Administration of Staff Working Hours (《員工工作時間管理辦法》), the Measures for the Administration of Termination of Employment (《員工離職管理辦法》), the Measures for the Administration of Staff Training (《員工培訓管理辦法》), the Measures for the Administration of Performance (《績效管理辦法》), the Measures for the Administration of Staff Remuneration (《員工薪酬管理辦法》), the Management System for Career Paths (《職業發展信道管理制度》) and the Management System for Work Uniforms (《工作服管理制度》), which cover various aspects of employment that are closely related to the interests of the employees, including, amongst other matters, compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare, to ensure the stringent implementation and execution of the relevant regulations.

The Group conducts annual staff satisfaction survey with the view to constantly boosting staff's satisfaction in terms of working environment, remuneration and benefits.

KPIs	Descriptions	What to Report
B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	At the end of 2025, the number of full-time staff was 957, of which 831 were male and 126 were female. 150 aged 30 or below, 369 aged 31 to 40, 198 aged 41 to 50 and 240 aged 51 or above. 493 were located in Mianyang, 460 were located in Shenyang and 4 were located in Hong Kong.
B1.2	Employee turnover rate by gender, age group and geographical region.	At the end of 2025, the turnover rates for male and female staff were 1% and 0%, respectively. Turnover rates were 0.5% for the age group of 40 or below and 1% for the age group of 40 or above. Turnover rates for staff in Mianyang, Shenyang and Hong Kong were 1.2%, 0.8% and 0% respectively.

B2 Health and Safety

The Group strives to reduce health and safety risks by persistently improving the working environment in strict compliance with health and safety laws and regulations, such as the Production Safety Law of the People's Republic of China (《中華人民共和國安全生產法》) and the Prevention and Control of Occupational Diseases Law of the People's Republic of China (《中華人民共和國職業病防治法》).

The Group adopted a people-oriented approach in respect of occupational health and safety in accordance with the safety-first, prevention-focused, comprehensive management and prevention-and-management-integrated national occupational health and safety guidelines.

The Group believes that the number of work accidents and occupational diseases can be effectively reduced by constantly perfecting the relevant occupational health and safety management rules as well as offering a relatively safe and comfortable workplace and relevant training to the staff.

Environmental, Social and Governance Report (Cont'd)

KPIs	Descriptions	What to Report
B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	With sustained effort, the Group successfully achieved its annual occupational health and safety goals of zero critical workplace injury and zero occupational disease in the past three years including 2025.
B2.2	Lost days due to work injury.	There were 0 lost days due to work injury in 2025.
B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	In 2025, the Group conducted occupational health checkup for staff members who are exposed to occupational hazards. Staff members showing certain contraindications according to the checkup were re-examined and re-designated to other positions in a timely manner in order to prevent occupational diseases. It aims to mitigate corporate occupational health risk, safeguard the well-being of the entire staff, and promote their career development.

B3 Development and Training

In 2025, the Group further strengthened its training system, organised group training for different departments, refined its staff orientation procedures and training materials, and renewed the contents of the programmes and number of training hours.

The Group enhanced the performance of its staff by focusing on core operational training such as research and development, quality control, production, manufacturing and cost control according to its development directions and strategic goals. During the year, all staff members attended some sort of training and a total of 96 training sessions were conducted with 5,800 participants. Regular staff training topics included but were not limited to management excellence enhancement training for middle and senior officers, induction, IATF 16949 quality system standards and audit skills, legal risk prevention and control ability, safety, occupational health and environmental protection, tax management and planning in a new tax environment, tax arrangement, calculation, settlement and payment, physical and chemical measurements, and special operation practices.

KPIs	Descriptions	What to Report
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	In 2025, 88% of the participating staff was male and 12% was female. Top management, middle officers and other staff members accounted for 15%, 23% and 62% of the participating staff, respectively.
B3.2	The average training hours completed per employee by gender and employee category.	The training hours completed in 2025 were 30 for both male and female staff. Top management, middle officers and other staff members received 60, 42 and 38 hours of training, respectively.

Environmental, Social and Governance Report (Cont'd)

B4 Labour Standards

To establish a customer-friendly, open, transparent, responsible and innovative corporation, the Group makes concerted efforts to prohibit the use of child and forced labour and create a harmonious, safe and healthy working environment with its staff based on the principles of fairness, equity and mutual respect in strict compliance with the Labour Law of the People's Republic of China (《中華人民共和國勞動法》), the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and other relevant laws and regulations.

KPIs	Descriptions	What to Report
B4.1	Description of measures to review employment practices to avoid child and forced labour.	The Group formulated and implements the Recruitment Management Methods (《招聘管理辦法》) which stipulates the prohibition of child and forced labour. During the recruitment process, the Group verifies the particulars of all candidates and participates in legitimate job fairs, so as to strictly forbid child and forced labour.
B4.2	Description of steps taken to eliminate such practices when discovered.	Any irregularity, if identified, will be immediately stopped and handled in accordance with the Labour Law of the People's Republic of China (《中華人民共和國勞動法》), the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and relevant laws and regulations.

Operating Practices

B5 Supply chain management

The Group has established a standardized procurement and supplier management system, and formulated and implemented the Procurement Control Procedures (《採購控制程序》) to achieve closed-loop management of the entire procurement process and the entire supplier lifecycle. The procurement center uses sales forecast data, production scheduling plans, and real-time inventory status as core bases to formulate accurate and suitable procurement execution plans. Through a multi-dimensional comprehensive evaluation model, it systematically assesses the technological development capabilities, process and equipment level, production process design, quality control capabilities, and the reasonableness of commercial terms of potential and existing suppliers, selecting the best suppliers for cooperation. To verify the compliance and effectiveness of suppliers' quality, safety, and environmental management capabilities, the Group uses the Supplier APQP Management Procedures (《供貨商APQP管理流程》), the Supplier Quality Issue Resolution Management Procedures (《供貨商質量問題解決管理流程》), the Measures for the Administration of Supplier PPAP Audit and Production Capacity Assessment (《供貨商PPAP審核及產能評估管理辦法》) and the On-site Supplier Audit Management Procedures (《供貨商現場審核管理流程》) as the basis for implementation. The Group formulates an annual on-site audit plan and conducts on-site audits, capability verifications, and problem rectification tracking of suppliers according to standardized procedures each year. The supply chain is a core component of the Group's sustainable operation. The Group incorporates supply chain risk management and green procurement into its routine management, and builds a compliant, low-carbon, and resilient supply chain system. All supplier management activities are strictly implemented and controlled in accordance with the Supplier Management Procedures (《供方管理程序》).

Environmental, Social and Governance Report (Cont'd)

In 2025, the Group's supply chain management team had an approved staff of 22, forming a hierarchical organizational structure: 2 management positions, responsible for overall decision-making and team management; and 20 execution positions, specifically responsible for business implementation, including 6 cost (original price) management positions, 10 procurement execution positions, and 4 indirect procurement positions. The Group has institutionalized the authority and responsibilities and detailed duties of the supply chain management team through standardized Departmental Functions (《部門職能》) and Position Descriptions (《崗位說明書》). The core scope of responsibilities includes identification and selection of direct and indirect material suppliers, the execution of cooperation legal documents, the management of the delivery by and performance of suppliers, and the full lifecycle management of suppliers.

KPIs	Descriptions	What to Report
B5.1	Number of suppliers by geographical region.	In 2025, the Group had 201 suppliers, of which 62 were located in eastern China, 41 in northern and northeast China, 55 in Sichuan and Chongqing, 25 in central China and 18 in southern China.
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	The Group formulated and implements the Supplier Engagement and Management Procedures (《供方引入及管理程序》) to engage suppliers through tendering. The existing 201 suppliers were all engaged according to established procedures, which strictly require suppliers to meet the standards under ISO 9000 or IATF 16949 quality systems. All selected suppliers are monitored and appraised under the Group's Measures for Comprehensive Management and Appraisal of Suppliers (《供方綜合管理考評辦法》). Audit plans are drawn up on an annual basis and on-site audits are carried out according to the Group's On-site Supplier Audit Management Procedures (《供貨商現場審核管理流程》). Suppliers are required to rectify any issue raised during the on-site audit and the Group will follow up the rectification in accordance with established procedures.
B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	For the selection of suppliers, the Group has formulated and implemented the Component Suppliers' Full Lifecycle Management Measures (《零部件供應商全生命週期管理辦法》), and conducts joint evaluations with departments such as the procurement center, quality department, and product development department to ensure that suppliers have the ability to continuously meet the Group's needs.

Environmental, Social and Governance Report (Cont'd)

KPIs	Descriptions	What to Report
B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	<p>The Group has also formulated and implemented the On-site Supplier Audit Management Procedures (《供貨商現場審核管理流程》) and the Supplier Management Procedures (《供方管理程序》) for quality assurance, technical and other relevant departments to identify environmental and social risks in each part of the supply chain during on-site audits after selecting the suppliers. At the same time, the procurement centre conducts monthly supplier assessments. Going for ward, it will focus on assessing the environmental and social risks of the suppliers so as to implement the Group's green procurement practices.</p> <p>The Group provides anti-corruption training for the suppliers by ways of meetings, on-site audits and mails in order to communicate the Group's anti-corruption requirements.</p> <p>Upon being selected, suppliers sign the Component Development Contract(《零部件開發合同》) and the Supply Contract (《供貨合同》), which require that:</p> <ul style="list-style-type: none"> • A vendor shall establish and maintain a certified environmental management system in accordance with the requirements under ISO 14001 or other environmental management system derived from or approved or certified by ISO 14001. • The purpose of a purchaser and a vendor shall be in line with the approaches under the United Nations Global Compact (Davos, 01/99) and the principals and rights proposed by the International Labour Organisation (ILO) in the Declaration on Fundamental Principles and Rights at Work (Geneva, 06/98). Suppliers are required to ensure the compliance with such social responsibility commitments by all of their sub-contractors.

Environmental, Social and Governance Report (Cont'd)

B6 Product Responsibility

The Group lays stress on product quality and production responsibility. It has established a quality assurance management system that covers the whole operation (including raw material procurement, product design, manufacturing, advertising, labelling, privacy, after-sale services and quality control), an assessment management system and laboratory management standards, and strengthened its testing systems, and persistently studies and minimises its environmental impacts, in order to always provide its customers with products that are in strict compliance with national and industrial standards, government policies and regulations such as the Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》), the Law of the People's Republic of China on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》), the Provisions on Repairing, Replacing & Returning Liabilities of Family Car Products (《家用汽車產品修理、更換、退貨責任規定》) and the Regulations on the Administration of Recall of Defective Auto Products (《缺陷汽車產品召回管理條例》), as well as prohibited substances, emission and fuel consumption standards such as Requirements for Prohibited Substances on Automobiles (GB/T 30512-2014), Limits and Measurement Methods for Emissions from Light-duty Vehicles (CHINA 5) (GB 18352.5-2013), Fuel Consumption Limits for Heavy-duty Commercial Vehicles (GB 30510-2014), Fuel Consumption Evaluation Methods and Targets for Passenger Cars (GB 27999-2014), and Limits and Measurement Methods for Emissions from Light-duty Vehicles (CHINA 6) (GB 18352.6-2016).

To reach higher standards, the Group has extended its product service coverage across the nation and even overseas so that timely and effective measures can be taken when its product is out of order. The Group collects and analyses customers' feedbacks on the experience and quality of the products in a timely manner so as to take preventive measures and constantly increase the reliability and satisfaction, while lowering the failure rates, of its products.

KPIs	Descriptions	What to Report
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	In 2025, 0% of the total products sold or shipped by the Group was subject to recalls for safety and health reasons.
B6.2	Number of products and service related complaints received and how they are dealt with.	In 2025, no products and service related complaints were received. Corresponding plans for handling complaints have been formulated. The Group will respond to complaints inside and outside the province within 4 hours and 24 hours, respectively. The Group serves nearly 1,000 after-sales service stations (including customer service stations designated by car manufacturers) and 10 accessories distributors. The After-Sales Service Department employs expert technicians to provide advice to customers and training to the after-sales service stations. It has also set certain emergency maintenance quality standards, including technical triage and failure elimination, to meet customers' and users' demand for on-site services.
B6.3	Description of practices relating to observing and protecting intellectual property rights.	In relation to counterfeit Xincheng Power accessories in the market, two methods will be adopted to observe and protect intellectual property rights: (1) after-sales specialists will visit accessory markets across the PRC and enhance the awareness of distributors of accessories of distinguishing genuine and counterfeit products; (2) the Group will partner with distributors to investigate and take legal actions against infringement of Xincheng Power's trademark, sale of counterfeit and inferior goods and defending rights.

Environmental, Social and Governance Report (Cont'd)

KPIs	Descriptions	What to Report
B6.4	Description of quality assurance process and recall procedures.	<p>The Group formulated and implements the Inspection and Testing Control Procedures (《檢驗和試驗控制程序》). Samples of raw and auxiliary materials are taken and tested in accordance with product drawings, inspection guidelines on purchased materials and relevant standards by the Quality Assurance Department pursuant to inspection control plans. Production processes are inspected by the Quality Assurance Department and workshops according to the inspection guidelines.</p> <p>The Group formulated and implements the Management Procedures for Non-conforming Products (《不合格品管理程序》). In case of any defects found in an engine, the engine number and locations will be the first to be identified. The engine in question will then be locked and moved to a separate area for repair/testing. Repaired engines will be unlocked and transported to a different place for storage.</p>
B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	<p>The commercial contracts entered into with service plants contain binding provisions in relation to the protection of consumer data. Abnormalities and consumers' complaints are reviewed by the Group and the service plants regularly. Corrective measures will be formulated and remedies will be taken in a timely manner in case of performance issues.</p>

B7 Anti-corruption

The Group's disciplinary and supervision department regularly conducts self-evaluations and implements improvements over its key aspects and activities such as construction work management, project investment, procurement of supplies, invitation and provision of tenders, utilization of substantial funds together with the audit, financial and compliance departments. They identify risk factors, evaluate risk level, formulate prevention and control measures, establish databases, and refine the systems and procedures against corruption. To promote party rules and anti-corruption culture as well as define relevant liabilities across the Group, it has implemented dual responsibilities for each position, defined the substance of the responsibilities, established assessment systems for such responsibilities and laid out the liabilities of breaches. Meetings for the promotion of Chinese Communist Party's rules and anti-corruption culture, comprehensive party committee standing order, leader management system and the management systems for the "Three Key and One Substantial (三重一大)" matters were established and refined. Whistle-blowing procedures were clarified and disciplinary review systems were reinforced to monitor the conducts and actions of the staff during daily operations and prevent bribery, extortion, fraud and money-laundering. As at the date of this report, the Group was not aware of any legal case regarding corrupt practices brought against the Group or its employees.

Environmental, Social and Governance Report (Cont'd)

KPIs	Descriptions	What to Report
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	No legal case regarding corrupt practices was brought against the Group or its employees in 2025.
B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	<p>The Group has put in place and perfect its interview system for the promotion of party rules and anti-corruption culture, the Rules of Procedures of the Party Committee and the management system for decision-making of “Three Key and One Substantial (三重一大)” matters. The Group has also formulated the List of Performing the Subject Entity’s Responsibility to Comprehensively Manage the Party in Strict Governance by the Party Committee (《黨委履行全面從嚴治黨主體責任清單》), and signed 34 responsibility letters for the promotion of party rules and anti-corruption culture at all levels, clarifying the subject entity responsibility of the Party Committee, the supervision responsibility of the Discipline Inspection Committee, and the dual responsibilities of leaders and cadres. Team members of the Party Committee conducted 76 integrity talks, achieving full coverage of key positions.</p> <p>Reminders and notices on clean operation are issued during major festivals and holidays and important occasions every year. Hotlines, mailboxes and email addresses are set up for whistle-blowing and the reports and tips received will be verified and investigated.</p>
B7.3	Description of anti-corruption training provided to directors and staff.	<p>Viewing of warning educational films was organised, ensuring the regularity of party discipline learning and education. A special learning plan was formulated, incorporating the Regulations on Disciplinary Actions by the Chinese Communist Party (《中國共產黨紀律處分條例》) into the compulsory courses for party members. 12 learning and education sessions were conducted through methods such as group study sessions, online micro-courses, and knowledge tests. 3 tests were conducted for all members, achieving a 100% participation rate, significantly enhancing party members’ awareness of discipline.</p> <p>Following the Third and Fourth Plenary Sessions of the 20th CPC Central Committee, a lecture team was quickly formed to conduct special interpretations and organise activities to bring the spirit of the Plenary Sessions into party branches. Party members, leaders and cadres were sent to grassroots levels to give lectures, promoting a deep understanding among party members and cadres of the practical requirements of further comprehensively deepening reform and advancing Chinese-style modernization, and transforming the learning outcomes into practical work results.</p>

Environmental, Social and Governance Report (Cont'd)

Community

B8 Community Investment

The Group values good social relationships with local communities and is therefore committed to its social responsibilities. It employs and offers a good working environment to local workers.

Individual employees and departments of the Group have raised funds for the Love Foundation (愛心基金) to support staff members in need. The labour union and senior staff union of the Group have established close support systems that document supports provided across the nation in order to offer regular support to employees in need according to their respective difficulties.

KPIs	Descriptions	What to Report
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	<p>In 2025, the Group's focus areas of contribution were as follows:</p> <ul style="list-style-type: none">• Establishment of the staff in need database and the Love Foundation (愛心基金) to timely support staff members in need.• A staff event to celebrate the International Women's Day, Mini Marathon, Joint Football Friendly Match, Summer Table Tennis Championships and choir competition organised by the labour union.• A care campaign held by the labour union to help the staff to prepare for hot weather.
B8.2	Resources contributed (e.g. money or time) to the focus area.	<p>In 2025, the resources contributed by the Group to the focus areas were as follow:</p> <ul style="list-style-type: none">• RMB68,800 for helping staff in need.• RMB7,000 for a staff event to celebrate the International Women's Day.• RMB3,500 and 2 hours for Mini Marathon.• RMB2,000 and 4 hours for Summer Table Tennis Championships.• RMB47,600 for a care campaign to help the staff to prepare for hot weather.• RMB4,000 for choir competition.

Environmental, Social and Governance Report (Cont'd)

C. CLIMATE

C1 Governance

The Board is responsible for reviewing and approving the Group's ESG strategies to ensure that the climate risk management framework is aligned with the Group's long-term strategic objectives. The Board regularly receives briefings from management on climate-related issues and monitors the corresponding measures on significant climate risks and the progress of achieving the targets.

The Group's Production Safety (Environmental Protection, Occupational Health) Committee comprises of internal expertise and is responsible for identifying, assessing, and managing climate-related risks and opportunities, and regularly reports to management on significant climate matters and monitors the progress to ensure that the Group's operations comply with relevant requirements.

C2 Strategies

C2.1 Climate-related risks and opportunities

The Group has identified climate-related risks and opportunities that may have a significant impact on the Group's business, strategy and financial planning in the short term (1 to 3 years), medium term (3 to 5 years) and long term (more than 5 years).

Type of risks	Description of risks/opportunities	Time frame	Impact on business and finance
Transition risk	Policies and Regulations: As China advances its "dual carbon" goals, the automotive industry (especially manufacturers of internal combustion engines and hybrid powertrains) faces stricter carbon emission standards and fuel consumption regulations.	Short to medium term	Increased research and development and compliance costs; failure to meet targets on time may result in fines or loss of market share.
Transition risk	Market: The penetration rate of new energy vehicles in China continues to rise, and consumer preferences are shifting towards new energy models at an accelerated pace, which may affect the long-term demand for traditional engine products.	Medium to long term	Revenue from core product lines may face downward pressure; it is necessary to accelerate the transformation of the product portfolio towards the new energy sector.
Physical risk	Acute Risk: Frequent extreme weather events (such as floods and typhoons) may cause operational disruptions to production bases and supply chains located in mainland China.	Short term	Production shutdowns, asset damage, and supply chain disruptions have led to revenue losses and increased maintenance costs.
Opportunities	Resource efficiency: Improve energy efficiency through production process optimization, equipment upgrades, and energy management.	Short to medium term	Reduce operating costs and enhance resilience to energy price fluctuations.
Opportunities	Products and Services: In line with the trend of new energy vehicles in the automotive industry, we develop powertrain solutions with high-efficiency and low-emission to meet the needs of original equipment manufacturers for green supply chains.	Medium to long term	Expand revenue streams, enhance customer loyalty, and improve market competitiveness.

Environmental, Social and Governance Report (Cont'd)

C2.2 Business model and value chain resilience

The Group has assessed the resilience of its business model under different climate scenarios. Regarding physical risk, the Group has established a business continuity plan to ensure the safe operation of its production facilities; regarding transition risk, the Group is gradually upgrading its product lines and exploring cooperation opportunities with new energy vehicle companies to reduce its reliance on traditional internal combustion engine products.

The Group has identified climate-related risks in the upstream supply chain (procurement of raw materials and components) and downstream (product usage stage), and will continue to push suppliers to conduct carbon audits to gradually improve the transparency and sustainability of the value chain.

C3 Risk Management

C3.1 Climate-related risk identification and assessment process

The Group identifies and assesses risks through the following methods:

Identification: Climate-related risks are identified through regulatory monitoring, industry benchmarking (referencing best practices in the automotive industry), and internal seminars.

Assessment: Risks are assessed based on two aspects, namely the likelihood of occurrence and degree of impact, while also considering operational and financial impacts.

Prioritization: Major climate risks are prioritized using a risk matrix in order to facilitate management measures.

C3.2 Incorporate into overall risk management

Identified climate risks are managed through the Group's internal controls and operations management system. Mitigation measures include:

- Implement energy-saving projects to reduce emissions intensity;
- Diversify the supplier base to reduce supply chain vulnerability;
- Incorporate climate considerations into capital expenditure decisions.

C4 Indicators and Targets

C4.1 Greenhouse gas emissions (Scope 1 and Scope 2)

The Group's greenhouse gas emissions data (Scope 1 and Scope 2) for the year ended 31 December 2025 are as follows:

Indicators	Unit	2025
Scope 1 emissions (direct emissions)	tCO ₂ e	254.69
Scope 2 emissions (indirect emissions)	tCO ₂ e	21,941.70
Total emissions	tCO ₂ e	22,196.39
Emissions intensity (calculated based on production volume/revenue)	tCO ₂ e/unit	0.1317

Note: Emission data are based on the Greenhouse Gas Protocol. Scope 2 emissions are calculated using the "location-based method".

Environmental, Social and Governance Report (Cont'd)

C4.2 Scope 3 emissions

Given that the collection of Scope 3 emissions data involves the entire value chain, and that the Group, as a non-large-cap Main Board issuer, is in the initial stages of climate information disclosure, Scope 3 emissions data has not been disclosed this year. In the future, the Group will gradually establish a data collection mechanism for Scope 3 emission by referencing industry best practices.

C4.3 Energy use and objectives

The Group is committed to improving energy efficiency. Total energy consumption and intensity for this year are as follows:

Indicator	Unit	2025
Direct energy consumption (natural gas, gasoline)	MWh	963.88
Indirect energy consumption (purchased electricity)	MWh	39,289.04
Total energy consumption	MWh	45,036.00
Energy consumption intensity	MWh/unit	0.2673

The Group has set a target to reduce the emission intensity of Scope 1 and Scope 2 by 15% by 2030, based on the 2025 baseline. This will be achieved through measures such as implementing energy-saving technological upgrades, and optimizing production scheduling.

C4.4 Internal carbon pricing and remuneration

- **Internal carbon pricing:** Currently, the Group does not widely apply internal carbon pricing in its internal investment decisions. We are studying industry best practices and assessing the feasibility of introducing internal carbon pricing in the future.
- **Remuneration-linked:** Climate-related performance (such as the achievement of energy conservation and consumption reduction targets) has been incorporated into the performance evaluation system of some business units and senior management of the Group to incentivize management to actively promote low-carbon transformation.

Independent Auditor's Report



Grant Thornton
致同

To the members of Xinchen China Power Holdings Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Xinchen China Power Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages 72 to 150, which comprise the consolidated statement of financial position as at 31 December 2025, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2025, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with HKFRS Accounting Standards as issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSAs”) as issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “Code”), as applicable to audits of financial statements of public interest entities. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report (Cont'd)

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

How the matter was addressed in our audit

Impairment assessment of property, plant and equipment, right-of-use assets, prepaid lease payments and intangible assets (“non-financial assets”)

We identified impairment assessment on non-financial assets as a key audit matter due to the significance of the balances to the consolidated financial statements as a whole and the involvement of subjective judgement and management estimates.

At 31 December 2025, the Group had property, plant and equipment of approximately RMB1,000,285,000, right-of-use assets of approximately RMB204,345,000, prepaid lease payments of approximately RMB105,332,000 and intangible assets of RMB502,421,000.

Management has assessed whether there were impairment indicators for the non-financial assets. Where indicators existed, the Group performed impairment assessments on these assets as at 31 December 2025 to determine the recoverable amount of each cash-generating unit (“CGU”) to which the assets belong, using a value-in-use calculation based on the valuations performed by an independent qualified professional valuer (the “Valuer”).

Based on the results of the assessment, it is concluded that no impairment was recognised for the year ended 31 December 2025.

Management's disclosures with regard to the estimation are set out in Note 4.6 to the consolidated financial statements whilst the disclosures in respect of the carrying values of property, plant and equipment, right-of-use assets, prepaid lease payments and intangible assets are set out in Note 16, Note 17, Note 18 and Note 20 to the consolidated financial statements, respectively.

Our audit procedures in relation to impairment assessment of the carrying values of property, plant and equipment, right-of-use assets, prepaid lease payments and intangible assets with impairment indicator included the following:

- discussed with management and obtained an understanding of management's impairment assessment process;
- evaluated management's identification of CGUs and the allocation of property, plant and equipment, right-of-use assets, prepaid lease payments and intangible assets to the corresponding CGUs;
- evaluated the competence, capabilities and objectivity of the Valuer and obtained an understanding of their scope of work and their terms of engagement;
- obtained and understood the valuation methodology used by the Valuer and evaluated the reasonableness of the related valuation results, with the assistance of our internal valuation expert; and
- assessed the reasonableness of key assumptions used in the cash flow forecast, including revenue growth rate and discount rate, based on our knowledge of the business and industry.

Independent Auditor's Report (Cont'd)

KEY AUDIT MATTERS (Cont'd)

Key audit matter

Expected credit losses ("ECL") on trade receivables and trade related amounts due from related companies (collectively referred to as "Trade-related-receivables")

We identified ECL on Trade-related-receivables as a key audit matter due to the significance of the balances to the consolidated financial statements as a whole and the involvement of subjective judgement and management estimates in evaluating the ECL of Trade-related-receivables at the end of the reporting period.

At 31 December 2025, the carrying amounts of trade receivables and trade related amounts due from related companies are RMB883,176,000 and RMB3,472,000, respectively, which represented approximately 22.9% and 0.1% of total assets of the Group.

As disclosed in Note 4.4 to the consolidated financial statements, management used provision matrix and individual assessment to calculate the ECL of Trade-related-receivables. The provision rates were based on the ageing for groupings of various debtors that had similar loss patterns, and took into consideration the historical recovery rates, probability of default by its customers and the forward-looking information, all of which involved a significant degree of management judgements.

As disclosed in Notes 24 and 25 to the consolidated financial statements, the Group recognises an impairment amount of RMB1,120,000 charged to profit or loss for Trade-related-receivables for the year ended 31 December 2025 and the Group's lifetime ECL on Trade-related-receivables as at 31 December 2025 amounted to RMB562,738,000.

How the matter was addressed in our audit

Our audit procedures in relation to the ECL on Trade-related-receivables included the following:

- obtained and understood the valuation methodology used by management and evaluated the reasonableness of the related valuation results, with the assistance of internal valuation expert;
- assessed on a sample basis of the correctness of the ageing analysis provided by management as at 31 December 2025; and
- assessed the reasonableness of judgement in determining the ECL based on historical credit loss records and with reference to other factors that have been taken into consideration by management.

Independent Auditor's Report ^(Cont'd)

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the 2025 annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRS Accounting Standards as issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors assisted by the Audit Committee are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report ^(Cont'd)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS ^(Cont'd)

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

Grant Thornton Hong Kong Limited

Certified Public Accountants

11th Floor,
Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong SAR

26 March 2026

Han Pui Yu

Practising Certificate No.: P07101

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2025

	<i>Notes</i>	2025 RMB'000	2024 RMB'000
Revenue	5	4,712,300	6,082,391
Cost of sales		(4,526,263)	(5,898,834)
Gross profit		186,037	183,557
Other income	6	64,077	50,813
Reversal of expected credit losses ("ECL"), net	7	1,828	94,482
Other gains and losses, net	8	238	(2,067)
Selling and distribution expenses		(24,640)	(25,119)
Administrative expenses		(113,152)	(157,605)
Finance costs	9	(38,018)	(47,749)
Other expenses		(24,886)	(33,781)
Share of loss of an associate	19	(22,077)	(20,153)
Profit before tax		29,407	42,378
Income tax expense	10	(9,250)	(4,207)
Profit for the year	11	20,157	38,171
Other comprehensive income:			
Item that may be reclassified subsequently to profit or loss:			
Fair value gain/(loss) on:			
Finance assets measured at fair value through other comprehensive income ("FVTOCI")	12	36	(36)
Total comprehensive income for the year		20,193	38,135
Earnings per share – Basic and diluted (<i>RMB</i>)	15	0.016	0.030

The notes on pages 78 to 150 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2025

	<i>Notes</i>	2025 RMB'000	2024 RMB'000
Non-current assets			
Property, plant and equipment	16	1,000,285	1,062,827
Right-of-use assets	17	204,345	307,075
Prepaid lease payments	18	105,332	109,453
Interest in an associate	19	249,646	271,723
Intangible assets	20	502,421	482,263
Deferred tax assets	21	6,140	8,535
Loan to a shareholder	22	9,915	6,125
		2,078,084	2,248,001
Current assets			
Inventories	23	436,947	479,583
Trade and other receivables	24(a)	1,022,247	2,528,579
Financial assets measured at FVTOCI	24(b)	-	12,159
Amounts due from related companies	25	3,497	22,395
Pledged bank deposits	26	40,988	101,422
Bank balances and cash	26	272,554	85,570
		1,776,233	3,229,708
Current liabilities			
Trade and other payables	27	461,254	566,350
Amounts due to related companies	28	33,335	48,022
Amount due to an associate	29	665,844	2,095,348
Borrowings	30	551,710	446,153
Lease liabilities	31	136,744	136,731
Tax payable		337	398
		1,849,224	3,293,002
Net current liabilities		(72,991)	(63,294)
Total assets less current liabilities		2,005,093	2,184,707

Consolidated Statement of Financial Position (Cont'd)

As at 31 December 2025

	<i>Notes</i>	2025 RMB'000	2024 RMB'000
Non-current liabilities			
Borrowings	30	107,800	156,751
Lease liabilities	31	127,526	263,211
Deferred income	32	6,960	10,591
		242,286	430,553
Net assets			
		1,762,807	1,754,154
Capital and reserves			
Share capital	33	10,457	10,457
Reserves		1,752,350	1,743,697
Total equity			
		1,762,807	1,754,154

The notes on pages 78 to 150 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 72 to 150 were approved and authorised for issue by the board of directors of the Company (the "Board") on 26 March 2026 and are signed on its behalf by:

Zhang Wei
Director

Deng Han
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2025

	Share capital RMB'000	Share premium [#] RMB'000 <i>(Note a)</i>	Special reserve [#] RMB'000 <i>(Note b)</i>	Surplus reserves [#] RMB'000 <i>(Note c)</i>	Deemed distribution to a shareholder [#] RMB'000 <i>(Note d)</i>	Contribution from a shareholder [#] RMB'000 <i>(Note e)</i>	FVTOCI reserve [#] RMB'000	Retained profits [#] RMB'000	Total RMB'000
At 1 January 2024	10,457	700,258	193,457	401,475	(11,285)	8,319	-	413,338	1,716,019
Profit for the year	-	-	-	-	-	-	-	38,171	38,171
Other comprehensive expense for the year	-	-	-	-	-	-	(36)	-	(36)
Total comprehensive income for the year	-	-	-	-	-	-	(36)	38,171	38,135
Transfer of reserves	-	-	-	3,862	-	-	-	(3,862)	-
At 31 December 2024	10,457	700,258	193,457	405,337	(11,285)	8,319	(36)	447,647	1,754,154
At 1 January 2025	10,457	700,258	193,457	405,337	(11,285)	8,319	(36)	447,647	1,754,154
Profit for the year	-	-	-	-	-	-	-	20,157	20,157
Other comprehensive income for the year	-	-	-	-	-	-	36	-	36
Total comprehensive income for the year	-	-	-	-	-	-	36	20,157	20,193
2024 final dividends approved and paid	-	-	-	-	-	-	-	(11,540)	(11,540)
Transfer of reserves	-	-	-	2,576	-	-	-	(2,576)	-
At 31 December 2025	10,457	700,258	193,457	407,913	(11,285)	8,319	-	453,688	1,762,807

Notes:

- Share premium represents the difference between the par value of the share issued and the subscription and issue price of new shares in prior years.
- Special reserve represents the difference between paid-in capital of Mianyang Xincheng Engine Co., Limited* (綿陽新晨動力機械有限公司) (“Mianyang Xincheng”) and issued share capital of the Company arising from group reorganization.
- Surplus reserves comprise statutory surplus reserve and discretionary surplus reserve of Mianyang Xincheng, a major operating subsidiary of the Group, which are non-distributable and the transfer to these reserves is determined according to the relevant laws in the People’s Republic of China (the “PRC”) and by the board of directors of Mianyang Xincheng in accordance with its Articles of Association. Statutory surplus reserve amounting to approximately RMB278,169,000 as at 31 December 2025 (2024: RMB275,593,000), can be used to make up for previous year’s losses or convert into additional capital of Mianyang Xincheng. Discretionary surplus reserve amounting to approximately RMB129,744,000 as at 31 December 2025 (2024: RMB129,744,000) can be used to expand the existing operations of Mianyang Xincheng.
- Deemed distribution to a shareholder represents the fair value adjustments on interest-free loan to a subsidiary of a joint controlling shareholder of Mianyang Xincheng in prior years.
- Contribution from a shareholder represents the fair value adjustments on shares awarded by Lead In Management Limited (“Lead In”) to a third party in prior years.

* The reserves accounts comprise the Group’s reserves of RMB1,752,350,000 (2024: RMB1,743,697,000) in the consolidated statement of financial position.

* English name for reference only.

The notes on pages 78 to 150 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2025

	<i>Notes</i>	2025 RMB'000	2024 RMB'000
OPERATING ACTIVITIES			
Profit before tax		29,407	42,378
Adjustments for:			
Interest expenses	9	38,018	47,749
Interest income	6	(2,555)	(2,579)
Depreciation and amortisation	11	231,872	277,781
Amortisation of government grants	32	(3,631)	(4,298)
(Reversal of provision)/Provision for warranty		(529)	2,820
(Reversal of provision)/Provision for inventories, net		(1,868)	(7,001)
ECL/(Reversal of ECL) on trade and other receivables and amounts due from related companies, net	7	1,194	(98,435)
(Reversal of ECL)/ECL on loan to a shareholder	7	(3,022)	3,953
Unrealised exchange loss/(gain)		337	(197)
Imputed interest income from loan to a shareholder	6	(1,105)	(1,070)
Share of result of an associate		22,077	20,153
Loss on disposal of property, plant and equipment	8	90	1,208
Loss on written-off of property, plant and equipment	8	5,801	–
Operating cash flows before movements in working capital		316,086	282,462
Decrease in inventories		44,504	10,415
Decrease/(Increase) in trade and other receivables		1,505,138	(148,479)
Decrease/(Increase) in financial assets measured at FVTOCI		12,195	(12,195)
(Decrease)/Increase in trade and other payables		(104,567)	18,396
Decrease in amounts due from related companies		18,898	96,494
Decrease in amounts due to related companies		(13,328)	(39,785)
(Decrease)/Increase in amount due to an associate		(1,429,504)	99,067
Cash generated from operations		349,422	306,375
Income tax paid		(6,916)	(3,201)
NET CASH GENERATED FROM OPERATING ACTIVITIES		342,506	303,174
INVESTING ACTIVITIES			
Interest received		2,555	2,579
Purchase of property, plant and equipment		(26,586)	(36,191)
Proceeds from disposal of property, plant and equipment		2,583	–
Purchase of license fee		(369,599)	–
Proceeds from disposal of license fee		332,526	–
Development costs paid		(26,393)	(24,911)
Decrease in pledged bank deposits		60,434	3,661
NET CASH USED IN INVESTING ACTIVITIES		(24,480)	(54,862)

Consolidated Statement of Cash Flows (Cont'd)

For the year ended 31 December 2025

	<i>Notes</i>	2025 RMB'000	2024 RMB'000
FINANCING ACTIVITIES			
Interest paid	<i>36</i>	(38,018)	(47,749)
New borrowings raised	<i>36</i>	397,567	409,929
Repayment of borrowings	<i>36</i>	(340,961)	(407,849)
Payment of lease liabilities	<i>36</i>	(136,731)	(140,037)
Repayment to related companies	<i>36</i>	(1,359)	(875)
Dividends paid to owners of the Company		(11,540)	–
NET CASH USED IN FINANCING ACTIVITIES		(131,042)	(186,581)
NET INCREASE IN CASH AND CASH EQUIVALENTS		186,984	61,731
Cash and cash equivalents at beginning of the year		85,570	23,839
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		272,554	85,570

Note:

The Group entered into the following non-cash transactions which are not reflected in the consolidated statement of cash flows:

- (a) During the year ended 31 December 2025, the Group renewed certain tenancy agreements which increased right-of-use assets and lease liabilities amounting to RMB1,059,000 (Notes 17 and 36) at the lease commencement date.
- (b) During the year ended 31 December 2024, the Group entered into tenancy agreement which increased right-of-use assets and lease liabilities amounting to RMB2,145,000 (Notes 17 and 36) at the lease commencement date.

The notes on pages 78 to 150 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2025

1. GENERAL INFORMATION

Xinchen China Power Holdings Limited (the “Company”) was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Act (Revised) of the Cayman Islands on 10 March 2011. Brilliance China Automotive Holdings Limited (“Brilliance China”, Brilliance China and its subsidiaries collectively referred to as “Brilliance China Group”), a company listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), and Sichuan Province Yibin Wuliangye Group Co., Ltd.* (四川省宜賓五糧液集團有限公司) (“Wuliangye”, Wuliangye and its subsidiaries collectively referred to as “Wuliangye Group”), a state owned enterprise registered in the PRC, are able to exercise significant influence over the Company. Shenyang Automobile Group Co., Ltd.* (瀋陽汽車集團有限公司) is the single largest shareholder of Brilliance China.

In March 2013, the Company completed the listing of its shares on the Main Board of the Stock Exchange. The addresses of the registered office and the principal place of business of the Company are disclosed in corporate information section of the annual report.

The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are the development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles and manufacture of engine parts and components of passenger vehicles in the PRC. The principal activities of the Company’s subsidiaries are set out in Note 44.

The consolidated financial statements are presented in Renminbi (“RMB”), which is same as the functional currency of the Group.

* *English name for reference only.*

2. APPLICATION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS AS ISSUED BY THE HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (“HKICPA”), WHICH COLLECTIVE TERM INCLUDES ALL APPLICABLE INDIVIDUAL HKFRS ACCOUNTING STANDARDS, HONG KONG ACCOUNTING STANDARDS (“HKAS”) AND INTERPRETATIONS (“HKFRS ACCOUNTING STANDARDS”)

2.1 Amended HKFRS Accounting Standards that are effective for annual periods beginning on or after 1 January 2025

In the current year, the Group has applied for the first time the Amendments to HKAS 21 “Lack of Exchangeability” (“HKAS 21”) which are effective for the Group’s consolidated financial statements for the annual period beginning on 1 January 2025.

The amendments to HKAS 21 specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. Besides, the amendments also require an entity to disclose additional information that enables users of its financial statements to understand how the currency not being exchangeable into the other currency affects, or is expected to affect, the entity’s financial performance, financial position and cash flows.

The adoption of the amended HKFRS Accounting Standards had no material impact on how the results and financial position of the Group for the current and prior periods have been prepared and presented.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

2. APPLICATION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS AS ISSUED BY THE HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (“HKICPA”), WHICH COLLECTIVE TERM INCLUDES ALL APPLICABLE INDIVIDUAL HKFRS ACCOUNTING STANDARDS, HONG KONG ACCOUNTING STANDARDS (“HKAS”) AND INTERPRETATIONS (“HKFRS ACCOUNTING STANDARDS”) (Cont'd)

2.2 Issued but not yet effective HKFRS Accounting Standards

At the date of authorisation of these consolidated financial statements, certain new and amended HKFRS Accounting Standards have been published but are not yet effective, and have not been adopted early by the Group.

HKFRS 18	Presentation and Disclosure in Financial Statements ²
HKFRS 19	Subsidiaries without Public Accountability: Disclosures and related amendments ²
Amendments to HKFRS 9 and HKFRS 7	Amendments to the Classification and Measurement of Financial Instruments ¹
Amendments to HKFRS 9 and HKFRS 7	Contracts Referencing Nature-dependent Electricity ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKFRS Accounting Standards	Annual Improvements to HKFRS Accounting Standards – Volume 11 ¹
Amendments to Hong Kong Interpretation 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ²
Amendments to HKAS 21	Translation to a Hyperinflationary Presentation Currency ²

¹ Effective for annual periods beginning on or after 1 January 2026

² Effective for annual periods beginning on or after 1 January 2027

³ Effective date not yet determined

The directors anticipate that all of the pronouncements will be adopted in the Group’s accounting policy for the first period beginning on or after the effective date of the pronouncement. Information on new and amended HKFRS Accounting Standards that are expected to have impact on the Group’s accounting policies is provided below. Other new and amended HKFRS Accounting Standards are not expected to have a material impact on the Group’s consolidated financial statements.

HKFRS 18 “Presentation and Disclosure in Financial Statements (“HKFRS 18”)” and related amendments to Hong Kong Interpretation 5

HKFRS 18 replaces HKAS 1 “Presentation of Financial Statements” (“HKAS 1”). It carries forward many of the existing requirements in HKAS 1, with limited changes, and some HKAS 1 requirements will be moved to HKAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” and HKFRS 7 “Financial Instruments: Disclosures”.

HKFRS 18 will not impact the recognition and measurement of financial statements items but the presentation of them. It introduces three major new requirements, including:

- reporting newly defined subtotals (namely “operating profits” and “profits before financing and income tax”), and classifying items into five newly defined categories (namely “operating”, “investing”, “financing”, “income tax” and “discontinued operation”), depending on the reporting entity’s main business activities, in the statement of profit or loss;
- Disclosure of management-defined performance measures (“MPMs”) in a single note to the financial statements; and
- enhanced guidance of aggregation and disaggregation of information in the financial statements.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

2. APPLICATION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS AS ISSUED BY THE HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (“HKICPA”), WHICH COLLECTIVE TERM INCLUDES ALL APPLICABLE INDIVIDUAL HKFRS ACCOUNTING STANDARDS, HONG KONG ACCOUNTING STANDARDS (“HKAS”) AND INTERPRETATIONS (“HKFRS ACCOUNTING STANDARDS”) (Cont'd)

2.2 Issued but not yet effective HKFRS Accounting Standards (Cont'd)

Besides, narrow-scope amendments have been made to HKAS 7 “Statement of Cash Flows”, which includes:

- using “operating profit or loss” as the starting point for indirect method for the presentation of operating cash flows purposes; and
- the option for classifying interest and dividend cash flows as operating activities is eliminated.

In addition, there are consequential amendments to several other standards.

HKFRS 18, and the amendments to the other HKFRS Accounting Standards, are effective for annual period beginning on or after 1 January 2027 and must be applied retrospectively with specific transition provisions. The directors of the Group are still in the process of assessing the impact of HKFRS 18, particularly with respect to the structure of the Group’s consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the additional disclosures required for MPMs. The Group is also assessing the impact of how information is grouped in the consolidated financial statements, including the items currently labelled as “other”.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES

3.1 Basis of preparation

These annual consolidated financial statements have been prepared in accordance with HKFRS Accounting Standards and the accounting principles generally accepted in Hong Kong.

The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”).

The material accounting policies that have been used in the preparation of these consolidated financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended HKFRS Accounting Standards and the impacts on the Group’s consolidated financial statements, if any, are disclosed in Note 2.

The consolidated financial statements have been prepared on the historical cost basis, except for financial assets measured at FVTOCI that are measured at fair values at the end of each reporting period. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated financial statements. Although these estimates are based on management’s best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

3.2 Going concern basis

As at 31 December 2025, the Group had net current liabilities of approximately RMB72,991,000. Furthermore, the Group had borrowings due within one year of approximately RMB551,710,000.

Despite of these circumstances, the directors of the Company are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis.

In the opinion of the directors of the Company, the Group can meet its financial obligations as and when they fall due in the foreseeable future, based on the cash flow projections of the Group prepared by the management covering one year period from the date of approval for issue of these consolidated financial statements, and after taking accounts in the considerations of the following conditions and measures:

- (i) As at 31 December 2025, the Group had available undrawn bank facilities of approximately RMB576,807,000, and subsequently to 31 December 2025, the Group further obtained new bank facilities of approximately RMB200,000,000.
- (ii) The Group formulated business plan to improve its liquidity by (a) monitoring the production activities in order to fulfill the forecast production volume and meet sales forecast, (b) taking measures to tighten cost controls over various production costs and expenses, and (c) seeking any other feasible financial arrangement.

In view of the above, the directors of the Company are confident that there will be sufficient financial resources available to the Group to enable it to continue as a going concern and hence have prepared the consolidated financial statements on a going concern basis.

3.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

3.3 Basis of consolidation (Cont'd)

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on sales of intra-group asset are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss (See Note 3.15). Cost also includes direct attributable costs of investment.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the end of the reporting period. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

3.4 Associates

An associate is an entity over which the Group has significant influence, which is the power to participate in the financial and operating policy decisions of the investee but is not control of those policies.

In consolidated financial statements, an investment in an associate is initially recognised at cost and subsequently accounted for using the equity method. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The profit or loss for the year includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on the investment in associate recognised for the year. The Group's other comprehensive income for the year includes its share of the associate's other comprehensive income for the year.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associates. Where unrealised losses on assets sales between the Group and its associate are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

3.4 Associates (Cont'd)

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's other long-term interests that in substance form part of the Group's net investment in the associate.

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. At the end of each reporting period, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (i.e. higher of value in use and fair value less costs of disposal) of the associate and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate, including cash flows arising from the operations of the associate and the proceeds on ultimate disposal of the investment.

The Group discontinues the use of equity method from the date when it ceases to have significant influence over an associate. If the retained interest in that former associate is a financial asset, the retained interest is measured at fair value, which is regarded as its fair value on initial recognition as a financial asset in accordance with HKFRS 9 "Financial Instruments" ("HKFRS 9"). The difference between (i) the fair value of any retained interest and any proceeds from disposing of partial interest in the associate; and (ii) the carrying amount of the investment at the date the equity method was discontinued, is recognised in the profit or loss. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would have been required if the associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by the investee would be reclassified to profit or loss on the disposal of the related assets or liabilities, the entity reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

3.5 Revenue recognition

Revenue arises mainly from the sales of engines and engine components.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

3.5 Revenue recognition (Cont'd)

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Further details of the Group's revenue and other income recognition policies are as follows:

Sales of engines and engine components

Revenue from the sales of engines and engine components for a fixed fee is recognised when or as the Group transfers control of the assets to the customer.

Sales-related warranties associated with engines and engine components cannot be purchased separately and are served as an assurance that the products sold comply with agreed-upon specifications (i.e. assurance-type warranties). Accordingly, the Group accounts for warranties in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" ("HKAS 37").

Principal versus agent

When another party is involved in providing goods to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods itself (i.e. the Group is a principal) or to arrange for those goods to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good before that goods is transferred to a customer.

Interest income

Interest income is recognised on a time proportion basis using the effective interest method. For financial assets measured at amortised cost or FVTOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of ECL allowance) of the asset.

Rental income

Accounting policies for rental income are set out in Note 3.6.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

3.6 Leases

(a) Definition of a lease and the Group as a lessee

At inception of a contract, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

For contracts that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which the Group is a lessee, the Group elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term unless the Group is reasonably certain to obtain ownership at the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicator exists.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable payments based on an index or rate, and amounts expected to be payable under a residual value guarantee. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payment of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

3.6 Leases (Cont'd)

(a) Definition of a lease and the Group as a lessee (Cont'd)

Measurement and recognition of leases as a lessee (Cont'd)

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

For lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of modification.

When the lease is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit or loss if the right-of-use asset is already reduced to zero.

On the consolidated statement of financial position, right-of-use assets have been presented as a separate line. The prepaid lease payments for leasehold land are presented as "Prepaid lease payments" under non-current assets.

(b) The Group as a lessor

As a lessor, the Group classifies its leases as operating leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

The Group also earns rental income from operating leases of its buildings. Rental income is recognised on a straight-line basis over the term of the lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

(c) Sale and leaseback transactions

The Group as a seller-lessee

For a transfer that satisfies the requirements as a sale in accordance with HKFRS 15 "Revenue from Contracts with Customers" ("HKFRS 15"), the Group as a seller-lessee measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset and recognises any gain or loss that relates to the rights transferred to the buyer-lessor only. Right-of-use asset and lease liability with fixed payments are subsequently measured in accordance with the Group's accounting policies above.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

3.7 Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated (i.e. only translated using the exchange rates at the transaction date).

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

3.8 Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.9 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as “Deferred income” in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government grants relating to income is presented in gross under “Other income” in the consolidated statement of profit or loss and other comprehensive income.

3.10 Employee benefits

Retirement benefit

Retirement benefits to employees are provided through defined contribution plans. In addition, the employees employed under the Hong Kong Employment Ordinance are also entitled to long service payment (“LSP”) if the eligibility criteria are met. The LSP are defined benefits plans.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

3.10 Employee benefits (Cont'd)

Defined contribution plans

The Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund (“MPF”) Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries.

The group entities established in the PRC make monthly contributions to a state-sponsored defined contribution scheme for the local staff. The contributions are made at a specific percentage on the standard salary pursuant to laws of the PRC and relevant regulation issued by local social security authorities.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group’s obligations under these plans are limited to the fixed percentage contributions payable.

Defined benefit plans

The amount of long service benefit that an employee will receive on cessation of employment in certain circumstances is defined by reference to the employee’s length of service and corresponding salary. The legal obligations for any benefits remains with the Group.

The LSP obligations recognised in the consolidated statement of financial position is the present value of the LSP obligation at the end of the reporting period.

Management estimates the LSP obligations annually. This is based on the discount rate, the salary growth rate, turnover rate and the expected investment return on offsetable MPF accrued benefits. Discount factors are determined close to the end of each annual reporting period by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and have terms to maturity approximating the terms of the related defined benefit liability. The LSP obligations did not have a material impact on the consolidated statements of financial position.

Short-term and other long-term employee benefits

Salaries, discretionary bonuses, paid annual leave and the cost of non-monetary benefits are accrued and recognised as an expense in profit or loss in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

3.11 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Current tax assets and current tax liabilities are presented in net if, and only if:

- (a) the Group has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable nor the accounting profit or loss and does not give rise to equal taxable and deductible temporary differences.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies the requirements in HKAS 12 "Income Taxes" to the lease liabilities and the related assets separately. The Group recognises a deferred tax asset related to the lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

3.11 Taxation (Cont'd)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3.12 Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses (see Note 3.15), if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3.13 Prepaid lease payments

Prepaid lease payments (which meet the definition of right-of-use assets) represent the upfront payment for long-term land lease in which the payment can be reliably measured. It is stated at cost less accumulated depreciation and any accumulated impairment losses (see Note 3.15). Depreciation is calculated on a straight-line basis over the term of the lease except where an alternative basis is more representative of the time pattern of benefits to be derived by the Group from use of the land.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

3.14 Intangible assets

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

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

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses (see Note 3.15).

Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their unit of production by reference to the expected saleable units of respective automotive engines. The expected saleable units are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

3.15 Impairment of non-financial assets

The following assets are subject to impairment testing:

Goodwill arising on acquisition of a subsidiary;

- Property, plant and equipment;
- Right-of-use assets;
- Prepaid lease payments
- Intangible assets; and
- Investments in subsidiaries in the Company's statement of financial position.

At the end of each reporting period, the Group reviews the carrying amounts of its non-current assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of non-current assets are estimated individually. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair values less costs of disposal and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss. In allocation the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the cash-generating unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

3.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

3.17 Provision for warranty

Provision for warranty is recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provision for warranty is measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision for warranty is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

All provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

3.18 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of its risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets

Classification and initial measurement of financial assets

Except for those receivables that do not contain a significant financing component and are measured at the transaction price in accordance with HKFRS 15, all financial assets are initially measured at fair value, in case of a financial asset not at fair value through profit or loss ("FVTPL"), plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the consolidated statement of profit or loss and other comprehensive income.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

3.18 Financial instruments (Cont'd)

Financial assets (Cont'd)

Classification and initial measurement of financial assets (Cont'd)

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost;
- FVTPL; or
- FVTOCI.

The classification is determined by both:

- the entity's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, other income or other gains and losses, net, except for ECL of financial assets which are presented as a separate line item in profit or loss.

Subsequent measurement of financial assets

Debt investments

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in other income in profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Group's bank balances and cash, pledged bank deposits, trade and other receivables, loan to a shareholder and amounts due from related companies fall into this category of financial instruments.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

3.18 Financial instruments (Cont'd)

Financial assets (Cont'd)

Financial assets at FVTOCI – recycling

If the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale, subsequent changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of ECL, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss. The Group's financial assets measured at FVTOCI fall into this category of financial instruments.

Financial liabilities

Classification and measurement of financial liabilities

The Group's financial liabilities include borrowings, lease liabilities, trade and other payables, amounts due to related companies and amount due to an associate.

Financial liabilities other than lease liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs.

Subsequently, financial liabilities other than lease liabilities are measured at amortised cost using the effective interest method.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs.

Accounting policies of lease liabilities are set out in Note 3.6.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

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

Other financial liabilities

They are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

3.19 Impairment of financial assets

HKFRS 9's impairment requirements use forward-looking information to recognise ECL – the “ECL model”. Instruments within the scope included loans and other debt-type financial assets measured at amortised cost and FVTOCI and trade receivables.

The Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (“Stage 1”) and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (“Stage 2”).

“Stage 3” would cover financial assets that have objective evidence of impairment at the end of the reporting period.

“12-month ECL” are recognised for the Stage 1 category while “lifetime ECL” are recognised for the Stage 2 category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade and bills receivables

For trade receivables and bills receivables, the Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at the end of each reporting period. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment.

To measure the ECL, trade and bills receivables have been grouped based on shared credit risk characteristics and the days past due.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

3.19 Impairment of financial assets (Cont'd)

Other financial assets measured at amortised cost and financial assets measured at FVTOCI

The Group measures the loss allowance for other receivables, amounts due from related companies and financial assets measured at FVTOCI equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood of risk of default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial assets at the end of each reporting period with the risk of default occurring on the financial assets at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in regulatory, business, financial or economic conditions, or technology environment that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations; and
- an actual or expected significant deterioration in the operating results of the debtor.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of each reporting period. A debt instrument is determined to have low credit risk if it has a low risk of default, the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

For internal credit risk management, the Group considers an event of default occurs when (i) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group); or (ii) the financial asset is 90 days past due.

Detailed analysis of the ECL assessment of trade and bills receivables and other financial assets measured at amortised cost and financial assets measured at FVTOCI are set out in Note 35.2.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

3.20 Share capital

Share capital is determined using the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares (net of any related income tax benefit) are deducted from share premium to the extent they are incremental costs directly attributable to the equity transaction.

Share premium is recognised at the excess of the net proceeds from issuance of the Company's shares over its par value.

3.21 Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 3.5). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 3.18).

3.22 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the Board for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the Board are determined following the Group's major product lines.

The Group has identified the following reportable segments:

- (1) Gasoline engines;
- (2) Diesel engines; and
- (3) Engine components.

Each of these operating segments is managed separately as each of the product lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

3.23 Related parties

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

3.23 Related parties (Cont'd)

- (b) the party is an entity and if any of the following conditions applies:
 - (i) the entity and the Group are members of the same group.
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) the entity and the 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 Group or an entity related to the Group.
 - (vi) the entity is controlled or jointly controlled by a person identified in (a).
 - (vii) 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).
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the Group's accounting policies, which are described in Note 3, management is required to make 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 only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Cont'd)

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year.

4.1 Going Concern basis

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcomes of the Group's plans and measures to strengthen its capital base and liquidity. Details are explained in Note 3.2 to the consolidated financial statements.

4.2 Principal versus agent consideration

The Group engages in trading of engines and engine components. The Group concluded that it acts as the principal for such transactions as it controls the specified goods before they are transferred to the customer after taking into consideration indicators such as the Group is primarily responsible for fulfilling the promise to provide the goods and the Group has inventory risk on the merchandise. When the Group satisfies the performance obligation, the Group recognises the trading revenue in the gross amount of consideration to which the Group expects to be entitled as specified in the contracts.

4.3 Amortisation of intangible assets

The Group's management determines the estimated useful lives and related amortisation charges for its intangible assets. This estimate is based on the historical experience of the actual saleable units of intangible assets of similar nature and functions. The management will increase the amortisation charge where saleable units are expected to be less than previously estimated, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned or sold.

Changes in these estimations may have a material impact on the results of the Group.

During the year ended 31 December 2025, the management revisited the expected saleable units of each intangible asset and estimated the recoverable amount respectively, no additional amortisation expense of intangible assets is recognised in profit or loss (2024: RMBnil).

4.4 Estimated ECL on trade and other receivables, amounts due from related companies and loan to a shareholder

The Group makes allowances on items subjects to ECL (including trade and other receivables and trade related amounts due from related companies) based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period.

The Group measures the loss allowance for non-trade related amounts due from related companies and loan to a shareholder equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood of risk of default occurring since initial recognition.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Cont'd)

4.4 Estimated ECL on trade and other receivables, amounts due from related companies and loan to shareholder (Cont'd)

The provision of ECL is sensitive to changes in estimates. Where the actual future cash flows are different from expected, such difference will impact the carrying amount of trade and other receivables, amounts due from related companies and loan to a shareholder within the scope of ECL under HKFRS 9 and credit losses in the periods in which such estimate has been changed.

As at 31 December 2025 and 2024, the carrying amounts of trade and other receivables, trade related amounts due from related companies and loan to a shareholder are set out in Notes 24, 25 and 22 respectively.

During the year ended 31 December 2025, ECL of RMB1,194,000 (2024: impairment reversal of RMB10,266,000) are recognised on trade and other receivables, the reversal of ECL of RMB3,022,000 (2024: ECL of RMB3,953,000) are recognised on loan to a shareholder) and net impairment reversal of RMBnil (2024: RMB88,169,000) are recognised on trade related amounts due from related companies, respectively.

4.5 Depreciation of property, plant and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are expected to be shorter than previously estimated, or it will write-off obsolete assets that have been abandoned or sold. Changes in these estimations may have a material impact on the results of the Group.

The carrying amount of property, plant and equipment is set out in Note 16.

4.6 Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets (including property, plant and equipment, right-of-use assets, prepaid lease payments, intangible assets and investments in subsidiaries in the Company's statement of financial position) at the end of each reporting period. The non-financial assets 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. When value in use calculations are undertaken, certain assumptions are required to be made in respect of highly uncertain areas including management's expectations of (i) future unlevered free cash flows; (ii) future revenues and profits; and (iii) determining the appropriate discount rate which involves estimating the appropriate adjustment for market risk and asset specific risk factors. These assumptions relate to future events and circumstances and the actual results may vary.

In addition, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainties due to uncertainty on how the commodity markets/trends in inflation and market interest rates may progress or evolve. Details of the impairment of property, plant and equipment is disclosed in Note 16. There was no impairment loss on property, plant and equipment, right-of-use assets, prepaid lease payments, intangible assets and investments in subsidiaries in the Company's statement of financial position incurred for the years ended 31 December 2025 and 2024.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Cont'd)

4.7 Provision of inventories

The Group records inventories at the lower of cost and net realisable value. Net realisable value is the estimated selling price for inventories, less all the estimated costs of completion and costs necessary to make the sales. Operational procedures have been in place to monitor this risk as a significant proportion of the Group's working capital which is devoted to inventories. Management reviews the inventory aging listing on a periodic basis for those aged inventories. This involves a comparison of carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made in the financial statements for any obsolete and slow moving items. Although the Group carries out periodic review on the net realisable value of inventory, the actual realisable value of inventory is not known until the sale is concluded.

The carrying amount of inventories and the provision on inventories are set out in Note 23. Reversal of provision of RMB1,868,000 (2024: RMB7,001,000) upon realisation of sales was made during the year ended 31 December 2025.

4.8 Provision for warranty

Provision for warranty is made based on the possible claims on the products by customers with reference to the warranty coverage period and the percentage of warranty expenses incurred over total sales amounts during the year. Where the actual claims are greater than expected, a material increase in warranty expenses may arise, which would be recognised in profit or loss for the period in which such a claim takes place. The carrying amount of provision for warranty claims is set out in Note 27.

4.9 Deferred tax

No deferred tax asset has been recognised due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less or more than expected, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in the profit or loss for the period in which such a reversal or further recognition takes place. Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised.

4.10 Determination of control over Lead In

Where the Company acts as one of the trustee of trust arrangements it established, the Company makes judgement on whether the Company controls the trust arrangements and the entity that held on trust for the relevant beneficiaries under the trust arrangements, Lead In should consolidate them. When performing this assessment, the Company considers several factors including, among other things, the scope of its decision-making authority over the trust arrangements and Lead In, the rights held by other parties, the Company's exposure to variability of returns (being the remuneration and investment return if any, on an aggregate basis) from its involvement with the trust arrangements to which it is entitled in accordance with the related agreements for the trustee and Lead In. The Group performs re-assessment when the factors change.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Cont'd)

4.11 Determination of the accounting for the sale and leaseback transaction and the discount rate

During the year ended 31 December 2022, the Group entered into an asset purchase agreement with BMW Brilliance Automotive Ltd. ("BMW Brilliance Automotive") in which the Group agreed to sell and BMW Brilliance Automotive agreed to purchase the production lines, supporting equipment and facilities in relation to the production of crankshaft and connecting rod (the "Disposed Assets") (the "Disposal"). After the Disposal, the Group as a lessee and BMW Brilliance Automotive as a lessor entered into the equipment lease agreement (the "Lease") relating to the leasing back of the Disposed Assets. This transaction is regarded as a sale and leaseback transaction. The Group is required to apply HKFRS 15 and exercise considerable judgement to determine whether the transfer of the Disposed Assets is accounted for as a sale and when a performance obligation is satisfied in HKFRS 15. Under the lease agreement, the Group has no purchase option during or at the end of the leasing period. BMW Brilliance Automotive obtained the control of the Disposed Assets after the Disposal. Accordingly, the Group determined the Disposal shall be accounted for as a sales arrangement in accordance with HKFRS 15 and the Lease shall be recognised in the form of a right-of-use asset (Note 17) and a lease liability (Note 31) in accordance with HKFRS 16 "Lease" ("HKFRS 16").

In determining the discount rate, the Group is required to exercise considerable judgement taking into account the nature of the underlying assets and the terms and conditions of the leases, at both the commencement date and effective date of the modification.

5. REVENUE AND SEGMENT INFORMATION

Information reported to the Board, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance, focuses on types of goods delivered.

The Group's operations and main revenue streams are those described as below. The Group's revenue is derived from contracts of customers. Revenue from sales of gasoline engines, diesel engines and engine components are recognised at a point in time. All the contracts with customers are agreed at fixed price and the expected duration of the contracts is one year or less.

5.1 Segment revenue and segment results

The Board reviews operating results and financial information on a product by product basis. Each individual engine product constitutes an operating segment. For certain operating segments that exhibit similar long-term financial performance as they have similar economic characteristics, are produced by using similar production processes and are distributed and sold to similar classes of customers, their segment information is aggregated into a single reportable operating segment. The Group has three reportable operating segments as follows:

- (1) Gasoline engines;
- (2) Diesel engines; and
- (3) Engine components.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

5.1 Segment revenue and segment results (Cont'd)

The following is an analysis of the Group's revenue and results by reportable segment:

For the year ended 31 December 2025

	Gasoline engines RMB'000	Diesel engines RMB'000	Engine components RMB'000	Total RMB'000
Revenue from external customers, segment revenue <small>(Note)</small>	3,811,927	135,051	765,322	4,712,300
Segment results	84,011	8,805	93,221	186,037
Other income				64,077
Reversal of ECL, net				1,828
Other gains and losses, net				238
Selling and distribution expenses				(24,640)
Administrative expenses				(113,152)
Finance costs				(38,018)
Other expenses				(24,886)
Share of loss of an associate				(22,077)
Profit before tax				29,407

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

5.1 Segment revenue and segment results (Cont'd)

The following is an analysis of the Group's revenue and results by reportable segment:

For the year ended 31 December 2024

	Gasoline engines RMB'000	Diesel engines RMB'000	Engine components RMB'000	Total RMB'000
Revenue from external customers, segment revenue ^(Note)	5,281,673	114,640	686,078	6,082,391
Segment results	93,013	(2,930)	93,474	183,557
Other income				50,813
Reversal of ECL, net				94,482
Other gains and losses, net				(2,067)
Selling and distribution expenses				(25,119)
Administrative expenses				(157,605)
Finance costs				(47,749)
Other expenses				(33,781)
Share of loss of an associate				(20,153)
Profit before tax				42,378

Note: There is no inter-segment sales during the years of 2025 and 2024.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

5.1 Segment revenue and segment results (Cont'd)

Other segment information included in the measurement of segment results:

	Gasoline engines RMB'000	Diesel engines RMB'000	Engine components RMB'000	Unallocated RMB'000	Total RMB'000
For the year ended					
31 December 2025					
Depreciation and amortisation	164,432	13,871	26,176	27,393	231,872
Reversal of provision for inventories	(1,868)	-	-	-	(1,868)
<hr/>					
For the year ended					
31 December 2024					
Depreciation and amortisation	219,248	12,952	19,606	25,975	277,781
Reversal of provision for inventories	(5,007)	(1,994)	-	-	(7,001)
<hr/>					

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represent the profit earned by each segment before the allocation of selling and distribution expenses, administrative expenses, finance costs, other income, reversal of ECL, net, other gains and losses, net and other expenses. This is the measure reported to the Board for the purposes of resource allocation and performance assessment.

5.2 Performance obligations for contracts with customers

The Group sells gasoline engines, diesel engines and engine components directly to the customers which are vehicle manufacturers in the PRC.

For the sale of goods to the customers, revenue is recognised when control of the goods has transferred, being the point the goods have been delivered to and received by customers. The normal credit term is 30 to 90 days upon delivery.

For some customers who buy engine components, the Group receives considerations from the customers in advance. Such advance payment is recognised as contract liabilities until the goods have been delivered to the customers.

Sales-related warranties associated with gasoline engines and diesel engines cannot be purchased separately and they serve as an assurance that the goods sold comply with agreed-upon specifications. Accordingly, the Group accounts for warranties in accordance with HKAS 37.

5.3 Segment assets and liabilities

The assets and liabilities of the Group are regularly reviewed by the Board as a whole and no discrete financial information on segment assets and segment liabilities is available, therefore total assets and total liabilities analysed by reportable and operating segment are not presented.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

5.4 Geographical information

All of the Group's operations and non-current assets are located in the PRC; and all of the Group's revenue from external customers is generated in the PRC.

5.5 Information about major customers

Revenue from major customers which individually accounts for 10% or more of the Group's total revenue are sales of gasoline engines, diesel engines, engine components.

	2025 RMB'000	2024 RMB'000
Customer A	3,415,550	5,046,531

6. OTHER INCOME

	2025 RMB'000	2024 RMB'000
Bank interest income	2,555	2,579
Bad debt recovery	8,037	–
Compensation income	5,701	5,449
Government grants (Note 32)	28,383	26,882
Imputed interest income from loan to a shareholder	1,105	1,070
Processing income	6,243	–
Rental income under operating leases	8,749	8,898
Utility income	3,293	5,379
Sundry income	11	556
	64,077	50,813

7. REVERSAL OF ECL, NET

	2025 RMB'000	2024 RMB'000
(ECL)/Reversal of ECL on trade receivables, net (Note 24(a))	(1,120)	10,266
ECL of other receivable	(74)	–
Reversal of ECL/(ECL) on loan to a shareholder (Note 22)	3,022	(3,953)
Reversal of ECL on amounts due from related companies, net (Note 25)	–	88,169
	1,828	94,482

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

8. OTHER GAINS AND LOSSES, NET

	2025 RMB'000	2024 RMB'000
Foreign exchange gain, net	22	–
Gain on disposal of scrap materials	6,857	4,060
Net loss arising on financial assets measured at FVTOCI	(750)	(4,919)
Loss on disposal of property, plant and equipment	(90)	(1,208)
Loss on written-off of property, plant and equipment	(5,801)	–
	238	(2,067)

9. FINANCE COSTS

	2025 RMB'000	2024 RMB'000
Interest on borrowings:		
Finance charges on lease liabilities	15,538	21,812
Borrowings	22,480	25,937
	38,018	47,749

10. INCOME TAX EXPENSE

	2025 RMB'000	2024 RMB'000
PRC Enterprise Income Tax (“EIT”)		
– Provision for the year	1,855	1,987
– Under provision in prior year	–	172
	1,855	2,159
Withholding tax on dividend	5,000	–
Deferred tax (Note 21)	2,395	2,048
	9,250	4,207

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

10. INCOME TAX EXPENSE (Cont'd)

According to the extension announcement of “The State Administration of Taxation on extension on EIT related with enhancing the Western Region Development Strategy” (國家稅務總局關於延續西部大開發企業所得稅政策的公告), Mianyang Xincheng was eligible to the reduced EIT rate of 15% for the year ended 31 December 2024. Mianyang Xincheng has applied EIT rate of 25% for the year ended 31 December 2025.

Pursuant to the relevant laws and regulations in the PRC, Xincheng Engine (Shenyang) Co., Limited* (新晨動力機械(瀋陽)有限公司) (“Shenyang Xincheng”) obtained the High and New Technology Enterprises qualification. Accordingly, it enjoyed a preferential income tax rate of 15% for the year ended 31 December 2025 and 2024.

No Hong Kong Profits Tax has been made as the Group’s income neither arises in, nor is derived from, Hong Kong.

Dividend distributed from the PRC subsidiaries are subject to withholding tax of 5%. Under the EIT laws of PRC, withholding tax is imposed on dividends in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB218,153,000 (2024: RMB215,577,000) as the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future. The directors of PRC subsidiaries plan to set aside such undistributed profits of PRC subsidiaries for investment purpose.

The tax expense for the year can be reconciled to the profit before tax per consolidated statement of profit or loss and other comprehensive income as follows:

	2025 RMB'000	2024 RMB'000
Profit before tax	29,407	42,378
Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	4,884	6,357
Tax effect of expenses not deductible for tax purpose	7,052	4,808
Tax effect of income not taxable for tax purpose	(5,573)	(5,369)
Tax incentives on eligible expenditures ^(Note)	(2,388)	(4,143)
Tax effect of tax losses not recognised	275	2,382
Withholding tax on dividend declared by subsidiaries	5,000	–
Under provision in prior year	–	172
Income tax expense	9,250	4,207

Note: The eligible expenditures represent research and development costs charged to profit or loss for the year, which is subject to an additional 100% (2024: 100%) tax deduction in the calculation of income tax expense.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

11. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging/(crediting):

	2025 RMB'000	2024 RMB'000
Directors' remuneration (Note 13)	5,730	10,243
Other staff costs	101,644	108,117
Contributions to retirement benefits scheme other than directors	31,107	27,403
Total staff costs	138,481	145,763
Depreciation of property, plant and equipment (Note 16)	80,654	94,027
Depreciation of right-of-use assets (Note 17)	103,789	101,644
Depreciation of prepaid lease payments (Note 18)	4,121	4,121
Amortisation of intangible assets (Note 20)	43,308	77,989
Total depreciation and amortisation	231,872	277,781
Auditor's remuneration	1,012	1,014
Lease rental for short-term leases	141	2,631
Rental income under operating leases	(8,749)	(8,898)
Research and development costs recognised as other expenses	20,227	22,806
Included in cost of sales:		
Cost of inventories recognised as expense	4,495,396	6,191,091
Reversal of inventories, net (Note 23)	(1,868)	(7,001)
Warranty claims expenses (Note 27)	4,277	6,515

12. OTHER COMPREHENSIVE INCOME

The amount of reclassification adjustments relating to other comprehensive income can be summarised as follows:

	2025 RMB'000	2024 RMB'000
Financial assets measured at FVTOCI		
Change in fair value recognised during the year	36	(36)

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATION

13.1 Directors' and chief executive's emoluments

Details of the emoluments paid to the directors and chief executive of the Company during the year, disclosed pursuant to the applicable Listing Rules, section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosures of Information about Benefits of Directors) Regulation, are as follows:

	2025 RMB'000	2024 RMB'000
Fees	435	557
Salaries and allowances	5,019	9,398
Discretionary bonus	276	276
Contributions to retirement benefits scheme	-	12
	5,730	10,243

Details of the emoluments paid to each of the directors and chief executive of the Company are as follows:

Year ended 31 December 2025

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonus RMB'000	Contributions to retirement benefits scheme RMB'000	Total RMB'000
<i>Executive directors</i>					
Zhang Wei 張巍 ^(Note 2)	-	-	-	-	-
Deng Han 鄧晗	-	2,868	-	-	2,868
<i>Non-executive director</i>					
Yang Ming 楊明	-	2,151	-	-	2,151
<i>Independent non-executive directors</i>					
Chi Guohua 池國華	145	-	92	-	237
Wang Jun 王隽	145	-	92	-	237
Dong Yan 董艷	145	-	92	-	237
	435	5,019	276	-	5,730

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATION (Cont'd)

13.1 Directors' and chief executive's emoluments (Cont'd)

Year ended 31 December 2024

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonus RMB'000	Contributions to retirement benefits scheme RMB'000	Total RMB'000
<i>Executive directors</i>					
Wu Xiao An 吳小安 ^(Note 1)	-	2,525	-	12	2,537
Zhang Wei 張巍 ^(Note 2)	-	-	-	-	-
Deng Han 鄧晗	-	2,877	-	-	2,877
<i>Non-executive directors</i>					
Han Song 韓松 ^(Note 3)	-	1,839	-	-	1,839
Yang Ming 楊明	-	2,157	-	-	2,157
<i>Independent non-executive directors</i>					
Chi Guohua 池國華	138	-	92	-	230
Wang Jun 王隽	138	-	92	-	230
Huang Haibo 黃海波 ^(Note 4)	207	-	-	-	207
Dong Yan 董艷	74	-	92	-	166
	557	9,398	276	12	10,243

Notes:

- (1) Mr. Wu Xiao An resigned on 11 September 2024.
- (2) Mr. Zhang Wei was appointed on 8 November 2024 and is also the Chairman of the Company.
- (3) Mr. Han Song resigned on 8 November 2024.
- (4) Mr. Huang Haibo retired on 20 June 2024.

The emoluments of executive directors and non-executives directors shown above were paid for their services in connection with the management of the affairs of the Company and the Group and for serving as directors of the Company or its subsidiaries. The emoluments of independent non-executive directors were paid for serving as directors of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATION (Cont'd)

13.2 Employees' remunerations

Of the five highest paid individuals of the Group, two (2024: four) are directors of the Company whose emoluments during the year ended 31 December 2025 are disclosed above. The remunerations of the remaining three (2024: one) individuals are as follows:

	2025 RMB'000	2024 RMB'000
Salaries and allowances	3,185	1,546
Discretionary bonus	747	304
Contributions to retirement benefits scheme	122	17
	4,054	1,867

The discretionary bonus is determined by reference to the individual performance of the directors and employees and approved by the Board annually.

The directors and certain senior management have also been employed by the Brilliance China Group and Wuliangye Group and the payment of their contributions to retirement benefits scheme was centralised and made by the Brilliance China Group and Wuliangye Group for both years, in which the amounts are considered as insignificant.

The five highest paid individuals were within the following bands:

	Number of Employee	
	2025	2024
Hong Kong Dollars ("HK\$")		
HK\$1,000,001 to HK\$1,500,000	2	–
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,000,001 to HK\$2,500,000	2	2
HK\$3,000,001 to HK\$3,500,000	–	2

During the years ended 31 December 2025 and 2024, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

14. DIVIDENDS

	2025 RMB'000	2024 RMB'000
Final dividend in respect of the previous financial year, of HK0.97 cent per ordinary share	11,540	–

The Board did not recommend the payment of any dividend for the year ended 31 December 2025.

The final dividend proposed after the end of the reporting period has not been recognised as a liability as at 31 December 2024.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

15. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to the owners of the Company of RMB20,157,000 (2024: RMB38,171,000), and weighted average number of shares of 1,282,211,794 (2024: 1,282,211,794), for the year ended 31 December 2025.

No diluted earnings per share is presented as there was no potential dilutive ordinary share outstanding during the year or as at the end of reporting period. The amount presented for diluted earnings per share is the same as basic earnings per share.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Electronic equipment and others RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2024	869,471	1,236,551	139,867	12,235	51,334	2,309,458
Additions	-	-	3,364	473	32,354	36,191
Transfer <i>(Note a)</i>	314	13,728	6,091	-	(20,133)	-
Disposals	(345)	(2,337)	(6,300)	(836)	-	(9,818)
At 31 December 2024 and						
1 January 2025	869,440	1,247,942	143,022	11,872	63,555	2,335,831
Additions	3,799	-	1,999	625	20,163	26,586
Transfer <i>(Note a)</i>	18	6,429	18,515	-	(24,962)	-
Disposals	(2,670)	(55)	(36)	(2,232)	-	(4,993)
Written-off	(44)	(53,496)	(3,347)	-	-	(56,887)
At 31 December 2025	870,543	1,200,820	160,153	10,265	58,756	2,300,537
Depreciation and impairment						
At 1 January 2024	279,055	790,795	106,398	5,537	5,802	1,187,587
Provided for the year	21,549	66,412	5,760	306	-	94,027
Eliminated on disposals	-	(2,337)	(5,561)	(712)	-	(8,610)
At 31 December 2024 and						
1 January 2025	300,604	854,870	106,597	5,131	5,802	1,273,004
Provided for the year	20,836	50,586	8,894	338	-	80,654
Eliminated on disposals	(147)	-	(1)	(2,172)	-	(2,320)
Written-off	-	(48,143)	(2,943)	-	-	(51,086)
At 31 December 2025	321,293	857,313	112,547	3,297	5,802	1,300,252
Carrying values						
At 31 December 2025	549,250	343,507	47,606	6,968	52,954	1,000,285
At 31 December 2024	568,836	393,072	36,425	6,741	57,753	1,062,827

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

16. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Notes:

- a. The Group commenced a project to upgrade certain plant, machineries and electronic equipment and others in coping with production of new connection rods, the upgrade has been completed during the years ended 31 December 2025 and 2024.
- b. Certain models in diesel segment of traditional - engines cash-generating unit ("CGU") had resulted loss during the year. In 2025 and 2024, the Group engaged the independent qualified professional valuer ("Valuer") to conduct impairment assessment on the traditional-engines CGU. The value in use calculations were based on the cash flow projections based on the latest financial budgets approved by the Company's management covering a five-year period. Management determines annual sales growth rate to be a key assumption as it is the main driver for revenue and costs in each period. The annual sales growth rate is based on past performance, management's expectations of market development and the expected saleable units of respective automotive engines. The pre-tax discount rate used for the calculation was 11.98% (2024: 11.15%) and reflects specific risks relating to the relevant business. The recoverable amount of the traditional-engines CGU was RMB1,388,000,000 as at 31 December 2025 (2024: RMB1,639,000,000). Based on the value in use calculations, no impairment loss was allocated to write down the carrying amount of the property, plant and equipment and intangible assets (Note 20) for the year ended 31 December 2025 and 2024, respectively.
- c. The above items of property, plant and equipment (other than construction in progress) are depreciated on a straight-line basis at the following useful lives after taking into account the residual values:

Buildings for factory premises	26-30 years
Buildings for staff quarter	50 years
Plant and machinery	10 years
Electronic equipment and others	5 years
Motor vehicles	6 years

The Group's buildings are located in the PRC and the carrying amounts of the buildings amounting to RMB87,446,000 as at 31 December 2025 (2024: RMB93,628,000), is in the process of obtaining the property ownership certificate.

The Group has pledged certain property, plant and equipment with the following carrying values to secure general banking facilities and other borrowing granted to the Group.

	2025	2024
	RMB'000	RMB'000
Plant and machinery	2,977	92,810

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

17. RIGHT-OF-USE ASSETS

	Buildings RMB'000	Plant and machinery RMB'000	Total RMB'000
As at 1 January 2025	2,145	304,930	307,075
Lease modification	1,059	-	1,059
Depreciation for the year	(2,145)	(101,644)	(103,789)
At 31 December 2025	1,059	203,286	204,345
As at 1 January 2024	-	406,574	406,574
Addition	2,145	-	2,145
Depreciation for the year	-	(101,644)	(101,644)
At 31 December 2024	2,145	304,930	307,075

18. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise leasehold lands in the PRC under medium-term leases. Land use rights are released to profit or loss over the lease terms ranging from 41 to 50 years. The prepaid lease payments fall into the scope of HKFRS 16 as it meets the definition of right-of-use assets. The movements in their net carrying amounts are analysed as follows:

	RMB'000
Carrying values	
At 1 January 2024	113,574
Released to profit or loss	(4,121)
At 31 December 2024 and 1 January 2025	109,453
Released to profit or loss	(4,121)
At 31 December 2025	105,332

The Group has pledged land use rights with carrying values of RMB69,141,000 as at 31 December 2025 (2024: RMB26,621,000), to secure general banking facilities and other borrowing granted to the Group.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

19. INTEREST IN AN ASSOCIATE

	2025 RMB'000	2024 RMB'000
Cost of investment in an associate	228,669	228,669
Share of post-acquisition profit and other comprehensive income	20,977	43,054
	249,646	271,723

The following list contains only the particulars of an associate, which is an unlisted corporate entity whose quoted market price is not available, which in the opinion of the directors principally affected the results or net assets of the Group as at 31 December 2025 and 2024.

Name of associate	Form of business structure	Country/place of incorporation and business	Particulars of issued and paid up capital	% of interest held	Principal activity
Sichuan Li Xincheng Technology Co., Ltd* 四川理想新晨科技 有限公司("Li Xincheng")	Incorporated on 22 October 2021	PRC	Registered capital of RMB629,936,000 Paid up capital of RMB464,669,000	49% (2024: 49%)	Manufacture, research and development, sales of engines and parts

* *English name for reference only.*

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

20. INTANGIBLE ASSETS

	Completed development costs RMB'000	Development costs in progress RMB'000	Total RMB'000
Cost			
At 1 January 2024	760,069	225,738	985,807
Additions	–	24,911	24,911
At 31 December 2024 and 1 January 2025	760,069	250,649	1,010,718
Additions	–	26,393	26,393
Purchase of license fee	–	369,599	369,599
Proceeds from disposal of license fee	–	(332,526)	(332,526)
Transfer	159,327	(159,327)	–
At 31 December 2025	919,396	154,788	1,074,184
Amortisation and impairment			
At 1 January 2024	450,466	–	450,466
Charge for the year ^(Note)	77,989	–	77,989
At 31 December 2024 and 1 January 2025	528,455	–	528,455
Charge for the year ^(Note)	43,308	–	43,308
At 31 December 2025	571,763	–	571,763
Carrying values			
At 31 December 2025	347,633	154,788	502,421
At 31 December 2024	231,614	250,649	482,263

Note: During the year ended 31 December 2025 and 2024, the management revisited the expected saleable units of each intangible asset and estimated the recoverable amount respectively, no additional amortisation expense of intangible assets is recognised in profit or loss for the years ended 31 December 2025 and 2024.

Development costs of technical know-how of new automotive engines are costs incurred internally and have finite useful lives and are amortised based on unit of production by reference to the expected saleable units of respective automotive engines.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

21. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised and movements thereon during the current and prior years:

	Development costs RMB'000	Provisions RMB'000	Deferred income RMB'000	Total RMB'000
At 1 January 2024	5,676	2,674	2,233	10,583
Credit/(Charge) to profit or loss	1,103	(2,506)	(645)	(2,048)
At 31 December 2024 and 1 January 2025	6,779	168	1,588	8,535
Charge to profit or loss	(1,403)	(447)	(545)	(2,395)
At 31 December 2025	5,376	(279)	1,043	6,140

At 31 December 2025 and 2024, the Group had no other material unrecognised deductible temporary differences. No deferred tax assets has been recognised in respect of the unused tax losses of approximately RMB154,528,000 (2024: RMB124,021,000) as at 31 December 2025 due to the unpredictability of future profit streams.

22. LOAN TO A SHAREHOLDER

As detailed in Note 42, the Company has two trust arrangements which entitle the Group's employees to subscribe for shares of the Company through Lead In for their services to the Group. Under the loan agreements dated 18 October 2011, each of the two shareholders of the Company, namely Brilliance Investment Holdings Limited and Xinhua Investment Holdings Limited, advanced loans in equal amounts of HK\$20,000,000 to the Company (collectively, the "Loans from Shareholders"). In return, (i) the Company lent an aggregate amount of HK\$40,000,000, equal to the Loans from Shareholders, to Lead In (the "Loan to a Shareholder"), with an original repayment term of one year from the date of loan agreements entered by the Company and Lead In, and (ii) Lead In used the funding obtained from the Company to subscribe for 36,977,960 shares of the Company under the Discretionary Trust (Note 42). The Company does not have the power to direct the relevant activities of Lead In and the ability to use its power over the entities to affect its exposure of returns as detailed in Note 42. Therefore, the Group considers the funding to Lead In is classified as loan to a shareholder. All the loans are non-trade related, unsecured and interest free.

Following the cessation of the operation and further implementation of the share incentive scheme by the Company as detailed in Note 42, depending on, among others, the prevailing trading prices of the shares held under the Discretionary Trust, Lead In may in future dispose of these shares gradually and in an orderly manner and use the sale proceeds to repay the Loan to a Shareholder.

The Group provided loss allowance amounting to HK\$24,650,000 (2024: HK\$27,936,000), equivalent to approximately RMB22,180,000 (2024: RMB26,260,000) as at 31 December 2025 based on periodic individual assessment on the recoverability. Reversal of ECL of RMB3,022,000 (2024: ECL of RMB3,953,000) is recognised in profit or loss during the year ended 31 December 2025.

The Company had repaid the Loans from Shareholders in October 2013, whilst the Loan to a Shareholder was renewed annually and further extended to October 2026 in 2025.

At 31 December 2025 and 2024, management of the Company expected the Loan to a Shareholder was unlikely to be recovered within one year and the outstanding balance is classified as non-current assets. Management of the Company conducted the 12-month ECL assessment (2024: lifetime ECL assessment adopted for stage 2 ECL assessment) on the receivable after taking into account factors that are specific to the debtor, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the end of the reporting period. The details of assessment on ECL are set out in Note 35.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

23. INVENTORIES

	2025 RMB'000	2024 RMB'000
Raw materials	297,508	301,729
Work-in-progress	18,444	27,220
Finished goods	120,995	150,634
	436,947	479,583

At 31 December 2025, the carrying amount of inventories included provision of RMB61,922,000 (2024: RMB63,790,000), which is determined with reference to the net realisable value of the inventory items. Reversal of provision of RMB1,868,000 (2024: RMB7,001,000) upon realisation of sales was made during the year ended 31 December 2025.

24. TRADE AND OTHER RECEIVABLES, FINANCIAL ASSETS MEASURED AT FVTOCI

(a) Trade and other receivables:

	2025 RMB'000	2024 RMB'000
Trade receivables	1,178,703	2,648,966
Less: Allowance for credit losses	(295,527)	(294,407)
Trade receivables, net	883,176	2,354,559
Bills receivable	115,190	122,114
Less: Allowance for credit losses	-	-
Total trade and bills receivables	998,366	2,476,673
Prepayments for purchase of raw materials and engine components	20,152	29,820
Other receivables	3,729	22,086
Less: Allowance for credit losses	-	-
	1,022,247	2,528,579

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

24. TRADE AND OTHER RECEIVABLES, FINANCIAL ASSETS MEASURED AT FVTOCI (Cont'd)

(a) Trade and other receivables: (Cont'd)

The Group generally allows a credit period of 30 to 90 days from the invoice date for trade receivables and a further 3 to 6 months for bills receivable to its external customers. The following is an aging analysis of trade receivables, net of allowance for credit losses, presented based on the invoice date at the end of the reporting period:

	2025 RMB'000	2024 RMB'000
Within 1 month	337,689	2,297,558
Over 1 month but within 2 months	531,206	38,965
Over 2 months but within 3 months	1,601	5,055
Over 3 months but within 6 months	10,641	12,235
Over 6 months but within 1 year	1,107	104
Over 1 year	932	642
	883,176	2,354,559

The following is an aging analysis of bills receivable, net of allowance for credit losses, presented based on the issuance date of bills at the end of the reporting period:

	2025 RMB'000	2024 RMB'000
Within 3 months	57,453	64,636
Over 3 months but within 6 months	57,737	57,478
	115,190	122,114

At 31 December 2025, the management has assessed the impairment of its customers based on provision matrix. The table below provides information about the exposure to credit risk and ECL for trade receivables which are assessed based on provision matrix as at 31 December 2025 and 2024:

31 December 2025

	Gross carrying amount RMB'000	Loss rate range %	ECL RMB'000
Not past due	866,620	0.90-2.10	1,613
Past due:			
Within 1 month	6,026	0.90-2.10	145
Over 1 month but within 3 months	2,285	0.90-4.79	44
Over 3 months but within 6 months	7,745	0.90-4.79	232
Over 6 months but within 1 year	1,653	0.90-4.79	51
Over 1 year <i>(Note)</i>	294,374	41.18-100.00	293,442
	1,178,703		295,527

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

24. TRADE AND OTHER RECEIVABLES, FINANCIAL ASSETS MEASURED AT FVTOCI (Cont'd)

(a) Trade and other receivables: (Cont'd)

31 December 2024

	Gross carrying amount RMB'000	Loss rate range %	ECL RMB'000
Not past due	2,340,323	0.83-1.93	1,282
Past due:			
Within 1 month	13,538	0.83-1.93	32
Over 1 month but within 3 months	457	0.83-3.00	12
Over 3 months but within 6 months	754	0.83-3.00	18
Over 6 months but within 1 year	355	0.83-35.05	8
Over 1 year ^(Note)	293,539	35.05-100.00	293,055
	2,648,966		294,407

Note: As at 31 December 2025, RMB292,793,000 (2024: RMB292,793,000) of trade receivables was fully impaired because the Group considered there are significant increase in credit risk of this receivables due to the liquidity problem of the debtors.

Movement in the ECL of trade receivables:

	2025 RMB'000	2024 RMB'000
At beginning of year	294,407	304,673
ECL recognised during the year	1,120	–
Reversal of ECL during the year ^(Note)	–	(10,266)
At end of year	295,527	294,407

Note: Reversal of ECL of RMB10,266,000 was recognised during the year ended 31 December 2024 as the Group has received settlements from the customers in relation to the unrecoverable receivables during the year.

Before accepting any new customers, the Group assesses the potential customer's credit quality and defines its credit limit based on the reputation of the customers in the industry. Limits attributed to customers are reviewed regularly.

In determining the recoverability of trade and bills receivables, the Group considers any changes in the credit quality of the trade and bills receivables from the date credit was initially granted up to the end of the reporting period.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

24. TRADE AND OTHER RECEIVABLES, FINANCIAL ASSETS MEASURED AT FVTOCI (Cont'd)

(b) Financial assets measured at FVOCI

Under HKFRS 9, certain bills which were held by the Group for the practice of discounting/endorsing to financial institutions/suppliers before the bills due for payment were classified as “financial assets measured at FVTOCI”. At 31 December 2024, all the bills are with a maturity period of less than 6 months. The Group considers the credit risk is limited because counterparties are banks with good credit standing and are highly likely to be paid, and the ECL are considered as insignificant.

25. AMOUNTS DUE FROM RELATED COMPANIES

	2025 RMB'000	2024 RMB'000
Non-trade related <i>(Note a)</i>	25	26
Trade related, gross	270,683	289,580
Less: Allowance for credit losses	(267,211)	(267,211)
Trade receivables, net <i>(Note b)</i>	3,472	22,369
	3,497	22,395

Notes:

(a) The balance is unsecured, interest free and repayable on demand. The maximum amount outstanding as at 31 December 2025 amounting to RMB26,000 (2024: RMB26,000).

(b) The amounts due from related companies are trade related with details as follows:

	2025 RMB'000	2024 RMB'000
Huachen Group[#]		
Shenyang Brilliance Power Train Machinery Co., Ltd.* 瀋陽華晨動力機械有限公司	1,703	18,792
Huachen Automotive Group Holdings Company Limited* (“Huachen Automotive”) 華晨汽車集團控股有限公司	-	2,074
	1,703	20,866
Brilliance China Group		
Jinbei (Shenyang) Automobile Co., Ltd.* 金杯(瀋陽)汽車零部件有限公司	266	-
Shenyang XingYuanDong Automobile Component Co., Ltd.* 瀋陽興遠東汽車零部件有限公司	1,503	1,503
	1,769	1,503
	3,472	22,369

[#] Huachen Automotive and its subsidiaries collectively referred to as “**Huachen Group**”.

* English name for reference only.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

25. AMOUNTS DUE FROM RELATED COMPANIES (Cont'd)

Analysed as:

	2025 RMB'000	2024 RMB'000
Trade receivables	3,472	22,369

The Group has pledged certain amounts due from related companies, before ECL allowance, amounting to RMB1,505,000 as at 31 December 2025 (2024: RMB1,505,000) to secure general banking facilities granted to the Group.

Trade related amounts due from related companies are unsecured, interest free and with a credit period ranging from 45 to 90 days from the invoice date and a further 3 to 6 months for bills receivable. The following is an aging analysis of trade receivables, net of allowance for credit losses, presented based on the invoice date at the end of the reporting period:

	2025 RMB'000	2024 RMB'000
Over 6 months but within 1 year	3,472	22,369

The Group's credit limits offered to related companies are based on assessment of their financial viability and reputation in the industry, including historical payment records.

The Group applied simplified approach to provide the ECL prescribed by HKFRS 9.

To measure the ECL of amounts due from related companies, the balances have been assessed based on individual assessment. At 31 December 2025 and 2024, the Group engaged the Valuer to assess the credit rating for its customers and applying the expected loss rate ranging from 0.1% to 100% (2024: 0.1% to 100%) over the gross carrying amounts. As at 31 December 2025 and 2024, loss allowance amounting to RMB267,211,000 (2024: RMB267,211,000) was recognised based on individual assessment by reference to the Group's historical credit loss experiences, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

Movement in the ECL of amounts due from related companies:

	2025 RMB'000	2024 RMB'000
At beginning of year	267,211	649,452
Reversal of ECL during the year <i>(Note a)</i>	–	(88,169)
Amount written off during the year <i>(Note b)</i>	–	(294,072)
At end of year	267,211	267,211

Notes:

- (a) Reversal of ECL of RMB88,169,000 was recognised during the year ended 31 December 2024 as the Group had received settlements from Huachen Group during 2024.
- (b) ECL of RMB294,072,000 was written off during the year ended 31 December 2024 as the Group had assessed that it was irrecoverable based on the court judgement in 2024.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

26. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances and pledged/restricted bank deposits carry interest at variable market rates as follows:

	Bank balances RMB'000	Pledged/ restricted bank deposits RMB'000
At 31 December 2025	0.0001% – 1.70% per annum	0.05% – 0.65% per annum
At 31 December 2024	0.01% – 1.35% per annum	0.01% – 1.69% per annum

An amount of RMB40,988,000 (2024: RMB100,585,000) represents bank deposits pledged to banks to secure bills payable issued to suppliers of the Group for the purchase of raw materials.

An amount of RMBnil (2024: RMB368,000) represents pledged bank deposits for issuance of letters of credit with maturity of 3 months to 1 year.

An amount of RMBnil (2024: RMB469,000) represents pledged bank deposits to secure for borrowings.

Balances denominated in foreign currencies:

	2025 RMB'000	2024 RMB'000
HK\$	29,965	16,849
United States Dollars ("US\$")	448	635

Other than bank balances shown above, all other remaining bank balances are denominated in RMB which is not a freely convertible currency. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

27. TRADE AND OTHER PAYABLES

	2025 RMB'000	2024 RMB'000
Trade payables	231,613	246,313
Bills payable	149,900	242,557
Total trade and bills payables	381,513	488,870
Construction payables	7,433	7,688
Payroll and welfare payables	14,441	21,992
Advance from customers <i>(Note a)</i>	25,204	12,999
Provision for warranty <i>(Note b)</i>	11,778	12,307
Retention money	10,963	10,552
Provision for operating expenses	5,349	4,500
Other payables	4,573	7,442
	461,254	566,350

Notes:

- a. As at 31 December 2025 and 2024, the balances amounting to RMB25,204,000 and RMB12,999,000, respectively, represented the contract liabilities, i.e. the Group's obligation to transfer goods or services to customers for which the Group has received consideration from the customers. During the year ended 31 December 2025, the contract liabilities balance at the beginning of the year were fully recognised as revenue from sale of goods.

The increase of contract liabilities as at 31 December 2025 is mainly due to the increase in the deposits received as a result of more manufacturing orders received from the related party during the reporting period.

- b. The balance of provision for warranty represents management's best estimate of the Group's liability under the one year warranty granted to customers on the sale of automotive engines and automotive engine components, based on prior experience and industry averages for defective products at the end of reporting period.

The credit periods of trade payables and bills payable are normally within 3 months and 3 to 6 months, respectively. The following is an aging analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2025 RMB'000	2024 RMB'000
Within 3 months	199,359	216,634
Over 3 months but within 6 months	15,657	7,393
Over 6 months but within 1 year	5,856	3,856
Over 1 year but within 2 years	488	3,365
Over 2 years	10,253	15,065
	231,613	246,313

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

27. TRADE AND OTHER PAYABLES (Cont'd)

The following is an aging analysis of bills payable presented based on the issuance date of bills at the end of the reporting period:

	2025 RMB'000	2024 RMB'000
Within 3 months	79,386	91,674
Over 3 months but within 6 months	59,848	117,449
Over 6 months but within 1 year	10,666	33,434
	149,900	242,557

The movement of provision for warranty are as follows:

	2025 RMB'000	2024 RMB'000
At beginning of year	12,307	9,487
Provision for the year	4,277	6,515
Utilised for the year	(4,806)	(3,695)
At end of year	11,778	12,307

All amounts are short term and hence the carrying values of the Group's trade payables, bills payable and other payables are considered to be a reasonable approximation of fair values.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

28. AMOUNTS DUE TO RELATED COMPANIES

Details of amounts due to related companies are as follows:

	2025 RMB'000	2024 RMB'000
Trade related:		
Huachen Group		
Huachen Automotive	610	610
Brilliance China Group		
Mianyang Brilliance Ruian Automotive Components Co., Ltd.* 綿陽華晨瑞安汽車零部件有限公司	5,105	3,711
Shenyang ChenFa Automotive Components Co., Ltd.* 瀋陽晨發汽車零部件有限公司	3,439	3,583
Shenyang Jinbei Vehicle Dies Manufacturing Co., Ltd.* 瀋陽金杯汽車模具製造有限公司	15	15
Wuliangye Group		
Mianyang Xinhua Trading Co., Ltd.* 綿陽新華商貿有限公司	251	-
Mianyang Xinhua Intelligent Drive Technology Co., Ltd.* (formerly known as Mianyang Xinhua Internal Combustion Engine Joint Stock Company Limited*) 綿陽新華智驅科技股份有限公司(前稱為綿陽新華內燃機股份有限公司)	23,638	38,467
Sichuan Yi Bin Pushi Automotive Components Co., Ltd.* 四川省宜賓普什汽車零部件有限公司	20	20
	33,078	46,406
Non-trade related:		
Brilliance China Group		
Brilliance China	257	1,616
	33,335	48,022

* English name for reference only.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

28. AMOUNTS DUE TO RELATED COMPANIES (Cont'd)

The trade related amounts are analysed as:

	2025 RMB'000	2024 RMB'000
Trade payables	16,870	10,907
Bills payable	16,208	35,499
	33,078	46,406

The aging of trade related amounts due to related companies presented based on the invoice date at the end of the reporting period is as follows:

	2025 RMB'000	2024 RMB'000
Within 3 months	11,493	6,315
Over 3 months but within 6 months	1,140	91
Over 6 months but within 1 year	9	121
Over 1 year	4,228	4,380
	16,870	10,907

The bills payable are guaranteed by the banks in the PRC and have maturities of 3 to 12 months. The following is an aging analysis of trade related bills payable presented based on the issuance date of bills at the end of the reporting period:

	2025 RMB'000	2024 RMB'000
Within 3 months	5,720	13,269
Over 3 months but within 6 months	10,488	22,230
	16,208	35,499

The trade related amounts are interest free, unsecured and with credit period of 3 to 6 months.

The non-trade related amounts are interest free, unsecured and repayable on demand.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

29. AMOUNT DUE TO AN ASSOCIATE

The balance is interest free, unsecured and repayable within 3 months.

The aging of trade related amounts due to an associate presented based on the invoice date at the end of the reporting period is as follows:

	2025 RMB'000	2024 RMB'000
Within 3 months	665,654	2,095,127
Over 6 months but within 1 year	–	102
Over 1 year	190	119
	665,844	2,095,348

30. BORROWINGS

(a) Bank borrowings

	2025 RMB'000	2024 RMB'000
Carrying amount repayable:		
Within 1 year or on demand	544,577	418,000
After 1 year but within 2 years	107,800	52,578
After 2 years but within 5 years	–	97,000
	652,377	567,578
Less: amounts shown under current liabilities	(544,577)	(418,000)
Amounts shown under non-current liabilities	107,800	149,578
Secured <small>(Note a)</small>	371,077	468,797
Unsecured <small>(Note b)</small>	281,300	98,781
	652,377	567,578

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

30. BORROWINGS (Cont'd)

(b) Other borrowings

	2025 RMB'000	2024 RMB'000
Carrying amount repayable:		
Within 1 year or on demand	7,133	28,153
After 1 year but within 2 years	–	7,173
	7,133	35,326
Less: amounts shown under current liabilities	(7,133)	(28,153)
Amounts shown under non-current liabilities	–	7,173
Unsecured <i>(Note c)</i>	7,133	35,326
	7,133	35,326

Notes:

- a. At 31 December 2025 and 2024, the balances were secured by property, plant and equipment, prepaid lease payments and amounts due from related companies as set out in Notes 16, 18 and 25, respectively.
- b. At 31 December 2025, included in the unsecured borrowings is RMB242,790,000 guaranteed by companies within the Group (2024: RMB26,300,000 guaranteed by companies within the Group). The remaining balance of RMB38,510,000 (2024: RMB72,481,000) was unguaranteed, unsecured and arose from discounting, with recourse of bills receivable.
- c. At 31 December 2025, included in the balances was other borrowings amounting to RMBnil (2024: RMB5,249,000) from a non-related party which was unsecured, bearing interest at nil% per annum (2024: 1.2% per annum) and repayable on demand, and RMB7,133,000 (2024: RMB30,077,000) from non-related parties which was unsecured, bearing interest at 4.5% per annum (2024: 6.0%) and repayable with scheduled repayment dates as at 31 December 2025.

The ranges of effective interest rates (which are also equal to contractual interest rates) on the Group's borrowings are as follows:

	2025 % per annum	2024 % per annum
Fixed-rate borrowings – RMB	2.7% to 4.7%	1.2% to 6.5%

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

31. LEASE LIABILITIES

	2025 RMB'000	2024 RMB'000
Total minimum lease payments:		
Within 1 year	146,015	152,270
After 1 year but within 2 years	130,726	144,956
After 2 years but within 5 years	–	130,725
	276,741	427,951
Future finance charges on lease liabilities	(12,471)	(28,009)
Present value of lease liabilities	264,270	399,942
	2025 RMB'000	2024 RMB'000
Present value of minimum lease payments:		
Within 1 year	136,744	136,731
After 1 year but within 2 years	127,526	135,685
After 2 years but within 5 years	–	127,526
	264,270	399,942
Less: Portion due within one year included under current liabilities	(136,744)	(136,731)
Portion due after one year included under non-current liabilities	127,526	263,211

Note:

As at 31 December 2025, lease liabilities amounting to RMB264,270,000 (2024: RMB399,942,000) are effectively secured by the related underlying assets as the rights to the leased asset would be reverted to the lessor in the event of default by repayment by the Group.

During the year ended 31 December 2025, the total cash outflows for the leases are RMB152,411,000 (2024: RMB164,480,000).

Types of right-of-use assets	Number of leases	Range of remaining lease term	Particulars
Office premise	1	1 year (2024: 1 year)	No option to renew the lease after the end of the contract
Production facilities	1	2 years (2024: 3 years)	Contains an option to renew the lease after the end of the contract by giving a three-month notice to landlord before the end of the contract

The Group considered that no extension option or termination option would be exercised at the lease commencement date.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

32. DEFERRED INCOME

	2025	2024
	RMB'000	RMB'000
Amounts recognised in profit or loss during the year:		
Subsidies related to incurred costs ^(Note a)	24,752	22,584
Subsidies related to property, plant and equipment ^(Note b)	3,631	4,298
	28,383	26,882

Notes:

- a. The Group received government subsidies for reimbursement of logistics costs and research and development activities to enhance the competitiveness in the industry and to promote new products. The subsidies are recognised in profit or loss as the relevant expenses were incurred.
- b. The Group received government subsidies for the compensation of capital expenditures incurred for the plant and machinery. The amounts are deferred and amortised over the estimated useful lives of the respective assets.

The movement of deferred income is as follows:

	2025	2024
	RMB'000	RMB'000
At beginning of year	10,591	14,889
Amount credited to profit or loss during the year	(3,631)	(4,298)
At end of year	6,960	10,591

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

33. SHARE CAPITAL

Details of movement of the share capital of the Company are as follows:

	Number of shares	Amount HK\$
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
At date of incorporation, 1 January 2024, 31 December 2024 and 2025	8,000,000,000	80,000,000
<i>Issued and fully paid:</i>		
At 1 January 2024, 31 December 2024 and 2025	1,282,211,794	12,822,118
	2025	2024
	RMB'000	RMB'000
Share capital presented in consolidated statement of financial position	10,457	10,457

34. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts (which include borrowings and non-trade related amounts due to related companies), net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, retained profits and other reserves.

Management of the Group reviews the capital structure periodically. As part of this review, management considers the cost of capital and the risks associated with the capital. Based on recommendations of management, the Group will balance its overall capital structure through the payment of dividends and raising of new capital as well as the issue of new debt or the redemption of existing debt.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

35. FINANCIAL INSTRUMENTS

35.1 Categories of financial instruments

	2025 RMB'000	2024 RMB'000
Financial assets		
Financial assets at amortised cost [#]	1,318,570	2,687,807
Financial assets measured at FVTOCI	–	12,159
	1,318,570	2,699,966
Financial liabilities		
Financial liabilities at amortised cost ^{##}	1,762,037	3,265,846
Lease liabilities	264,270	399,942
	2,026,307	3,665,788

[#] Prepayment, deposits and value added tax recoverable are excluded.

^{##} Accruals, advance from customers, provision for warranty, payroll and welfare payables and other tax payables are excluded.

35.2 Financial risk management objectives and policies

The Group's financial instruments include trade and other receivables, financial assets measured at FVTOCI, amounts due from/ to related companies, amount due to an associate, loan to a shareholder, bank balances and cash, pledged bank deposits, trade and other payables, lease liabilities and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no material change to the Group's exposure to market risks or the manner in which it manages and measures the risk from prior year.

Currency risk

The carrying amounts of the Group's significant monetary (liabilities)/assets denominated in foreign currency, i.e. currency other than the functional currency of the respective group entities at the end of the reporting period are as follows:

	2025 RMB'000	2024 RMB'000
US\$		
– Cash and cash equivalents	353	535
HK\$		
– Cash and cash equivalents	30,059	17,049
– Loan to a shareholder	9,915	6,125
	39,974	23,174

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

35. FINANCIAL INSTRUMENTS (Cont'd)

35.2 Financial risk management objectives and policies (Cont'd)

Currency risk (Cont'd)

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2024: 5%) increase and decrease in RMB, the functional currency of the respective group entities operating in the PRC, against US\$ and HK\$. 5% is the sensitivity rate used which represents management's assessment of the possible changes in foreign currency rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for 5% change in foreign currency rates. A (negative)/positive number below indicates a (increase)/decrease in profit for the year where RMB strengthens 5% against US\$ and HK\$. For a 5% weakening of RMB against US\$ and HK\$, there would be an equal but opposite impact on the profit for the year.

	2025 RMB'000	2024 RMB'000
Profit for the year		
US\$	(15)	(22)
HK\$	(1,669)	(968)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to cash flow interest rate risk on the variable rate of interest earned on the restricted/pledged bank deposits and bank balances, and variable rate of interest incurred on borrowings. The Group is also exposed to fair value interest rate risk in relation to fixed-rate borrowings and lease liabilities. It is the Group's policy to maintain an appropriate level between its fixed-rate and variable-rate borrowings so as to minimise the fair value and cash flow interest rate risk. The Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

At 31 December 2025, interest income amounting to RMB2,555,000 (2024: RMB2,579,000) are from financial assets that are measured at amortised cost.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. The following sensitivity analysis represents management's assessment of the reasonably possible change in interest rates.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

35. FINANCIAL INSTRUMENTS (Cont'd)

35.2 Financial risk management objectives and policies (Cont'd)

Interest rate risk (Cont'd)

Variable-rate bank balances

If interest rate of variable-rate bank balances had been 10 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2025 would have increased/decreased by approximately RMB258,000 (2024: increased/decreased by approximately RMB180,000).

In the director's opinion, the sensitivity analysis above is unrepresentative for the interest rate risk as the exposure at the end of reporting period does not reflect the exposure during the year.

Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and from its investing activities.

At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position and outstanding endorsed and discounted bills receivable as disclosed in Note 39.

Trade receivables

Before accepting any new customers, the Group assesses the potential customer's credit quality and defines its credit limit based on the reputation of the customers in the industry. Limits attributed to customers are reviewed regularly. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 on trade balances individually or based on provision matrix, as appropriate.

Trade receivables are written off (i.e. derecognised) when there is no reasonable expectation of recovery. Failure to make payments within 360 days from the invoice date and failure to engage with the Group on alternative payment arrangement amongst other is considered indicators of no reasonable expectation of recovery.

The Group had concentration of credit risk by geographical location as trade and bills receivables and trade related amounts due from related companies comprise various debtors which are all located in PRC during the years ended 31 December 2025 and 2024.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

35. FINANCIAL INSTRUMENTS (Cont'd)

35.2 Financial risk management objectives and policies (Cont'd)

Credit risk (Cont'd)

Trade receivables (Cont'd)

As at 31 December 2025, the Group has concentration of credit risk, 68% and 78% (2024: 84% and 99%) of the Group's total trade receivables, financial assets measured at FVTOCI and trade related amounts due from related companies was due from the Group's largest customer and five largest customers respectively. Those five largest customers are with good creditworthiness based on historical settlement record. In order to minimise the concentration of credit risk, the management has delegated staff responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure follow-up action is taken to recover overdue debts. The management also performs periodic evaluations and customer visits to ensure the Group's exposure to bad debts is not significant and adequate ECL are made for irrecoverable amount. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Relevant information with regard to the exposure of credit risk and ECL for Trade-related-receivables as at 31 December 2025 and 2024 are set out in Notes 24 and 25.

Other financial assets at amortised cost

For non-trade related amounts due from related companies, the Group makes periodic individual assessment on the recoverability, and concluded that the expected credit loss rate for these receivables is immaterial under 12-month ECL method based on the Group's assessment on the risk of the default of that counterparty. Thus, no loss allowance for credit losses for the amounts was recognised during the years ended 31 December 2025 and 2024.

For Loan to a Shareholder, the Group provided loss allowance amounting to HK\$24,650,000 (2024: HK\$27,936,000), equivalent to approximately RMB22,180,000 (2024: RMB26,260,000) as at 31 December 2025 and 2024 based on periodic individual assessment on the recoverability.

The Group has assessed that the ECL for other receivables (excluding prepayments, deposits and value-added tax recoverable) are minimal under the 12-month ECL method as there is no significant increase in credit risk on these financial assets since initial recognition and the risk of default is loss during the years ended 31 December 2025 and 2024.

Management considered the credit risk on pledged bank deposits and bank balances are limited because the counterparties are banks with good credit standing. There have been no history of default in relation to these banks and thus the risk of default was regarded as low. No loss allowance provision for pledged bank deposits and bank balances is recognised upon application of HKFRS 9.

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2025 and 2024. The amounts presented are gross carrying amounts for financial assets.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

35. FINANCIAL INSTRUMENTS (Cont'd)

35.2 Financial risk management objectives and policies (Cont'd)

Credit risk (Cont'd)

As at 31 December 2025

	12-month ECLs		Lifetime ECLs		Simplified approach	Total
	Stage 1	Stage 2	Stage 3			
	RMB'000	RMB'000	RMB'000		RMB'000	RMB'000
Loan to a shareholder	-	30,886	-	-	-	30,886
Trade receivables <i>(Note b)</i>	-	-	-	-	1,178,703	1,178,703
Other receivables	3,729	-	-	-	-	3,729
Bills receivable	-	-	-	-	115,190	115,190
Amounts due from related companies	3,473	-	267,210	-	-	270,683
Pledged bank deposits	40,988	-	-	-	-	40,988
Bank balances and cash	272,554	-	-	-	-	272,554
	320,744	30,886	267,210		1,293,893	1,912,733

As at 31 December 2024

	12-month ECLs		Lifetime ECLs		Simplified approach	Total
	Stage 1	Stage 2	Stage 3			
	RMB'000	RMB'000	RMB'000		RMB'000	RMB'000
Loan to a Shareholder <i>(Note a)</i>	-	31,176	-	-	-	31,176
Trade receivables <i>(Note b)</i>	-	-	-	-	2,648,966	2,648,966
Financial assets measured at FVTOCI	12,159	-	-	-	-	12,159
Other receivables	7,559	-	-	-	-	7,559
Bills receivable	-	-	-	-	122,114	122,114
Amounts due from related companies	1,505	-	288,075	-	-	289,580
Pledged bank deposits	101,422	-	-	-	-	101,422
Bank balances and cash	85,570	-	-	-	-	85,570
	208,215	31,176	288,075		2,771,080	3,298,546

Notes:

- (a) Having considered the factors that are specific to the debtor, general economic conditions, the Group considered that there is significant increase in credit risk of the loan to a shareholder since initial recognition and, therefore, an ECL allowance of RMB3,953,000 was recognised during the year ended 31 December 2024.
- (b) For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in Note 24 to the consolidated financial statements.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

35. FINANCIAL INSTRUMENTS (Cont'd)

35.2 Financial risk management objectives and policies (Cont'd)

Liquidity risk

In the management of the liquidity risk, the Group closely monitors its cash position resulting from its operations and maintains a level of cash and cash equivalents deemed adequate by management to meet in full its financial obligations as they fall due for the foreseeable future. Management also monitors the utilisation of bank and other borrowings.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms as at 31 December 2025 and 2024. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are carried at floating rate, the undiscounted amount is derived from the interest rate at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis for outstanding endorsed and discounted bills receivable. The tables have been drawn up based on the undiscounted contractual net cash outflows on endorsed and discounted bills receivable that could be required to be paid if the relevant bank defaults on payment. The liquidity analysis for the Group's endorsed and discounted bills receivable are prepared based on the contractual maturities as management considers that the contractual maturities are essential for an understanding of the timing of the cash flows of endorsed and discounted bills receivable.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

35. FINANCIAL INSTRUMENTS (Cont'd)

35.2 Financial risk management objectives and policies (Cont'd)

Liquidity risk (Cont'd)

Liquidity tables

	Weighted average interest rate %	Repayable on demand or within 3 months RMB'000	3 - 6 months RMB'000	6 months to 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2025							
Non-interest bearing							
Trade and other payables	N/A	403,348	-	-	-	403,348	403,348
Amounts due to related companies	N/A	33,335	-	-	-	33,335	33,335
Amount due to an associate	N/A	665,844	-	-	-	665,844	665,844
Outstanding endorsed and discounted bills receivable ^(Note a)							
	N/A	477,371	29,723	-	-	507,094	-
Interest bearing							
Other borrowings ^(Note b)	1.2 - 6.4	3,667	3,671	-	-	7,338	7,133
Borrowings ^(Note b)							
- Fixed rate	3.2 - 6.5	118,390	248,346	117,791	109,380	593,907	580,970
- Variable rate	6.25	554	71,857	-	-	72,411	71,407
Lease liabilities	3.5 - 4.6	36,509	36,509	72,997	130,726	276,741	264,270
		1,739,018	390,106	190,788	240,106	2,560,018	2,026,307
At 31 December 2024							
Non-interest bearing							
Trade and other payables	N/A	519,572	-	-	-	519,572	519,572
Amounts due to related companies	N/A	48,022	-	-	-	48,022	48,022
Amount due to an associate	N/A	2,095,348	-	-	-	2,095,348	2,095,348
Outstanding endorsed and discounted bills receivable ^(Note a)							
	N/A	663,950	25,290	-	-	689,240	-
Interest bearing							
Other borrowings	1.2 - 6.4	15,267	6,227	7,960	7,339	36,793	35,326
Borrowings							
- Fixed rate	3.2 - 6.5	57,000	276,767	122,293	164,994	621,054	567,578
Lease liabilities	4.6 - 4.7	38,068	38,068	76,134	275,681	427,951	399,942
		3,437,227	346,352	206,387	448,014	4,437,980	3,665,788

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

35. FINANCIAL INSTRUMENTS (Cont'd)

35.2 Financial risk management objectives and policies (Cont'd)

Liquidity risk (Cont'd)

Liquidity tables (Cont'd)

Notes:

- (a) The amounts included above for outstanding endorsed and discounted bills receivable are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is defaulted by the counterparties to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, the estimate is subject to change depending on the probability of the default of the counterparties under the arrangement which is a function of the likelihood that the financial receivables held by the counterparties suffer credit losses.
- (b) Borrowings repayable on demand due to breach of loan covenants are included in the “Repayable on demand or within 3 months” time band in the above maturity analysis. As at 31 December 2024, the aggregate carrying amounts of these borrowings amounting to RMB5,249,000. Taking into account the Group’s financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such borrowings will be repaid after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

Maturity analysis – Borrowings repayable on demand due to breach of loan covenants based on scheduled repayments

	Within 3 months RMB'000	3 – 6 months RMB'000	6 months to 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
31 December 2024	5,249	–	–	–	–	5,249

35.3 Fair value

Fair value of the Group’s financial assets and financial liabilities that are not measured at fair value on recurring basis

Other than financial assets measured at FVTOCI, the fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities other than financial assets measured at FVTOCI recognised in the consolidated financial statements approximate their fair values.

Fair value of the Group’s financial assets and financial liabilities

Financial assets/ financial liabilities	Fair value as at 31 December		Fair value hierarchy	Valuation technique and key inputs
	2025 RMB'000	2024 RMB,000		
Financial assets measured at FVTOCI in the consolidated statement of financial position	–	12,159	Level 2	Discounted cash flows Future cash flows are estimated based on discount rates which are based on the yield-to-maturity of commercial bank bond, with matched terms, and credit risk of various counterparties.

There were no transfer between the different levels of the fair value hierarchy during the year ended 31 December 2025 (2024: nil).

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

36. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes.

	Borrowings RMB'000	Amounts due to related companies RMB'000	Leases liabilities RMB'000	Total RMB'000
At 1 January 2024	600,824	2,491	537,834	1,141,149
Interest paid	(25,937)	-	(21,812)	(47,749)
New borrowings raised	409,929	-	-	409,929
Repayment of borrowings	(407,849)	-	-	(407,849)
Repayment to related companies	-	(875)	-	(875)
Capital element of lease rentals paid	-	-	(140,037)	(140,037)
Non-cash:				
Addition	-	-	2,145	2,145
Finance cost recognised (Note 9)	25,937	-	21,812	47,749
At 1 January 2025	602,904	1,616	399,942	1,004,462
Interest paid	(22,480)	-	(15,538)	(38,018)
New borrowings raised	397,567	-	-	397,567
Repayment of borrowings	(340,961)	-	-	(340,961)
Repayment to related companies	-	(1,359)	-	(1,359)
Capital element of lease rentals paid	-	-	(136,731)	(136,731)
Non-cash:				
Lease modification	-	-	1,059	1,059
Finance cost recognised (Note 9)	22,480	-	15,538	38,018
At 31 December 2025	659,510	257	264,270	924,037

37. LEASE COMMITMENTS

The Group as lessor

Property rental income earned from the buildings previously transferred from investment properties amounting to RMB443,000 (2024: RMB502,000) for the year ended 31 December 2025.

At the end of the reporting period, the Group had contracted with tenant for the following future minimum lease payments:

	2025 RMB'000	2024 RMB'000
Within one year	8,184	2,046
Due in the second to fifth years	16,367	-
	24,551	2,046

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

38. CAPITAL COMMITMENTS

	2025	2024
	RMB'000	RMB'000
Contracted but not provided for		
Capital expenditure in respect of the acquisition of property, plant and equipment, prepaid lease payments and development costs	9,872	10,061
Capital expenditure in respect of investment in associate ^(Note)	–	80,000
Capital expenditure in respect of investment in subsidiary (Note 45)	84,865	–

Note: Pursuant to the investment agreement with Beijing CHJ Automotive Technology Co., Ltd* (北京車和家汽車科技有限公司) (“Beijing CHJ”), Li Xincheng was incorporated on 22 October 2021 and its registered capital was RMB629,936,000 that has been subscribed for but has not been paid up as at 31 December 2024. The registered capital consists of RMB321,267,000 that shall be contributed by Beijing CHJ in cash and RMB308,669,000 that shall be contributed by the Group, composed of RMB80,000,000 in cash and RMB228,669,000 by injecting the equipment and machinery and constructions in progress relating to CE engine assembly line and cylinder block machining line into Li Xincheng. Beijing CHJ and the Group will hold 51% and 49% of the equity interests in Li Xincheng, respectively.

* *English name for reference only.*

39. CONTINGENT LIABILITIES

During the year, the Group (i) endorsed certain bills receivable for the settlement of trade and other payables; and (ii) discounted certain bills receivable to banks for raising of cash. In the opinion of the directors, the Group has transferred the significant risks and rewards relating to these bills receivable, and the Group's obligations to the corresponding counterparties were discharged in accordance with the commercial practice in the PRC and the risk of the default in payment of the endorsed and discounted bills receivable is low because all endorsed and discounted bills receivable are issued and guaranteed by the reputable PRC banks. As a result, the relevant assets and liabilities were not recognised in the consolidated financial statements. The maximum exposure to the Group that may result from the default of these endorsed and discounted bills receivable at the end of each reporting period are as follows:

	2025	2024
	RMB'000	RMB'000
Settlement of trade and other payables	477,371	633,150
Discounted bills for raising of cash	29,723	56,090
Outstanding endorsed and discounted bills receivable with recourse	507,094	689,240

Maturity analysis of the outstanding endorsed and discounted bills receivable:

	2025	2024
	RMB'000	RMB'000
Within 3 months	476,931	663,950
Over 3 months but within 6 months	30,163	25,290
	507,094	689,240

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

40. RELATED PARTY DISCLOSURES

Other than those disclosed elsewhere in the consolidated financial statements, during the year, the Group entered into the following transactions with related parties:

	2025 RMB'000	2024 RMB'000
Sale of goods		
Brilliance China Group	58,357	–
Li Xinchun	58,155	143,130
	116,512	143,130
Purchase of goods		
Brilliance China Group	3,647	2,453
Wuliangye Group	18,480	12,969
Li Xinchun	3,329,130	4,900,322
	3,351,257	4,915,744
Lease income and auxiliary services charged		
Li Xinchun	11,355	13,132
Service income		
Wuliangye Group	14	–
Brilliance China Group	515	–
	529	–
Water and electricity costs received		
Wuliangye Group	8	7
Brilliance China Group	4	–
	12	7
Repairment fee		
Wuliangye Group	156	64

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

40. RELATED PARTY DISCLOSURES (Cont'd)

40.1 Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government (the "State-controlled Entities"). The Group has entered into various transactions in the ordinary course of business, including deposits placements, borrowings and other general banking facilities, with banks which are PRC governments related entities. In addition, the Group itself is jointly controlled by a subsidiary of Brilliance China and a subsidiary of Wuliangye, each of which are ultimately controlled by the PRC government. Apart from the transactions with the Brilliance China Group and Wuliangye Group disclosed above, the Group also conducts business with other State-controlled Entities. The directors of the Company consider those State-controlled Entities as independent third parties so far as the Group's business transactions with them are concerned.

40.2 Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	2025	2024
	RMB'000	RMB'000
Short-term benefits	8,459	13,234
Post-employment benefits	106	117
	8,565	13,351

The directors and certain senior management have also been employed by the Brilliance China Group and Wuliangye Group and the payment of their post-employment benefits representing contributions to retirement benefits scheme was centralised and made by the Brilliance China Group and Wuliangye Group for the years ended 31 December 2025 and 2024, and such amounts are considered as insignificant.

41. RETIREMENT BENEFIT PLAN

The employees of the Group are members of the state-managed retirement benefit scheme operated by the PRC government and of MPF Scheme. The Group is required to contribute a certain percentage of basic payroll costs to the retirement benefit scheme with a rate at 16% (2024:16%) of salaries and certain allowances of the employees to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme. During the year ended 31 December 2025, approximately RMB31,062,000 (2024: RMB27,358,000) expenses were incurred and recognised in profit or loss.

The Group's Hong Kong employees are covered by the MPF which is managed by an independent trustee. The Group and its Hong Kong employees each makes monthly mandatory contributions to the scheme at 5% (2024: 5%) of the employee's salary with the maximum amount of HKD1,500 (2024: HKD1,500) by each of the Group and the employee per month.

The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the schemes. The Group's contributions for staff in Hong Kong and the PRC for the year ended 31 December 2025 were approximately RMB45,000 (2024: RMB46,000).

At 31 December 2025 and 2024, the Group had no forfeited contribution available to reduce its contributions to the pension schemes in future years.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

42. SHARE-BASED PAYMENT TRANSACTIONS

42.1 Share Incentive Scheme

During the year ended 31 December 2011, the Company established a share incentive scheme (the “Incentive Scheme”) to provide an incentive to directors, management, employees and relevant personnel of the Group who have contributed or will make contributions to the development and growth of the Group (the “Beneficiaries”) which contains two trust arrangements, namely a fixed trust (the “Fixed Trust”) and a discretionary trust (the “Discretionary Trust”). On 31 October 2011, the Company issued 93,999,794 shares of the Company (the “Shares”), representing approximately 9.998% of then enlarged issued share capital of the Company, to Lead In, which held on trust for the relevant Beneficiaries under the two trust arrangements at subscription price of HK\$1.0817 per Share. The subscription price of HK\$1.0817 per Share is considered as fair value since it was determined based on the Mianyang Xinchun Valuation Report, which was issued by an independent valuer for the purpose of group reorganisation and it was also used to determine the consideration for the shares issued to Dongfeng Motors Engineering (i.e. HK\$1.0817 per Share), which is an independent third party prior to its investment.

The Company ceased the operation and further implementation of the Incentive Scheme with effect from 6 December 2021.

Prior to 1 January 2017, all Shares under the Fixed Trust were awarded to the Beneficiaries. No Share had been awarded under the Discretionary Trust for the year ended 31 December 2025 (2024: nil). As at 31 December 2025, Lead In held 33,993,385 (2024: 33,993,385) Shares under the Discretionary Trust.

No Shares were granted, exercised, lapsed or forfeited under the Discretionary Trust during the years ended 31 December 2025 and 2024.

42.2 Share Option Scheme

The Company adopted a share option scheme by an ordinary resolution passed by the shareholders of the Company at the annual general meeting of the Company held on 19 June 2023 (the “Share Option Scheme”).

During the years ended 31 December 2025 and 2024, no share options were granted under the Share Option Scheme by the Company. In addition, as at 31 December 2025 and 2024, no share options under the Share Option Scheme were outstanding.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2025 RMB'000	2024 RMB'000
Non-current assets		
Investment in a subsidiary	826,377	826,377
Property, plant and equipment	1,059	2,145
Loan to a shareholder	9,915	6,125
	837,351	834,647
Current assets		
Prepayments and other receivables	653	635
Amount due from a related company	25	26
Bank balances and cash	30,317	17,316
	30,995	17,977
Current liabilities		
Other payables	4,620	5,237
Amounts due to related companies	47,946	100,254
Lease liabilities	1,059	2,145
	53,625	107,636
Net current liabilities	(22,630)	(89,659)
Net assets	814,721	744,988
Capital and reserves		
Share capital	10,457	10,457
Reserves <i>(Note)</i>	804,264	734,531
Total equity	814,721	744,988

Approved and authorised for issue by the Board on 26 March 2026 and are signed on its behalf by:

Zhang Wei
Director

Deng Han
Director

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Cont'd)

Note: Below table sets out the details of the reserves of the Company:

	Share premium RMB'000	Special reserve RMB'000 (Note)	Contribution from a shareholder RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2024	700,258	348,103	8,319	(306,102)	750,578
Loss and total comprehensive expense for the year	-	-	-	(16,047)	(16,047)
At 31 December 2024	700,258	348,103	8,319	(322,149)	734,531
Profit and total comprehensive income for the year	-	-	-	81,273	81,273
2024 final dividends approved	-	-	-	(11,540)	(11,540)
At 31 December 2025	700,258	348,103	8,319	(252,416)	804,264

Note: The special reserve represents the difference between total equity of Southern State Investment Limited ("Southern State") at the date the Company obtained entire issued share capital of Southern State from the shareholders of the Company and the paid consideration of US\$1 upon group reorganisation underwent in 2011.

44. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation or establishment/ operation	Issued and fully paid share/ registered capital	Proportion of issued share/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Southern State	British Virgin Islands/ Hong Kong	US\$1 Ordinary share	100% (2024: 100%)	-	Investment holding
Mianyang Xincheng	PRC	US\$100,000,000 Registered capital	-	100% (2024: 100%)	Development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles and manufacture of engine parts and components of the passenger vehicles
Shenyang Xincheng	PRC	RMB483,000,000 Registered capital	-	100% (2024: 100%)	Factory premise leasing
Mianyang Xincheng Automotive Components Co., Ltd.* (綿陽新晨汽車零部件有限公司)	PRC	RMB5,000,000 Registered capital	-	100% (2024: 100%)	Manufacture and sale of engine parts and components of the passenger vehicles

There is no loan capital issued by the Company's subsidiaries at the end of the year.

* English name for reference only.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2025

45. EVENT AFTER THE REPORTING PERIOD

Completion of a proposed acquisition of a subsidiary

On 16 October 2025, Mianyang Xinchun, an indirect wholly-owned subsidiary of the Company and the Company entered into an equity acquisition agreement with an independent third party. In the acquisition, Mianyang Xinchun has agreed to acquire 53% equity interest in Zhonghang Lantian Equipment Manufacturing Co., Ltd.* (中航蘭田裝備製造有限公司) (“Zhonghang Lantian”). The consideration of the acquisition was up to approximately RMB183.1 million, which includes a contingent consideration of RMB98.2 million payable subject to the terms of the equity acquisition agreement and is payable in cash. The net assets of Zhonghang Lantian was RMB307.9 million as at 31 December 2025. The principal activities of Zhonghang Lantian are the sales of automotive compartments for wide-body mining vehicles, passenger vehicles, dump vehicles, cargo vehicles, steel processing and steel products and sales of other goods in the PRC.

For details, please refer to the announcement of the Company dated 16 October 2025 and the circular of the Company dated 31 December 2025.

The acquisition was completed on 10 February 2026 and was accounted for business combination.

* *English name for reference only.*