
APPENDIX I

ACCOUNTANTS’ REPORT

[To insert the letterhead of the firm]

ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF GUANGXI YUCHAI MARINE AND GENSET POWER CO., LTD. AND CHINA MERCHANTS SECURITIES (HK) CO., LIMITED AND CHINA GALAXY INTERNATIONAL SECURITIES (HONG KONG) CO., LIMITED

Introduction

We report on the historical financial information of Guangxi Yuchai Marine and Genset Power Co., Ltd. (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages [●] to [●], which comprises the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2023, 2024 and 2025, and the six months ended 30 June 2026 (the “**Relevant Periods**”), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2023, 2024 and 2025, and 30 June 2026, and material accounting policy information and other explanatory information (together, the “**Historical Financial Information**”). The Historical Financial Information set out on pages [●] to [●] forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [●] (the “**Document**”) in connection with the [REDACTED] of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

Directors’ responsibility for the Historical Financial Information

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

Reporting accountants’ responsibility

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

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Reporting accountants’ responsibility (continued)

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

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of the financial position of the Group and the Company as at 31 December 2023, 2024 and 2025, and the six months ended 30 June 2026, and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information.

Review of interim comparative financial information

We have reviewed the interim comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months ended 30 June 2025 and other explanatory information (the “**Interim Comparative Financial Information**”). The directors of the Company are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information.

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

Adjustments

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

Dividends

We refer to note 11 to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Relevant Periods.

[●]

Certified Public Accountants

Hong Kong

[Date]

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I HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

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

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) (the “**Underlying Financial Statements**”).

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

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CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December			Six months ended 30 June	
		2023	2024	2025	2025	2026
		RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
REVENUE	5	3,239,008	3,999,796	6,150,439	2,978,116	4,494,381
Cost of sales		<u>(2,513,481)</u>	<u>(3,063,374)</u>	<u>(4,620,895)</u>	<u>(2,285,595)</u>	<u>(3,264,334)</u>
Gross profit		725,527	936,422	1,529,544	692,521	1,230,047
Other income and gains	5	19,660	36,994	66,050	46,984	12,772
Research and development expenses		(211,962)	(285,472)	(362,368)	(176,651)	(188,636)
Selling and distribution expenses		(106,683)	(116,799)	(190,513)	(69,081)	(104,345)
Administrative expenses		(59,938)	(64,544)	(112,433)	(32,935)	(58,692)
Other expenses		(1,357)	(2,348)	(16,289)	(2,793)	(12,185)
Finance costs	7	(11,098)	(7,548)	(9,895)	(4,764)	(4,276)
Share of profits of a joint venture	16	<u>75,060</u>	<u>86,112</u>	<u>102,775</u>	<u>57,047</u>	<u>83,104</u>
PROFIT BEFORE TAX	6	429,209	582,817	1,006,871	510,328	957,789
Income tax expense	10	<u>(33,328)</u>	<u>(47,001)</u>	<u>(129,714)</u>	<u>(62,709)</u>	<u>(131,462)</u>
PROFIT FOR THE YEAR/ PERIOD		<u>395,881</u>	<u>535,816</u>	<u>877,157</u>	<u>447,619</u>	<u>826,327</u>
Attributable to:						
Owners of the parent		395,881	535,816	879,295	447,619	823,300
Non-controlling interests		<u>—</u>	<u>—</u>	<u>(2,138)</u>	<u>—</u>	<u>3,027</u>
		<u>395,881</u>	<u>535,816</u>	<u>877,157</u>	<u>447,619</u>	<u>826,327</u>
EARNING PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT						
Basic and diluted (RMB)	12	<u>0.49</u>	<u>0.65</u>	<u>0.98</u>	<u>0.52</u>	<u>0.96</u>

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CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

	Year ended 31 December			Six months ended 30 June	
	2023	2024	2025	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(unaudited)	
OTHER COMPREHENSIVE (LOSS)/INCOME					
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:					
Financial assets at fair value through other comprehensive income:					
Changes in fair value	(2,310)	560	(1,405)	949	3,090
Income tax effect	426	(65)	211	(142)	(463)
	(1,884)	495	(1,194)	807	2,627
Net other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods	(1,884)	495	(1,194)	807	2,627
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR/PERIOD, NET OF TAX	(1,884)	495	(1,194)	807	2,627
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	393,997	536,311	875,963	448,426	828,954
Attributable to:					
Owners of the parent	393,997	536,311	878,101	448,426	825,927
Non-controlling interests	—	—	(2,138)	—	3,027
	393,997	536,311	875,963	448,426	828,954

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 30 June
	Notes	2023	2024	2025	2026
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	13	426,640	428,031	493,751	541,516
Intangible assets	14	92,834	102,481	92,969	89,149
Right-of-use assets	15	28,226	25	76,782	51,400
Investment in a joint venture	16	186,718	269,508	303,737	310,589
Deferred tax assets	17	20,313	10,526	22,367	34,325
Other non-current assets	18	9,042	33,581	51,819	27,870
Total non-current assets		763,773	844,152	1,041,425	1,054,849
CURRENT ASSETS					
Inventories	19	1,311,197	1,509,135	2,078,698	2,510,005
Trade and bills receivables	20	1,022,541	1,574,247	2,446,874	3,825,748
Capitalized contract cost	21	12,545	—	—	—
Contract assets		—	—	17,212	—
Prepayments, other receivables and other assets	22	111,425	141,278	197,079	176,721
Cash and cash equivalents	23	730,071	885,866	1,545,192	1,313,787
Total current assets		3,187,779	4,110,526	6,285,055	7,826,261
CURRENT LIABILITIES					
Trade and bills payables	24	1,502,908	2,229,566	3,501,977	4,263,067
Other payables and accruals	25	660,086	559,838	1,076,418	953,393
Interest-bearing bank and other borrowings	26	393,688	348,419	320,211	320,188
Tax payable		3,559	1,431	11,925	86,267
Lease liabilities	15	28,177	39	33,285	26,209
Provision	27	31,045	50,167	80,058	102,810
Total current liabilities		2,619,463	3,189,460	5,023,874	5,751,934

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)

	<i>Notes</i>	As at 31 December			As at 30 June
		2023	2024	2025	2026
		RMB’000	RMB’000	RMB’000	RMB’000
NET CURRENT ASSETS		568,316	921,066	1,261,181	2,074,327
TOTAL ASSETS LESS					
CURRENT LIABILITIES		1,332,089	1,765,218	2,302,606	3,129,176
NON-CURRENT LIABILITIES					
Lease liabilities	15	24	—	46,259	38,398
Deferred income	28	16,410	24,798	47,790	44,372
Total non-current liabilities		16,434	24,798	94,049	82,770
Net Assets		1,315,655	1,740,420	2,208,557	3,046,406
EQUITY					
Equity attributable to owners of the parent					
Paid-in capital	29	400,000	428,000	—	—
Share capital	29	—	—	856,000	856,000
Treasury shares	29	—	—	(61,724)	(61,724)
Reserves	31	915,655	1,312,420	1,348,290	2,177,154
		1,315,655	1,740,420	2,142,566	2,971,430
Non-controlling interests		—	—	65,991	74,976
Total equity		1,315,655	1,740,420	2,208,557	3,046,406

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Year ended 31 December 2023

	Attributable to owners of the parent					
	Paid-in	Capital	Other	Statutory	Retained	Total
	capital	reserve*	reserve*	surplus	profits*	equity
	RMB’000 (Note 29)	RMB’000 (Note 31)	RMB’000 (Note 31)	RMB’000 (Note 31)	RMB’000	RMB’000
At 1 January 2023	400,000	269,154	(530)	24,866	228,168	921,658
Profit for the year	—	—	—	—	395,881	395,881
Other comprehensive loss for the year:						
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	—	—	(1,884)	—	—	(1,884)
Total comprehensive income for the year	—	—	(1,884)	—	395,881	393,997
Appropriation to statutory surplus reserve	—	—	—	39,001	(39,001)	—
At 31 December 2023	<u>400,000</u>	<u>269,154</u>	<u>(2,414)</u>	<u>63,867</u>	<u>585,048</u>	<u>1,315,655</u>

Year ended 31 December 2024

	Attributable to owners of the parent						
	Paid-in capital	Capital reserve*	Share- based payment reserve*	Other reserve*	Statutory surplus reserve*	Retained profits*	Total equity
	RMB'000 (Note 29)	RMB'000 (Note 31)	RMB'000 (Note 30)	RMB'000 (Note 31)	RMB'000 (Note 31)	RMB'000	RMB'000
At 1 January 2024	400,000	269,154	—	(2,414)	63,867	585,048	1,315,655
Profit for the year	—	—	—	—	—	535,816	535,816
Other comprehensive income for the year:							
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	—	—	—	495	—	—	495
Total comprehensive income for the year	—	—	—	495	—	535,816	536,311
Dividends (note 11)	—	—	—	—	—	(200,000)	(200,000)
Capital contributions	28,000	54,880	—	—	—	—	82,880
Share-based payment expenses (note 30)	—	—	5,574	—	—	—	5,574
Appropriation to statutory surplus reserve	—	—	—	—	52,705	(52,705)	—
At 31 December 2024	428,000	324,034	5,574	(1,919)	116,572	868,159	1,740,420

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

Year ended 31 December 2025

	Attributable to owners of the parent										
	Paid-in capital	Share capital	Treasury shares	Capital reserve*	Share-based payment reserve*	Other reserve*	Statutory surplus reserve*	Retained profits*	Total	Non-controlling interests	Total equity
	RMB'000 (Note 29)	RMB'000 (Note 29)	RMB'000	RMB'000 (Note 31)	RMB'000 (Note 30)	RMB'000 (Note 31)	RMB'000 (Note 31)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2025	428,000	—	—	324,034	5,574	(1,919)	116,572	868,159	1,740,420	—	1,740,420
Profit for the year	—	—	—	—	—	—	—	879,295	879,295	(2,138)	877,157
Other comprehensive income for the year:											
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	—	—	—	—	—	(1,194)	—	—	(1,194)	—	(1,194)
Total comprehensive income for the year	—	—	—	—	—	(1,194)	—	879,295	878,101	(2,138)	875,963
Capital contribution from the non-controlling shareholder	—	—	—	—	—	—	—	—	—	6,250	6,250
Dividends (note 11)	—	—	—	—	—	—	—	(425,000)	(425,000)	—	(425,000)
Conversion into a joint stock limited liability company**	(428,000)	856,000	—	142,339	(6,489)	3,447	(119,229)	(448,068)	—	—	—
Consolidation of share incentive scheme related shareholding platforms under common control	—	—	(61,724)	—	—	—	—	—	(61,724)	61,879	155
Share-based payment expenses (note 30)	—	—	—	—	10,769	—	—	—	10,769	—	10,769
Appropriation to statutory surplus reserve	—	—	—	—	—	—	86,157	(86,157)	—	—	—
At 31 December 2025	—	856,000	(61,724)	466,373	9,854	334	83,500	788,229	2,142,566	65,991	2,208,557

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

Six months ended 30 June 2026

	Attributable to owners of the parent										Non-controlling interests	Total equity
	Paid-in capital	Share capital	Treasury shares	Capital reserve*	Share-based payment reserve*	Other reserve*	Statutory surplus reserve*	Retained profits*	Total			
	RMB'000 (Note 29)	RMB'000 (Note 29)	RMB'000	RMB'000 (Note 31)	RMB'000 (Note 30)	RMB'000 (Note 31)	RMB'000 (Note 31)	RMB'000	RMB'000	RMB'000		RMB'000
At 1 January 2026	—	856,000	(61,724)	466,373	9,854	334	83,500	788,229	2,142,566	65,991		2,208,557
Profit for the period	—	—	—	—	—	—	—	823,300	823,300	3,027		826,327
Other comprehensive income for the period:	—	—	—	—	—	—	—	—	—	—		—
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	—	—	—	—	—	2,627	—	—	2,627	—		2,627
Total comprehensive income for the period	—	—	—	—	—	2,627	—	823,300	825,927	3,027		828,954
Capital contribution from the non-controlling shareholder	—	—	—	—	—	—	—	—	—	6,250		6,250
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	(292)		(292)
Share-based payment expenses (note 30)	—	—	—	—	2,937	—	—	—	2,937	—		2,937
Share-based payment transactions (equity-settled)	—	—	—	—	3,732	—	—	(3,732)	—	—		—
At 30 June 2026	—	856,000	(61,724)	466,373	16,523	2,961	83,500	1,607,797	2,971,430	74,976		3,046,406

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

Six months ended 30 June 2025

	Attributable to owners of the parent										Non-controlling interests	Total equity
	Paid-in capital	Share capital	Treasury shares	Capital reserve	Share-based payment reserve	Other reserve	Statutory surplus reserve	Retained profits	Total			
	RMB'000 (Note 29)	RMB'000 (Note 29)	RMB'000	RMB'000 (Note 31)	RMB'000 (Note 30)	RMB'000 (Note 31)	RMB'000 (Note 31)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2025 (audited)	428,000	—	—	324,034	5,574	(1,919)	116,572	868,159	1,740,420	—	—	1,740,420
Profit for the period	—	—	—	—	—	—	—	447,619	447,619	—	—	447,619
Other comprehensive income for the period:												
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	—	—	—	—	—	807	—	—	807	—	—	807
Total comprehensive income for the period	—	—	—	—	—	807	—	447,619	448,426	—	—	448,426
Share-based payment expenses (note 30)	—	—	—	—	5,337	—	—	—	5,337	—	—	5,337
At 30 June 2025 (unaudited)	<u>428,000</u>	<u>—</u>	<u>—</u>	<u>324,034</u>	<u>10,911</u>	<u>(1,112)</u>	<u>116,572</u>	<u>1,315,778</u>	<u>2,194,183</u>	<u>—</u>	<u>—</u>	<u>2,194,183</u>

* These reserve accounts comprise the consolidated reserves of RMB915,655,000, RMB1,312,420,000 and RMB1,348,290,000 and RMB2,177,154,000 in the consolidated statements of financial position as at 31 December 2023, 2024 and 2025 and as at 30 June 2026, respectively.

** In December 2025, the Company was converted into a joint stock limited liability company with limited liability and the net assets of the Company were converted into 856,000,000 ordinary shares at RMB1.00 each. The excess of net assets converted over the nominal value of the ordinary shares was credited to the Company’s capital reserve (note 31).

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Notes	Year ended 31 December			Six months ended 30 June	
	2023	2024	2025	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax	429,209	582,817	1,006,871	510,328	957,789
Adjustments for:					
Finance costs	7 11,098	7,548	9,895	4,764	4,276
Share of profits of a joint venture	16 (75,060)	(86,112)	(102,775)	(57,047)	(83,104)
Bank interest income	5 (11,511)	(12,749)	(16,131)	(6,071)	(2,331)
(Gain)/loss on disposal of items of property, plant and equipment	6 (818)	32	10	6	6
Gain on early termination of right-of-use assets	—	—	—	—	(1,763)
Foreign exchange difference, net	5 (105)	(1,263)	(1,250)	(2,312)	1,630
Write-down of inventories to net realisable value	6 5,934	9,882	30,596	12,631	12,332
Depreciation of property, plant and equipment	6 85,027	77,317	73,094	36,010	36,195
Amortisation of intangible assets	6 2,795	10,706	11,695	5,760	5,981
Depreciation of right-of-use assets	6 28,789	30,528	32,646	16,051	12,790
Impairment losses on property, plant and equipment	6 587	162	219	—	152
(Reversal of impairment losses)/ impairment losses on trade and bills receivables	6 (57)	828	14,817	1,962	10,134
Share-based payment expenses	6 —	5,574	10,769	5,337	2,937
	475,888	625,270	1,070,456	527,419	957,024
Increase in inventories	(80,415)	(204,499)	(605,512)	(300,484)	(442,387)
Increase in trade and bills receivables and contract assets	(276,136)	(552,039)	(906,061)	(1,195,636)	(1,368,706)
Decrease/(increase) in prepayments, other receivables and other assets	43,456	(17,200)	(66,269)	94,640	105,489
Decrease in capitalized contract cost	7,547	12,545	—	—	—
Increase in trade and bills payables	193,336	726,658	1,272,411	1,396,236	761,090
Increase/(decrease) in other payables and accruals	63,243	(125,617)	505,102	77,736	(112,169)
Increase/(decrease) in deferred income	16,410	8,388	22,992	11,474	(3,418)
Increase in provision	8,990	19,122	29,891	10,980	22,752
Cash generated from operations	452,319	492,628	1,323,010	622,365	(80,325)
Interest received	11,511	12,749	16,131	6,071	2,331
Income tax paid	(65,228)	(51,995)	(118,745)	(55,023)	(69,543)
Net cash flows generated from/ (used in) operating activities	398,602	453,382	1,220,396	573,413	(147,537)

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CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

		Year ended 31 December			Six months ended 30 June	
	Notes	2023	2024	2025	2025	2026
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment		(40,181)	(96,149)	(145,649)	(51,546)	(62,472)
Proceeds from disposal of items of property, plant and equipment		1,784	32	—	—	2,462
Dividend received from investments in joint venture		—	—	73,899	73,899	—
Purchases of intangible assets		(581)	(2,307)	(2,183)	—	(2,161)
Net cash flows (used in)/generated from investing activities		(38,978)	(98,424)	(73,933)	22,353	(62,171)
CASH FLOWS FROM FINANCING ACTIVITIES						
New bank loans		556,661	346,634	335,550	300,000	300,000
Repayment of bank loans		(540,000)	(392,000)	(363,750)	(273,200)	(300,000)
Interest paid		(10,676)	(6,974)	(6,982)	(3,433)	(3,406)
Payment of [REDACTED] expenses		—	—	(1,636)	—	(10,134)
Capital contribution from shareholders	29	—	82,880	—	—	—
Dividends paid	11	—	(200,000)	(425,000)	—	—
Dividends paid to non-controlling interests	—	—	—	—	—	(11,304)
Principal portion of capital element of lease payments	15(b)	(30,336)	(30,966)	(32,819)	—	(1,473)
Contributions from non-controlling interests		—	—	6,250	—	6,250
Net cash flows (used in)/generated from financing activities		(24,351)	(200,426)	(488,387)	23,367	(20,067)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS						
Cash and cash equivalents at beginning of year/period		394,693	730,071	885,866	885,866	1,545,192
Effect of foreign exchange rate changes, net		105	1,263	1,250	2,312	(1,630)
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		730,071	885,866	1,545,192	1,507,311	1,313,787
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and cash equivalents as stated in the consolidated statements of financial position and the consolidated statements of cash flows	23	730,071	885,866	1,545,192	1,507,311	1,313,787

APPENDIX I

ACCOUNTANTS’ REPORT

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

		As at 31 December			As at 30 June
	Notes	2023	2024	2025	2026
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	13	426,633	428,028	478,457	516,211
Intangible assets	14	92,834	102,481	92,969	89,149
Right-of-use assets	15	28,226	25	65,267	40,180
Investment in subsidiaries		20,000	20,000	38,750	57,500
Investment in a joint venture	16	186,214	269,209	299,207	307,621
Deferred tax assets	17	18,759	9,052	15,081	23,184
Other non-current assets	18	9,042	33,581	51,819	27,870
Total non-current assets		781,708	862,376	1,041,550	1,061,715
CURRENT ASSETS					
Inventories	19	1,298,153	1,482,198	2,004,175	2,473,990
Trade and bills receivables	20	977,322	1,507,921	2,355,686	3,714,290
Capitalized contract cost	21	12,545	—	—	—
Contract assets		—	—	17,212	—
Prepayments, other receivables and other assets	22	111,128	140,433	194,487	176,246
Cash and cash equivalents	23	712,645	873,666	1,447,289	1,223,766
Total current assets		3,111,793	4,004,218	6,018,849	7,588,292
CURRENT LIABILITIES					
Trade and bills payables	24	1,487,775	2,193,202	3,447,689	4,191,244
Other payables and accruals	25	641,003	528,556	913,726	879,133
Interest-bearing bank and other borrowings	26	382,123	348,419	320,211	320,188
Tax payable		1,530	—	6,731	76,024
Lease liabilities	15	28,177	39	33,285	25,850
Provision	27	31,045	50,167	79,987	102,489
Total current liabilities		2,571,653	3,120,383	4,801,629	5,594,928
NET CURRENT ASSETS		540,140	883,835	1,217,220	1,993,364
TOTAL ASSETS LESS					
CURRENT LIABILITIES		1,321,848	1,746,211	2,258,770	3,055,079

APPENDIX I

ACCOUNTANTS’ REPORT

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY (continued)

		As at 31 December			As at 30 June
	Notes	2023	2024	2025	2026
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT LIABILITIES					
Lease liabilities	15	24	—	34,266	26,578
Deferred income	28	16,410	24,798	47,790	44,372
Total non-current liabilities		16,434	24,798	82,056	70,950
Net assets		1,305,414	1,721,413	2,176,714	2,984,129
EQUITY					
Paid-in capital	29	400,000	428,000	—	—
Share capital	29	—	—	856,000	856,000
Reserves	31	905,414	1,293,413	1,320,714	2,128,129
Total equity		1,305,414	1,721,413	2,176,714	2,984,129

APPENDIX I

ACCOUNTANTS’ REPORT

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the People’s Republic of China (“PRC”) on 10 January 2017 and was converted into a joint stock limited liability company on 31 December 2025. The registered office of the Company is located at No. 88 Tianqiao West Road, Yulin City, Guangxi Zhuang Autonomous Region, China.

The Company and its subsidiaries (collectively referred to as “the Group”) are principally engaged in the research, development, manufacturing, sales, and servicing of marine propulsion and power generation products.

The Company’s immediate parent entity is Guangxi Yuchai Machinery Co., Ltd. (“廣西玉柴機器股份有限公司” or “GYMCL”). GYMCL is controlled by China Yuchai International Co., Ltd. (“CYI”), a New York Stock Exchange listed company, which holds approximately 76.4% of its shares through six wholly-owned subsidiaries, and Guangxi Yuchai Machinery Group Co., Ltd. (“GY”), a state-owned enterprise, also holds approximately 22.7% of the shares of GYMCL.

The ultimate holding company of the Company is Hong Leong Asia Ltd., which is a listed company on Mainboard of the Singapore Stock Exchange.

As at the date of this report, the Company had direct and indirect interests in its subsidiaries, the particulars of the Company’s principal subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangxi Yuchai Deyou Engine Systems Co., Ltd. (“廣西玉柴德優發動機系統有限公司” or “Yuchai Deyou”)*	PRC/Chinese mainland 22 December 2021	RMB20,000,000	100%	—	Manufacture and sale of power generations, spare parts and after-sales services
Guangxi Yuchai Marine and Genset Power Solutions Co., Ltd (“廣西玉柴船電發電設備有限公司”)**	PRC/Chinese mainland 10 July 2025	RMB50,000,000	75%	—	Manufacture and sale of power generations, spare parts and after-sales services

The English name of the above companies registered in the PRC represents the best efforts made by the directors of the Companies in directly translating the Chinese names of the companies as no English names have been registered.

* No audited financial statements have been prepared for the subsidiary since registration, as the entity was not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdiction of registration.

** The statutory financial statements of the entity for the year ended 31 December 2025 prepared under PRC Generally Accepted Accounting Principles (“PRC GAAP”) were audited by Ernst & Young Hua Ming LLP (“安永華明會計師事務所(特殊普通合夥)”), certified public accountants registered in the PRC.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the Relevant Periods or formed a substantial portion of the net assets/liabilities of the Group at the end of each of the Relevant Periods.

APPENDIX I

ACCOUNTANTS’ REPORT

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with IFRS Accounting Standards, which comprise all standards and interpretations approved by the International Accounting Standards Board (the “IASB”). All IFRS Accounting Standards effective for the accounting period commencing from 1 January 2025, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods and the Interim Comparative Financial Information.

The Historical Financial Information has been prepared under the historical cost convention, except for certain portion of trade and bills receivables which have been measured at fair value.

The consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000), except when otherwise indicated.

Basis of consolidation

The Historical Financial Information includes the financial information of the Company and its subsidiaries for Relevant Periods. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same relevant periods as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, any non-controlling interest and the exchange fluctuation reserve; and recognises the fair value of any investment retained and any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

APPENDIX I

ACCOUNTANTS’ REPORT

2.2 ISSUED BUT NOT YET EFFECTIVE IFRS ACCOUNTING STANDARDS

The Group has not applied the following new and amended IFRS Accounting Standards, which have been issued but are not yet effective, in the Historical Financial Information. The Group intends to apply these new and amended IFRS Accounting Standards, if applicable, when they become effective.

IFRS 18	<i>Presentation and Disclosure in Financial Statements</i> ¹
IFRS 19 and its amendments	<i>Subsidiaries without Public Accountability: Disclosures</i> ¹
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ²
Amendments to IAS 21	<i>Translation to a Hyperinflationary Presentation Currency</i> ¹
Amendments to IAS 28	<i>Fair Value Option for Investments in Associates and Joint Venture</i> ¹
IFRS 20	<i>Regulatory Assets and Regulatory Liabilities</i> ³

¹ Effective for annual/reporting periods beginning on or after 1 January 2027

² No mandatory effective date yet determined but available for adoption

³ Effective for annual periods beginning on or after 1 January 2029

IFRS 18 replaces IAS 1 *Presentation of Financial Statements*. While a number of sections have been brought forward from IAS 1 with limited changes, IFRS 18 introduces new requirements for presentation within the statement of profit or loss, including specified totals and subtotals. Entities are required to classify all income and expenses within the statement of profit or loss into one of the five categories: operating, investing, financing, income taxes and discontinued operations and to present two new defined subtotals. It also requires disclosures about management-defined performance measures in a single note and introduces enhanced requirements on the grouping (aggregation and disaggregation) and the location of information in both the primary financial statements and the notes. Some requirements previously included in IAS 1 are moved to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, which is renamed as IAS 8 *Basis of Preparation of Financial Statements*. As a consequence of the issuance of IFRS 18, limited, but widely applicable, amendments are made to IAS 7 *Statement of Cash Flows*, IAS 33 *Earnings per Share* and IAS 34 *Interim Financial Reporting*. In addition, there are minor consequential amendments to other IFRS Accounting Standards. IFRS 18 and the consequential amendments to other IFRS Accounting Standards are effective for annual periods beginning on or after 1 January 2027 with earlier application permitted. Retrospective application is required.

The Group is in the process of making an assessment of the impact of the new and amended IFRS Accounting Standards upon initial application. So far, the Group considers that these new and amended IFRS Accounting Standards, except for IFRS 18, may result in changes in accounting policies but will not have a significant impact on the Group’s financial performance and financial position in the period of initial application. The application of IFRS 18 is not expected to have material impact on the financial position of the Group but is expected to affect the presentation of the statements of profit or loss and other comprehensive income and statement of cash flows and disclosures in the future financial information. The Group will continue to assess the impact of IFRS 18 on the Group’s financial information.

2.3 MATERIAL ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

APPENDIX I

ACCOUNTANTS’ REPORT

2.3 MATERIAL ACCOUNTING POLICIES (continued)

Subsidiaries (continued)

The Historical Financial Information of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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 described above. The results of subsidiaries are included in the Company’s profit or loss to the extent of dividend received and receivable. The Company’s investments in subsidiaries are stated at cost less any impairment losses.

Investments in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group’s investments in joint ventures are stated in the consolidated statement of financial position at the Group’s share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group’s share of the post-acquisition results and other comprehensive income of joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognized directly in the equity of the joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group’s investments in the joint ventures, except where unrealized losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of joint ventures is included as part of the Group’s investments in joint ventures.

Business combination under common control

On 7 September 2023 and 24 June 2024, GYMCL has set up Yulin Changyingjia Investment Partnership Enterprise (玉林長盈家投資合夥企業(有限合夥)), “Yulin Changyingjia”) and Yulin Zhongli Investment Partnership Enterprise (玉林衆利投資合夥企業(有限合夥)), “Yulin Zhongli”) separately, for the purpose of holding shares of the Company for the share incentive scheme adopted. On 31 December 2025, GYMCL transferred its authorities of management, decision-making and execution in respect of Yulin Changyingjia and Yulin Zhongli to the Company with no consideration (“Control Transfer”). Upon the completion of Control Transfer, the Company has the power to govern the financial and operating policies of Yulin Changyingjia and Yulin Zhongli and derives benefits from the services of the employees who have been awarded the shares through their continued employment with the Group. The assets and liabilities of Yulin Changyingjia and Yulin Zhongli are included in consolidated statement of financial position since the Control Transfer on 31 December 2025.

Since GYMCL is the Company’s immediate parent entity before and after the completion of the aforesaid control Transfer, the business combination of Yulin Changyingjia and Yulin Zhongli has been accounted for in the consolidated financial statements of the Group as a business combination under common control using the pooling of interest method.

The financial information in the consolidated financial statements for the periods prior to the business combination under common control was not restated as the Company accounts for the business combination prospectively from the date on which it occurred. The assets and liabilities acquired are recognized at the carrying amounts.

Upon transfer of interest in an entity to another entity that is under common control, any difference between the Group’s interest in the book values of the assets and liabilities and the cost of transfer of interest in the entity is recognized directly in equity.

APPENDIX I

ACCOUNTANTS’ REPORT

2.3 MATERIAL ACCOUNTING POLICIES (continued)

Fair value measurement

The Group measures its certain financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset at its highest and best use or by selling it to another market participant that would use the asset at its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for non-financial assets is required (other than inventories, contract assets, capitalized contract cost, deferred tax assets and financial assets), the asset’s recoverable amount is estimated. An asset’s recoverable amount is the higher of the asset’s or cash-generating unit’s value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

APPENDIX I

ACCOUNTANTS’ REPORT

2.3 MATERIAL ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Related parties

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 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;
- or
- (b) the party is an entity where 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 of a parent, subsidiary or fellow subsidiary of the other entity);
 - (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); and
 - (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.

APPENDIX I

ACCOUNTANTS’ REPORT

2.3 MATERIAL ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

<u>Categories</u>	<u>Estimated useful lives</u>	<u>Annual rates</u>
Buildings	10–20 years	5% to 10%
Plant and machinery	1–13 years	8% to 99%
Office and other equipment	1–5 years	20% to 99%

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

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

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

Intangible assets (other than goodwill)

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

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Software

Purchased office software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 years.

APPENDIX I

ACCOUNTANTS’ REPORT

2.3 MATERIAL ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Technology know-how

Purchased technology know-how is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 10 years.

Leases

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

The Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) *Right-of-use assets*

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

Buildings	1 to 20 years
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If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) *Lease liabilities*

Lease liabilities are recognized at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

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

APPENDIX I

ACCOUNTANTS’ REPORT

2.3 MATERIAL ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (continued)

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of motor vehicles and buildings (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the lease term.

The Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease term and is included in revenue in the consolidated statements of profit or loss and other comprehensive income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

2.3 MATERIAL ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

Financial assets at amortized cost (debt instruments)

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the statement of profit or loss when the asset is derecognized, modified or impaired.

Financial assets designated at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group’s consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

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

APPENDIX I

ACCOUNTANTS’ REPORT

2.3 MATERIAL ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach

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

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 1 year past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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

- Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

APPENDIX I

ACCOUNTANTS’ REPORT

2.3 MATERIAL ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Initial recognition and measurement (continued)

The Group’s financial liabilities include trade payables, financial liabilities included in other payables and accruals and other non-current liabilities, interest-bearing bank borrowings.

Subsequent measurement

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

Financial liabilities at amortised cost (trade and other payables, loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group’s own equity instruments.

Inventories

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

APPENDIX I

ACCOUNTANTS’ REPORT

2.3 MATERIAL ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and at banks, and short-term deposits as defined above, less bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management.

Provisions

General

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Product warranty

The Group recognizes a liability at the time the product is sold, for the estimated future costs relating to the assurance-type warranties, to be incurred under the warranty period, on which the Group provides free repair and replacement. Provisions for warranty are primarily determined based on historical warranty cost per unit of product sold adjusted for specific conditions that may arise and the number of products under warranty at each financial year. If the nature, frequency and average cost of warranty claims change, the accrued liability for product warranty will be adjusted accordingly.

Income tax

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and
- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

APPENDIX I

ACCOUNTANTS’ REPORT

2.3 MATERIAL ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and
- in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

APPENDIX I

ACCOUNTANTS’ REPORT

2.3 MATERIAL ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue from contracts with customers

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

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

(a) *Sale of products*

Revenue from sale of products, including engines, power generator sets and engine parts is recognized at the point in time when control of the products is transferred to the customer and all criteria for acceptance have been satisfied, generally on delivery of the products, or, in some cases, when the products are installed by the customers.

In determining the transaction price for the sale of products, the Group considers the effects of variable consideration and the existence of significant financing components. If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the products to the customer. The variable consideration is estimated at contract inception. Some contracts for the sale of engines provide customers with sales rebates based on the sales volume. The sales rebates give rise to variable consideration.

The Group enters into contractual arrangements to provide certain customers with sales rebates when the quantity of products purchased during the period exceeds a threshold specified in the contract, and the relevant revenue is recognized based on contract consideration net of the sales rebate. Based on contractual arrangement with the customers, the sales rebates are netted against “Trade receivables”. If the receivables had been settled by the customers, amounts in excess of “Trade receivables” will be recognized as refund liabilities in “Other payables and accruals”.

(b) *Warranty obligations*

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g. warranties).

The Group typically provides warranties for general repairs of defects as part of the sale of engines. These assurance-type warranties are accounted for as warranty provisions. Certain contracts provide a customer with maintenance service, i.e. a distinct service to the customer in addition to the assurance that the product complies with agreed-upon specification. These service-type warranties are bundled together with the sale of engines. These contracts comprise two performance obligations, i.e. the promises to transfer the engines and to provide the service-type warranty. The transaction price is allocated to the service-type warranty and engines using a combination of residual and observable price approach. The portion of transaction price allocated to the service-type warranty is initially recorded as a contract liability and recognized as revenue at the point in time when the service is provided.

APPENDIX I

ACCOUNTANTS’ REPORT

2.3 MATERIAL ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Principal versus agent

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

The Group is a principal if it controls the power generator set before the power generator sets are transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the power generator sets by another party. In this case, the Group is not the primary obligor and is not subject to inventory risk. The Group does not control the power generator sets provided by another party before the power generator sets are transferred to the customer. When the Group acts as an agent, it recognised revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified power generator sets to be provided by the other party.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Capitalized contract costs

The capitalized costs are costs which have been capitalized and directly related to the contracts, for which resources were used in satisfying the contract and are expected to be recovered.

The Group’s capitalized contract costs are costs in fulfilling a contract for the development of technology know-how for engines platforms for its immediate parent entity, and subsequently recognized in profit or loss when the Group performs the contract and the related revenue is recognized.

Contract assets

If the Group performs by transferring goods or services to a customer before being unconditionally entitled to the consideration under the contract terms, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets. They are reclassified to trade receivables when the right to the consideration becomes unconditional.

Contract liabilities

A contract liability is recognized if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognized as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

APPENDIX I

ACCOUNTANTS’ REPORT

2.3 MATERIAL ACCOUNTING POLICIES (continued)

Share-based payments

The Group provided share incentives to employees. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees of the Group render services in exchange for equity instruments (“equity-settled transactions”).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value of the share award is determined using the discounted cash flow model, further details of which are given in note 30 to the Historical Financial Information.

The cost of equity-settled transactions is recognized in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group’s best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognized. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognized for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

APPENDIX I

ACCOUNTANTS’ REPORT

2.3 MATERIAL ACCOUNTING POLICIES (continued)

Employee benefits

Pension scheme

The employees of the Group are required to participate in a central pension scheme operated by the local municipal government. The Group are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Housing fund and other social insurances

The Group has participated in defined social security contribution schemes for its employees pursuant to the relevant laws and regulations of the PRC. These include a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances. The contributions are charged to profit or loss on an accrual basis. The Group has no further obligations beyond the contributions made.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Events after the reporting period

If the Group receives information after the reporting period, but prior to the date of authorisation for issue, about conditions that existed at the end of the reporting period, it will assess whether the information affects the amounts that it recognises in its financial statements. The Group will adjust the amounts recognised in its financial statements to reflect any adjusting events after the reporting period and update the disclosures that relate to those conditions in light of the new information. For non-adjusting events after the reporting period, the Group will not change the amounts recognised in its financial statements, but will disclose the nature of the non-adjusting events and an estimate of their financial effects, or a statement that such an estimate cannot be made, if applicable.

Foreign currencies

The Historical Financial Information is presented in RMB, which is the Company’s functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognized in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

APPENDIX I

ACCOUNTANTS’ REPORT

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group’s accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognized in the Historical Financial Information.

Identifying contract price and performance obligations in sales of engines and power generators

The Group applied the following judgments that significantly affect the determination of the amount and timing of revenue from contracts with customers:

The Group provides certain warranties for both general repairs and maintenance services as part of the sales of engines and power generators. For general repairs, such warranties will be assurance-type warranty that is accounted for under IAS 37 *Provisions Contingent Liabilities and Contingent Assets*. For maintenance service, it is accounted for as a service-type warranty which is capable of being distinct and customers can benefit from the service on their own. Hence, the Group identify two separate performance obligations, one is the promise to transfer the products, and the other one is to provide maintenance services after reaching a certain running hour. Consequently, the Group allocates a portion of the transaction price to the products and the maintenance services based on a combination of a residual and observable price approach. Please refer to note 5 to the Historical Financial Information.

Derecognition of bills receivable

The Group sells bills receivable to banks on an ongoing basis depending on funding needs and money market conditions. The Group also endorses certain bills to suppliers for debts settlement. Chinese law governing bills allows recourse to be traced to all the parties in the discounting and endorsing process, Management assesses the credit rating of banks that issued these bills based on the credit rating given by the China regulators. For designated commercial banks with high credit rating and where Management believes that the contractual right to receive the cash from the Group has ceased, and has been transferred to the banks and suppliers, these bills are derecognized. The discount equal to the difference between the carrying value of the bill receivable and cash received from the banks is recorded in the statement of profit or loss. Please refer to note 35 to the Historical Financial Information.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

APPENDIX I

ACCOUNTANTS’ REPORT

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on ageing for groupings of various customer segments that have similar loss patterns (i.e., by customer type and rating).

The provision matrix is initially based on the Group’s historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group’s historical credit loss experience and forecast of economic conditions may also not be representative of a customer’s actual default in the future. The information about the ECLs on the Group’s trade receivables is disclosed in note 24 to the Historical Financial Information.

4. OPERATING SEGMENT INFORMATION

Management monitors the operating results of the Group as a whole for the purpose of making decision on resources allocation and preformation assessment.

Geographical information

(a) *Revenue from external customers*

	Year ended 31 December			Six months ended 30 June	
	2023	2024	2025	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Geographical market					
Chinese mainland	3,118,778	3,785,372	5,814,524	2,872,514	4,261,542
Overseas	120,230	214,424	335,915	105,602	232,839
Total	<u>3,239,008</u>	<u>3,999,796</u>	<u>6,150,439</u>	<u>2,978,116</u>	<u>4,494,381</u>

The revenue information of continuing operations above is based on the locations of the customers.

(b) *Non-current assets*

During the Relevant Periods and six months ended 30 June 2025, all of the Group’s non-current assets were located in the Chinese mainland.

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group’s revenue during the Relevant Periods and six months ended 30 June 2025 is set out below:

	Year ended 31 December			Six months ended 30 June	
	2023	2024	2025	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
GY and its subsidiaries (note 34(a))	708,393	539,418	N/A*	N/A*	N/A*
Customer A	<u>N/A*</u>	<u>N/A*</u>	<u>1,269,896</u>	<u>459,798</u>	<u>1,004,973</u>

* N/A represents revenue from customer which amounted to less than 10% of the Group’s revenue.

APPENDIX I

ACCOUNTANTS’ REPORT

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Year ended 31 December			Six months ended 30 June	
	2023	2024	2025	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Revenue from contracts with customers	3,238,904	3,984,399	6,130,716	2,969,022	4,488,846
Rental income	104	15,397	19,723	9,094	5,535
Total	<u>3,239,008</u>	<u>3,999,796</u>	<u>6,150,439</u>	<u>2,978,116</u>	<u>4,494,381</u>

Revenue from contracts with customers

(i) Disaggregated revenue information

	Year ended 31 December			Six months ended 30 June	
	2023	2024	2025	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Types of goods or services					
Power generator engines	2,457,201	3,052,467	4,216,096	1,954,638	3,032,358
Marine propulsion and auxiliary engines	481,183	476,999	659,287	271,102	378,152
Power generator sets:					
Sale of products	112,374	103,017	345,105	236,376	580,542
Arrangement for provision of products	2,395	10,217	76,312	47,781	2,601
Engine components	124,776	293,791	799,440	455,168	476,717
Others	60,975	47,908	34,476	3,957	18,476
Total	<u>3,238,904</u>	<u>3,984,399</u>	<u>6,130,716</u>	<u>2,969,022</u>	<u>4,488,846</u>
Geographical markets					
Chinese mainland	3,118,674	3,769,975	5,794,801	2,863,420	4,256,007
Overseas	120,230	214,424	335,915	105,602	232,839
Total	<u>3,238,904</u>	<u>3,984,399</u>	<u>6,130,716</u>	<u>2,969,022</u>	<u>4,488,846</u>
Timing of revenue recognition					
Transferred at the point in time	<u>3,238,904</u>	<u>3,984,399</u>	<u>6,130,716</u>	<u>2,969,022</u>	<u>4,488,846</u>

APPENDIX I

ACCOUNTANTS’ REPORT

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

The following table shows the amounts of revenue recognised in each of the Relevant Periods and the six months ended 30 June 2025 that were included in the contract liabilities at the beginning of the reporting period:

	Year ended 31 December			Six months ended 30 June	
	2023	2024	2025	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:					
Sale of goods	230,759	289,774	203,700	203,700	625,680
Rendering of services	446	411	6,133	3,962	2,673
Total	<u>231,205</u>	<u>290,185</u>	<u>209,833</u>	<u>207,662</u>	<u>628,353</u>

(ii) Performance obligations

Information about the Group’s performance obligations is summarised below:

Sales of engines and power generators

The performance obligation is satisfied upon delivery of the goods and acceptance by the customers. The credit term is generally 30 to 225 days. Sales of engines and power generators are generally satisfied within less than a year, and the Group has elected the practical expedient for not to disclose the remaining performance obligations.

Service-type warranty

The performance obligation is satisfied upon the maintenance services are rendered. These service-type warranties are bundled together with the sale of engines.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) are as follows:

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Within one year/period	879	788	5,324	3,738
More than one year/period	<u>9,533</u>	<u>16,757</u>	<u>10,005</u>	<u>13,465</u>
Total unfulfilled service-type maintenance service	<u>10,412</u>	<u>17,545</u>	<u>15,329</u>	<u>17,203</u>

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue relate to the unfulfilled service-type maintenance service. The amounts disclosed above do not include variable consideration which is constrained.

APPENDIX I

ACCOUNTANTS’ REPORT

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(ii) Performance obligations (continued)

An analysis of other income and gains is as follows:

	Year ended 31 December			Six months ended 30 June	
	2023	2024	2025	2025	2026
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Other income					
Bank interest income	11,511	12,749	16,131	6,071	2,331
Government grants*	3,026	21,876	47,832	38,441	8,453
Others	4,200	1,106	837	160	225
Total other Income	18,737	35,731	64,800	44,672	11,009
Gains					
Gain on disposal of property, plant and equipment	818	—	—	—	—
Gain on early termination of right-of-use assets	—	—	—	—	1,763
Foreign exchange gains, net	105	1,263	1,250	2,312	—
Total gains	923	1,263	1,250	2,312	1,763
Total other income and gains	19,660	36,994	66,050	46,984	12,772

* The government grants mainly represent incentives received from local governments for the purpose of compensation on research and development contribution, local economic contribution and purchases of items of property, plant and equipment. There are no unfulfilled conditions or contingencies relating to these grants.

APPENDIX I

ACCOUNTANTS’ REPORT

6. PROFIT BEFORE TAX

The Group’s profit before tax is arrived at after charging/(crediting):

Notes	Year ended 31 December			Six months ended 30 June	
	2023	2024	2025	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Cost of inventories sold (a)	2,461,662	2,965,893	4,467,188	2,227,048	3,189,000
Cost of services provided (a)	21,315	30,321	20,388	9,277	5,439
Depreciation of property, plant and equipment	13 85,027	77,317	73,094	36,010	36,195
Depreciation of right-of-use assets	15 28,789	30,528	32,646	16,051	12,790
Amortisation of intangible assets (b)	14 2,795	10,706	11,695	5,760	5,981
Research and development costs:					
Current year expenditure	211,962	285,472	362,368	176,651	188,636
Lease payments not included in the measurement of lease liabilities	15 5,867	1,852	6,507	1,610	4,133
[REDACTED] expenses	—	—	8,699	—	7,885
Employee benefit expenses (including directors’ and chief executive’s remuneration)	8				
Wages, salaries and other allowances	164,219	173,686	259,951	128,426	169,687
Pension scheme contributions	19,095	18,035	19,480	9,580	11,633
Share-based payment expenses	—	5,574	10,769	5,337	2,937
Total	183,314	197,295	290,200	143,343	184,257
Foreign exchange loss	—	—	—	—	1,630
Impairment of trade receivables, net (c)	20 (57)	828	14,817	1,962	10,134
Impairment loss on property, plant and equipment (c)	13 587	162	219	—	152
Write-down of inventories to net realisable value	5,934	9,882	30,596	12,631	12,332
Product warranty provision:					
Additional provision	27 24,570	57,278	102,723	36,639	57,563
Loss on derecognition of financial assets measured at amortised cost (c)	652	1,328	1,241	825	149
(Gain)/loss on disposal of items of property, plant and equipment (c)	(818)	32	10	6	6

- (a) The cost of inventories sold and cost of services provided include expenses relating to staff cost, depreciation and amortization expenses, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.
- (b) The amortisation of intangible assets is included in “Cost of sales”, “Research and development expenses”, “Selling and distribution expenses” or “Administrative expenses” in the consolidated statement of profit or loss and other comprehensive income.
- (c) These amounts were included in “Other expenses” in the consolidated statement of profit or loss and other comprehensive income, excluding gain on disposal of items of property, plant and equipment which were included in “Other income and gains” in the consolidated statement of profit or loss and other comprehensive income.

7. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2023	2024	2025	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Interest on bank loans	10,666	7,070	6,974	3,175	3,383
Interest on lease liabilities (note 15)	432	478	2,921	1,589	893
Total	11,098	7,548	9,895	4,764	4,276

APPENDIX I

ACCOUNTANTS’ REPORT

8. DIRECTORS’ AND SUPERVISOR’S REMUNERATION

Directors’ and chief executive’s remuneration for the Relevant Periods and six months ended 30 June 2025, is as follows:

	Year ended 31 December			Six months ended 30 June	
	2023	2024	2025	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Fees	—	—	—	—	—
Other emoluments:					
Salaries, bonuses, allowances and benefits in kind	—	—	70	—	799
Performance related bonuses	3,720	6,420	3,212	—	—
Share-based payment expenses	—	3,003	5,799	2,876	382
Pension scheme contributions	—	—	3	—	56
Total	3,720	9,423	9,084	2,876	1,237

During the year ended 30 June 2026, restricted shares were granted to a director in respect to their services rendering to the Group, further details of which are set out in note 30 to the Historical Financial Information. The fair value of such granted restricted shares, which has been recognized in the statement of profit or loss, was determined as at the date of grant and the amount included in the Historical Financial Information is included in the above directors’ remuneration disclosures.

(a) Independent non-executive directors

There were no fees and other emoluments paid to the independent non-executive directors during the Relevant Periods and six months ended 30 June 2025.

Mr. Fan Hao, Mr. Fan Conghui and Mr. Chan Ngai Fan are appointed as independent non-executive directors of the Company and their appointment will be conditional and effective upon the [REDACTED] of the Company’s H shares on the Main Board of the Hong Kong Stock Exchange.

(b) Executive directors, non-executive directors and supervisors

Year ended 31 December 2023

	Fees	Salaries, bonuses, allowances and benefits in kind	Performance related bonuses	Share-based payment expenses	Pension scheme contributions	Total remuneration
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Executive director:						
Mr. Ning Xingyong (i)	—	—	3,720	—	—	3,720
Supervisor:						
Ms. Su Minghong (ii)	—	—	—	—	—	—
Total	—	—	3,720	—	—	3,720

APPENDIX I

ACCOUNTANTS’ REPORT

8. DIRECTORS’ AND SUPERVISOR’S REMUNERATION (continued)

(b) Executive directors, non-executive directors and supervisors (continued)

Year ended 31 December 2024

	Fees	Salaries, bonuses, allowances and benefits in kind	Performance related bonuses	Share-based payment expenses	Pension scheme contributions	Total remuneration
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Executive director:						
Mr. Ning Xingyong (i)	—	—	6,420	3,003	—	9,423
Supervisor:						
Ms. Su Minghong (ii)(vi)	—	—	—	—	—	—
Total	—	—	6,420	3,003	—	9,423

Year ended 31 December 2025

	Fees	Salaries, bonuses, allowances and benefits in kind	Performance related bonuses	Share-based payment expenses	Pension scheme contributions	Total remuneration
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Executive directors:						
Mr. Ning Xingyong (i)	—	70	3,212	5,799	3	9,084
Mr. Lu Yuming (iii)	—	—	—	—	—	—
Dr. Huang Yongzhong (iii)	—	—	—	—	—	—
Subtotal	—	70	3,212	5,799	3	9,084
Non-executive director:						
Ms. Su Minghong (ii)(vi)	—	—	—	—	—	—
Mr. Chen Hai (v)(vi)	—	—	—	—	—	—
Subtotal	—	—	—	—	—	—
Total	—	70	3,212	5,799	3	9,084

* The Company had dissolved the supervisory committee from December 2025.

APPENDIX I

ACCOUNTANTS’ REPORT

8. DIRECTORS’ AND SUPERVISOR’S REMUNERATION (continued)

(b) Executive directors, non-executive directors and supervisors (continued)

Six months ended 30 June 2025 (unaudited)

	Fees	Salaries, bonuses, allowances and benefits in kind	Performance related bonuses	Share-based payment expenses	Pension scheme contributions	Total remuneration
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Executive directors:						
Mr. Ning Xingyong (i)	—	—	—	2,876	—	2,876
Mr. Lu Yuming (iii)	—	—	—	—	—	—
Dr. Huang Yongzhong (iii)	—	—	—	—	—	—
Subtotal	—	—	—	2,876	—	2,876
Non-executive directors:						
Ms. Su Minghong (ii)(vi)	—	—	—	—	—	—
Mr. Chen Hai (v)(vi)	—	—	—	—	—	—
Subtotal	—	—	—	—	—	—
Total	—	—	—	2,876	—	2,876

Six months ended 30 June 2026

	Fees	Salaries, bonuses, allowances and benefits in kind	Performance related bonuses	Share-based payment expenses	Pension scheme contributions	Total remuneration
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Executive directors:						
Mr. Ning Xingyong (i)	—	418	—	32	17	466
Mr. Lu Yuming (iii)	—	211	—	146	20	377
Dr. Huang Yongzhong (iii)	—	170	—	204	20	395
Subtotal	—	799	—	382	56	1,237
Non-executive directors:						
Ms. Su Minghong (ii)(vi)	—	—	—	—	—	—
Mr. Chen Hai (v)(vi)	—	—	—	—	—	—
Subtotal	—	—	—	—	—	—
Total	—	799	—	382	56	1,237

APPENDIX I

ACCOUNTANTS’ REPORT

8. DIRECTORS’ AND SUPERVISOR’S REMUNERATION (continued)

(b) Executive directors, non-executive directors and supervisors (continued)

- (i) Mr. Ning Xingyong was appointed as an executive director of the Company since January 2022.
- (ii) Ms. Su Minghong joined the Company in March 2022, served as a supervisor until December 2025, has been appointed a director of the Company in December 2025. She was re-designated as a non-executive director in January 2026.
- (iii) Mr. Lu Yuming and Dr. Huang Yongzhong was appointed as a director of the Company in December 2025, and was re-designated as an executive director in January 2026.
- (iv) Mr. Neo Poh Kiat was appointed as a non-executive director of the Company in January 2026.
- (v) Mr. Chen Hai was appointed as a director of the Company in December 2025, and was re-designated as a non-executive Director in January 2026.
- (vi) The emoluments of the Ms. Su Minghong in relation to her services rendered for the Group for the years ended 31 December 2024 and years ended 31 December 2025, and Mr. Chen Hai, in relation to his services rendered for the Group for the years ended 31 December 2025 were borne by related parties of the Group.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees for the years ended 31 December 2023, 2024 and 2025 and the six months ended 30 June 2025 and 2026, include 1, 1 and 1 and 0 and 2 directors respectively, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining 4, 4 and 4 and 5 and 3 for the years ended 31 December 2023, 2024 and 2025 and six months ended 30 June 2025 and 2026 highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Year ended 31 December			Six months ended 30 June	
	2023	2024	2025	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Salaries, bonuses, allowances and benefits in kind	926	975	1,051	1,310	1,016
Performance related bonuses	2,760	3,300	4,808	—	—
Equity-settled share-based payment expenses	—	695	1,362	—	53
Pension scheme contributions	111	117	123	55	54
Total	3,797	5,087	7,344	1,366	1,122

APPENDIX I

ACCOUNTANTS’ REPORT

9. FIVE HIGHEST PAID EMPLOYEES (continued)

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December			Six months ended 30 June	
	2023	2024	2025	2025 (unaudited)	2026
Nil to HK\$1,000,000	3	1	—	5	3
HK\$1,000,001 to HK\$1,500,000	1	2	2	—	—
HK\$1,500,001 to HK\$2,000,000	—	1	1	—	—
HK\$2,000,001 to HK\$2,500,000	—	—	1	—	—
Total	4	4	4	5	3

During the Relevant Periods and six months ended 30 June 2025, restricted shares were granted to non-directors and non-chief executives highest paid employees in respect of his services to the Group, further details of which are included in the disclosures in note 30 to the Historical Financial Information. The fair value of such shares, which has been recognized in profit or loss, was determined as at the date of grant and the amount included in the Historical Financial Information is included in the above non-director and non-chief executive highest paid employees’ remuneration disclosures.

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Chinese mainland

Pursuant to the Corporate Income Tax Law of the PRC and the respective regulations (the “CIT Law”), the subsidiaries which operate in the Chinese mainland are subject to CIT at a rate of 25% on the taxable income, and the Company is subject to preferential tax as set out below.

- (a) According to tax regulations related to Western Region Development Policy, the applicable income tax rate is 15% for the Company, and such tax concession was started on 1 January 2021, will expire on 31 December 2030.
- (b) On 28 November 2024, the Company was recognized as a “High and New Technology Enterprise” (“HNTE”) and enjoyed a preferential corporate income tax rate of 15% for the year ended 31 December 2024 and 2025.

Additional deduction for research and development expense

According to the announcement of the Ministry of Finance and the State Administration of Taxation on further improving the policy of pre-tax deduction of research and development expenses (No.7 in 2023), if the research and development expenses actually incurred in the research and development activities of enterprises do not form intangible assets and are included in the current profits and losses, on the basis of actual deduction according to regulations, from 1 January 2023, 100% of the actual amount incurred will be additionally deducted before tax; Intangible assets are amortized at 200% of the cost of intangible assets before tax from 1 January 2023.

APPENDIX I

ACCOUNTANTS’ REPORT

10. INCOME TAX (continued)

Chinese mainland (continued)

Additional deduction for research and development expense (continued)

The income tax expense of the Group for the Relevant Periods and six months ended 30 June 2025 is analysed as follows:

	Year ended 31 December			Six months ended 30 June	
	2023	2024	2025	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Current	33,911	37,279	141,344	74,327	143,883
Deferred (<i>Note 17</i>)	(583)	9,722	(11,630)	(11,618)	(12,421)
Total tax charge for the year/ period	<u>33,328</u>	<u>47,001</u>	<u>129,714</u>	<u>62,709</u>	<u>131,462</u>

A reconciliation of the tax expense applicable to profit before tax at the statutory rate to the tax expense at the effective tax rate is as follows:

	Year ended 31 December			Six months ended 30 June	
	2023	2024	2025	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Profit before tax	429,209	582,817	1,006,871	510,328	957,789
Tax at the statutory tax rate	64,381	87,423	151,031	76,549	143,669
Adjustment for different tax rates of certain companies	769	1,106	1,872	1,079	6,008
Adjustments in respect of current tax of previous periods	(666)	(267)	18,646	3,709	8,139
Additional deduction of research and development expenses	(20,146)	(30,260)	(28,106)	(11,750)	(15,487)
Expenses not deductible for tax	249	1,448	1,856	1,679	1,645
Profits attributable to a joint venture	(11,259)	(12,449)	(15,585)	(8,557)	(12,512)
Tax charge at the Group’s effective rate	<u>33,328</u>	<u>47,001</u>	<u>129,714</u>	<u>62,709</u>	<u>131,462</u>

11. DIVIDENDS

	Year ended 31 December			Six months ended 30 June	
	2023	2024	2025	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Final dividend declared and paid (tax inclusive)	<u>—</u>	<u>200,000</u>	<u>425,000</u>	<u>—</u>	<u>—</u>

During the year ended 31 December 2024, a dividend of RMB200,000,000 was declared and paid by the Company to its then shareholders. During the year ended 31 December 2025, a dividend of RMB425,000,000 was declared and paid by the Company to its then shareholders.

No dividends were declared for year ended 31 December 2023 and the six months ended 30 June 2025 and 2026.

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ACCOUNTANTS’ REPORT

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the profit attributable to the restricted share incentive scheme, and the weighted average number of ordinary shares in issue (excluding treasury shares) during the Relevant Periods.

The Company was converted into a joint stock limited liability company and issued 856,000,000 shares with the par value of RMB1.00 each on 31 December 2025. The weighted average number of ordinary shares outstanding during the Relevant Period was determined assuming that the paid-in capital had been fully converted into share capital at the same conversion ratio of 1:2 as upon transformation into a joint stock limited liability company.

The Company had no potential dilutive ordinary shares in issue for the year ended 31 December 2023 and the year ended 31 December 2024.

On 31 December 2025, as disclosed in note 2.3 to the Historical Financial Statements, the Company had consolidated the shareholding platforms which held the restricted shares, further details are set out in note 30 to the Historical Financial Statements.

No adjustment has been made to the basic earnings per share amounts presented for the Relevant Periods and six months ended 30 June 2025 in respect of a dilution as the impact of share award had an anti-dilutive effect on the basic earnings per share amounts presented.

The calculations of basic and diluted earnings per share are based on:

	Year ended 31 December			Six months ended 30 June	
	2023	2024	2025	2025	2026
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Earnings					
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	395,881	535,816	879,295	447,619	823,300
Less: profit attributable to the restricted share incentive scheme	—	—	42,809	—	40,083
Adjusted profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u>395,881</u>	<u>535,816</u>	<u>836,486</u>	<u>447,619</u>	<u>783,217</u>
Number of shares					
	Year ended 31 December			Six months ended 30 June	
	2023	2024	2025	2025	2026
	'000	'000	'000	'000 (unaudited)	'000
Shares					
Weighted average number of ordinary shares outstanding during the year, used in the basic earnings per share calculation	<u>800,000</u>	<u>828,918</u>	<u>855,886</u>	<u>856,000</u>	<u>814,324</u>

APPENDIX I

ACCOUNTANTS’ REPORT

13. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Plant and machinery	Office and other equipment	Construction in progress	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
31 December 2023					
At 1 January 2023:					
Cost	87	518,548	3,719	51,405	573,759
Accumulated depreciation and impairment	—	(86,935)	(1,324)	—	(88,259)
Net carrying amount	<u>87</u>	<u>431,613</u>	<u>2,395</u>	<u>51,405</u>	<u>485,500</u>
At 1 January 2023, net of accumulated depreciation and impairment	87	431,613	2,395	51,405	485,500
Additions	486	3,944	454	22,836	27,720
Disposals	—	(688)	(278)	—	(966)
Transfers	—	37,171	492	(37,663)	—
Depreciation provided during the year (note 6)	(45)	(83,823)	(1,159)	—	(85,027)
Impairment provided during the year (note 6)	—	(587)	—	—	(587)
At 31 December 2023, net of accumulated depreciation and impairment	<u>528</u>	<u>387,630</u>	<u>1,904</u>	<u>36,578</u>	<u>426,640</u>
At 31 December 2023:					
Cost	573	558,802	3,877	36,578	599,830
Accumulated depreciation and impairment	(45)	(171,172)	(1,973)	—	(173,190)
Net carrying amount	<u>528</u>	<u>387,630</u>	<u>1,904</u>	<u>36,578</u>	<u>426,640</u>

APPENDIX I

ACCOUNTANTS’ REPORT

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group (continued)

	Buildings	Plant and machinery	Office and other equipment	Construction in progress	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
31 December 2024					
At 1 January 2024:					
Cost	573	558,802	3,877	36,578	599,830
Accumulated depreciation and impairment	(45)	(171,172)	(1,973)	—	(173,190)
Net carrying amount	<u>528</u>	<u>387,630</u>	<u>1,904</u>	<u>36,578</u>	<u>426,640</u>
At 1 January 2024, net of accumulated depreciation and impairment	528	387,630	1,904	36,578	426,640
Additions	86	5,198	493	73,125	78,902
Disposals	—	(32)	—	—	(32)
Transfers	2,021	47,796	502	(50,319)	—
Depreciation provided during the year (note 6)	(102)	(76,390)	(825)	—	(77,317)
Impairment provided during the year (note 6)	—	(162)	—	—	(162)
At 31 December 2024, net of accumulated depreciation and impairment	<u>2,533</u>	<u>364,040</u>	<u>2,074</u>	<u>59,384</u>	<u>428,031</u>
At 31 December 2024:					
Cost	2,680	611,447	4,870	59,384	678,381
Accumulated depreciation and impairment	(147)	(247,407)	(2,796)	—	(250,350)
Net carrying amount	<u>2,533</u>	<u>364,040</u>	<u>2,074</u>	<u>59,384</u>	<u>428,031</u>

APPENDIX I

ACCOUNTANTS’ REPORT

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group (continued)

	Buildings	Plant and machinery	Office and other equipment	Construction in progress	Leasehold improvements	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
31 December 2025						
At 1 January 2025:						
Cost	2,680	611,447	4,870	59,384	—	678,381
Accumulated depreciation and impairment	(147)	(247,407)	(2,796)	—	—	(250,350)
Net carrying amount	<u>2,533</u>	<u>364,040</u>	<u>2,074</u>	<u>59,384</u>	<u>—</u>	<u>428,031</u>
At 1 January 2025, net of accumulated depreciation and impairment	2,533	364,040	2,074	59,384	—	428,031
Additions	—	1,813	2,539	134,691	—	139,043
Disposals	—	(10)	—	—	—	(10)
Transfers	—	77,155	625	(79,669)	1,889	—
Depreciation provided during the year (note 6)	(161)	(72,052)	(802)	—	(79)	(73,094)
Impairment provided during the year (note 6)	—	(219)	—	—	—	(219)
At 31 December 2025, net of accumulated depreciation and impairment	<u>2,372</u>	<u>370,727</u>	<u>4,436</u>	<u>114,406</u>	<u>1,810</u>	<u>493,751</u>
At 31 December 2025:						
Cost	2,680	689,406	8,031	114,406	1,889	816,412
Accumulated depreciation and impairment	(308)	(318,679)	(3,595)	—	(79)	(322,661)
Net carrying amount	<u>2,372</u>	<u>370,727</u>	<u>4,436</u>	<u>114,406</u>	<u>1,810</u>	<u>493,751</u>

APPENDIX I

ACCOUNTANTS’ REPORT

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group (continued)

	Buildings	Plant and machinery	Office and other equipment	Construction in progress	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
30 June 2026						
At 1 January 2026:						
Cost	2,680	689,406	8,031	114,406	1,889	816,412
Accumulated depreciation and impairment	(308)	(318,679)	(3,595)	—	(79)	(322,661)
Net carrying amount	<u>2,372</u>	<u>370,727</u>	<u>4,436</u>	<u>114,406</u>	<u>1,810</u>	<u>493,751</u>
At 1 January 2026, net of accumulated depreciation and impairment	2,372	370,727	4,436	114,406	1,810	493,751
Additions	104	1,625	1,896	82,955	—	86,580
Disposals	—	(6)	—	(2,462)	—	(2,468)
Transfers	—	48,137	503	(48,640)	—	—
Depreciation provided during the period (note 6)	(83)	(34,757)	(883)	—	(472)	(36,195)
Impairment provided during the period (note 6)	—	—	—	(152)	—	(152)
At 30 June 2026, net of accumulated depreciation and impairment	<u>2,393</u>	<u>385,726</u>	<u>5,952</u>	<u>146,107</u>	<u>1,338</u>	<u>541,516</u>
At 30 June 2026:						
Cost	2,784	739,162	10,430	146,259	1,889	900,524
Accumulated depreciation and impairment	(391)	(353,436)	(4,478)	(152)	(551)	(359,008)
Net carrying amount	<u>2,393</u>	<u>385,726</u>	<u>5,952</u>	<u>146,107</u>	<u>1,338</u>	<u>541,516</u>

APPENDIX I

ACCOUNTANTS’ REPORT

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The Company

	Buildings	Plant and machinery	Office and other equipment	Construction in progress	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
31 December 2023					
At 1 January 2023:					
Cost	87	518,548	3,695	51,405	573,735
Accumulated depreciation and impairment	—	(86,935)	(1,316)	—	(88,251)
Net carrying amount	<u>87</u>	<u>431,613</u>	<u>2,379</u>	<u>51,405</u>	<u>485,484</u>
At 1 January 2023, net of accumulated depreciation and impairment	87	431,613	2,379	51,405	485,484
Additions	486	3,944	454	22,836	27,720
Disposals	—	(688)	(278)	—	(966)
Transfers	—	37,171	492	(37,663)	—
Depreciation provided during the year	(45)	(83,823)	(1,150)	—	(85,018)
Impairment provided during the year	—	(587)	—	—	(587)
At 31 December 2023, net of accumulated depreciation and impairment	<u>528</u>	<u>387,630</u>	<u>1,897</u>	<u>36,578</u>	<u>426,633</u>
At 31 December 2023:					
Cost	573	558,802	3,853	36,578	599,806
Accumulated depreciation and impairment	(45)	(171,172)	(1,956)	—	(173,173)
Net carrying amount	<u>528</u>	<u>387,630</u>	<u>1,897</u>	<u>36,578</u>	<u>426,633</u>

APPENDIX I

ACCOUNTANTS’ REPORT

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The Company (continued)

	Buildings	Plant and machinery	Office and other equipment	Construction in progress	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
31 December 2024					
At 1 January 2024:					
Cost	573	558,802	3,853	36,578	599,806
Accumulated depreciation and impairment	(45)	(171,172)	(1,956)	—	(173,173)
Net carrying amount	<u>528</u>	<u>387,630</u>	<u>1,897</u>	<u>36,578</u>	<u>426,633</u>
At 1 January 2024, net of accumulated depreciation and impairment	528	387,630	1,897	36,578	426,633
Additions	86	5,198	493	73,125	78,902
Disposals	—	(32)	—	—	(32)
Transfers	2,021	47,796	502	(50,319)	—
Depreciation provided during the year	(102)	(76,390)	(821)	—	(77,313)
Impairment provided during the year	—	(162)	—	—	(162)
At 31 December 2024, net of accumulated depreciation and impairment	<u>2,533</u>	<u>364,040</u>	<u>2,071</u>	<u>59,384</u>	<u>428,028</u>
At 31 December 2024:					
Cost	2,680	611,447	4,845	59,384	678,356
Accumulated depreciation and impairment	(147)	(247,407)	(2,774)	—	(250,328)
Net carrying amount	<u>2,533</u>	<u>364,040</u>	<u>2,071</u>	<u>59,384</u>	<u>428,028</u>

APPENDIX I

ACCOUNTANTS’ REPORT

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The Company (continued)

	Buildings	Plant and machinery	Office and other equipment	Construction in progress	leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2025						
At 1 January 2025:						
Cost	2,680	611,447	4,845	59,384	—	678,356
Accumulated depreciation and impairment	(147)	(247,407)	(2,774)	—	—	(250,328)
Net carrying amount	<u>2,533</u>	<u>364,040</u>	<u>2,071</u>	<u>59,384</u>	<u>—</u>	<u>428,028</u>
At 1 January 2025, net of accumulated depreciation and impairment	2,533	364,040	2,071	59,384	—	428,028
Additions	—	1,752	2,185	119,610	—	123,547
Disposals	—	(10)	—	—	—	(10)
Transfers	—	62,656	357	(64,902)	1,889	—
Depreciation provided during the year	(161)	(71,858)	(791)	—	(79)	(72,889)
Impairment provided during the year	—	(219)	—	—	—	(219)
At 31 December 2025, net of accumulated depreciation and impairment	<u>2,372</u>	<u>356,361</u>	<u>3,822</u>	<u>114,092</u>	<u>1,810</u>	<u>478,457</u>
At 31 December 2025:						
Cost	2,680	674,846	7,384	114,092	1,889	800,891
Accumulated depreciation and impairment	(308)	(318,485)	(3,562)	—	(79)	(322,434)
Net carrying amount	<u>2,372</u>	<u>356,361</u>	<u>3,822</u>	<u>114,092</u>	<u>1,810</u>	<u>478,457</u>

APPENDIX I

ACCOUNTANTS’ REPORT

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The Company (continued)

	Buildings	Plant and machinery	Office and other equipment	Construction in progress	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
30 June 2026						
At 1 January 2026:						
Cost	2,680	674,846	7,384	114,092	1,889	800,891
Accumulated depreciation and impairment	(308)	(318,485)	(3,562)	—	(79)	(322,434)
Net carrying amount	<u>2,372</u>	<u>356,361</u>	<u>3,822</u>	<u>114,092</u>	<u>1,810</u>	<u>478,457</u>
At 1 January 2026, net of accumulated depreciation and impairment	2,372	356,361	3,822	114,092	1,810	478,457
Additions	104	1,247	404	73,924	—	75,679
Disposals	—	(6)	—	(2,462)	—	(2,468)
Transfers	—	47,652	503	(48,155)	—	—
Depreciation provided during the period	(83)	(34,077)	(673)	—	(472)	(35,305)
Impairment provided during the period	—	—	—	(152)	—	(152)
At 30 June 2026, net of accumulated depreciation and impairment	<u>2,393</u>	<u>371,177</u>	<u>4,056</u>	<u>137,247</u>	<u>1,338</u>	<u>516,211</u>
At 30 June 2026						
Cost	2,784	723,739	8,291	137,399	1,889	874,102
Accumulated depreciation and impairment	(391)	(352,562)	(4,235)	(152)	(551)	(357,891)
Net carrying amount	<u>2,393</u>	<u>371,177</u>	<u>4,056</u>	<u>137,247</u>	<u>1,338</u>	<u>516,211</u>

- (a) At 31 December 2023, 2024 and 2025 and as at 30 June 2026, the Group had yet to obtain building ownership certificates for certain buildings with a net book value of approximately RMB528,000, RMB2,533,000 and RMB2,372,000 and RMB2,393,000, respectively.

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ACCOUNTANTS’ REPORT

14. INTANGIBLE ASSETS

The Group and the Company

	Software	Technology know-how	Construction in progress (software)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2023				
At 1 January 2023				
Cost	333	—	153	486
Accumulated amortisation	(72)	—	—	(72)
Net carrying amount	261	—	153	414
At 1 January 2023, net of accumulated amortisation	261	—	153	414
Additions	—	94,634	581	95,215
Amortisation (note 6)	(67)	(2,728)	—	(2,795)
At 31 December 2023, net of accumulated amortisation	194	91,906	734	92,834
At 31 December 2023				
Cost	333	94,634	734	95,701
Accumulated amortisation	(139)	(2,728)	—	(2,867)
Net carrying amount	194	91,906	734	92,834
	Software	Technology know-how	Construction in progress (software)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2024				
At 1 January 2024				
Cost	333	94,634	734	95,701
Accumulated amortisation	(139)	(2,728)	—	(2,867)
Net carrying amount	194	91,906	734	92,834
At 1 January 2024, net of accumulated amortisation	194	91,906	734	92,834
Additions	—	18,046	2,307	20,353
Transfers	1,904	—	(1,904)	—
Amortisation (note 6)	(386)	(10,320)	—	(10,706)
At 31 December 2024, net of accumulated amortisation	1,712	99,632	1,137	102,481
At 31 December 2024				
Cost	2,237	112,680	1,137	116,054
Accumulated amortisation	(525)	(13,048)	—	(13,573)
Net carrying amount	1,712	99,632	1,137	102,481

APPENDIX I

ACCOUNTANTS’ REPORT

14. INTANGIBLE ASSETS (CONTINUED)

The Group and the Company (continued)

	Software	Technology know-how	Construction in progress (software)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2025				
At 1 January 2025				
Cost	2,237	112,680	1,137	116,054
Accumulated amortisation	(525)	(13,048)	—	(13,573)
Net carrying amount	<u>1,712</u>	<u>99,632</u>	<u>1,137</u>	<u>102,481</u>
At 1 January 2025, net of accumulated amortisation	1,712	99,632	1,137	102,481
Additions	—	—	2,183	2,183
Transfers	1,621	—	(1,621)	—
Amortisation (note 6)	(622)	(11,073)	—	(11,695)
At 31 December 2025, net of accumulated amortisation	<u>2,711</u>	<u>88,559</u>	<u>1,699</u>	<u>92,969</u>
At 31 December 2025				
Cost	3,858	112,680	1,699	118,237
Accumulated amortisation	(1,147)	(24,121)	—	(25,268)
Net carrying amount	<u>2,711</u>	<u>88,559</u>	<u>1,699</u>	<u>92,969</u>
	Software	Technology know-how	Construction in progress (software)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 30 June 2026				
At 1 January 2026				
Cost	3,858	112,680	1,699	118,237
Accumulated amortisation	(1,147)	(24,121)	—	(25,268)
Net carrying amount	<u>2,711</u>	<u>88,559</u>	<u>1,699</u>	<u>92,969</u>
At 1 January 2026, net of accumulated amortisation	2,711	88,559	1,699	92,969
Additions	—	—	2,161	2,161
Transfers	406	—	(406)	—
Amortisation (note 6)	(445)	(5,536)	—	(5,981)
At 30 June 2026, net of accumulated amortisation	<u>2,672</u>	<u>83,023</u>	<u>3,454</u>	<u>89,149</u>
At 30 June 2026				
Cost	4,264	112,680	3,454	120,398
Accumulated amortisation	(1,592)	(29,657)	—	(31,249)
Net carrying amount	<u>2,672</u>	<u>83,023</u>	<u>3,454</u>	<u>89,149</u>

APPENDIX I

ACCOUNTANTS’ REPORT

15. LEASES

The Group as a lessee

The Group has lease contracts for various items of office building, dormitories, plants and others used in its operations. Leases of office building and plant generally have lease terms between 1 and 20 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) *Right-of-use assets*

The carrying amounts of the right-of-use assets and the movements during the Relevant Periods are as follows:

The Group

	Plant and buildings
	RMB’000
At 1 January 2023	56,155
Additions	860
Disposal	—
Depreciation charged (<i>note 6</i>)	<u>(28,789)</u>
At 31 December 2023	<u>28,226</u>
At 1 January 2024	28,226
Additions	2,327
Disposal	—
Depreciation charged (<i>note 6</i>)	<u>(30,528)</u>
At 31 December 2024	<u>25</u>
At 1 January 2025	25
Additions	109,403
Disposal	—
Depreciation charged (<i>note 6</i>)	<u>(32,646)</u>
At 31 December 2025	<u>76,782</u>
At 1 January 2026	76,782
Additions	4,122
Right-of-use assets early termination	(16,714)
Depreciation charged (<i>note 6</i>)	<u>(12,790)</u>
At 30 June 2026	<u>51,400</u>

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ACCOUNTANTS’ REPORT

15. LEASES (continued)

The Group as a lessee (continued)

(a) Right-of-use assets (continued)

The Company

	Plant and buildings
	RMB’000
At 1 January 2023	56,155
Additions	860
Disposal	—
Depreciation charged (<i>note 6</i>)	(28,789)
At 31 December 2023	<u>28,226</u>
At 1 January 2024	28,226
Additions	2,327
Disposal	—
Depreciation charged (<i>note 6</i>)	(30,528)
At 31 December 2024	<u>25</u>
At 1 January 2025	25
Additions	97,593
Disposal	—
Depreciation charged (<i>note 6</i>)	(32,351)
At 31 December 2025	<u>65,267</u>
At 1 January 2026	65,267
Additions	4,122
Right-of-use assets early termination	(16,714)
Depreciation charged (<i>note 6</i>)	(12,495)
At 30 June 2026	<u>40,180</u>

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the Relevant Periods are as follows:

The Group

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Carrying amount at 1 January	57,244	28,201	39	79,544
Addition	861	2,326	109,403	4,122
Accretion of interest recognised during the year/period (<i>note 7</i>)	432	478	2,921	893
Lease payment	(30,336)	(30,966)	(32,819)	(1,473)
Early lease termination	—	—	—	(18,479)
Carrying amount at 31 December/30 June	<u>28,201</u>	<u>39</u>	<u>79,544</u>	<u>64,607</u>
Analyzed into:				
Current portion	28,177	39	(33,285)	26,209
Non-current portion	<u>24</u>	<u>—</u>	<u>46,259</u>	<u>38,398</u>

APPENDIX I

ACCOUNTANTS’ REPORT

15. LEASES (continued)

The Group as a lessee (continued)

(b) Lease liabilities (continued)

The Company

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Carrying amount at 1 January	57,244	28,201	39	67,551
Addition	861	2,326	97,593	4,122
Accretion of interest recognised during the year/period (note 7)	432	478	2,738	707
Lease payment	(30,336)	(30,966)	(32,819)	(1,473)
Early lease termination	—	—	—	(18,479)
Carrying amount at 31 December/30 June	<u>28,201</u>	<u>39</u>	<u>67,551</u>	<u>52,428</u>
Analyzed into:				
Current portion	28,177	39	33,285	25,850
Non-current portion	<u>24</u>	<u>—</u>	<u>34,266</u>	<u>26,578</u>

The maturity analysis of lease liabilities is disclosed in note 37 to the Historical Financial Information.

- (c) Total amounts recognized in profit or loss in relation to leases during the Relevant Periods and six months ended 30 June 2025 are as follows:

The Group

	Year ended 31 December			Six months ended 30 June	
	2023	2024	2025	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Interest on lease liabilities (note 7)	432	478	2,921	1,589	893
Depreciation charge of right-of-use assets	28,789	30,528	32,646	16,051	12,790
Expenses relating to short-term leases and low-value leases	<u>5,867</u>	<u>1,852</u>	<u>6,507</u>	<u>1,610</u>	<u>4,133</u>
Total amount recognised in profit or loss	<u>35,088</u>	<u>32,858</u>	<u>42,074</u>	<u>19,250</u>	<u>17,816</u>

The Company

	Year ended 31 December			Six months ended 30 June	
	2023	2024	2025	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Interest on lease liabilities (note 7)	432	478	2,738	1,589	707
Depreciation charge of right-of-use assets	28,789	30,528	32,351	16,051	12,495
Expenses relating to short-term leases and low-value leases	<u>5,867</u>	<u>1,852</u>	<u>6,382</u>	<u>1,558</u>	<u>3,899</u>
Total amount recognised in profit or loss	<u>35,088</u>	<u>32,858</u>	<u>41,471</u>	<u>19,198</u>	<u>17,101</u>

APPENDIX I

ACCOUNTANTS’ REPORT

16. INVESTMENT IN A JOINT VENTURE

The Group

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Shares of net assets	186,718	269,508	303,737	310,589

The Group’s trade receivable balances and other balances due from or due to the joint venture are disclosed in note 34 to the Historical Financial Information.

The Company

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Shares of net assets	186,214	269,209	299,207	307,621

The following table illustrates the aggregate financial information of the Group’s joint venture that is not individually material:

The Group

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Share of the joint venture’s profit for the year/period	75,060	86,112	102,775	83,104
Share of the joint venture’s total comprehensive income	75,060	86,112	102,775	83,104
Aggregate carrying amount of the Group’s investment in the joint venture	186,718	269,508	303,737	310,589

The Company

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Share of the joint venture’s profit for the year/period	74,557	85,813	103,897	83,414
Share of the joint venture’s total comprehensive income	74,557	85,813	103,897	83,414
Aggregate carrying amount of the Company’s investment in the joint venture	186,214	269,209	299,207	307,621

The Group’s shareholdings in the joint venture are all held by the Company directly.

APPENDIX I

ACCOUNTANTS’ REPORT

17. DEFERRED TAX

The movements in deferred tax assets and liabilities during the Relevant Periods are as follows:

Deferred tax assets

The Group

	Impairment of assets	Accrued expenses	Deferred income	Lease liabilities	Fair value adjustments arising from financial instruments	Provision	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2023	2,754	13,980	—	7,261	—	—	—	23,995
Deferred tax credited/(charged) to the consolidated statements of profit or loss during the year	(91)	3,888	2,462	(7,257)	—	1,562	18	582
Deferred tax credited to the consolidated statements of other comprehensive income during the year	—	—	—	—	426	—	—	426
At 31 December 2023	<u>2,663</u>	<u>17,868</u>	<u>2,462</u>	<u>4</u>	<u>426</u>	<u>1,562</u>	<u>18</u>	<u>25,003</u>
Deferred tax credited to the consolidated statements of profit or loss during the year	66	1,877	1,258	2	—	1,070	14	4,287
Deferred tax charged to the consolidated statements of other comprehensive income during the year	—	—	—	—	(65)	—	—	(65)
At 31 December 2024	<u>2,729</u>	<u>19,745</u>	<u>3,720</u>	<u>6</u>	<u>361</u>	<u>2,632</u>	<u>32</u>	<u>29,225</u>
Deferred tax credited/(charged) to the consolidated statements of profit or loss during the year	5,337	10,159	3,449	13,125	—	(332)	2,866	34,604
Deferred tax credited to the consolidated statements of other comprehensive income during the year	—	—	—	—	211	—	—	211
At 31 December 2025	<u>8,066</u>	<u>29,904</u>	<u>7,169</u>	<u>13,131</u>	<u>572</u>	<u>2,300</u>	<u>2,898</u>	<u>64,040</u>

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17. DEFERRED TAX (continued)

Deferred tax assets (continued)

The Company

	Impairment of assets	Accrued Expenses	Deferred income	Lease liabilities	Fair value adjustments arising from financial instruments	Provision	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2023	2,754	13,504	—	7,262	—	—	—	23,520
Deferred tax credited/(charged) to the consolidated statements of profit or loss during the year	(91)	2,810	2,462	(7,258)	—	1,562	18	(497)
Deferred tax credited to the consolidated statements of other comprehensive income during the year	—	—	—	—	426	—	—	426
At 31 December 2023	<u>2,663</u>	<u>16,314</u>	<u>2,462</u>	<u>4</u>	<u>426</u>	<u>1,562</u>	<u>18</u>	<u>23,449</u>
Deferred tax credited to the consolidated statements of profit or loss during the year	66	1,956	1,258	2	—	1,070	15	4,367
Deferred tax charged to the consolidated statements of other comprehensive income during the year	—	—	—	—	(65)	—	—	(65)
At 31 December 2024	<u>2,729</u>	<u>18,270</u>	<u>3,720</u>	<u>6</u>	<u>361</u>	<u>2,632</u>	<u>33</u>	<u>27,751</u>
Deferred tax credited/(charged) to the consolidated statements of profit or loss during the year	5,335	7,232	3,449	10,127	—	(332)	(1)	25,810
Deferred tax credited to the consolidated statements of other comprehensive income during the year	—	—	—	—	211	—	—	211
At 31 December 2025	<u>8,064</u>	<u>25,502</u>	<u>7,169</u>	<u>10,133</u>	<u>572</u>	<u>2,300</u>	<u>32</u>	<u>53,772</u>
At 1 January 2026	8,064	25,502	7,169	10,133	572	2,300	32	53,772
Deferred tax credited/(charged) to the consolidated statements of profit or loss during the period	1,536	1,347	(513)	(2,269)	—	280	(4)	377
Deferred tax credited to the consolidated statements of other comprehensive income during the period	—	—	—	—	(463)	—	—	(463)
At 30 June 2026	<u>9,600</u>	<u>26,849</u>	<u>6,656</u>	<u>7,864</u>	<u>109</u>	<u>2,580</u>	<u>28</u>	<u>53,686</u>

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ACCOUNTANTS’ REPORT

17. DEFERRED TAX (continued)

Deferred tax liabilities

The Group

	Depreciation allowance in excess of related depreciation	Purchase price variance	Right-of-use assets	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2023	—	2,407	(7,098)	(4,691)
Charged/(credited) to profit or loss during the year (note 10)	(3,655)	(3,432)	7,088	1
At 31 December 2023	(3,655)	(1,025)	(10)	(4,690)
Charged/(credited) to profit or loss during the year (note 10)	(6,647)	(7,368)	6	(14,009)
At 31 December 2024	(10,302)	(8,393)	(4)	(18,699)
Credited to profit or loss during the year (note 10)	(5,246)	(5,063)	(12,665)	(22,974)
At 31 December 2025	(15,548)	(13,456)	(12,669)	(41,673)
Credited to profit or loss during the period (note 10)	(2,811)	7,340	3,837	8,366
At 30 June 2026	(18,359)	(6,116)	(8,832)	(33,307)

The Company

	Depreciation allowance in excess of related depreciation	Purchase price variance	Right-of-use assets	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2023	—	2,407	(7,098)	(4,691)
Charged/(credited) to profit or loss during the year	(3,655)	(3,432)	7,088	1
At 31 December 2023	(3,655)	(1,025)	(10)	(4,690)
Charged/(credited) to profit or loss during the year	(6,647)	(7,368)	6	(14,009)
At 31 December 2024	(10,302)	(8,393)	(4)	(18,699)
Credited to profit or loss during the year (note 10)	(5,246)	(4,960)	(9,786)	(19,992)
At 31 December 2025	(15,548)	(13,353)	(9,790)	(38,691)
Credited to profit or loss during the period (note 10)	(2,811)	7,237	3,763	8,189
At 30 June 2026	(18,359)	(6,116)	(6,027)	(30,502)

There was no income tax or withholding tax consequences attaching to the payment of dividends by the Company to its shareholders during the Relevant Periods.

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17. DEFERRED TAX (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statements of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

The Group

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Net deferred tax assets recognised in the consolidated statement of financial position	20,313	10,526	22,367	34,325

The following is an analysis of the deferred tax balances of the Company for financial reporting purposes:

The Company

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Net deferred tax assets recognised in the consolidated statement of financial position	18,759	9,052	15,081	23,184

18. OTHER NON-CURRENT ASSETS

The Group and the Company

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Prepayments for acquisition of property, plant and equipment	9,042	33,581	51,819	27,870

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19. INVENTORIES

The Group

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	392,780	458,201	544,033	771,487
Work in progress	9,063	11,141	3,046	749
Finished goods	909,354	1,039,793	1,531,619	1,737,769
Total	<u>1,311,197</u>	<u>1,509,135</u>	<u>2,078,698</u>	<u>2,510,005</u>

The Company

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	392,780	458,201	530,970	734,827
Work in progress	9,063	11,141	3,046	749
Finished goods	896,310	1,012,856	1,470,159	1,738,414
Total	<u>1,298,153</u>	<u>1,482,198</u>	<u>2,004,175</u>	<u>2,473,990</u>

The inventories are net of a write-down of approximately RMB17,020,000, RMB16,475,000 and RMB37,272,000 and RMB37,445,000 in the consolidated statements of financial position as at 31 December 2023, 2024 and 2025 and as at 30 June 2026, respectively.

20. TRADE AND BILLS RECEIVABLES

The Group

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	294,040	636,232	1,288,884	3,318,268
Bills receivable	728,649	938,991	1,173,783	533,407
Impairment	(148)	(976)	(15,793)	(25,927)
Net carrying amount	<u>1,022,541</u>	<u>1,574,247</u>	<u>2,446,874</u>	<u>3,825,748</u>

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ACCOUNTANTS’ REPORT

20. TRADE AND BILLS RECEIVABLES (continued)

The Company

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Trade receivables	275,252	629,758	1,281,292	3,248,885
Bills receivable	702,218	879,139	1,090,179	491,255
Impairment	(148)	(976)	(15,785)	(25,850)
Net carrying amount	<u>977,322</u>	<u>1,507,921</u>	<u>2,355,686</u>	<u>3,714,290</u>

Trade receivables mainly arise from the sales of marine engines and power generators. The Group periodically conducts credit evaluations of customers who trade on credit. Based on the results of the credit evaluations, the Group selects to transact with approved and creditworthy customers and monitors their receivable balances to ensure that the Company is not exposed to significant bad debt risk.

No collateral is required as the Group only deals with approved and creditworthy third parties. Credit risk concentration is managed on a customer-by-customer basis. Trade receivables are non-interest-bearing.

The Group’s bills receivables were all accepted by banks and mature within one year, which were neither past due nor impaired.

As of 31 December 2023, 2024 and 2025 and as of 30 June 2026, bills receivable of RMB331,052,000, RMB360,625,000 and RMB493,721,000 and RMB123,259,000 whose fair values approximate to their carrying values, were classified as financial assets at fair value through other comprehensive income, respectively, and the remaining bills receivable were measured at amortized cost.

The ageing of the trade receivables as at the end of each reporting period, based on the invoice date and net of provisions, is as follows:

The Group

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Within 180 days	236,284	507,902	1,101,573	2,858,563
181 days to 1 year	50,030	98,583	136,868	339,971
1 to 2 years	7,578	28,759	31,500	87,589
2 to 3 years	—	12	3,141	5,855
Over 3 years	—	—	9	363
Total	<u>293,892</u>	<u>635,256</u>	<u>1,273,091</u>	<u>3,292,341</u>

The Company

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Within 180 days	217,496	501,428	1,093,989	2,796,955
181 days to 1 year	50,030	98,583	136,868	332,403
1 to 2 years	7,578	28,759	31,500	87,459
2 to 3 years	—	12	3,141	5,855
Over 3 years	—	—	9	363
Total	<u>275,104</u>	<u>628,782</u>	<u>1,265,507</u>	<u>3,223,035</u>

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ACCOUNTANTS’ REPORT

20. TRADE AND BILLS RECEIVABLES (continued)

The movements in the loss allowance for impairment of trade receivables are as follows:

The Group

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
At beginning of year/period	205	148	976	15,793
Impairment losses, net	(57)	828	14,817	10,134
At end of year/period	148	976	15,793	25,927

The Company

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
At beginning of year/period	205	148	976	15,785
Impairment losses, net	(57)	828	14,809	10,065
At end of year/period	148	976	15,785	25,850

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group’s trade receivables using a provision matrix:

The Group

As at 31 December 2023

	Aging				As at 31 December 2023
	Within 180 days	181 days to 1 year	1 to 2 years	2 to 3 years	Total
Expected credit loss rate	0.04%	0.04%	0.56%	—	0.05%
Gross carrying amount (RMB’000)	236,369	50,050	7,621	—	294,040
Expected credit losses (RMB’000)	85	20	43	—	148

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20. TRADE AND BILLS RECEIVABLES (continued)

The Group (continued)

As at 31 December 2024

	Aging				As at 31 December 2024
	Within 180 days	181 days to 1 year	1 to 2 years	2 to 3 years	Total
Expected credit loss rate	0.11%	0.11%	1.13%	25.00%	0.15%
Gross carrying amount (RMB'000)	508,439	98,688	29,089	16	636,232
Expected credit losses (RMB'000)	537	105	330	4	976

As at 31 December 2025

	Aging					As at 31 December 2025
	Within 180 days	181 days to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Expected credit loss rate	0.28%	0.28%	24.11%	42.80%	43.75%	1.23%
Gross carrying amount (RMB'000)	1,104,621	137,246	41,510	5,491	16	1,288,884
Expected credit losses (RMB'000)	3,048	378	10,010	2,350	7	15,793

As at 30 June 2026

	Aging					As at 30 June 2026
	Within 180 days	181 days to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Expected credit loss rate	0.30%	0.30%	11.73%	42.79%	42.83%	0.78%
Gross carrying amount (RMB'000)	2,867,176	340,995	99,227	10,235	635	3,318,268
Expected credit losses (RMB'000)	8,613	1,024	11,638	4,380	272	25,927

The Company

As at 31 December 2023

	Aging				As at 31 December 2023
	Within 180 days	181 days to 1 year	1 to 2 years	2 to 3 years	Total
Expected credit loss rate	0.04%	0.04%	0.56%	—	0.05%
Gross carrying amount (RMB'000)	217,581	50,050	7,621	—	275,252
Expected credit losses (RMB'000)	85	20	43	—	148

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20. TRADE AND BILLS RECEIVABLES (continued)

The Group (continued)

As at 31 December 2024

	Aging				As at 31 December 2024
	Within 180 days	181 days to 1 year	1 to 2 years	2 to 3 years	Total
Expected credit loss rate	0.11%	0.11%	1.13%	25.00%	0.15%
Gross carrying amount (RMB'000)	501,965	98,688	29,089	16	629,758
Expected credit losses (RMB'000)	537	105	330	4	976

As at 31 December 2025

	Aging					As at 31 December 2025
	Within 180 days	181 days to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Expected credit loss rate	0.28%	0.28%	24.11%	42.80%	43.75%	1.23%
Gross carrying amount (RMB'000)	1,097,029	137,246	41,510	5,491	16	1,281,292
Expected credit losses (RMB'000)	3,040	378	10,010	2,350	7	15,785

As at 30 June 2026

	Aging					As at 30 June 2026
	Within 180 days	181 days to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Expected credit loss rate	0.30%	0.30%	11.86%	42.79%	42.83%	0.80%
Gross carrying amount (RMB'000)	2,805,382	333,405	99,228	10,235	635	3,248,885
Expected credit losses (RMB'000)	8,427	1,002	11,769	4,380	272	25,850

21. CAPITALIZED CONTRACT COST

The Group and the Company

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB'000	RMB'000	RMB'000	RMB'000
Capitalized contract costs relating to the projects on development of technology know-how				
At January 1	20,092	12,545	—	—
Addition	12,945	156	—	—
Charged to profit or loss	(20,492)	(12,701)	—	—
At December 31/June 30	12,545	—	—	—

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22. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

The Group

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Prepayments	44,188	24,956	55,465	42,763
Taxes recoverable	52,910	61,705	85,234	—
Deposits and other receivables	14,327	53,626	53,197	53,526
[REDACTED] expenses	—	—	1,786	4,036
Others	—	991	1,397	1,396
Dividends receivable	—	—	—	75,000
Total	<u>111,425</u>	<u>141,278</u>	<u>197,079</u>	<u>176,721</u>

The Company

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Prepayments	44,188	24,956	55,435	42,734
Taxes recoverable	52,613	60,860	82,810	—
Deposits and other receivables	14,327	53,626	53,059	53,080
[REDACTED] expenses	—	—	1,786	4,036
Others	—	991	1,397	1,396
Dividends receivable	—	—	—	75,000
Total	<u>111,128</u>	<u>140,433</u>	<u>194,487</u>	<u>176,246</u>

The balances are interest-free and are not secured with collateral.

The financial assets included in the above balances relate to receivables were categorized in stage 1 at the end of each of the Relevant Periods. In calculating the expected credit loss rate, the Group considers the historical loss rate and adjusts for forward-looking macroeconomic data. During the Relevant Periods, the Group estimated that the expected credit loss rate for these financial assets is minimal.

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23. CASH AND CASH EQUIVALENTS

The Group

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Cash and bank balance	730,071	885,866	1,545,192	1,313,787
Denominated in:				
RMB	707,625	875,260	1,540,397	1,310,195
USD	18,102	6,925	3,742	3,110
EUR	4,344	3,681	1,053	482

The Company

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Cash and bank balance	712,645	873,666	1,447,289	1,223,766
Denominated in:				
RMB	690,199	863,060	1,442,494	1,220,174
USD	18,102	6,925	3,742	3,110
EUR	4,344	3,681	1,053	482

The RMB is not freely convertible into other currencies, however, under the China mainland’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

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

24. TRADE AND BILLS PAYABLES

The Group

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Trade payables	1,070,278	1,578,146	2,461,917	3,323,067
Bills payables	432,630	651,420	1,040,060	940,000
Total	1,502,908	2,229,566	3,501,977	4,263,067

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ACCOUNTANTS’ REPORT

24. TRADE AND BILLS PAYABLES (continued)

The Company

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Trade payables	1,055,145	1,541,782	2,407,629	3,251,244
Bills payables	432,630	651,420	1,040,060	940,000
Total	<u>1,487,775</u>	<u>2,193,202</u>	<u>3,447,689</u>	<u>4,191,244</u>

An aging analysis of the trade and bills payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

The Group

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Within 1 year	1,502,756	2,226,444	3,491,599	4,248,139
Over 1 year	<u>152</u>	<u>3,122</u>	<u>10,378</u>	<u>14,928</u>
Total	<u>1,502,908</u>	<u>2,229,566</u>	<u>3,501,977</u>	<u>4,263,067</u>

The Company

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Within 1 year	1,487,623	2,190,080	3,437,311	4,176,316
Over 1 year	<u>152</u>	<u>3,122</u>	<u>10,378</u>	<u>14,928</u>
Total	<u>1,487,775</u>	<u>2,193,202</u>	<u>3,447,689</u>	<u>4,191,244</u>

The trade and bills payables are non-interest-bearing and normally settled within one year.

As at 31 December 2023, 2024 and 2025 and as at 30 June 2026, the carrying amounts of trade and bills payables approximated to their fair values.

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25. OTHER PAYABLES AND ACCRUALS

The Group

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Contract liabilities:				
—Advance from customer	289,774	203,700	625,680	483,274
—Unfulfilled service-type maintenance services	10,412	17,545	15,329	17,203
Payables for long-term assets	117,899	79,192	36,510	36,238
Payroll payables	102,795	121,663	211,188	241,344
Refund liabilities	46,857	31,335	22,718	29,411
Output VAT	37,671	26,526	56,521	25,514
Others	54,678	79,877	108,472	120,409
Total	660,086	559,838	1,076,418	953,393

The Company

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Contract liabilities:				
—Advance from customer	278,416	181,262	515,444	443,853
—Unfulfilled service-type maintenance services	10,412	17,545	15,329	17,203
Payables for long-term assets	117,899	79,192	33,633	31,961
Payroll payables	102,795	121,663	205,670	231,845
Refund liabilities	41,183	25,493	9,417	20,126
Output VAT payable	36,194	23,609	46,684	25,514
Others	54,104	79,792	87,549	108,631
Total	641,003	528,556	913,726	879,133

Contract liabilities include short-term advances received to deliver products and unfulfilled service-type maintenance service. The increase in contract liabilities in 2025 and as at 30 June 2026 was mainly due to the increase in short-term advances received from customers in relation to delivering products at the end of the period, driven by growth in sales.

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

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27. PROVISION (CONTINUED)

The Company

	Provision for warranties
	RMB’000
At 1 January 2023	22,055
Provision made	24,570
Provision utilized	<u>(15,580)</u>
At 31 December 2023 and 1 January 2024	<u>31,045</u>
Provision made	57,278
Provision utilized	<u>(38,156)</u>
At 31 December 2024 and 1 January 2025	<u>50,167</u>
Provision made	102,652
Provision utilized	<u>(72,832)</u>
At 31 December 2025 and 1 January 2026	<u>79,987</u>
Provision made	57,313
Provision utilized	<u>(34,811)</u>
At 30 June 2026	<u><u>102,489</u></u>

28. DEFERRED INCOME

The Group and the Company

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Deferred government grant	<u>16,410</u>	<u>24,798</u>	<u>47,790</u>	<u>44,372</u>

Deferred income represented amounts received from the local governments to support the Group’s research and development activities with certain conditions to fulfil, which will be recognised in profit or loss upon the fulfilment of the conditions.

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ACCOUNTANTS’ REPORT

29. PAID-IN CAPITAL/SHARE CAPITAL AND TREASURY SHARES

Paid-in capital

A summary of movements in the Company’s paid-in capital is as follows:

	Paid-in capital RMB’000
At 1 January 2023, 31 December 2023 and 1 January 2024	400,000
Capital contributions*	<u>28,000</u>
At 31 December 2024 and 1 January 2025	428,000
Capital contribution due to conversion into a joint stock limited liability company**	<u>(428,000)</u>
At 31 December 2025, 1 January 2026 and 30 June 2026	<u><u>—</u></u>

Share capital and treasury shares

A summary of movements in the Company’s share capital and treasury shares are as follows:

	Number of shares in issue	Share capital RMB’000	Number of treasury shares	Treasury shares*** RMB’000
At 1 January 2023, 31 December 2023, 1 January 2024, 31 December 2024 and 1 January 2025	—	—	—	—
Capital contribution due to conversion into a joint stock limited liability company**	856,000,000	856,000	—	—
Consolidation of share incentive scheme related shareholding platforms under common control	<u>—</u>	<u>—</u>	<u>(41,675,676)</u>	<u>(61,724)</u>
At 31 December 2025, 1 January 2026 and 30 June 2026	<u><u>856,000,000</u></u>	<u><u>856,000</u></u>	<u><u>(41,675,676)</u></u>	<u><u>(61,724)</u></u>

* On 26 June 2024, the Company received capital contributions of RMB82,880,000 from certain shareholders of the Company as a result of the share incentive scheme as further detailed in note 30 to the Historical Financial Information, of which RMB28,000,000 and RMB54,880,000 was recognized as increase to paid-in capital and capital reserve, respectively.

** Pursuant to the approval in the shareholders’ meeting held in 24 December 2025, the Company was converted from a limited liability company into a joint stock company on 31 December 2025. Upon conversion, the net assets of the Company after distribution of profits as at 31 January 2025 were capitalised into 856,000,000 ordinary shares with a nominal value of RMB1.00 each, which were allotted to the existing shareholders in proportion to their respective interests prior to the conversion. The excess of net assets value as at RMB466,373,000 over the nominal value of the share capital was recorded as capital reserve of the Company.

*** As disclosed in note 2.3 to the Historical Financial Information, at 31 December 2025, the Company have obtain the control over the shareholding platform of Yulin Changyingjia and Yulin Zhongli from its holding Company, pursuant to which the Company has the existing rights and the ability to direct the relevant activities of the shareholding platform, accordingly, the Company has consolidated the shareholding platform from 31 December 2025. Treasury shares represented the total number of issued ordinary shares held by the two consolidated shareholding platforms.

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ACCOUNTANTS’ REPORT

30. SHARE-BASED PAYMENT

For the purpose of awarding the employees and directors of the Company and its parent entity, GYMCL, to secure their services and incentivize their maximum effort towards the Company’s and GYMCL’s success, Yulin Changyingjia and Yulin Zhongli were established as employee share incentive platforms under which partnership was awarded to eligible participants who are employees of the Group, and Yulin Dayingjia Investment Partnership Enterprise (玉林大盈家投資合夥企業(有限合夥), “Yulin Dayingjia”) was established as an employee share incentive platforms under which partnership was awarded to eligible participants who are employees of GYMCL and its subsidiaries other than the Company. Yulin Changyingjia and Yulin Zhongli were consolidated by the Company at 31 December 2025.

On June 26, 2024, share awards were granted to certain eligible participants of three share incentive platforms by increasing RMB28,000,000 of newly registered capital (“Restricted Shares”) of the Company at the subscription of RMB2.96 for every RMB1 of newly increased registered capital, with the total subscription contributed by three share incentive platforms amounted to RMB82,880,000. Specifically, (i) Yulin Changyingjia contributed RMB54,380,001 to subscribe for RMB18,371,622 of the newly increased registered capital; (ii) Yulin Dayingjia contributed RMB21,700,006 to subscribe for RMB7,331,083 of the newly increased registered capital; and (iii) Yulin Zhongli contributed RMB6,799,993 to subscribe for RMB2,297,295 of the newly increased registered capital.

The Group determined the fair value of each RMB1 of newly increased registered capital by using a discounted cash flow model. The fair value of granted award was RMB4.70 per each RMB1 of registered capital.

These Restricted Shares granted to grantees shall be vested on the earlier of: (i) 3 years after the completion of [REDACTED] [REDACTED] of the Company’s shares; or (ii) ten years from the grant date provided the Company is not in the process of [REDACTED] review by the end of such ten-year period.

The following restricted shares were outstanding during the Relevant Periods:

	As at 31 December			As at 30 June
	2023	2024	2025	2026
Outstanding at 1 January	—	—	28,000	56,000
Granted	—	28,000	—	—
Adjustment in number of shares*	—	—	28,000	—
Outstanding at 31 December/30 June	—	28,000	56,000	56,000

* The Company was converted into a joint stock limited liability company and issued 856,000,000 shares with the par value of RMB1.00 each on 31 December 2025. The number of restricted shares outstanding had been converted into share capital at the conversion ratio of 1:2 upon transformation into a joint stock limited liability company.

Share-based payment expenses during the Relevant Periods and six months ended 30 June 2025 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2023	2024	2025	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Share-based payment expenses	—	5,574	10,769	5,337	2,937

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ACCOUNTANTS’ REPORT

31. RESERVES

The Group

The amounts of the Group’s reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity.

(a) Capital reserve

The capital reserve of the Group represents the difference between the increase in paid-in capital and the capital contribution received from shareholders.

(b) Other reserve

Other reserve represents the fair value change of financial assets at fair value through other comprehensive income.

(c) Statutory surplus reserve

In accordance with the PRC Company Law and the articles of association of the subsidiaries established in the PRC, the Group is required to appropriate 10% of its net profits after tax, as determined under the PRC GAAP, to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital. Subject to certain restrictions set out in the relevant PRC regulations and in the articles of association of the subsidiaries, the statutory surplus reserve may be used either to offset losses, or to be converted to increase share capital, provided that the balance after such conversion is not less than 25% of the registered capital of the respective entities. The reserve cannot be used for purposes other than those for which it is created and is not distributable as cash dividends.

A summary of the Company’s reserves is as follows:

Year ended 31 December 2023

	Capital reserve	Other reserve	Statutory surplus reserve	Retained profits	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
At 1 January 2023	269,154	(530)	24,866	223,794	517,284
Profit and total comprehensive income for the year	—	(1,884)	—	390,014	388,130
Appropriation to statutory reserve	—	—	39,001	(39,001)	—
At 31 December 2023	<u>269,154</u>	<u>(2,414)</u>	<u>63,867</u>	<u>574,807</u>	<u>905,414</u>

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ACCOUNTANTS’ REPORT

31. RESERVES (continued)

The Group (continued)

(c) Statutory surplus reserve (continued)

Year ended 31 December 2024

	Capital reserve	Share-based payment reserve	Other reserve	Statutory surplus reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2024	269,154	—	(2,414)	63,867	574,807	905,414
Profit and total comprehensive income for the year	—	—	495	—	527,050	527,545
Dividends	—	—	—	—	(200,000)	(200,000)
Capital contributions	54,880	—	—	—	—	54,880
Share-based payment expenses	—	5,574	—	—	—	5,574
Appropriation to statutory surplus reserve	—	—	—	52,705	(52,705)	—
At 31 December 2024	<u>324,034</u>	<u>5,574</u>	<u>(1,919)</u>	<u>116,572</u>	<u>849,152</u>	<u>1,293,413</u>

Year ended 31 December 2025

	Capital reserve	Share-based payment reserve	Other reserve	Statutory surplus reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2025	324,034	5,574	(1,919)	116,572	849,152	1,293,413
Profit and total comprehensive income for the year	—	—	(1,193)	—	870,725	869,532
Dividends	—	—	—	—	(425,000)	(425,000)
Conversion into a joint stock limited liability company	142,339	(6,489)	3,447	(119,229)	(448,068)	(428,000)
Share-based payment expenses	—	10,769	—	—	—	10,769
Appropriation to statutory surplus reserve	—	—	—	86,157	(86,157)	—
At 31 December 2025	<u>466,373</u>	<u>9,854</u>	<u>335</u>	<u>83,500</u>	<u>760,652</u>	<u>1,320,714</u>

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ACCOUNTANTS’ REPORT

31. RESERVES (continued)

The Group (continued)

(c) Statutory surplus reserve (continued)

Six months ended 30 June 2026

	Capital reserve	Share-based payment reserve	Other reserve	Statutory surplus reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2026	466,373	9,854	335	83,500	760,652	1,320,714
Profit and total comprehensive income for the period	—	—	2,625	—	801,853	804,478
Share-based payment expenses	—	2,937	—	—	—	2,937
At 30 June 2026	<u>466,373</u>	<u>12,791</u>	<u>2,960</u>	<u>83,500</u>	<u>1,562,505</u>	<u>2,128,129</u>

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ACCOUNTANTS’ REPORT

32. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

- (a) During the year ended 31 December 2023, 2024 and 2025 and six months ended 30 June 2026, the Group had non-cash additions to right-of-use assets of RMB860,000, RMB2,327,000 and RMB109,403,000 and RMB4,122,000, and lease liabilities of RMB860,000, RMB2,327,000 and RMB109,403,000 and RMB4,122,000, respectively, in respect of lease arrangements for plant and buildings.

(b) **Changes in liabilities arising from financing activities**

	Lease liabilities	Interest- bearing loans	Total
	RMB’000	RMB’000	RMB’000
At 1 January 2023	57,244	377,037	434,281
Changes from financing cash flows	(30,336)	5,985	(24,351)
New leases	861	—	861
Interest expenses	432	10,666	11,098
At 31 December 2023 and 1 January 2024	28,201	393,688	421,889
Changes from financing cash flows	(30,966)	(52,339)	(83,305)
New leases	2,326	—	2,326
Interest expenses	478	7,070	7,548
At 31 December 2024 and 1 January 2025	39	348,419	348,458
Changes from financing cash flows	(32,819)	(35,182)	(68,001)
New leases	109,403	—	109,403
Interest expenses	2,921	6,974	9,895
At 31 December 2025 and 1 January 2026	79,544	320,211	399,755
Changes from financing cash flows	(1,473)	(3,406)	(4,879)
New leases	4,122	—	4,122
Early lease termination	(18,479)	—	(18,479)
Interest expenses	893	3,383	4,276
At 30 June 2026	64,607	320,188	384,795

(b) **Total cash outflow for leases**

The total cash outflow for leases included in the consolidated statements of cash flows is as follows:

	Year ended 31 December			Six months ended 30 June	
	2023	2024	2025	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(unaudited)	
Within operating activities	(5,867)	(1,852)	(6,507)	(1,610)	(4,133)
Within financing activities	(30,336)	(30,966)	(32,819)	—	(1,473)
Total	(36,203)	(32,818)	(39,326)	(1,610)	(5,606)

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33. COMMITMENTS

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Contracted, but not provided for:				
Property, plant and equipment	37,720	79,089	63,556	71,119
Intangible assets	500	678	387	—
Total	38,220	79,767	63,943	71,119

34. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

	Year ended 31 December			Six months ended 30 June	
	2023	2024	2025	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Sales of products and rendering of services					
— the joint venture	23,330	108,231	202,444	83,518	113,694
— GYMCL and its subsidiaries and joint ventures, excluding the Group and its joint venture (“GYMCL related parties”)	90,830	95,796	102,378	44,106	54,699
— GY and its subsidiaries, joint ventures and associates (“GY entities”)	708,393	539,418	289,739	138,591	132,905
Purchase of products and receipt of services					
— the joint venture	191,014	256,627	292,801	177,625	177,724
— GYMCL related parties	257,410	459,952	727,901	273,000	447,598
— GY entities	561,326	624,462	879,311	424,428	603,748
Revenue from leases with related parties (as lessor)					
— GYMCL related parties	50	15,327	19,692	9,065	5,492
Payment for leases with related parties (as lessee)					
— GYMCL related parties	27,571	28,603	30,150	—	2,217
— GY entities	2,363	2,363	2,630	323	2,081
Purchases of equipment and technology know-how					
— GYMCL related parties	96,394	25,795	5,078	567	4,616
— GY entities	—	—	454	—	196

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ACCOUNTANTS’ REPORT

34. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Trade and bills receivables				
— the joint venture	5,998	59,861	49,791	51,455
— GYMCL and its subsidiaries and joint ventures	22,187	22,538	40,648	53,085
— GY and its subsidiaries, joint ventures and associates	<u>190,065</u>	<u>117,761</u>	<u>17,086</u>	<u>37,042</u>
Prepayments, deposits and other receivables				
— the joint venture	1,971	—	—	75,000
— GYMCL and its subsidiaries and joint ventures	28,263	40,664	31,971	40,560
— GY and its subsidiaries, joint ventures and associates	<u>200</u>	<u>—</u>	<u>—</u>	<u>106</u>
Trade and bills payables				
— the joint venture	15,134	36,431	—	40,582
— GYMCL and its subsidiaries and joint ventures	130,844	257,844	519,615	684,230
— GY and its subsidiaries, joint ventures and associates	<u>258,942</u>	<u>307,957</u>	<u>359,021</u>	<u>465,456</u>
Other payables and accruals				
— the joint venture	—	—	—	—
— GYMCL and its subsidiaries and joint ventures	112,862	94,451	15,766	11,604
— GY and its subsidiaries, joint ventures and associates	<u>18,942</u>	<u>327</u>	<u>14,914</u>	<u>322</u>

There was no outstanding balance of non-trade nature due to or from related parties.

(c) Compensation of key management personnel of the Group

	Year ended 31 December			Six months ended 30 June	
	2023	2024	2025	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Short term employee benefits	5,716	6,443	7,109	1,310	1,644
Post-employment benefits	37	39	46	55	91
Share-based payment	<u>—</u>	<u>3,342</u>	<u>6,460</u>	<u>—</u>	<u>230</u>
Total compensation paid to key management personnel	<u>5,753</u>	<u>9,824</u>	<u>13,615</u>	<u>1,365</u>	<u>1,965</u>

Further details of directors’ and the supervisor’s emoluments are included in note 8 to the financial statements.

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ACCOUNTANTS’ REPORT

35. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

As at 31 December 2023

Financial assets

	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total
	RMB’000	RMB’000	RMB’000
Cash and cash equivalents	—	730,071	730,071
Trade and bills receivables	331,052	691,489	1,022,541
Financial assets included in prepayments, other receivables and other assets	—	14,327	14,327
Total	<u>331,052</u>	<u>1,435,887</u>	<u>1,766,939</u>

Financial liabilities

	Financial liabilities at amortised cost
	RMB’000
Interest-bearing bank borrowings	393,688
Trade and bills payables	1,502,908
Financial liabilities included in other payables and accruals	136,047
Lease liabilities	<u>28,201</u>
Total	<u>2,060,844</u>

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ACCOUNTANTS’ REPORT

35. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

As at 31 December 2024

Financial assets

	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total
	RMB’000	RMB’000	RMB’000
Cash and cash equivalents	—	885,866	885,866
Trade and bills receivables	360,625	1,213,622	1,574,247
Financial assets included in prepayments, other receivables and other assets	—	53,626	53,626
Total	360,625	2,153,114	2,513,739

Financial liabilities

	Financial liabilities at amortised cost RMB’000
Interest-bearing bank borrowings	348,419
Trade and bills payables	2,229,566
Financial liabilities included in other payables and accruals	126,361
Lease liabilities	39
Total	2,704,385

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ACCOUNTANTS’ REPORT

35. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

As at 31 December 2025

Financial assets

	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total
	RMB’000	RMB’000	RMB’000
Cash and cash equivalents	—	1,545,192	1,545,192
Trade and bills receivables	493,721	1,953,153	2,446,874
Financial assets included in prepayments, other receivables and other assets	—	54,983	54,983
Total	493,721	3,553,328	4,047,049

Financial liabilities

	Financial liabilities at amortised cost RMB’000
Interest-bearing bank borrowings	320,211
Trade and bills payables	3,501,977
Financial liabilities included in other payables and accruals	69,012
Lease liabilities	79,544
Total	3,970,744

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ACCOUNTANTS’ REPORT

35. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

As at 30 June 2026

Financial assets

	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total
	RMB’000	RMB’000	RMB’000
Cash and cash equivalents	—	1,313,787	1,313,787
Trade and bills receivables	123,259	3,702,489	3,825,748
Financial assets included in prepayments, other receivables and other assets	—	57,562	57,562
Total	123,259	5,073,838	5,197,097

Financial liabilities

	Financial liabilities at amortised cost
	RMB’000
Interest-bearing bank borrowings	320,188
Trade and bills payables	4,263,067
Financial liabilities included in other payables and accruals	63,083
Lease liabilities	64,607
Total	4,710,945

Transfers of financial assets

Transferred financial assets that are not derecognised in their entirety

As at 31 December 2023, 2024 and 2025 and as at 30 June 2026, the Group endorsed certain bills receivables accepted by banks in Chinese mainland (the “Endorsed Bills”) with a carrying amount of RMB370,030,000, RMB506,861,000 and RMB588,317,000 and RMB321,566,000 to certain of its suppliers, respectively, in order to settle the trade payables due to such suppliers (the “Endorsement”). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties.

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ACCOUNTANTS’ REPORT

35. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Transfers of financial assets (continued)

Transferred financial assets that are not derecognised in their entirety (continued)

As at 31 December 2023, 2024 and 2025 and as at 30 June 2026, the Group discounted certain bills receivables accepted by banks in Chinese mainland (the “Discounted Bills”) with carrying amounts of RMB1,559,000, Nil and Nil and Nil, respectively (the “Discounting”). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Discounted Bills, and accordingly, it continued to recognize the full carrying amounts of the Discounted Bills and the associated bank borrowings. Subsequent to the Discounting, the Group did not retain any rights on the use of the Discounted Bills, including the sale, transfer or pledge of the Discounted Bills to any other third parties.

Transferred financial assets that are derecognised in their entirety

As at 31 December 2023, 2024 and 2025 and as at 30 June 2026, the Group endorsed certain bills receivables accepted by banks in Chinese mainland (the “Derecognised Bills”) to certain of its suppliers in order to settle the trade payables due to such suppliers with carrying amounts in aggregate of RMB106,462,000, RMB113,370,000 and RMB616,257,000 and RMB691,474,000, respectively, and discounted certain bills receivables accepted by banks in Chinese mainland (the “Derecognised Bills”) with a carrying amount in aggregate of RMB17,044,000, RMB226,618,000 and RMB81,536,000 and Nil, respectively. The Derecognised Bills had a maturity of one to twelve months at the end of the Relevant Periods. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills may exercise the right of recourse against any, several or all of the persons liable for the Derecognised Bills, including the Group, in disregard of the order of precedence (the “Continuing Involvement”). In the opinion of the directors, the risk of the Group being claimed by the holders of the Derecognised Bills is remote in the absence of a default of the accepted banks. The Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group’s Continuing Involvement in the Derecognised Bills are not significant.

During the years ended 31 December 2023, 2024 and 2025 and the six months ended 30 June 2026, the Group has recognized losses of RMB652,000, RMB1,328,000 and RMB1,241,000 and RMB149,000, respectively, on the date of transfer of the Derecognized Bills.

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, trade receivables, financial assets included in prepayments, other receivables and other assets, trade and bills payables, interest-bearing bank and other borrowings, and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group’s finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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ACCOUNTANTS’ REPORT

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group’s financial instruments:

Assets measured at fair value:

As at 31 December 2023

	Fair value measurement using		
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	RMB’000	RMB’000	RMB’000
Total	RMB’000		
Bills receivables	—	331,052	—
	<u>—</u>	<u>331,052</u>	<u>—</u>
	<u>—</u>	<u>331,052</u>	<u>—</u>

As at 31 December 2024

	Fair value measurement using		
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	RMB’000	RMB’000	RMB’000
Total	RMB’000		
Bills receivables	—	360,625	—
	<u>—</u>	<u>360,625</u>	<u>—</u>
	<u>—</u>	<u>360,625</u>	<u>—</u>

As at 31 December 2025

	Fair value measurement using		
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	RMB’000	RMB’000	RMB’000
Total	RMB’000		
Bills receivables	—	493,721	—
	<u>—</u>	<u>493,721</u>	<u>—</u>
	<u>—</u>	<u>493,721</u>	<u>—</u>

As at 30 June 2026

	Fair value measurement using		
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	RMB’000	RMB’000	RMB’000
Total	RMB’000		
Bills receivables	—	123,259	—
	<u>—</u>	<u>123,259</u>	<u>—</u>
	<u>—</u>	<u>123,259</u>	<u>—</u>

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group’s principal financial instruments comprise interest-bearing bank borrowings and cash and bank balance. The main purpose of these financial liabilities is to finance the Group’s operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group’s financial instruments are credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarized below.

APPENDIX I

ACCOUNTANTS’ REPORT

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group trades only with recognized and creditworthy third parties. It is the Group’s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group’s exposure to bad debts is not significant.

Maximum exposure and year-end staging

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 2023, 2024 and 2025 and as at 30 June 2026.

The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2023

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Trade receivables*	—	—	—	294,040	294,040
Bills receivables	728,649	—	—	—	728,649
Financial assets included in prepayments, other receivables and other assets					
— Normal**	14,327	—	—	—	14,327
Cash and cash equivalents					
— Not yet past due	730,071	—	—	—	730,071
Total	1,473,047	—	—	294,040	1,767,087

As at 31 December 2024

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Trade receivables*	—	—	—	636,232	636,232
Bills receivables	938,991	—	—	—	938,991
Financial assets included in prepayments, other receivables and other assets					
— Normal**	53,626	—	—	—	53,626
Cash and cash equivalents					
— Not yet past due	885,866	—	—	—	885,866
Total	1,878,483	—	—	636,232	2,514,715

APPENDIX I

ACCOUNTANTS’ REPORT

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging (continued)

As at 31 December 2025

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Trade receivables*	—	—	—	1,288,884	1,288,884
Bills receivables	1,173,783	—	—	—	1,173,783
Financial assets included in prepayments, other receivables and other assets					
— Normal**	54,983	—	—	—	54,983
Cash and cash equivalents					
— Not yet past due	1,545,192	—	—	—	1,545,192
Total	<u>2,773,958</u>	<u>—</u>	<u>—</u>	<u>1,288,884</u>	<u>4,062,842</u>

As at 30 June 2026

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Trade receivables*	—	—	—	3,318,268	3,318,268
Bills receivables	533,407	—	—	—	533,407
Financial assets included in prepayments, other receivables and other assets					
— Normal**	57,562	—	—	—	57,562
Cash and cash equivalents					
— Not yet past due	1,313,787	—	—	—	1,313,787
Total	<u>1,904,756</u>	<u>—</u>	<u>—</u>	<u>3,318,268</u>	<u>5,223,024</u>

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the Historical Financial Information.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be “doubtful”.

Further quantitative data in respect of the Group’s exposure to credit risk arising from trade receivables are disclosed in note 20 to the Historical Financial Information.

Concentrations of credit risk are managed by customer and geographical region. As at 31 December 2023, 2024 and 2025 and as at 30 June 2026, the Group had concentrations of credit risk as 25%, 13%, 43%, 39.1% and 60%, 48%, 63%, 57.8% of the Group’s trade receivables were due from the Group’s largest customer and five largest customers in each year, respectively.

APPENDIX I

ACCOUNTANTS’ REPORT

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group monitors its exposure to liquidity risk by monitoring the current ratio, which is calculated by comparing the current assets with the current liabilities.

The Group’s objective is to maintain continuity of funding and flexibility through the use of internally generated cash flows from operation and bank borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the Group’s financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

As at 31 December 2023

	Within one year or on demand
	RMB’000
Trade and bills payables	1,502,908
Financial liabilities included in other payables and accruals	136,047
Lease liabilities	28,630
Interest-bearing loans	395,368
Total	<u>2,062,953</u>

As at 31 December 2024

	Within one year or on demand
	RMB’000
Trade and bills payables	2,229,566
Financial liabilities included in other payables and accruals	126,361
Lease liabilities	41
Interest-bearing bank borrowings	350,143
Total	<u>2,706,111</u>

As at 31 December 2025

	Within one year or on demand	Over 1 year	Total
	RMB’000	RMB’000	RMB’000
Trade and bills payables	3,501,977	—	3,501,977
Financial liabilities included in other payables and accruals	69,012	—	69,012
Lease liabilities	35,487	51,005	86,492
Interest-bearing bank borrowings	321,862	—	321,862
Total	<u>3,928,338</u>	<u>51,005</u>	<u>3,979,343</u>

APPENDIX I

ACCOUNTANTS’ REPORT

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

As at 30 June 2026

	Within one year or on demand	Over 1 year	Total
	RMB’000	RMB’000	RMB’000
Trade and bills payables	4,263,067	—	4,263,067
Financial liabilities included in other payables and accruals	63,083	—	63,083
Lease liabilities	27,616	42,403	70,019
Interest-bearing bank borrowings	324,646	—	324,646
Total	4,678,412	42,403	4,720,815

Capital management

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

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

The Group monitors capital using the debt/asset ratio, which is total liabilities divided by total assets. The debt-to-asset ratios as at the end of each of the Relevant Periods were as follows:

	As at 31 December			As at 30 June
	2023	2024	2025	2026
	RMB’000	RMB’000	RMB’000	RMB’000
Total assets	3,951,552	4,954,678	7,326,480	8,881,110
Total liabilities	2,635,897	3,214,258	5,117,923	5,834,704
Asset-liability ratio	66.71%	64.87%	69.86%	65.70%

38. EVENTS AFTER THE RELEVANT PERIODS

There were no significant events after the end of the Relevant Periods that require additional disclosure or adjustments.

39. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2026.