SANHUA

ZHEJIANG SANHUA INTELLIGEN

江三 股份有限公司

(A joint stock company incorporated in the People' s Republic of China with limited liability)

Stock code : 2050

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Definitions

"A Share(s)"	ordinary shares of the Company with a nominal value of RMB1.00 each, which are subscribed in RMB and listed on the Shenzhen Stock Exchange (stock code: 002050)
"Audit Committee"	the audit committee of the Board
"Board" or "Board of Directors"	the board of Directors
"China" or the "PRC"	the People's Republic of China, but for the purpose of this report and for geographical reference only and except where the context requires, references in this report to "China" and the "PRC" do not apply to Hong Kong, Macau Special Administrative Region and Taiwan
"Company"	Zhejiang Sanhua Intelligent Controls Co., Ltd. (ê g € } • › S p … Þ " ® !), a joint stock company established in the PRC with limited liability, the A Shares (stock code: 002050) and the H Shares (stock code: 02050) of which are listed on the Shenzhen Stock Exchange and the Main Board of the Stock Exchange, respectively
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Corporate Governance Code"	the Corporate Governance Code set out in Appendix C1 to the Listing Rules
"Director(s)"	the director(s) of the Company
"Group"	the Company and its subsidiaries
"HK" or "Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"H Share(s)"	overseas listed foreign share(s) with a nominal value of RMB1.00 each in the share capital of the Company, which are listed on the Main Board of the Stock Exchange and traded in Hong Kong dollars (stock code: 02050)
"Latest Practicable Date"	April 21, 2026, being the latest practicable date for ascertaining certain information in this report before its publication
"Listing Date"	the date, being June 23, 2025, on which the H Shares are listed on the Stock Exchange and from which dealings in the H Shares are permitted on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
"Main Board"	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the GEM of the Stock Exchange
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules
"Nomination Committee"	the nomination committee of the Board

Definitions

"Prospectus"	the prospectus of the Company dated June 13, 2025
"Reporting Period"	from January 1, 2025 to December 31, 2025
"Remuneration and Evaluation Committee"	the remuneration and evaluation committee of the Board
"RMB" or "Renminbi"	Renminbi, the lawful currency of China
"Sanhua Green Energy"	Zhejiang Sanhua Green Energy Industrial Group Co., Ltd. (ê g € ` • ¼ 8 « Þ " ® !), a PRC company established on September 30, 2001, one of the Controlling Shareholders of the Company
"Sanhua Holding"	Sanhua Holding Group Co., Ltd. (g € › p « Þ " ® !), a PRC company established on July 11, 2000, one of the Controlling Shareholders of the Company
"Sanhua Holding Group"	Sanhua Holding and its subsidiaries and affiliate(s) (excluding the Group)
"Share(s)"	A Shares and/or H Shares
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange" or "Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Strategy Management and ESG Committee"	the strategy management and ESG committee of the Board
"Supervisor(s)"	the former supervisor(s) of the Company
"U.S."	The United States of America
"U.S. dollars"	United States dollars, the lawful currency of the U.S.
"Wealth Info"	Wealth Info Limited, a Hong Kong company established on June 2, 2005, one of the Controlling Shareholders of the Company
"Xinchang Huaqing Investment"	Xinchang Huaqing Investment Co., Ltd. (- ù 6 ö ³ Þ " ® !), a PRC company established on February 29, 2016, one of the Controlling Shareholders of the Company
"Xinchang Huaxin Industrial"	Xinchang Huaxin Industrial Co., Ltd. (- ù 6 - ¼ 8 Þ " ® !), a PRC company established on March 16, 2016, one of the Controlling Shareholders of the Company
"Zhejiang Huateng Industrial"	Zhejiang Huateng Industrial Co., Ltd. (ê 6 \ ¼ 8 Þ " ® !), a PRC company established on April 19, 2010, one of the Controlling Shareholders of the Company
"%"	per cent

Corporate Information

COMPANY PROFILE

Chinese name of the Company	ê g € } • › S p … Þ " ® !
Abbreviation of the Chinese name	g € } ›
English name of the Company	Zhejiang Sanhua Intelligent Controls Co., Ltd.
Abbreviation of the English name	SANHUA
Legal representative	Zhang Yabo (u - *)
Registered address	No. 219 Woxi Avenue, Chengtan Street, Xinchang, Shaoxing, Zhejiang Province
Postal code of the registered address	312530
Website	https://www.zjshc.com
Email	shc@zjshc.com
Principal Place of Business in Hong Kong	46/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong

COMPANY STOCK OVERVIEW

Type of Shares	Stock exchange	Stock abbreviation	Stock code
A Share	Shenzhen Stock Exchange	g € } ›	002050
H Share	The Stock Exchange of Hong Kong Limited	SANHUA	02050

MEDIA FOR INFORMATION DISCLOSURE

Type of Shares	Media for information disclosure
A Share	Websites: CNINFO Network (https://www.cninfo.com.cn) Shenzhen Stock Exchange (https://www.szse.cn) Newspapers: Shanghai Securities News, Securities Times
H Share	Websites: HKEXnews website of Hong Kong Stock Exchange (https://www.hkexnews.hk) The Company's official website (https://www.zjshc.com)

Corporate Information

CONTACT PERSON AND CONTACT INFORMATION

	Secretary to the Board	Representative of securities affairs	
Name	Hu Kaicheng (á ñ û)	Wu Meijing (N Õ ‘)	Zhang Yuqing (u Á ¡)
Address	No. 289, 12th Street, Baiyang Sub-district, Qiantang District, Hangzhou, Zhejiang Province	No. 289, 12th Street, Baiyang Sub-district, Qiantang District, Hangzhou, Zhejiang Province	Office Building, Sanhua Industrial Park, No. 219 Woxi Avenue, Chengtan Street, Xinchang, Shaoxing, Zhejiang Province
Telephone	0571-28020008	0571-28020008	0575-86255360
E-mail	shc@zjshc.com	shc@zjshc.com	shc@zjshc.com

OTHER RELATED INFORMATION

Executive Directors	Mr. Zhang Yabo (u - * ‹ [) *(Chairman of the Board and Chief Executive Officer)* Mr. Wang Dayong (î } Ç ‹ [) Mr. Ni Xiaoming (N È ü ‹ [) *(Employee representative Director)* Mr. Chen Yuzhong (Ó À ‹ [)
Non-executive Directors	Mr. Zhang Shaobo (u Ç * ‹ [) Mr. Ren Jintu (, – z ‹ [)
Independent Non-executive Directors	Mr. Bao Ensi (© ¸ v ‹ [) Mr. Shi Jianhui (i > ‹ [) Ms. Pan Yalan (™ - 3 ~ {) Mr. Ge Jun (ä ² ‹ [)
Supervisors	Mr. Zhao Yajun (» - ‹ [) (Resigned as the Chairman of the Supervisory Committee on December 17, 2025) Mr. Mo Yang (} @ ‹ [) (Resigned as the Supervisor on December 17, 2025) Mr. Chen Xiaoming (Ó i ü ‹ [) (Resigned as the Supervisor on December 17, 2025)

Corporate Information

Audit Committee	Mr. Bao Ensi (© ¸ v ‹ [) *(Chairman)* Ms. Pan Yalan (™ - 3 ~ {) Mr. Shi Jianhui (i > ‹ [)
Remuneration and Evaluation Committee	Mr. Shi Jianhui (i > ‹ [) *(Chairman)* Mr. Ren Jintu (, – z ‹ [) Mr. Bao Ensi (© ¸ v ‹ [)
Nomination Committee	Ms. Pan Yalan (™ - 3 ~ {) *(Chairwoman)* Mr. Zhang Yabo (u - * ‹ [) Mr. Shi Jianhui (i > ‹ [)
Strategy Management and ESG Committee	Mr. Zhang Yabo (u - * ‹ [) *(Chairman)* Mr. Wang Dayong (î } Ç ‹ [) Mr. Ni Xiaoming (N È ü ‹ [) Mr. Chen Yuzhong (Ó À ‹ [) Mr. Zhang Shaobo (u Ç * ‹ [) Mr. Shi Jianhui (i > ‹ [) Mr. Ge Jun (ä ² ‹ [)
Joint Company Secretaries	Mr. Hu Kaicheng (á ñ û ‹ [) Ms. Ho Wing Nga (X © ~ {)
Authorized Representatives	Mr. Zhang Yabo (u - * ‹ [) Ms. Ho Wing Nga (X © ~ {)
Legal Adviser as to Laws of Hong Kong, China	Clifford Chance 27/F, Jardine House, One Connaught Place, Central, Hong Kong
Legal Adviser as to PRC Laws	T&C Law Firm 3/F, 6-12/F, Block 1, Huixi Office Building, International Finance Center, No. 118, Sanxin Road, Shangcheng District, Hangzhou, Zhejiang Province, PRC

Corporate Information

Compliance Adviser	Huatai Financial Holdings (Hong Kong) Limited 62/F, The Center, 99 Queen's Road Central, Hong Kong
Custodian of A Shares	China Securities Depository and Clearing Corporation Limited Shenzhen Branch 25th Floor, Shenzhen Stock Exchange Plaza, No. 2012, Shennan Avenue, Lianhua Street, Futian District, Shenzhen, China
H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong

Financial Highlights

FINANCIAL HIGHLIGHTS OF 2025

	For the year ended December 31, 2025 RMB'000	2024 RMB'000	Increase/ Decrease in this year over last year	For the year ended December 31, 2023 RMB'000
Revenue	31,011,745	27,947,165	10.97%	24,557,802
Gross profit	8,806,681	7,620,819	15.56%	6,735,488
Profit attributable to owners of the Company	4,062,892	3,099,165	31.10%	2,920,993
Net cash from operating activities	4,905,404	4,026,185	21.84%	3,560,363
Basic earnings per share (Expressed in RMB per share)	1.03	0.84	22.62%	0.81
Diluted earnings per share (Expressed in RMB per share)	1.03	0.84	22.62%	0.81

	As at December 31, 2025 RMB'000	2024 RMB'000	Increase/ Decrease in this year over last year	As at December 31, 2023 RMB'000
Total assets	49,406,131	36,354,749	35.90%	31,890,585
Net assets attributable to owners of the Company	31,748,928	19,297,770	64.52%	17,894,404

Chairman's Statement

ROBUST FOUNDATION AND EXPLORATION OF NEW OPPORTUNITIES TOWARDS A DIGITAL INTELLIGENCE FUTURE

In 2025, the world pursued a new balance amid reforms. International collaboration had been exploring optimal pathways in efficiency and security, while the wave of technological innovation had been reshaping industries around the world. Cutting-edge technologies such as AI had not only spurred robust new demand in data centers, autonomous driving, and bionic robots, but had also become deeply embedded in business operations. Through intelligent decision-making and process reengineering, these technologies were driving a leap in efficiency across the entire industrial chain.

Amid this wave of momentum, Sanhua rang the gong at the Hong Kong Stock Exchange, successfully listing on the international capital market. This marks Sanhua's official entry into a new era driven by its "A+H" dual-platform strategy. This achievement not only broadens the Company's financing channels, but also marks as a milestone in Sanhua's pursuit of its strategic goals to become "more global, more technologically advanced, and more leading", thereby opening up new opportunities for integrating global resources and deepening technological innovation.

Sound Operations and Strong Performance in Both Revenue and Profit

Adhering to the business strategy of "focusing on excellence and innovating for success", the Company achieved operating revenue of RMB31,011.7 million in 2025, representing a year-over-year increase of 11.0%, reflecting rapid growth in business scale; profit attributable to owners of the Company was RMB4,062.9 million, representing a year-on-year increase of 31.1%, demonstrating significant operational and management effectiveness. These achievements would not have been possible without the hard work of every Sanhua employee and the trust of global customers. The Company has established a global industrial footprint, with 6 R&D centers and 8 major production bases worldwide, as well as sales network across domestic and key markets in the Asia-Pacific, Europe, and North America, ensuring rapid and stable product delivery through a comprehensive system. Leveraging its technical expertise and track record in refrigeration and air-conditioning product components and automotive thermal management system components, the Company is forging a third growth curve by actively expanding into fields such as bionic robot electromechanical actuators. Additionally, energy storage thermal management, data centers, and sensors are emerging as new growth drivers within the Company's business portfolio.

Building a Moat through Innovation-Driven and Technology-Led Approaches

The depth of technology determines the height of a company. Continuous R&D and innovation are the driving force behind the Company's progress and the source of its enhanced competitiveness. In 2025, the Company continued to deepen its expertise in the core business, while focusing on emerging business areas. It promoted the optimization of talent structure toward higher levels and actively led and participated in the formulation of industry standards, thereby consolidating its leading position in the global climate intelligent control sector.

Chairman's Statement

Fulfilling Commitment to Sustainable Development through Green Empowerment

A company's enduring success stems from its responsibility toward the environment and society. Upholding the mission and vision of "developing an intelligent, low-carbon economy and fostering a green, high-quality environment", the Company is committed to rapidly advancing the energy efficiency and low-carbon features of products to enhance market competitiveness, while contributing to global carbon neutrality goals. In 2025, the Company achieved breakthroughs in its domestic and international ESG ratings: a leap to BBB in the MSCI ESG rating, a Bronze rating in the EcoVadis sustainable development rating, and an upgrade to A in the Wind ESG rating. These achievements have established a reputation for Sanhua as a stable and responsible player in global capital market.

Unleashing New Momentum of Talent and Digital Intelligence through Organizational Transformation

Global talent is essential for global enterprises. In 2025, the Company continued to build a global talent development system and cultivate a "high-performing, international talent pool" to support the success of its global operations. 2025 also marked Sanhua's "dawn of AI application". The Company comprehensively advanced in-depth integration of AI with R&D, manufacturing, management, and other operational scenarios, with the goal of becoming an industry benchmark for intelligent transformation. At the same time, we actively adopted AI technologies to empower all aspects of operations, develop proprietary "digital assistants", and propelled Sanhua's digital transformation onto the fast track of development.

LOOKING AHEAD: UPHOLDING FOUNDATIONS AND PURSUING INNOVATION WITH STEADY PROGRESS TOWARDS LONG-TERM SUCCESS

Consolidating Foundations and Exploring New Opportunities to Cultivate New Drivers

In the face of a complex and ever-changing macroeconomic environment, the Company will remain focused on its core business, adhere to the principle of seeking progress amid stability, and advance high-quality development. In strategic emerging sectors such as bionic robots, energy storage thermal management, data centers, and sensors, we will increase the allocation of R&D resources, accelerate product iteration and market expansion, and cultivate new growth drivers.

Striving for Global Excellence by Enhancing Operational Efficiency

The Company will optimize its global manufacturing and logistics layout, driving overseas bases to evolve from "capacity deployment" to "operational excellence", thereby making them a solid component of the Company's overall competitiveness.

Chairman’s Statement

Digital Intelligence for the Future by Building a New Talent Ecosystem

An enterprise is a tree, and talent is its roots; the deeper the roots, the more flourishing the tree. The Company remains steadfast in its talent philosophy, and views digital talent as the core of transformation. We will build growth platforms and stimulate the internal vitality for the organization’s continuous evolution through practical projects

I. MAIN BUSINESSES OF THE COMPANY DURING THE REPORTING PERIOD

Main Businesses

Adhering to the development strategy of "focusing on excellence and innovating for success", the Company has been dedicated to the R&D, promotion and adoption of thermal management technology, providing customers across the globe with energy-efficient solutions through its industry-leading products of high quality. Focusing on the R&D and application of heat pump technology and thermal management systems, the Company has been committed to developing environmental thermal management solutions that enable efficient heat exchange and intelligent temperature control. The Company has established a business that spans two major sectors: refrigeration and air-conditioning product components and automotive components. Leveraging its extensive technological expertise and innovation in R&D, the Company is broadening its business boundaries into emerging fields, such as bionic robot electromechanical actuators.

1. Refrigeration and air-conditioning product components business

   The Company mainly engages in the development and application of control components, subsystems and technology solutions, which empower energy-efficient heating, ventilation and air-conditioning systems for buildings and thermal management systems for household appliances. The Company is a key supplier of refrigeration and air-conditioning control components, which span valves, heat exchangers, pumps, controllers and sensors, among others, serving the global market for residential and commercial air-conditioning, commercial and industrial refrigeration and small household appliances, among others. The Company's key products in this business sector comprise a variety of valve products, including electronic expansion valves, four-way reversing valves, service valves, solenoid valves and ball valves. The Company also offers heat exchanger products, specifically micro-channel heat exchangers, pump products such as Omega pumps, and controller products. Such products are widely utilized in fields including air conditioners, refrigerators, industrial refrigeration, cold-chain transport, heat pump heating and washing machines.

2. Automotive components business

   As a key player and pioneer in the NEV thermal management market, the Company has consistently led industry innovation and development through forward-looking strategic deployment, which establishes the Company as a leading supplier of thermal management system components in the global market. The Company specializes in offering comprehensive and reliable thermal management and control solutions for NEVs, and continuously providing energy-efficient, high-performance products for traditional fuel vehicles.

   The Company actively invests in R&D for key technologies, covering strategic products such as electronic expansion valves, electronic water pumps, electronic water valves, brazed plate heat exchangers, and integrated modules, among others. These solutions comprehensively address diverse application scenarios including cabinet thermal management, battery thermal management and electrical/control system thermal management, enabling precise control and efficient synergies in overall vehicle thermal management. Currently, multiple products of the Company have entered the supply chains of most leading NEV manufacturers for mass production, demonstrating strong market competitiveness and customer recognition. With respect to manufacturing and technological innovation, the Company maintains a leading position within the industry. Continuous investment in development resources ensures a cycle of mass production, design, and conception of core product technologies of the Company.

II. PARTICULARS OF THE INDUSTRY IN WHICH THE COMPANY OPERATES DURING THE REPORTING PERIOD

(I) Industry Development Status

In 2025, the global landscape demonstrated new vitality amid ongoing adjustments. Against a backdrop of significant uncertainty arising from changes in the external environment, geopolitical conflicts, and supply chain volatility, the shared pursuit of resilience and security among global partners drove the continuous optimization of cooperation models and industrial ecosystems. At the same time, a new round of technological revolution and industrial transformation is undergoing in-depth development: accelerated application of AI has led to booming development of computing power and data center construction, directly driving investment demand in new infrastructure and green energy-saving sectors; in-depth integration of AI technology into corporate operations and management have effectively enhanced production efficiency and supply chain responsiveness through data-driven and intelligent decision-making capabilities. Against the backdrop of the global response to climate change, the technological and market potential of energy conservation and carbon reduction has been further unleashed, opening up new development opportunities for sustainable development. China's precise counter-cyclical adjustment policies, such as trade-in incentives, have stabilized domestic demand markets for household appliances and NEVs amid a complex environment, thereby strengthening the economy's inherent resilience. Overall, despite continuing challenges, the driving force of technological innovation and the global consensus on green transformation are injecting valuable certainty and development opportunities into the future global economy.

1. Refrigeration and air-conditioning product components industry

In 2025, extreme weather drove a growth in global demand for air conditioning, which unleashed potential in emerging markets. Increasingly stringent environmental and energy efficiency standards in North America and the EU continued to facilitate refrigerant replacement and system efficiency enhancement. The kitchen appliance segment had evolved toward integrated and intelligent development; the water heater segment faced demands for enhanced efficiency and energy structure adjustments; the vehicle refrigerator segment grew alongside expanding travel and mobile living scenarios; the commercial air-conditioning segment accelerated upgrades under green building regulations. Overall, demand for efficient, reliable thermal management capabilities continued to rise across all segments.

According to ChinaIOL, China's total production and sales of residential air-conditioning reached 198.39 million units in 2025, representing a slight year-on-year decline of 1.2%. Among those, domestic sales amounted to 105.21 million units, showing a slight year-on-year increase of 0.7%. In the second half of 2025, demand in the domestic household appliance market witnessed a decline following the withdrawal of state subsidy policies, leading to intensified market competition and escalating price wars in certain product categories. At the same time, the export market faced shipment pressures due to adjustments in overseas tariff policies and a growing trend towards localized production. Despite these challenges, the industry ultimately achieved a slight increase in overall revenue through proactive adjustments and optimization of product structure. Amid these challenges, enterprises are striving to adapt to the new market environment through technological innovation and efficiency enhancement. The restructuring of global supply chains is also driving the industry chains towards greater resilience.

According to ChinaIOL, the central air-conditioning sector recorded sales of RMB138.68 billion, exhibiting a pattern of "sluggish domestic performance and booming exports". Among which, the domestic sales amounted to RMB112.55 billion, down 7.4% year-on-year, while exports reached RMB26.14 billion, with a year-on-year growth of 12.7% against the trend. The domestic market faced significant pressure, particularly for small and medium-sized brands, due to a sluggish real estate market, weak demand for traditional engineering, and intensifying equipment price wars. The export market emerged as a crucial growth driver during this period of in-depth industry consolidation, driven by upgrades in the global data center industry, active expansion into emerging overseas markets of enterprises, enhancement in the performance of export products, and continuous advancement in localization efforts.

2. Automotive components industry

In 2025, the global automotive industry entered a phase of structural adjustment while advancing electrification. The growth rate of NEVs underwent a slowdown, yet the penetration rate maintained rapid expansion in emerging markets such as Southeast Asia and South America. The accelerated adoption of intelligent driving and high-performance in-vehicle electronic systems increased demands for thermal management systems and energy efficiency of vehicles, further highlighting the importance of battery safety and multi-condition adaptability. The EU's adjustment to the implementation rules on ban on the sale of fuel vehicles and the phase-out of federal tax credits for electric vehicles as stipulated in the U.S. "One Big and Beautiful Act" have presented market challenges. The global automotive industry is undergoing an adjustment towards a new stage of development. Despite varying pace of electrification across different markets, intensified competition has posed short-term challenges for structural optimization. However, the industry is commencing in-depth integration into the wave of intelligent transformation at an unprecedented pace. As advanced autonomous driving technologies enter the early stages of widespread adoption, cutting-edge trends such as "embodied AI" have emerged as new battlegrounds in technology competition around the world. The convergence of intelligent and electric technologies is paving the way for a brighter future of sustainable development in the global automotive industry.

According to MarkLines and the China Passenger Car Association, global NEV sales reached 22.62 million units in 2025, representing a 29.04% year-on-year increase compared to that in 2024 and accounting for 23.6% of total global vehicle sales. As the world's largest NEV market, China achieved annual NEV sales of 16.49 million units, representing a 28.2% year-on-year increase and accounting for 72.9% of annual global NEV sales in 2025, with new NEV sales accounting for 47.9% of total new vehicle sales.

(II) Industry Status

The Company has established a strong presence in the thermal management components sector, with extensive technical expertise and widespread recognition from customers. It serves as a strategic partner to numerous refrigeration, air conditioning, appliances, and automotive companies around the world. The Company is committed to improving the energy efficiency of various end-use products, and is leading global transformation towards the development of energy-efficient and environmentally friendly products. After more than three decades of efforts, the Company has established a leading position in the global refrigeration products and automotive thermal management sectors, with various products ranking among the top in the global market.

III. ANALYSIS OF CORE COMPETITIVENESS

(I) Commitment to Technological Innovation Fueling Rapid Product Iteration and Strategic Readiness for Future Industry Advancements

The Company focuses on investing in technologies that enable the Company to stay ahead of industry trends and establish a foundation for long-term growth. The Company develops forward-looking technologies through significant investment in the technology development process to support its future growth, and enhance its responsiveness to potential new customer requests that involve novel technological demands.

The Company has accumulated strong R&D capabilities and the ability for rapid product iteration and advancement. While consolidating its existing product advantages, the Company is also swiftly expanding into new industries, leveraging the synergies among various business segments. The Company is dedicated to establishing a globally competitive R&D system that encompasses all stages from initial concept to production. The robust technological foundation in valve and pump components related to thermal management enables the Company to swiftly adapt and apply technologies across various applications. Furthermore, the Company has ventured into the bionic robot electromechanical actuator market by capitalizing on its research and development and large-scale production capabilities. This allows the Company to offer competitive R&D solutions to customers, thereby establishing a new growth trajectory and bolstering customer loyalty. As at the end of the Reporting Period, the Company had six major R&D centers and 4,680 domestic and foreign licensed patents, including 2,560 licensed invention patents.

(II) Commitment to Lean Production and Efficient Resource Allocation

The Company's global manufacturing network, which uniformly employs lean production methodology, constitutes the core advantage of production capabilities. The Company benefits from economies of scale, with 8 production bases worldwide. The Company's production bases offer cost advantages through large-scale production line setups, while its individual factories located around the world provide the flexibility to swiftly respond to and meet the diverse needs of local customers. Moreover, its global production layout, which facilitates localized production or assembly, allows the Company to navigate the rapid global trade developments with greater ease and resilience.

The Company's production management pivots around optimizing resource allocation and implementing process automation, which reduces production cycles and enhances production efficiency. Through a combination of information technology and automation and by using Internet of Things technologies to realize real-time equipment performance monitoring and optimal production resources allocation, the Company achieves stable output and consistent product quality and elevates production efficiency, thereby meeting customer demands for product quality and timely delivery. Furthermore, through the implementation and continuous refinement of its automation initiatives, the Company significantly reduces repetitive manual labor and enhances both production precision and speed.

(III) A Comprehensive Quality Management System Incorporating Control Measures to Ensure the Delivery of High-quality Goods

The Company is dedicated to developing advanced manufacturing technologies and implementing a standardized quality control system to deliver superior products. The Company has established comprehensive quality standards that encompass all production processes and product categories. Its robust quality control system and procedures cover supplier management, new product development,

(V) Long-term and In-depth Partnerships with Leading Enterprises to Drive Industry Development

Aiming to anticipate its customers' needs and foster mutual growth, the Company is dedicated to delivering products and services of the highest quality to maximize the value the Company creates for them. Building a robust industry ecosystem and nurturing strong customer relationships are among the Company's top priorities. Under the refrigeration and air-conditioning product components business, the Company has cooperated with the major customers, such as Carrier, BSH, Daikin, Gree, Haier, LG, Midea, Mitsubishi, Panasonic, Samsung, Siemens and Trane, and earned the Company extensive recognition from its customers. Under the automotive components business, the Company has cooperated with renowned automotive companies such as Mercedes-Benz, BMW, BYD, Ford, Geely, General Motors, GAC, Honda, Hyundai, Leapmotor, Li Auto, NIO, Stellantis, SAIC, Toyota, Volkswagen, Volvo and Xpeng, and also served automotive thermal management integrators such as Denso, Hanon, MAHLE and Valeo.

(VI) Profound Industry and Management Experience, Progressive Value Concepts and Forward-thinking Leadership

The Company's management team is highly experienced in the thermal management industry, possessing extensive industry expertise, clear market insights and strong management capabilities. The founder, Mr. Zhang Daocai, and the chairman, Mr. Zhang Yabo, have been dedicated to the advanced manufacturing and thermal management industries. A significant majority of the core members of the Company's management team comprise individuals with technical backgrounds and extensive expertise who possess a keen awareness of technology and product iterations. Beyond their management responsibilities, they actively lead different business segments, optimizing execution efficiency and exploring new possibilities for business growth. With their expertise in refrigeration and air-conditioning product components, automotive components and bionic robot electromechanical actuators, the management team have established a solid groundwork for the Company's evolution into a global industrial group spanning multiple industries and product categories.

IV. ANALYSIS OF MAIN BUSINESSES

Overview

During the Reporting Period, the Company achieved operating revenue of RMB31,011.7 million, representing a year-on-year increase of 11.0%; net profit attributable to owners of the Company was RMB4,062.9 million, representing a year-on-year increase of 31.1%. By product, operating revenue from the refrigeration and air-conditioning product components business was RMB18,584.7 million, representing a year-on-year increase of 12.2%; and operating revenue from the automotive components business was RMB12,427.0 million, representing a year-on-year increase of 9.1%.

1. Refrigeration and air-conditioning product components business

In 2025, the Company actively adjusted its market strategy and focused on core customers and key products. It accelerated the commercialization of new and iterative products, developed key market projects, advanced projects in the data center sector, and enhanced product competitiveness through cost reduction and efficiency enhancement, steadily increasing its market share. Furthermore, the Company continuously adjusted its sales strategy, optimized product sales structure, and boosted production efficiency, aiming to further consolidate its product competitiveness.

With respect to market consolidation and enhancement, the Company implemented regional sales targets, actively increased market share, deepened comprehensive cooperation with customers, and capitalized on iterations of valve products to boost profitability and market competitiveness. Meanwhile, the Company also advanced development in the data center sector. Centering on global data centers and computing power industries, it continuously tracked industry trends and changes in demand. In terms of product competitiveness, the Company prioritized new product R&D, established R&D projects, and continuously drove efficiency improvements. The Company advanced new product maturity management by focusing on quality issues, implemented quality digitalization, and launched an AI digital employee pilot program for precise efficiency improvement. At the same time, the Company leveraged digital empowerment to gradually evolve its information infrastructure from "system implementation" toward digital "efficiency enhancement and empowerment".

2. Automotive components business

In 2025, through decisive strategic adjustments, the Company successfully evolved from "rapid market expansion" to "refined operations".

In market and business development, the Company continued to expand operations across global regions. It achieved initial success in institutional construction, local talent cultivation, performance management, and cultural building at its overseas factories. By improving safety, compliance, inventory, delivery, expenses, and efficiency, it enhanced factory operational capabilities. In operations and management, the Company adhered to a "refined operations" strategy. Driven by ambitious targets, it focused on target cost achievement, integrated cost reduction, organizational optimization, and strong talent pool to fully advance cost reduction, efficiency improvement, and organizational optimization, thereby achieving profit growth. In terms of product and technology R&D, the Company continuously strengthened product competitiveness, continuously enhanced independent R&D capabilities, improved product quality, and accelerated digital-intelligent transformation and AI applications. The introduction of intelligent tools such as digital employees laid a solid foundation for sustainable business growth. Regarding supply chain and operational management, the Company built procurement management and global supply chain systems, developed overseas supply chains, and optimized procurement processes to achieve cost reduction in procurement. It standardized operational management to achieve operational optimization and efficiency enhancement.

3. Strategic emerging business (including bionic robot electromechanical actuator business)

In 2025, the Company focused on technical improvements for a number of key product models, cooperated with customers in the R&D, trial production, iteration, and sampling of key products. These efforts received high praise from customers and led to a series of innovative achievements related to existing products, resulting in an overall improvement in product competitiveness.

V. OUTLOOK FOR THE COMPANY'S FUTURE DEVELOPMENT

(I) The Company's Development Strategy

The Company adheres to the business philosophy of "focusing on excellence and innovating for success", and firmly grasps the product development themes of energy conservation, environmental protection and intelligent control, with a strong emphasis on researching and applying heat pump

3. Strategic emerging businesses (including the bionic robot electromechanical actuator industry)

In the bionic robot business, the Company will focus on electromechanical actuators, cooperate with customers in the R&D, trial production, iteration, and sampling of key products, and increase its efforts in the development of key electromechanical actuator components. Furthermore, the Company will actively expand overseas production of electromechanical actuators and continuously expand its R&D team to consolidate its first-mover advantage in the emerging market of bionic robot electromechanical actuators.

(III) Major Risks in Future Development

1. Risk of raw material price fluctuations

The raw materials required for the Company's production, such as copper and aluminum, constitute a significant portion of product costs. Therefore, fluctuations in raw material market prices impose substantial cost pressures on the Company. The Company will mitigate the adverse effects of raw material price fluctuations on the Company by establishing a linked pricing mechanism, conducting commodity futures hedging operations, and promptly negotiating prices with customers.

2. Risk of sustained labor cost increases

The Company's labor costs have shown an upward trend annually, which has compressed profit margins to some extent. Moving forward, the Company will continuously enhance its intelligent manufacturing capabilities through the ongoing implementation of lean production, process improvements, and technological upgrades.

3. Trade and exchange rate risks

The Company maintains relatively substantial export volumes to regions including North America, Europe, Japan, and Southeast Asia. Changes in regional trade policies may exert an impact on daily operations of the Company. The Company mitigates regional trade risks through measures such as overseas capacity relocation. Exchange rate fluctuations will also have a certain impact on the Company's profitability. The Company mitigates and reduces foreign exchange risk through approaches such as forward exchange settlement and the establishment of overseas production bases based on actual circumstances. The Company possesses the supply chain capabilities focused on maximizing efficiency through global allocation in the past to the adaptability required for regional resource allocation and localization capabilities in response to the new requirements of fluctuating trade barrier measures at present.

FINANCIAL REVIEW

Revenue

In 2025, the Company adhered to sustainable and healthy development and achieved high-quality business growth. The revenue of the Group for the year was principally derived from (i) the sales of refrigeration and air-conditioning product components and (ii) the sales of automotive components. The total revenue of the Group reached RMB31,011.7 million, representing an increase of 11.0% as compared to the same period in 2024.

Revenue analysis by product and region

The following tables set forth an analysis of revenue by product category and sales region for the years indicated, presented in absolute amounts and as a percentage of total revenue, respectively.

By product category:

	Year ended December 31, 2025		Year ended December 31, 2024	
	RMB'000	%	RMB'000	%
Refrigeration and air-conditioning product components	18,584,744	59.9	16,560,605	59.3
Automotive components	12,427,001	40.1	11,386,560	40.7
Total	31,011,745	100.0	27,947,165	100.0

For the year ended December 31, 2025, revenue from refrigeration and air-conditioning product components increased by 12.2% from RMB16,560.6 million for year ended December 31, 2024 to RMB18,584.7 million for the year ended December 31, 2025, due to the increase of sales, supported by the supporting policies promoting low energy consumption, which drove the iterative upgrading of air-conditioning products.

Revenue from automotive components increased by 9.1% from RMB11,386.6 million for year ended December 31, 2024 to RMB12,427.0 million for the year ended December 31, 2025, primarily driven by the strong performance of the NEVs market boosting demand for thermal management systems.

By sales region:

	Year ended December 31, 2025 RMB'000	%	Year ended December 31, 2024 RMB'000	%
China	17,688,256	57.0	15,446,506	55.3
Other countries or regions	13,323,489	43.0	12,500,659	44.7
Total	31,011,745	100.0	27,947,165	100.0

The Group generated revenue from both China and overseas markets. For the year ended December 31, 2025, revenue from China and other countries or regions increased compared with last year, mainly due to the Group's continued penetration into the Chinese market and the ongoing expansion of its global presence.

Cost of Revenue

The cost of revenue of the Group in 2025 amounted to RMB22,205.1 million, representing an increase of 9.2% as compared to the same period in 2024, which was in line with the growth trend of revenue during the Reporting Period. The breakdown of the cost categorized by product category is set out below:

Cost of revenue analysis by product

	Year ended December 31, 2025 RMB'000	%	Year ended December 31, 2024 RMB'000	%
Refrigeration and air-conditioning product components	13,283,267	59.8	12,078,850	59.4
Automotive components	8,921,797	40.2	8,247,496	40.6
Total	22,205,064	100.0	20,326,346	100.0

Gross profit and gross profit margin

For the year ended December 31, 2025, the gross profit margin of the Group was 28.4%, representing an increase of 1.1% from 27.3% for the year ended December 31, 2024, and the gross profit margin maintained steady growth. The breakdown of the gross profit categorized by product category is set out below:

Gross profit analysis by product

	Year ended December 31, 2025		Year ended December 31, 2024	
	RMB'000	%	RMB'000	%
Refrigeration and air-conditioning product components	5,301,477	60.2	4,481,755	58.8
Automotive components	3,505,204	39.8	3,139,064	41.2
Total	8,806,681	100.0	7,620,819	100.0

General and administrative expenses

For the year ended December 31, 2025, the general and administrative expenses of the Group amounted to RMB2,091.7 million, representing an increase of 7.4% from RMB1,946.8 million for the year ended December 31, 2024, mainly due to the increase in employee salaries for administrative personnel resulting from the Company's business expansion in 2025. It accounted for approximately 6.7% of the Group's revenue, remaining basically the same as compared to approximately 7.0% in 2024.

Selling and marketing expenses

For the year ended December 31 2025, the selling and marketing expenses of the Group amounted to RMB751.5 million, representing an increase of 3.5% from RMB726.4 million for the year ended December 31, 2024, mainly due to the increase in business development expenses, warehousing and transportation expenses.

Research and development expenses

For the year ended December 31, 2025, the research and development expenses of the Group amounted to RMB1,374.1 million, representing an increase of 1.6% from RMB1,351.8 million for the year ended December 31, 2024, accounting for 4.4% of the Group's revenue of 2025. The increase in the Group's research and development expenses as compared to that in 2024 was mainly attributable to the Group's continuous efforts to deepen its focus on core businesses while steadily concentrating on emerging business areas, along with a corresponding increase in the R&D team and direct investments.

Net reversal of impairment losses/(net impairment losses) on financial assets

Net impairment losses on financial assets mainly included impairment losses from changes in the loss allowance for trade receivables and notes receivable at amortized cost, as well as impairment losses from changes in the loss allowance for other receivables. For the year ended December 31, 2025, the Group recorded a net reversal of impairment losses of RMB23.5 million, compared to a credit impairment loss of RMB56.4 million for the year ended December 31, 2024. The change was primarily attributable to a decrease in expected credit loss (ECL) rates resulting from an improvement in the aging structure.

Other income

The other income of the Group mainly included government grants, additional deduction for VAT, interest income and others. For the year ended December 31, 2025, the other income of the Group amounted to RMB410.6 million, representing an increase of RMB118.3 million from RMB292.3 million for the year ended December 31, 2024, mainly driven by increased government grants and VAT additional deductions for the year ended December 31, 2025.

Other losses, net

The Group's other losses primarily consists of net losses on disposal of financial instruments, fair value changes on derivative financial instruments and equity instruments and net foreign exchange differences, net losses on disposal of property, plant and equipment, intangible assets and other long-term assets, and others. The Group recorded other losses of approximately RMB187.3 million for the year ended December 31, 2025 as compared to approximately RMB83.8 million for the year ended December 31, 2024, primarily due to the net loss of foreign exchange differences and fair value loss on financial assets at fair value through profit or loss and recognition of disposal of financial instruments for the year ended December 31, 2025.

Income tax expense

For the year ended December 31, 2025, the Group's income tax expense was RMB737.1 million, representing an increase of RMB157.1 million from RMB580.0 million for the year ended December 31, 2024, which was mainly due to a further improvement in overall profitability for the year ended December 31, 2025.

During 2025, the effective tax rate was approximately 15.2%, representing a decrease of approximately 0.5% from approximately 15.7% in 2024.

FINANCIAL POSITION

The table below sets forth a summary of the Group's consolidated statements of financial position for the years indicated:

	As at December 31, 2025 RMB'000	As at December 31, 2024 RMB'000
Total non-current assets	15,683,617	14,053,586
Total current assets	33,722,514	22,301,163
Total assets	49,406,131	36,354,749
Total non-current liabilities	2,000,662	3,201,801
Total current liabilities	15,365,239	13,633,304
Total liabilities	17,365,901	16,835,105
Equity attributable to owners of the Company	31,748,928	19,297,770
Net assets	32,040,230	19,519,644

The Group's total non-current assets increased from RMB14,053.6 million as of December 31, 2024 to RMB15,683.6 million as of December 31, 2025, primarily due to the increase in property, plant and equipment.

The Group's total current assets increased from RMB22,301.1 million as of December 31, 2024 to RMB33,722.5 million as of December 31, 2025, mainly due to higher cash and cash equivalents balances.

The Group's total non-current liabilities decreased from RMB3,201.8 million as of December 31, 2024 to RMB2,000.7 million as of December 31, 2025, primarily due to the reclassification of certain long-term borrowings due within one year to current liabilities.

The Group's total current liabilities increased from RMB13,633.3 million as of December 31, 2024 to RMB15,365.2 million as of December 31, 2025, mainly due to an increase in short-term borrowings and accrual and other payables.

The Group's net assets increased from RMB19,519.6 million as of December 31, 2024 to RMB32,040.2 million as of December 31, 2025, primarily driven by Hong Kong stock market financing and net profit growth.

Cash Flows

The table below sets forth a summary of the Group's consolidated statement of cash flows for the years indicated:

	Year ended December 31, 2025 RMB'000	Year ended December 31, 2024 RMB'000
Net cash generated from operating activities	4,905,404	4,026,185
Net cash used in investing activities	(3,607,560)	(3,171,091)
Net cash from/(used in) financing activities	7,802,461	(955,299)
Net increase/(decrease) in cash and cash equivalents	9,100,305	(100,205)
Cash and cash equivalents at beginning of the year	3,443,503	3,624,955
Effects of exchange rate changes on cash and cash equivalents	(56,619)	(81,247)
Cash and cash equivalents at end of the year	12,487,189	3,443,503

The Group's net cash generated from operating activities amounted to RMB4,905.4 million for the year ended December 31, 2025. The difference between the net cash generated from operating activities and the profit before tax of RMB4,843.8 million was primarily attributable to the following: (1) Depreciation and amortization of non-current assets amounting to RMB1,256.4 million; (2) Changes in working capital, which mainly included an increase of RMB1,394.7 million in receivables, an increase of RMB827.0 million in payables, and partially offset by an increase of RMB405.6 million in inventories.

The Group's net cash used in investing activities amounted to RMB3,607.6 million, primarily resulting from cash payments of RMB7,015.4 million for the purchase of wealth management products and the placement of term deposits, as well as payments of RMB3,152.4 million for the purchase of property, plant and equipment, intangible assets and other non-current assets, partially offset by the withdrawal of term deposits and wealth management products totalling RMB6,849.1 million.

The Group's net cash generated from financing activities amounted to RMB7,802.5 million, mainly due to the net receipt of Hong Kong stock proceeds of RMB 9,650.7 million and proceeds r3deposits /rr: (RMB 9,651,820.3ion, main producllly offset by an inloaeivants of RMB3,1522,212llion.

LIQUIDITY AND FINANCIAL RESOURCES

The total borrowings of the Group as at December 31, 2025, including all bank loans, amounted to approximately RMB3,742.5 million (December 31, 2024: RMB4,099.5 million). The repayment terms of the bank loans are as follows: approximately RMB2,879.8 million are due within one year, RMB862.7 million are due from the first to second year.

As at December 31, 2025, the Group recorded net current assets of approximately RMB18,357.3 million compared to approximately RMB8,667.9 million as at December 31, 2024. The Group's current ratio (namely current assets divided by current liabilities as at the relevant dates) increased from 1.6 as of December 31, 2024 to 2.2 as of December 31, 2025.

As at December 31, 2025, the Group's cash and cash equivalents amounted to approximately RMB12,487.2 million and the Group's cash and cash equivalents amounted to approximately RMB3,443.5 million as at December 31, 2024. The Group's cash and cash equivalents are mainly denominated in RMB, US$, and EUR.

The Group's trade receivables turnover days were approximately 88 days in 2025, which were approximately 1 days longer than approximately 87 days in 2024. This was mainly due to the increase in the revenue contribution from customers with longer trade receivables cycles, partially offset by the Group's enhanced management and control of payback in 2025.

The Group's trade payables turnover days were approximately 98 days in 2025, representing an increase of approximately 4 days from approximately 94 days in 2024, mainly attributable to an increase in the proportion of suppliers with longer payment terms and the extended payment cycles upon active negotiations with suppliers based on the Group's growth in scale.

The Group's inventories turnover days were approximately 90 days in 2025, essentially in line with the 89 days recorded in 2024.

The Group is of the view that the favorable performance in sales, production, R&D, and a healthy cash reserve during 2025 have provided a solid guarantee for sustainable development in the future.

CAPITAL STRUCTURE

The financial department under the Group is responsible for its financial risk management, aiming to ensure that the liquidity structure of the assets, liabilities and other commitments of the Group could meet its funding needs on an ongoing basis.

The borrowings of the Group were mainly settled in RMB, while its cash and cash equivalents were mainly held in RMB, Euro, and U.S. dollars. The Group planned to maintain an appropriate portfolio of equity and debt during 2025 to ensure an effective capital structure. As at December 31, 2025, the Group's outstanding loans are predominantly RMB-denominated, with a portion in USD and Euro. Approximately 36.3% of these outstanding loans bear interest at fixed rates, and the remainder at floating rates.

The Group monitored the capital structure by asset-liability ratio (i.e. total debt divided by total assets and multiplied by 100%), with its policies to maintain financial stability and support the sustainable, healthy and rapid development of the Group's business. The asset-liability ratio of the Group as at December 31, 2025 was 35.1% (December 31, 2024: 46.3%). The decrease was mainly due to the inflow of funds raised from the Company's H-share listing and cash flows generated from operating activities during 2025. The Group maintained its financial stability amidst rapid business development.

CAPITAL EXPENDITURES

For the year ended December 31, 2025, the Group's capital expenditures amounted to RMB2,915.6 million representing a decrease of RMB1,406.1 million from RMB4,321.7 million for the year ended December 31, 2024. Capital expenditures primarily consist of expenditure on purchase of property, land and equipment (including right-of-use assets) and intangible assets. The Group's capital expenditures were primarily funded by cash flows generated from operating activities, proceeds from share issuance and bank borrowings.

CAPITAL COMMITMENTS

The contracted commitments decreased from RMB1,525.9 million as of December 31, 2024 to RMB990.3 million as of December 31, 2025, primarily reflecting the Group's ongoing construction of factories and R&D center in Zhongshan, Hangzhou and overseas.

The authorized, but not contracted commitments decreased from RMB5,458.0 million as of December 31, 2024 to RMB5,321.7 million as of December 31, 2025, primarily reflecting the Group's ongoing construction plans of factories for automotive components, in particular, for NEVs, in Hangzhou, Shaoxing, Zhongshan and Mexico.

CHARGES ON ASSETS

As at December 31, 2025, the Group had notes receivables of RMB3,639,996,000 and approximately RMB2,436,746,000 (December 31, 2024: RMB1,839,462,000) were pledged for bank acceptance notes for daily payment of goods.

FOREIGN EXCHANGE RISK

The Group's operations are geographically diversified, with production bases and sales markets spanning major developed and developing countries and regions, including the United States, the European Union, Japan, India, and Mexico. Most of the Group's income and expenditure are settled in RMB and US dollars, exposing the Group to potential earnings volatility arising from fluctuations in exchange rates.

To mitigate this risk, the Group has implemented a comprehensive set of foreign exchange risk management strategies in accordance with its internal policies. The management closely monitors currency trends and dynamically adjusts the timing of export settlements. The Group also employs a "domestic guarantee, foreign loan" structure for overseas financing to naturally hedge foreign currency assets against liabilities, and utilises forward contracts and cross-currency swaps to lock in exchange rates for future cash flows. These measures collectively enable the Group to actively manage and control its foreign exchange exposure.

CONTINGENT LIABILITIES

The Group may incur contingent liabilities arising from various claims or legal proceedings in the ordinary course of business. As of December 31, 2025, the Group did not have any significant contingent liabilities.

MATERIAL INVESTMENTS HELD

As at December 31, 2025, the Group did not hold any material investment, which refers to an investment with investment amounts in an investee company that accounted for 5% or more of the Group's total assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the 12 months ended December 31, 2025, the Group did not undertake any material acquisitions or disposals of subsidiaries, associates and joint ventures.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR ACQUISITIONS OF CAPITAL ASSETS AND EXPECTED SOURCES OF FUNDING

As at December 31, 2025, the Group had no other plans for material investments or acquisitions of capital assets.

USE OF PROCEEDS

Use of Proceeds from the Listing of H Shares

The Company's H Shares were listed on the Main Board of the Stock Exchange on June 23, 2025. A total of 414,379,500 H Shares were initially issued in the Global Offering; subsequently, on July 23, 2025, the Company issued additional 62,156,900 H Shares under the Over-allotment Option. A total of 476,536,400 H Shares with a nominal value of RMB1.00 each were issued in the Global Offering (including the issue of H Shares pursuant to the Over-allotment Option as described in the Prospectus). The Offer Price was HK$22.53 per H Share (exclusive of brokerage fee of 1%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015%). The total proceeds from the Global Offering of the Company amounted to approximately HK$10,736.4 million, the net proceeds amounted to approximately HK$10,570.1 million (RMB9,650.7 million) (adjusted after listing fees and exchanges rates).

The net proceeds from the Global Offering will be utilized in accordance with the plan disclosed in the section headed "Future Plans and Use of Proceeds" in the Prospectus, namely:

Item	Percentage of net proceeds	Net proceeds planned to be used (after the exercise of the Over-allotment Option) (RMB million)	Utilized amount as of December 31, 2025 (RMB million)	Unutilized net amount as of December 31, 2025 (RMB million)	Expected timeline of full utilization [1]
Used for continuous global R&D and innovation of product mix	30%	2,895.2	182.8	2,712.4	By the end of 2028
Used to expand and establish production facilities and increase the production automation level in China over the next three years	30%	2,895.2	688.1	2,207.1	By the end of 2028
Used to deepen global layout by expanding the Group's overseas production capabilities	25%	2,412.7	212.1	2,200.6	By the end of 2028
Used to enhance the Group's digital intelligence infrastructure	5%	482.5	16.7	465.8	By the end of 2028
Used as working capital and for general corporate uses	10%	965.1	965.1	–	N/A
Total	100%	9,650.7	2,064.8	7,585.9	

Note:

(1) The expected timeline for the utilization of unutilized net proceeds set out in the table above represents the Group's best estimates based on the anticipated market conditions, which may be subject to change in response to current and future market developments.

Use of Proceeds from A Shares Convertible Bonds

Pursuant to the Approval on the Public Offering of Convertible Corporate Bonds by Zhejiang Sanhua Intelligent Controls Co., Ltd. (Zheng Jian Xu Ke [2021] No. 168) (• ë õ è X ê g € } • › S p … Þ " ® ! ® š ï 7 l ® ! À N Y - ' '(Ç 9 ¢ [2021]168 î)) issued by the China Securities Regulatory Commission, the Company publicly issued 30.0 million convertible corporate bonds (the "Sanhua Convertible Bonds") in June 2021, each with a nominal value of RMB100. A total of RMB3,000 million was raised. After deducting the issuance expenses of RMB12.5 million, the net amount of proceeds was RMB2,987.5 million. The net amount of proceeds carried forward to the current fiscal year are RMB697.8 million.

During the Reporting Period, the Company used the net proceeds from the issuance of A Shares convertible bonds as described in the Prospectus for the Public Offering of Convertible Corporate Bonds of Zhejiang Sanhua Intelligent Controls Co., Ltd. As at December 31, 2025, the details of the use of proceeds are as follows:

Item	Total proceeds planned to be used (RMB million)	Adjusted total proceeds planned to be used (RMB million)	Utilized amount during the Reporting year (RMB million)	Utilized amount as of December 31, 2025 (RMB million)	Balance as of December 31, 2025 (RMB million)	Expected time for using the total amount of unutilized proceeds [2]
Construction project for annual production of 65 million sets of commercial refrigeration and air-conditioning intelligent control components	1,487.0	1,487.0	39.9	1,254.2	N/A[4]	N/A
Technical transformation project for annual production of 50.5 million sets of high-efficiency energy-saving refrigeration and air-conditioning control components[1]	698.0	466.0	66.3	463.4	N/A[3]	N/A
Replenishment of working capital	815.0	815.0	–	812.7	N/A[3]	N/A
Zhejiang Sanhua Intelligent Drive Future Industry Center construction project	–	295.7	82.6	82.6	213.1	Before June, 2026
Total	3,000.0	3,063.7	188.8	2,612.9	213.1	

Note:

(1) The remaining proceeds amounted to approximately RMB295.7 million, comprising the balance of the proceeds together with interest income and gains from wealth management products. The remaining proceeds has been allocated to a new project (i.e. the Zhejiang Sanhua Intelligent Drive Future Industry Center construction project), which is expected to be fully utilized by 2026.

(2) On August 21, 2025, the Company convened the first extraordinary general meeting of 2025, at which the resolution on the conclusion of proceeds-funded projects and the investment of surplus proceeds into new projects and the permanent replenishment of working capital was considered and approved. For details, please refer to the circular of the Company dated July 30, 2025, and the announcement dated August 21, 2025.

(3) The difference between the utilized amount and the total amount is the bank charges.

(4) The remaining balance shall be used to replenish working capital. Please refer to section headed "Changes in Use of Proceeds from A Shares Convertible Bonds" in this report.

Changes in Use of Proceeds from A Shares Convertible Bonds

On August 21, 2025, the Company convened the first extraordinary general meeting of 2025, at which the resolution on the conclusion of proceeds-funded projects and the investment of surplus proceeds into new projects and the permanent replenishment of working capital was considered and approved. According to the actual construction progress of the proceeds-funded projects and the Company's future development needs, the surplus funds of RMB295.73 million (balance in the special account on the date of fund transfer) from the "Technical Transformation Project for Annual Production of 50.5 Million Sets of High-Efficiency Energy-Saving Refrigeration and Air-Conditioning Control Components" of the Company was invested in the new proceeds-funded project, being the "Zhejiang Sanhua Intelligent Drive Future Industry Center Construction Project" by increasing capital in its subsidiary Zhejiang Sanhua Intelligent Drive Co., Ltd. (ê g € } • ¨ Þ " ® !); the surplus funds of RMB307.43 million (balance in the special account on the date of fund transfer) from the "Construction Project for Annual Production of 65 Million Sets of Commercial Refrigeration Air-Conditioning Intelligent Control Components" of Zhejiang Sanhua Commercial Refrigeration Co., Ltd. shall be used to permanently replenish working capital for the Company's daily production and operation activities.

For details, please refer to the circular of the Company dated July 30, 2025, and the announcement dated August 21, 2025.

EXECUTIVE DIRECTORS

Zhang Yabo (u - *)

Mr. Zhang Yabo (u - * ‹ [), aged 52, received his MBA degree from China Europe International Business School (• „ 7 ç ˆ ª ë). Mr. Zhang graduated from Shanghai Jiao Tong University (j t · } ª) in 1996 with a bachelor's degree in Mechanical Manufacturing Technology and Equipment and bachelor 's degree in Refrigeration and Cryogenic Technology. He joined the Group in August 2001 and has held various positions, including chairman and general manager, and served as vice president and director of Sanhua Holding Group Co., Ltd. (g € › p « Þ " ® !). Mr. Zhang currently serves as a director and vice chairman of the board of Sanhua Holding Group Co., Ltd. (g € › p « Þ " ® !), the chairman of the board of Xinchang Huaxin Industrial Co., Ltd. (- ù 6 - ¼ 8 Þ " ® !), the chairman of the board of Hangzhou Sanhua Research Institute Co., Ltd. (È g € ¼ ú ë Þ " ® !), and holds director positions in a number of subsidiaries of the Company. He has served as an executive Director of the Company since October 2009 and the Chairman of the Board and Chief Executive Officer of the Company since December 2012.

Wang Dayong (î } Ç)

Mr. Wang Dayong (î } Ç ‹ [), aged 57, holds a master's degree and is a senior economist. He joined the Group in December 2001 and has served as a Supervisor and Director. Mr. Wang joined Sanhua Holding Group Co., Ltd. (g € › p « Þ " ® !) since December 1992, and had successively served as the chief of planning section, secretary of general manager, director of manufacturing department, director of refrigeration valve business department, assistant to general manager, assistant to president, vice president and director. Mr. Wang currently serves as a director of Sanhua Holding Group Co., Ltd. ɡ € › p « Þ " ® !), a director of Ningbo Jiaerling Pneumatic Machinery Co., Ltd. (¹ * 3 ' 3 Ú Û Þ " ® !), a director of Xinchang Huayong Enterprise Management Co., Ltd. (- ù 6 ð † 8 M # Þ " ® !), and holds director positions in a number of subsidiaries of the Company. He has been the Company's executive Director and the President since December 2012.

Ni Xiaoming (N È ü)

Mr. Ni Xiaoming (N È ü ‹ [), aged 58, holds a master's degree and is a senior economist. He joined the Group in January 2009. Mr. Ni served as the deputy general manager of sales, and held various positions, including deputy manager of marketing department of Sanhua Holding Group Co., Ltd. (g € › p « Þ " ® !). Mr. Ni currently serves as a director of Sanhua Holding Group Co., Ltd. (g € › p « Þ " ® !), a director and general manager of Sanhua (Hangzhou) Micro Channel Heat Exchanger Co., Ltd. (È g € · 8 l œ Þ " ® !), and holds director positions in a number of subsidiaries of the Company. He has been the Company's executive Director since May 2011 and an employee representative Director since December 2025.

Chen Yuzhong (Ó À)

Mr. Chen Yuzhong (Ó À ‹ [), aged 60, holds a master's degree and is a senior engineer. Mr. Chen joined the Group in December 2001. He previously served as the chief engineer of Sanhua-Fujikoki Co., Ltd. (g € " Z ˆ Ú Þ " ® !), the predecessor of the Company, and worked at Sanhua Holding Group Co., Ltd. (g € › p « Þ " ® !) with his last position as director of chief engineer's office. Mr. Chen currently serves as a director of Sanhua Holding Group Co., Ltd. (g € › p « Þ " ® !), the general manager of Zhejiang Sanhua Climate & Appliance Controls Group Co., Ltd. (ê g € ¡ 8 « Þ " ® !), a director and general manager of Zhejiang Sanhua Commercial Refrigeration Co., Ltd. (ê g € \ ¡ 8 Þ " ® !), and holds director positions in a number of subsidiaries of the Company. He has served as an executive Director of the Company since November 2011 and the Chief Engineer of the Company since December 2012.

NON-EXECUTIVE DIRECTORS

Zhang Shaobo (u Ç *)

Mr. Zhang Shaobo (u Ç * ‹ [ ), aged 47, received his MBA degree from China Europe International Business School (• „ 7 ç ˆ ª ë). Mr Zhang joined the Group in January 2001. He previously served as the deputy head of the finance department of Sanhua Holding Group Co., Ltd. (g € › p « Þ " ® !), the executive director and general manager of Zhejiang Sanhua Zhicheng Real Estate Development Co., Ltd. (ê g € } Ó Ò ® * š ï Þ " ® !), and the general manager of Zhejiang Sanhua Green Energy Industrial Group Co., Ltd. (ê g € ` • ¼ 8 « Þ " ® !). He currently serves as a director of Sanhua Holding Group Co., Ltd. ( g € › p « Þ " ® !), the chairman of the board of Zhejiang Sanhua Green Energy Industrial Group Co., Ltd. ( ê g € ` • ¼ 8 « Þ " ® !), and the chairman of the board of Zhejiang Huateng Industrial Co., Ltd. (ê 6 \ ¼ 8 Þ " ® !). Mr Zhang has been the Company's non-executive Director since May 2015.

Ren Jintu (, – z)

Mr. Ren Jintu (, – z ‹ [), aged 64, holds an associate degree and is a senior accountant. He joined the Group in June 2001 and has served as general manager and director. Mr. Ren had worked at Xinchang Refrigeration Components Factory (- ù ¡ 8 ã • < @) since August 1984, with his last position as deputy factory director. Mr. Ren served as the vice president of Sanhua Holding Group Co., Ltd. (g € › p « Þ " ® !) and the general manager of Shanghai Jingyi Real Estate Co., Ltd. (j ¤ … Ò ® * Þ " ® !). He currently serves as a director of Sanhua Holding Group Co., Ltd. (g € › p « Þ " ® !), a director of Zhejiang Sanhua Green Energy Industrial Group Co., Ltd. (ê g € ` • ¼ 8 « Þ " ® !), and a director of Zhejiang Sanhua Automotive Components Co., Ltd. (ê g € Û g Å • Þ " ® !). Mr. Ren has been the Company's non-executive Director since January 2022.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Bao Ensi (© ¸ v)

Mr. Bao Ensi (© ¸ v ‹ [), aged 58, received his doctoral degree in Accounting and is a senior accountant. Mr. Bao served various positions in China Securities Regulatory Commission (including a standing committee member of Stock Issuance Examination Committee (p C ï 2 è ‰ p 6)) and served as the person in charge of financing of China Financial Futures Exchange (• 7 – D , ¬ t ø Ô). He served as the assistant to the chairman of Huge Capital Management Co., Ltd. (/ Î ? I M # Þ " ® !), as well as an independent director of FuJian YanJing HuiQuan Brewery Co., Ltd (E ² ò / I p - â p … Þ " ® ! (600573.SH)), Norinco International Cooperation Ltd. (Ù 7 ç ¥ * p … Þ " ® ! (000065.SZ)), Sunwave Communications Co., Ltd. (g j · ¦ p … Þ " ® ! (002115.SZ)), China Aerospace Times Electronics Co., Ltd. (˜ Â Û þ e • ¦ ” p … Þ " ® ! (600879.SZ)), and China Railway Trust Co., Ltd. (• › ¦ Ä Þ " ª , ® !). Mr. Bao has been the Company's independent non-executive Director since August 2021.

Shi Jianhui (

SUPERVISORS

In accordance with the relevant provisions of the Company Law, the Securities Law of the People's Republic of China, the Guidelines for the Articles of Association of Listed Companies, the Rules Governing the Listing of Securities on the Shenzhen Stock Exchange, and other laws, administrative regulations and regulatory documents, and taking into account the actual situation of the Company, the Company convened an extraordinary general meeting on December 17, 2025 to adjust its corporate governance structure. The Audit Committee of the Board shall exercise the powers and functions of the Supervisory Committee as stipulated in the Company Law, and Mr. Zhao Yajun (» - ‹ [), Mr. Mo Yang (} @ ‹ [), and Mr. Chen Xiaoming (Ó i ü ‹ [) will no longer serve as Supervisors of the Company with effect from December 17, 2025.

SENIOR MANAGEMENT

Mr. Zhang Yabo (u - * ‹ []) serves as the Chairman of the Board, the executive Director and the Chief Executive Officer. For biographical details of Mr. Zhang Yabo (u - * ‹ [

CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT, AND CHANGES IN THEIR INFORMATION

The table below sets forth the changes in the Company's Directors, Supervisors and senior management, as well as changes in their information during the period from the Listing Date to the date of this report:

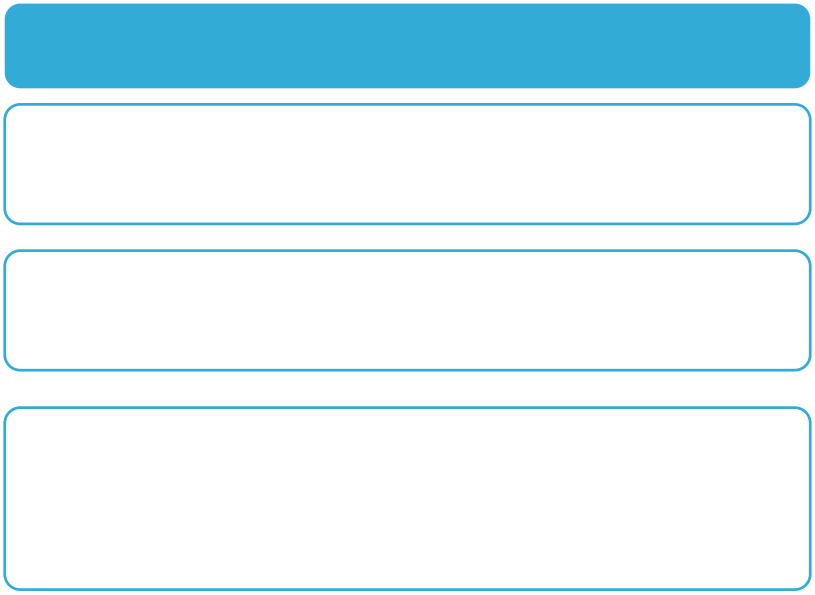
Name	Position	Type of change	Reason for change	Date
Ge Jun (ä ²)	Independent Non-executive Director	Appointment	Appointment of an additional Independent Non-executive Director	June 23, 2025
Zhao Yajun (» -)	Chairman of the Supervisory Committee	Resignation	Adjustments to the corporate governance structure	December 17, 2025
Mo Yang (} @)	Supervisor	Resignation	Adjustments to the corporate governance structure	December 17, 2025
Chen Xiaoming (Ó i ü)	Supervisor	Resignation	Adjustments to the corporate governance structure	December 17, 2025

Pursuant to Rule 13.51B of the Listing Rules, there have been no other changes in the information regarding the Company's Directors, Supervisors and senior management, except as disclosed in this report.

CORPORATE CULTURE

The Company firmly believes that a sound and well-regulated corporate governance culture is a vital safeguard for protecting the long-term interests of Shareholders and creating greater value for Shareholders and other stakeholders; a positive and healthy corporate culture is of paramount importance to the Group's realization of its mission, vision, and strategic objectives. The Board and senior management will play an important role, placing high emphasis on and continuously deepening the development of corporate culture, while actively promoting and vigorously practicing the corporate culture and core values within the Group.

The Company's mission and vision, strategy, and core values are as follows:



The essence and soul of "Sanhua": "blossoming of management, technology and talent". Capturing the three key elements of management, technology and talent is the underlying logic behind Sanhua's continuous development and the success formula that enables Sanhua's people to secure the market. The Company consistently upholds Sanhua's philosophy of "rapid response and immediate action" and Sanhua's spirit of "striving for perfection and pursuing excellence". The Company has established a governance mechanism characterized by clear delineation of authority and responsibility, as well as efficient collaboration. It is committed to fostering a corporate culture that embodies a global perspective, innovative capabilities and long-term development.

Looking ahead, the Company will keep abreast with global market reforms and industry trends, continuously optimize its corporate culture and governance model, harness joint development through culture, drive long-term and steady corporate growth, and create greater value for global customers, employees, and society.

CORPORATE GOVERNANCE CODE

The Company aims to implement high standards of corporate governance, which the Company believes is crucial to safeguard the interests of Shareholders. The Company has adopted the code provisions of the Corporate Governance Code as the basis for its corporate governance practices. During the period from the Listing Date until December 31, 2025, to the best knowledge of the Directors, except for the deviation from code provision of part 2 of the Corporate Governance Code below, the Company has complied with all applicable code provisions in the Corporate Governance Code.

Pursuant to code provision C.2.1 of part 2 of the Corporate Governance Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between the chairman of the Board and the chief executive officer should be segregated and should not be performed by the same individual. The Group does not have a separate chairman of the Board and chief executive officer, and Mr. Zhang Yabo currently performs these two roles. The Board believes that vesting the roles of both chairman of the Board and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement is not impaired, and this structure will enable the Company to make and implement decisions promptly and effectively.

Pursuant to code provision C.1.5 of part 2 of the Corporate Governance Code, independent non-executive Directors and other non-executive Directors should attend general meetings to gain and develop a comprehensive understanding of Shareholders' views. Due to work commitments, two non-executive Directors and three independent non-executive Directors of the Company were unable to attend the extraordinary general meeting held on August 21, 2025. However, the Board believes that such absences were reasonable and non-recurring. The absent non-executive Directors and independent non-executive Directors had all thoroughly reviewed the meeting documents in advance, fully understood the content of each resolution, and fulfilled their duties as directors by submitting written opinions. This temporary absence will not have any material adverse impact on the Company's corporate governance levels, the normal functioning of the Board, and daily business operations.

Model Code for Securities Transactions

The Company has adopted the Model Code as its code of conduct regarding securities transactions by the Directors and Supervisors. Having made specific enquiry of all the Directors and Supervisors, all Directors and Supervisors confirmed that they have complied with the provisions of the Model Code from the Listing Date until December 31, 2025. The Company has also established written guidelines for securities transactions by employees who are likely to be in possession of inside information of the Company on terms no less exacting than the Model Code. The Company is not aware of any incident of non-compliance of the written guidelines by the employees.

When the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its Directors, Supervisors and relevant employees in advance.

BOARD OF DIRECTORS

Composition of the Board of Directors

The Company has established a Board of Directors, which is accountable to the general meeting. The Board consists of ten Directors, including four executive Directors, two non-executive Directors, and four independent non-executive Directors. The Company has appointed one Chairman of the Board.

Executive Directors	Mr. Zhang Yabo (u - * ‹ [) *(Chairman of the Board)*
	Mr. Wang Dayong (î } Ç ‹ [)
	Mr. Ni Xiaoming (N È ü ‹ [) *(Employee Representative Director)*
	Mr. Chen Yuzhong (Ó À ‹ [)
Non-executive Directors	Mr. Zhang Shaobo (u Ç * ‹ [)
	Mr. Ren Jintu (, – z ‹ [)
Independent Non-executive Directors	Mr. Bao Ensi (© ¸ v ‹ [)
	Mr. Shi Jianhui (i > ‹ [)
	Ms. Pan Yalan (™ - 3 ~ {)
	Mr. Ge Jun (ä ² ‹ [)

Duties of and responsibilities of Directors and management

The Board serves as the decision-making body for the Company's operations and management. It safeguards the interests of the Company and all Shareholders and, within the scope of the Articles of Association and the authority granted by the general meeting, is responsible for formulating the Company's development objectives and decisions regarding major business activities. The Board is responsible for fulfilling the duties set forth in code provision A.2.1 of the Corporate Governance Code. The Audit Committee, the Remuneration and Evaluation Committee, the Nomination Committee, and the Strategy Management and ESG Committee have been established under the Board. Rules of procedure for each specialized committee have been formulated to clearly define their primary duties and responsibilities, decision-making procedures, and rules of procedure. Each specialized committee is accountable to the Board and performs its duties and responsibilities within the scope of the Articles of Association and the Board's authorization; relevant proposals shall be submitted to the Board for consideration and decision.

The Company's day-to-day management, administration, and operations are led by the Board and senior management of the Company. The Board assigns various duties and responsibilities to management, who are responsible for executing the Board's decisions and for guiding and coordinating the Company's daily operations and management. The Board periodically reviews the assigned duties and responsibilities and work tasks. Management shall obtain the Board's approval prior to entering into any material transactions.

Except for matters requiring approval by the general meeting in accordance with laws, regulations, regulatory requirements, and the Articles of Association, the Board retains the final decision-making authority over the Company's major matters, including but not limited to business plans and investment proposals, major transactions, the appointment and removal of senior management, and other material financial and operational matters. It regularly reviews and evaluates the exercise of authority and the fulfilment of duties and responsibilities. The duties and responsibilities for implementing Board decisions, guiding, and coordinating the Company's daily operations and management are authorized to the management.

Requirements for Independent Non-executive Directors

During the period from the Listing Date to the date of this report, the Board has at all times met the requirements of the Listing Rules of having a minimum of three independent non-executive Directors (representing at least one-third of the Board) with one of them possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received annual written confirmations from the independent non-executive Directors regarding their independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive Directors are independent.

Independence of the Board

To the best of knowledge of the Company, save for executive Director Mr. Zhang Yabo and non-executive Director Mr. Zhang Shaobo are brothers, there was no relationship (including financial, business, family or other material/relevant relationship) among the Board members that were required to be disclosed. The Company has established practical and effective mechanisms to ensure that the Board can obtain independent views and opinions. All Directors have timely access to all relevant data, as well as the advice and services of the Company's joint company secretaries and senior management, to ensure compliance with Board procedures and all applicable laws and regulations. Any Director may, upon making a reasonable request to the Board, seek independent professional advice where appropriate, with the costs borne by the Company. During the period from the Listing Date to the date of this report, the Board has reviewed the mechanisms for Board independence and considers that such mechanisms are being effectively implemented.

Appointment and Re-election of Directors

Pursuant to the Articles of Association, the Company's Directors (other than the employee representative Director) are elected and appointed by the general meeting for a term of three years and are eligible for re-election upon expiry of their terms of office. According to the relevant PRC laws and regulations, independent non-executive Directors shall not serve for more than six consecutive years. The employee representative Director shall be elected and removed through the employee representatives meeting, employee meeting or otherwise democratically, which is not required to be submitted to the general meeting for consideration.

Board rules and meeting procedures

The annual meeting schedule and the draft agenda for each meeting are provided to Directors in advance. Reasonable notice is given for regular Board meetings and other Board and committee meetings. Board materials, together with all appropriate, complete, and reliable information, are delivered to all Directors at least three days prior to each Board meeting or committee meeting to ensure that Directors are informed of the Company's latest developments and financial condition and are able to make informed decisions. Where necessary, the Board and individual Directors may also engage with senior management separately and independently.

Senior management attends regular Board meetings and, when required, other Board and committee meetings to provide advice on business development, financial and accounting matters, legal and regulatory compliance, corporate governance, and other key matters of the Company.

The company secretary is responsible for recording and maintaining the minutes of all Board and committee meetings. The minutes of Board and committee meetings shall provide detailed records of the matters considered and the decisions reached, including any questions raised or dissenting views expressed by the Directors.

Board meetings and general meetings

During the period from the Listing Date to December 31, 2025, the Company scheduled and held 10 Board meetings and 2 general meetings. The attendance of each Director at the Board meetings and general meetings is set forth below:

Board members	Number of Board meetings attended/held	First extraordinary general meeting of 2025	Second extraordinary general meeting of 2025
Executive Directors			
Mr. Zhang Yabo (u - * ‹ [)	10/10	1/1	1/1
Mr. Wang Dayong (î } Ç ‹ [)	10/10	1/1	1/1
Mr. Ni Xiaoming (N È ü ‹ [)	10/10	0/1	1/1
Mr. Chen Yuzhong (Ó À ‹ [)	10/10	1/1	1/1
Non-executive Directors			
Mr. Zhang Shaobo (u Ç * ‹ [)	10/10	0/1	1/1
Mr. Ren Jintu (, – z ‹ [)	10/10	0/1	1/1
Independent Non-executive Directors			
Mr. Bao Ensi (© ¸ v ‹ [)	10/10	0/1	1/1
Mr. Shi Jianhui (i > ‹ [)	10/10	0/1	1/1
Ms. Pan Yalan (™ - 3 ~ {)	10/10	1/1	1/1
Mr. Ge Jun (ä ² ‹ [) (1)	10/10	0/1	1/1

Note:

(1) Mr. Ge Jun (ä ² ‹ [) was appointed as the Company's independent non-executive Director on June 23, 2025.

Effective January 1, 2026, the Board will hold regular meetings in person or via electronic means in accordance with the Corporate Governance Code, and will schedule at least four meetings annually at appropriate times. Board committees will schedule meetings in accordance with the Corporate Governance Code and the respective terms of reference.

In addition to regular Board meetings, the Chairman of the Board will also hold an annual meeting with the independent non-executive Directors, at which no other Directors will be present.

CONTINUING PROFESSIONAL DEVELOPMENT OF DIRECTORS

The Directors shall keep abreast of regulatory developments and changes in order to effectively discharge their duties and ensure that they contribute to the Board with full knowledge and in a manner appropriate to the requirements.

All Directors receive a formal and comprehensive induction upon their initial appointment to ensure they have an appropriate understanding of the Company's business and operations, and are fully aware of the Directors' responsibilities and obligations under the Listing Rules and relevant legal requirements.

Each Director confirms that he or she (i) obtained legal advice as described in Rule 3.09D of the Listing Rules on December 19, 2024, and (ii) understands his or her responsibilities as a Director of a listed issuer under the Listing Rules.

The Directors shall participate in appropriate continuing professional development training to enhance and update their knowledge and skills. The Company arranges lectures, seminars, and relevant training for Directors, and from time to time provides Directors with reading materials regarding the Company's business or Directors' duties and responsibilities, as well as the latest information on applicable laws, corporate governance, and regulations applicable to the Group, for their study and reference.

During the period from the Listing Date to December 31, 2025, each Director has participated in training courses conducted by the Company's legal advisers and ESG advisors, covering topics such as the Board of Directors and Directors' responsibilities, Listing Rules and laws and regulations, corporate governance and ESG, risk management and internal control, and the latest developments in the industry and business. In addition, the Company has provided Directors with relevant reading materials for their study and reference.

During the period from the Listing Date to December 31, 2025, the records of Director training are summarized as follows:

Directors	Participation in training	Reading materials
Executive Directors:		
Zhang Yabo (u - *)		
Wang Dayong (î } Ç)		
Ni Xiaoming (N È ü)		
Chen Yuzhong (Ó À)		
Non-executive Directors:		
Zhang Shaobo (u Ç *)		
Ren Jintu (, – z)		
Independent Non-executive Directors:		
Bao Ensi (© ¸ v)		
Shi Jianhui (i >)		
Pan Yalan (™ - 3)		
Ge Jun (ä ²)		

BOARD COMMITTEES

The Company has established four Board committees in accordance with the relevant laws and regulations of Mainland China, the Articles of Association, and the Corporate Governance Code under the Listing Rules, namely the Audit Committee, the Remuneration and Evaluation Committee, the Nomination Committee, and the Strategy Management and ESG Committee. The functions of these four committees are summarized as follows.

Audit Committee

The Company has established an Audit Committee in accordance with Rule 3.21 of the Listing Rules and the Corporate Governance Code set out in Appendix C1 to the Listing Rules, and has formulated written terms of reference. The primary responsibilities of the Audit Committee are to review and oversee the Group's financial reporting procedures and internal control systems, approve connected transactions, and provide recommendations and advice to the Board. The Audit Committee consists of 3 members, being independent non-executive Director Mr. Bao Ensi (© ¸ v ‹ [), independent non-executive Director Ms. Pan Yalan (™ - 3 ~ {) and independent non-executive Director Mr. Shi Jianhui (i > ‹ [). Mr. Bao Ensi (© ¸ v ‹ [) serves as the Chairman of the Audit Committee and is a Director who meets the eligibility requirements set forth in Rules 3.10(2) and 3.21 of the Listing Rules.

During the period from the Listing Date to December 31, 2025, the Audit Committee held three meetings to (i) review and approve the appointment of the external audit firm; (ii) review and approve the Company's 2025 interim report and its summary, as well as the special report on the placement and use of proceeds for the first half of 2025; and (iii) the Company's third quarterly report of 2025. The attendance of committee members at these meetings is set out below:

Audit Committee members	Number of committee meetings attended/held
Bao Ensi (© ¸ v)	3/3
Pan Yalan (™ - 3)	3/3
Shi Jianhui (i >)	3/3

Remuneration and Evaluation Committee

The Company has established a Remuneration and Evaluation Committee in accordance with Rule 3.25 of the Listing Rules and the Corporate Governance Code set out in Appendix C1 to the Listing Rules, and has formulated written terms of reference. The primary responsibilities of the Remuneration and Evaluation Committee are to review the terms of remuneration, bonuses, and other benefits payable to Directors and other senior management, and to make recommendations to the Board in this regard. The Remuneration and Evaluation Committee consists of 3 members, being independent non-executive Director Mr. Shi Jianhui (i > ‹ [), independent non-executive Director Mr. Bao Ensi (© ¸ v ‹ [) and non-executive Director Mr. Ren Jintu (, – z ‹ [). Mr. Shi Jianhui (i > ‹ [) serves as the Chairman of the Remuneration and Evaluation Committee.

During the period from the Listing Date to December 31, 2025, the Remuneration and Evaluation Committee held 2 meetings to manage the Company's equity incentive plans. The attendance of committee members at these meetings is set out below:

Remuneration and Evaluation Committee members	Number of committee meetings attended/held
Shi Jianhui (i >)	2/2
Ren Jintu (, – z)	2/2
Bao Ensi (© ¸ v)	2/2

Nomination Committee

The Company has established a Nomination Committee in accordance with the Corporate Governance Code set out in Appendix C1 of the Listing Rules and has formulated written terms of reference. The primary responsibilities of the Nomination Committee are to make recommendations to the Board regarding the appointment of Directors and the Board's succession planning, and to assess the Board's diversity policy. The Nomination Committee consists of 3 members, being independent non-executive Director Ms. Pan Yalan (™ - 3 ~ {), executive Director Mr. Zhang Yabo (u - * ‹ [) and independent non-executive Director Mr. Shi Jianhui (i > ‹ [). Ms. Pan Yalan (™ - 3 ~ {) serves as the Chairlady of the Nomination Committee.

No meetings of the Nomination Committee were held during the period from the Listing Date to December 31, 2025.

When assessing the composition of the Board, the Nomination Committee will consider certain aspects and factors related to Board diversity as set forth in the Company's Board diversity policy.

When identifying and selecting suitable Director candidates, the Nomination Committee will consider the criteria set forth in the Director Nomination Policy regarding such candidates prior to making recommendations to the Board, in order to align with the Company's strategy and achieve Board diversity (where applicable).

Strategy Management and ESG Committee

The Company has established a Strategy Management and ESG Committee and formulated written terms of reference. The primary responsibilities of the Strategy Management and ESG Committee are to make recommendations to the Board regarding the Company's long-term development strategy and major investments and projects. The Strategy Management and ESG Committee consists of 7 members, being Mr. Zhang Yabo (

NOMINATION POLICY

In accordance with the relevant laws and regulations and the provisions of the Articles of Association, together with the actual situation of the Company, the Nomination Committee shall study the election criteria, selection procedures and term of office of the Directors and senior management of the Company, prepare a relevant resolution for the record and submit the same to the Board for approval, and implement it in accordance with it. The Nomination Committee will select candidates based on merit, taking into account a wide range of backgrounds as well as factors such as skills, knowledge, diversity policy, and experience.

Selection procedures of Directors and senior management shall be as follows:

(I) the Nomination Committee shall actively communicate with the substantial Shareholders of the Company and relevant departments of the Company, study the Company's demand for new Directors and senior management, and prepare written materials;

(II) the Nomination Committee may extensively identify candidates for Directors and senior management within the Company and holding (shareholding) enterprises and in the talent market;

(III) to collect information such as the occupation, educational background, professional titles, detailed work experience, and all part-time jobs of the primary candidates, and prepare written materials;

(IV) to seek the consent of the nominees to the nomination, otherwise, they shall not be considered as candidates of Director or senior management;

(V) to convene a meeting of the Nomination Committee to review the qualifications of the primary candidates according to the eligibility requirements of the Directors and senior management;

(VI) to submit recommendations and relevant materials to the Board on candidates for Directors and candidates for new senior management one to two months prior to the election of new Directors and the appointment of new senior management;

(VII) to carry out other follow-up works according to the decisions and feedback of the Board.

REMUNERATION OF EXTERNAL AUDITOR AND AUDITOR

The Company has not changed its domestic auditor in the past three years. Since the issuance of H Shares and listing on the Main Board of the Hong Kong Stock Exchange on June 23, 2025, the Company has not changed its overseas auditor.

The Company has appointed Pan-China Certified Public Accountants LLP and Confucius International CPA Limited as its domestic and overseas auditors for 2025 respectively.

The nature of services provided by the auditors to the Group and their service fees are set out below:

Nature of services	Service fees RMB
Audit services (domestic auditor)	3,000,000
Audit services (international auditor)	1,300,000
Non-audit services[1]	3,077,800

Note:

(1) Non-audit services primarily include tax consulting and the review of interim reports.

JOINT COMPANY SECRETARIES

Mr. Hu Kaicheng (á ñ û ‹ []) and Ms. Ho Wing Nga (X © ~ {}) have been appointed as joint company secretaries of the Company. Ms. Ho Wing Nga (X © ~ {}) is the managing director of Entity Solutions of Computershare Hong Kong Investor Services Limited, a provider of corporate services.

All Directors may seek advice and assistance from the joint company secretaries regarding corporate governance and Board practices and affairs. Mr. Hu Kaicheng á ñ û ‹ []), one of the joint company secretaries, has been designated as the Company's primary contact person. He collaborates and communicates with Ms. Ho Wing Nga (X © ~ {}) regarding the Company's corporate governance, as well as secretarial and administrative matters.

For the year ended December 31, 2025, Mr. Hu Kaicheng (á ñ û ‹ []) and Ms. Ho Wing Nga (X © ~ {}) have

RISK MANAGEMENT AND INTERNAL CONTROL

The Group faces various risks in the course of its operations. The Group has established a set of internal control and risk management policies and procedures to address identified potential operational, financial, legal, and market risks related to its business. The Group's policies and procedures cover the management of procurement and production, as well as the monitoring of the Group's sales performance and product quality.

To monitor the ongoing implementation of post-listing risk management policies and corporate governance measures, the Group has implemented or will continue to implement the following risk management measures:

1. Establish an Audit Committee to review and oversee the Company's financial reporting procedures and internal control systems;

2. Adopt policies to ensure compliance with the Listing Rules, including but not limited to aspects related to risk management, connected transactions, and information disclosure;

3. Conduct training sessions for Directors, Supervisors, and senior management on the requirements of the Listing Rules and the duties and responsibilities of Directors of Hong Kong-listed companies;

4. Provide regular training to senior management and employees on professional conduct requirements and ethical standards to enhance their understanding of and compliance with applicable laws and regulations, and incorporate relevant policies regarding non-compliance into employee disciplinary measures and supervision guidelines;

5. Establish clear guidelines and procedures for identifying, measuring, and addressing price and currency risks to ensure that all hedging activities are conducted within a structured and consistent framework;

6. Strengthen reporting and record-keeping systems at production facilities, including centralized management of their quality control and safety management systems, and conduct regular inspections of facilities;

7. Establish emergency procedures to address major quality-related issues;

8. Organize enhanced training programs on quality assurance and product safety procedures; and

9. Distribute employee handbooks to raise employees' awareness of compliance with laws and regulations.

The Group regularly conducts systematic reviews and post-event analyses of significant risk incidents that have occurred in past operations to identify the sources of risk, assess the extent of impacts, and conduct in-depth analyses of root causes, thereby providing targeted improvement directions for the next round of strategic planning. With regard to any significant internal control deficiencies, the Company's management will investigate such deficiencies, review control activities and procedures, and amend internal policies and procedures as necessary.

The Board is responsible for the risk management and internal control systems, and conducts a comprehensive review of the effectiveness of internal control and risk management at least once a year. The annual review also covers the financial reporting and internal audit functions as well as staff qualifications, experience and related resources. Such internal control and risk management are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board reviewed the internal control systems for the year ended December 31, 2025, and determined that the systems are effective and adequate.

INSIDE INFORMATION DISCLOSURE POLICY

The Company has established the Registration and Management System for Persons with Access to Inside Information, which stipulates that: (a) prior to the public disclosure of inside information, the Company, its Directors, senior management, and relevant persons with access to inside information shall limit the number of individuals aware of the information to the minimum necessary; documents containing material information shall be submitted and safeguarded by designated personnel. Prior to the lawful disclosure of inside information, persons with access to inside information shall properly safeguard documents, disks, audio tapes, meeting minutes, resolutions, and other materials containing inside information. They shall not lend such materials to others for reading or copying, nor shall they entrust others to carry or safeguard them on their behalf. Persons with access to inside information shall take appropriate measures to ensure that relevant inside information stored on computers cannot be accessed or copied by others. (b) Prior to the lawful disclosure of inside information, the Company's Shareholders and actual controllers shall not abuse their Shareholder rights or dominant position, nor shall they demand that the Company provide them with inside information. (c) Persons with access to inside information shall not buy or sell the Company's shares or derivatives, nor recommend that others buy or sell the Company's shares or derivatives, prior to the public disclosure of the inside information. (d) Persons with access to inside information shall not disclose the content of such information to others, shall not use inside information to seek gain for themselves, relatives or others, and shall not engage in insider trading or recommend that others trade based on inside information.

The Company has also established the Information Disclosure Management System, which stipulates that persons with access to information are obligated to maintain the confidentiality of such information prior to its public announcement. They shall not disclose such information to third parties before it is publicly disclosed, nor shall they use such inside information to trade the Company's securities, disclose such information, or recommend that others trade such securities.

The Company will periodically review the implementation and effectiveness of its insider information management policies to ensure continued compliance with the regulatory requirements for A+H Share-listed companies.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the financial statements with the support of the accounting and finance teams.

The Directors have prepared the consolidated financial statements in accordance with IFRS Accounting Standards as issued by the IASB. In addition to adopting revised standards, amendments, and interpretations, the Group has consistently adopted and applied appropriate accounting policies.

The Company's consolidated financial statements have been prepared on a going concern basis, and the Directors consider that these financial statements give a true and fair view of the Group's financial position, operating performance, and cash flows for the year ended December 31, 2025, and that the other financial information and disclosures contained in the report comply with the relevant statutory requirements.

The reporting responsibilities of the Company's external auditor regarding the Company's consolidated financial statements for the year ended December 31, 2025, are set out in the Independent Auditor's Report in this annual report.

ANTI-CORRUPTION POLICY AND WHISTLEBLOWING MECHANISM

The Group maintains a zero-tolerance policy toward corruption and takes all necessary measures to prevent and combat corrupt practices. The Group has formulated and published the Sanhua Intelligent Controls Business Ethics Statement, which is the Company's first policy on business ethics. This statement clearly outlines the Group's management mechanisms regarding employee integrity management, supplier integrity management, conflict of interest prevention, and anti-unfair competition.

To enhance the standard of business ethics management and regulate employee conduct, the Company actively implements various control measures, including but not limited to: (i) actively maintaining various reporting channels, establishing regulations for the management and handling of reported leads, and encouraging employees to report violations of business ethics; (ii) consistently prioritizing the protection of whistleblowers, allowing for anonymous or pseudonymous reporting, and strictly safeguarding whistleblower information throughout all stages of acceptance, registration, storage, and investigation; and (iii) conducting anti-corruption training for Directors and employees.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

SHAREHOLDER RIGHTS

Convening of General Meetings

Contact Information

Shareholders may submit the aforementioned inquiries or requests via the following methods:

Address: No. 289, 12th Street, Baiyang Sub-district, Qiantang District, Hangzhou, Zhejiang Province (marked for the attention of the secretary to the Board/company secretary).

Email: shc@zjshc.com

For the avoidance of doubt, Shareholders must submit and send the original, duly signed written request, notice, statement, or inquiry (as applicable) to the above address, and provide their full name, contact details, and proof of identity to facilitate the Company's response. Shareholder information may be disclosed in accordance with legal requirements.

Shareholders may contact the Company at 0571-28020008 / 0575-86255360.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

During the period from the Listing Date through the year ended December 31, 2025, the Company has amended its Articles of Association. Details of these amendments are set forth in the circulars to Shareholders dated July 30, 2025, and December 2, 2025. The latest version of the Articles of Association is also available on the Company's website and the Hong Kong Stock Exchange's website.

Board Report

The Board is pleased to present this report and the Group's audited financial statements for the year ended December 31, 2025.

PRINCIPAL ACTIVITIES

Adhering to the development strategy of "focusing on excellence and innovating for success", the Company has been dedicated to the R&D, promotion and adoption of thermal management technology, providing customers across the globe with energy-efficient solutions through its industry-leading products of high quality. Focusing on the R&D and application of heat pump technology and thermal management systems, the Company has been committed to developing environmental thermal management solutions that enable efficient heat exchange and intelligent temperature control. The Company has established a business that spans two major sectors: refrigeration and air-conditioning product components and automotive components. Leveraging its extensive technological expertise and innovation in R&D, the Company is broadening its business boundaries into emerging fields, such as bionic robot electromechanical actuators. There is no material change in the nature of the principal activities of the Group during the Reporting Period.

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including the Group's discussion of major risks and uncertainties and the possible future development of the Group's business, are set out in "Management Discussion and Analysis" of this annual report.

PROFIT DISTRIBUTION

Profits Distribution Policy

Principles for profit distribution

Profit distribution by the Company shall emphasize a reasonable return on investment for Shareholders. The profit distribution policy shall maintain consistency and stability. Profit distribution by the Company shall neither exceed the scope of the cumulative distributable profits, nor shall it harm the Company's ability to continue as a going concern. The Board, the Audit Committee and the general meeting of the Company shall give due consideration to the opinions of minority investors in decision-making and deliberation process of its profit distribution policy.

Form of profit distribution

The Company may distribute dividends in the form of cash, stocks, or a combination of both, or other methods permitted by laws and regulations. The Company shall prioritize the use of cash dividends for profit distribution. The Company shall adopt cash dividends for profit distribution provided that the conditions for cash distribution are satisfied. Where the Company distributes profit in the form of stock dividends, true and reasonable factors such as the growth of the Company and the dilution to net assets per share shall be taken into account.

Conditions for cash dividends

The Company records distributable profits (i.e. the remaining after-tax profits after covering the Company's losses and making allocations to the reserve) during the year, and there are sufficient cash flows so that payment of cash dividends would not affect the Company's subsequent continuing operation.

Ratios and intervals for cash dividends

Subject to the principles of profit distribution and the above conditions for cash dividends, the Company shall, in principle, distribute cash dividends once a year. Within any three consecutive years, the cumulative profits distributed by the Company in cash shall not be less than 30% of the average distributable profits realized in the most recent three years. The specific dividend ratios shall be determined by the Board of the Company according to relevant regulations and the Company's operating conditions, and considered and resolved at the general meeting of the Company.

The Board confirms that during the Reporting Period, the Company strictly adhered to the profit distribution policy set forth in the Articles of Association when reviewing and implementing various profit distribution proposals. The basis and ratio of the dividend distribution were specific and clear, and the relevant decision-making procedure and system were sound. After being reviewed and approved, the profit distribution proposals were executed within the prescribed timeframe, thereby safeguarding the interests of all Shareholders. During the Reporting Period, the Company did not make any changes to its profit distribution policy.

Interim Dividend

The Board of the Company considered and approved the 2025 interim dividend plan on August 28, 2025, proposing to distribute a cash dividend of RMB1.20 (tax inclusive) for every 10 shares to all Shareholders. The cash dividend is denominated and declared in RMB, and will be paid to A Shareholders in RMB and to H Shareholders in HKD (the amount of interim dividend payable for every 10 Shares is HK$1.3214 (tax inclusive)).

Upon consideration and approval at the Company's extraordinary general meeting held on December 17, 2025, the Company distributed the 2025 interim dividend to all A Shareholders on January 15, 2026 and to all H Shareholders on February 10, 2026. The interim dividend was distributed to all Shareholders based on the share capital of 4,199,662,914 Shares, which is the total share capital of 4,208,013,935 Shares (of which the total A Share capital is 3,731,477,535 Shares and the total H Share capital is 476,536,400 Shares), after deducting 8,351,021 Shares already repurchased in the A Share repurchase special account.

Final Dividend

The 2025 annual profit distribution plan of the Company is proposed as follows: based on the total share capital of the Company on the record date for dividend distribution, the Company will distribute to A Shareholders and H Shareholders whose names appear on the register of members of the Company on the record date for the dividend distribution a cash dividend of RMB2.8 (tax inclusive) for every 10 ordinary Shares. The Company's A Shares in the Company's designated securities account for repurchase are not entitled to dividend distribution. As at the date of this annual report, the Company's total share capital is 4,208,013,935 Shares, after deducting its 8,351,021 A Shares in the special account for repurchase, the total amount of cash dividends to be distributed is approximately RMB1,175.9 million, accounting for 28.9% of the net profit attributable to the owners of the parent company in the 2025 consolidated statements.

The proposed final dividend shall be denominated and declared in RMB, and paid in RMB to A Shareholders and in Hong Kong dollars to H Shareholders. The actual amounts of distribution in Hong Kong dollars will be calculated based on the average benchmark exchange rates of RMB to Hong Kong dollars published by the People's Bank of China for the five working days prior to the date of the Company's 2025 annual general meeting.

The 2025 annual profit distribution plan is subject to approval by the Shareholders of the Company at the annual general meeting. The Company will disclose in due course, among other things, further details regarding the expected timetable and arrangement for closure of register of H Shareholders in respect of the proposed payment of final dividend for the purpose of ascertaining Shareholders' entitlement to the payment of final dividend by the Company.

There is no arrangement under which any Shareholder waived or agreed to waive any dividend during the Reporting Period.

Tax Relief and Exemption of Dividend

A Shareholders

Individual Income Tax

Pursuant to the provisions of the Notice on Issues Concerning the Implementation of Differentiated Individual Income Tax Policies on Dividends and Bonuses of Listed Companies (Cai Shui 2012 No. 85) (• ë õ ¼ D j 9 ® ! p ¹ Î ; ¨ 9 · H [Ô { ü A Þ ë * Z Y ·] ' (Ì ü[2012]85 î)) and the Notice on Issues Concerning the Differentiated Individual Income Tax Policies on Dividends and Bonuses of Listed Companies (Cai Shui 2015 No. 101) (• ë õ j 9 ® ! p ¹ Î ; ¨ 9 · H [Ô { ü A Þ ë * Z Y ·] ' (Ì ü[2015]101 î)), for dividends and bonuses received by individual investors from listed companies, from the date when the individual investors obtain the shares of the companies to the record date, if the holding period exceeds one year, the individual income tax shall be temporarily exempted. If the holding period does not exceed one year (including one year), the listed company will not withhold and remit individual income tax and the amount of tax payable will be calculated on the transfer of shares by an individual investor based on the period of holding the shares.

Enterprise Income Tax

As for Shareholders of resident enterprises, income tax of cash bonuses will be paid by themselves. Listed companies will withhold and remit enterprise income tax at the tax rate of 10% for qualified foreign institutional investors (QFII) in accordance with provisions of the Notice on Relevant Issues Regarding the Withholding and Payment of Enterprise Income Tax Relating to the Payment of Dividends, Bonus and Interest by PRC Resident Enterprises to QFII (Guo Shui Han 2009 No. 47) (• ë õ • 7 ¢ O † 8 £ QFII Õ ù p ¹ e Î ; e ; ¹ þ Ô þ ® † 8 Ô { ü Þ ë * Z Y ·] ' (7 ü L[2009]47 î)). If the QFII shareholders intend to claim the preferential treatment as stipulated in tax treaties (arrangements) for their dividend and bonus incomes, they may by themselves, or may entrust a withholding agent on their behalf to, apply to the competent tax authority of the listed company for the treatment as stipulated in such tax treaties. Pursuant to the provisions under the Notice on the Tax Policies Related to the Pilot Program of the Shenzhen-Hong Kong Stock Connect (Cai Shui 2016 No.127) (• ë õ ¥ p C 9 t ø • L • · Ú S Ã Þ ë ü × A Y ·] ' (Ì ü[2016]127 î)), for dividends and bonus incomes received by investors (including enterprises and individuals) in the Hong Kong market from investing in A Shares listed on the SZSE, the implementation of differentiated tax policies based on period of shareholding is suspended before Hong Kong Securities Clearing Co., Ltd. meets the conditions of providing identification, terms of shareholding and other specific data of investors to China Securities Depository and Clearing Corporation Limited, and the income taxes thereof are withheld and paid by the listed company at the rate of 10%, which should be duly declared to the competent tax authority. For Hong Kong investors who are tax residents from another country and that country has entered into a tax treaty with the PRC stipulating a tax rate of lower than 10% for dividends and bonus, those enterprises or individuals may by themselves, or may entrust a withholding agent on their behalf to, apply to the competent tax authority of the listed company for the treatment as stipulated in such tax treaties.

Board Report

Hong Kong Stock Connect

In accordance with provisions of the Notice on Tax Policies about Inter-communication Pilot of Shanghai-Hong Kong Stock Exchange Mechanism (Cai Shui 2014 No. 81) (• ë õ ¥ p C 9 t ø • L • · Ú S Ã Þ ë ü × A Y ·] ‘(Ì ü[2014]81 î)) and the Notice on Tax Policies about Inter-communication Pilot of Shenzhen-Hong Kong Stock Exchange Mechanism (Cai Shui 2016 No. 127) (• ë õ ¥ p C 9 t ø • L • · Ú S Ã Þ ë ü × A Y ·] ‘(Ì ü[2016]127 î) issued by the Ministry of Finance, the State Taxation Administration, and the China Securities Regulatory Commission, listed companies will withhold individual income tax at the tax rate of 20% for dividend and bonus of individual investors in Mainland China who invest in H shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect. Individual income tax will be collected with reference to the above provisions for dividends and bonuses income of the securities investment fund in Mainland China which invests in listed shares of the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect. H-share companies will not withhold dividend and bonus income tax for dividends and bonuses of enterprise investors in Mainland China who invest in listed shares of the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect and the payable tax will be paid by the enterprise investors in Mainland China themselves. Dividends and bonuses income obtained by resident enterprises in Mainland China as they have continuously held H shares for 12 months will be exempted from enterprise income tax according to laws.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

Securities Issuance and Listing

As at December 31, 2025, the total issued share capital of the Company comprises 4,208,013,935 ordinary Shares. Details of movements in the share capital of the Company for the year ended December 31, 2025 are as follows:

		Changes in 2025			
	Number of Shares as at January 1, 2025	Cancellation of repurchased Shares	Issuance of new Shares	Total	Number of Shares as at December 31, 2025
A Shares	3,732,389,535	(912,000)	–	(912,000)	3,731,477,535[1]
H Shares	–	–	476,536,400	476,536,400	476,536,400
Total	3,732,389,535	(912,000)	476,536,400	475,624,400	4,208,013,935

Note:

(1) Including 8,351,021 A Shares, which are treasury shares of the Company placed in the Company’s repurchase securities account.

Repurchase, Redemption or Sale of Listed Securities of the Company

Repurchase of A Shares

The Company convened the 30th extraordinary meeting of the seventh session of the Board on December 30, 2024, at which the Resolution on the Repurchase of the Company's Shares was considered and approved. It was agreed that the Company may repurchase its Shares by self-owned funds and special loan funds for stock repurchase through centralized bidding transactions on the Shenzhen Stock Exchange for subsequent equity incentive plan or employee stock ownership plan. The repurchase price shall not exceed RMB36.00 per share, and the total amount of funds for the repurchase shall be no less than RMB300 million and no more than RMB600 million. The implementation period for this repurchase of Shares is within 12 months from the date on which the Board of the Company considers and approves the share repurchase plan.

The Company convened the 9th extraordinary meeting of the eighth session of the Board on October 17, 2025, at which the Resolution on the Adjustment of the Upper Limit of the Repurchase Price and Extension of the Implementation Period was considered and approved. It was agreed that the Company may adjust the upper limit of the repurchase price from RMB35.75 per share (due to the implementation of equity distribution in 2024, the upper limit of the repurchase price was adjusted from no more than RMB36.00 per share to no more than RMB35.75 per share) to RMB60.00 per share. In addition, the Company extended the implementation period for the repurchase by 2 months to February 28, 2026.

As of December 31, 2025, the repurchase of Shares was completed. The Company held a total of 8,351,021 treasury A Shares.

During the Reporting Period, the Company repurchased an aggregate of 7,150,100 A Shares through centralized bidding transactions on the Shenzhen Stock Exchange, representing approximately 0.17% of the Company's total issued share capital as at December 31, 2025. The highest trading price was RMB54.25 per share, the lowest trading price was RMB22.69 per share, and the total repurchase fund was approximately RMB303,216,434.74 (excluding transaction fees).

The monthly reports of the Company's repurchase of A Shares through centralized bidding transactions on the Shenzhen Stock Exchange are as follows:

Unit: Yuan Currency: RMB

Month of repurchase	Number of repurchase	Lowest trading price per share	Highest trading price per share	Total funds (excluding transaction fees)
March 2025	191,300	30.13	31.00	5,811,903.86
April 2025	1,315,500	22.69	23.85	30,159,622.00
October 2025	429,300	45.72	47.00	20,011,813.00
November 2025	1,128,600	42.73	46.88	50,005,083.00
December 2025	4,085,400	44.71	54.25	197,228,012.88

Repurchase and Cancellation of Restricted A Shares

The Company convened the 6th extraordinary meeting of the eighth session of the Board on July 30, 2025 and the first extraordinary general meeting of 2025 on August 21, 2025, at which the Resolution on the Repurchase and Cancellation of Certain Restricted Shares was considered and approved. Accordingly, the Company resolved to repurchase and cancel 912,000 restricted A Shares that had been granted to participants who no longer qualified

Top Ten Shareholders

As at December 31, 2025, the total number of Shareholders of the Company was 647,410, including 36 H Shareholders and 647,374 A Shareholders. Based on the percentage of shareholding in the Company's share capital, the top ten Shareholders of the Company are as follows:

No.	Name of Shareholders	Class of Shares	Number of shares	Approximate percentage of shareholding in the relevant class of Shares [1]	Approximate percentage of the issued Shares of the Company [1]
1	Sanhua Holding Group Co., Ltd. (g € › p « Þ " ® !)	A Shares	948,487,077	25.42%	22.54%
2	Zhejiang Sanhua Green Energy Industrial Group Co., Ltd. (ê g € ` • ¼ 8 « Þ " ® !)	A Shares	664,375,189	17.80%	15.79%
3	HKSCC NOMINEES LIMITED	H Shares	476,531,590	100.00%	11.32%
4	Hong Kong Securities Clearing Company Limited	A Shares	130,491,471	3.50%	3.10%
5	Zhang Yabo (u - *) [2]	A Shares	39,024,200	1.05%	0.93%
6	Industrial and Commercial Bank of China Limited – Huatai-PineBridge CSI 300 Exchange-traded Open-end Index Securities Investment Fund	A Shares	36,909,297	0.99%	0.88%
7	China Construction Bank Corporation – E Fund CSI 300 Exchange-Traded Open-End Index Initiated Securities Investment Fund	A Shares	26,374,290	0.71%	0.63%

No.	Name of Shareholders	Class of Shares	Number of shares	Approximate percentage of shareholding in the relevant class of Shares [1]	Approximate percentage of the issued Shares of the Company [1]
8	Industrial and Commercial Bank of China Limited – ChinaAMC CSI 300 Exchange Traded Open-End Index Securities Investment Fund	A Shares	20,127,604	0.54%	0.48%
9	Industrial and Commercial Bank of China Limited – GF Guozheng New Energy Vehicle Battery Exchange Traded Open-ended Index Securities Investment Fund	A Shares	19,922,949	0.53%	0.47%
10	China Life Insurance Company Limited – Traditional – Ordinary Insurance Products – 005L – CT001 Shanghai	A Shares	19,120,454	0.51%	0.45%

Notes:

(1) The calculation is based on the total number of 4,208,013,935 Shares, comprising 3,731,477,535 A Shares (including treasury shares) and 476,536,400 H Shares, in issue as at December 31, 2025.

(2) The Company lists the top ten shareholders at the end of the Reporting Period based on the register of Shareholders of A Shares issued by China Securities Depository and Clearing Corporation Limited Shenzhen Branch and the register of Shareholders of H Shares provided by the H Share Registrar, respectively. The number of shares held by Mr. Zhang Yabo (u - * ‹ []) in the table above represents those he directly held.

Interests and Short Positions of Substantial Shareholders in Shares and Underlying Shares of the Company

As at December 31, 2025, to the best knowledge of the Directors, the following persons (excluding Directors, Supervisors and chief executive of the Company) had interests or short positions in Shares and underlying Shares of the Company that shall be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or shall be recorded in the register of the interests required to be kept by the Company under Section 336 of the SFO:

Name of substantial Shareholders	Nature of interest	Class of Shares	Number of Shares held [1]	Percentage in equity interests of the relevant class of Shares of the Company [2]	Percentage in total share capital of the Company [2]
Zhang Daocai	Interest in controlled corporation [3][4]	A Shares	1,612,862,266(L)	43.22%	38.33%
	Interests held jointly with other persons [3]	A Shares	39,024,200(L)	1.05%	0.93%
	Others [5]	A Shares	8,351,021(L)	0.22%	0.20%
Yu Qingjuan	Interest in controlled corporation [3][4]	A Shares	1,612,862,266(L)	43.22%	38.33%
	Interests held jointly with other persons [3]	A Shares	39,024,200(L)	1.05%	0.93%
	Others [5]	A Shares	8,351,021(L)	0.22%	0.20%
Sanhua Holding	Beneficial owner	A Shares	948,487,077(L)	25.42%	22.54%
	Interest in controlled corporation	A Shares	664,375,189(L)	17.80%	15.79%
Sanhua Green Energy	Beneficial owner	A Shares	664,375,189(L)	17.80%	15.79%
Schroders PLC	Investment manager	H Shares	71,801,600(L)	15.07%	1.71%
Baillie Gifford & Co	Interest in controlled corporation	H Shares	1,364,475(L)	0.29%	0.03%
	Investment manager	H Shares	33,696,125(L)	7.07%	0.80%
GIC Private Limited	Investment manager	H Shares	32,007,500(L)	6.72%	0.76%

Notes:

(1) The letter (L) denotes the long positions in the Shares.

(2) The calculation is based on the total number of 4,208,013,935 Shares, comprising 3,731,477,535 A Shares (including treasury shares) and 476,536,400 H Shares, in issue as at December 31, 2025.

(3) As at December 31, 2025, Mr. Zhang Yabo directly held 39,024,200 A Shares in the Company. Mr. Zhang Daocai, Mr. Zhang Yabo and Mr. Zhang Shaobo are parties acting in concert in respect of their shareholding interests in the Company. Therefore, each of Mr. Zhang Daocai, Mr. Zhang Yabo and Mr. Zhang Shaobo is deemed to be interested in the interest of each other under the SFO. Sanhua Holding was held as to (i) 28.77% by Xinchang Huaqing Investment, which was held as to 51% by Mr. Zhang Daocai, 6% by Ms. Yu Qingjuan, who is the spouse of Mr. Zhang Daocai, 22% by Mr. Zhang Yabo, and 21% by Mr. Zhang Shaobo, (ii) 11.78% by Mr. Zhang Yabo, (iii) 10.04% by Mr. Zhang Shaobo, (iv) 12.35% by Xinchang Huaxin Industrial, which was held as to 38.84% by Mr. Zhang Yabo, and (v) 9.04% by Zhejiang Huateng Industrial, which was held as to 45.45% by Mr. Zhang Shaobo. Mr. Zhang Daocai is the father to Mr. Zhang Yabo and Mr. Zhang Shaobo. Therefore, the A Shares held by Sanhua Holding are deemed to be held by Mr. Zhang Daocai, Mr. Zhang Yabo and Mr. Zhang Shaobo.

(4) Sanhua Green Energy is held as to 46.22% by Sanhua Holding, 28.20% by Wealth Info, which is ultimately wholly-owned by Sanhua Holding through Hield International. Therefore, Sanhua Holding is deemed to be interested in all the A Shares held by Sanhua Green Energy under the SFO.

(5) Any Shareholder controlling one-third or more of the voting rights at a general meeting of the relevant listed corporation will also be deemed to have an interest in treasury shares. As at December 31, 2025, treasury shares were 8,351,021 A Shares.

Save as disclosed above, as at December 31, 2025, no other persons (excluding Directors and chief executive of the Company) had any interests or short positions in Shares, underlying Shares and debentures of the Company as required to be recorded under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Listing Rules.

PRE-EMPTIVE RIGHTS

According to the provisions of the PRC laws and the Articles of Association, none of the Shareholders of the Company has any pre-emptive rights.

SHARE-LINKED AGREEMENTS

Save as disclosed in this annual report, the Company did not enter into or participate in any share-linked agreements during the year ended December 31, 2025, that would or might result in the issuance of shares by the Company.

PUBLIC FLOAT

The Stock Exchange has granted the Company a waiver from strict compliance with the requirements of the Listing Rules that the minimum percentage of the H Shares of the Company held by the public at the time of Listing and from time to time after Listing shall be no less than 6.67% of the Company's total issued share capital (excluding treasury shares).

As of December 31, 2025, based on publicly available information and to the best knowledge of the Directors, the Company's public float complies with the Listing Rules and the requirements for minimum public float as set out in the waiver granted by the Hong Kong Stock Exchange at the time of Listing of H Shares.

CONVERTIBLE BONDS

For the year ended December 31, 2025, the Company had no convertible bonds.

A SHARE INCENTIVE SCHEMES

The Company currently has two types of A Share incentive schemes, namely the restricted share incentive schemes (the "Restricted Share Incentive Schemes") and the stock appreciation right incentive plans (the "Stock Appreciation Right Incentive Plans").

(I) Restricted Share Incentive Schemes

During the Reporting Period, the Company's existing Restricted Share Incentive Schemes included the 2022 Restricted Share Incentive Scheme and the 2024 Restricted Share Incentive Scheme. The terms of Restricted Share Incentive Schemes are not subject to the provisions of Chapter 17 of the Listing Rules as they do not involve any grant of restricted Shares by the Company after the listing. Save as otherwise disclosed, the terms of each of the Restricted Share Incentive Schemes are substantially similar and are summarized below.

1. Purpose

The purpose of the Restricted Share Incentive Schemes is to improve the Group's corporate governance structure, establish and enhance the long-term incentive mechanism of the Company, attract and retain talents, and incentivize the Directors, senior management and other key employees to achieve a sustained and healthy development of the Group in order to realize the Group's long-term objectives. The Restricted Share Incentive Schemes are implemented under the premise of protecting Shareholders' interests and with a principle of evaluating the benefits according to contribution.

2. Participants

The participants of the Restricted Share Incentive Schemes include Directors, senior management and other key personnel of the Group who have significant contributions to the business operation and development of the Group. The scope of participants excludes independent directors, supervisors and Shareholders or actual controller who individually or collectively hold 5% or more of the shares of the Company and their spouse, parents and children.

3. Source and maximum number of Shares

The Shares underlying the Restricted Share Incentive Schemes are A Shares purchased by the Company from the secondary market. The maximum number of restricted Shares that can be granted under each of the Restricted Shares Incentive Schemes and their respective percentage of the issued Shares (excluding treasury shares) as of the date of the annual report are as follows:

Restricted Share Incentive Scheme	Maximum number of restricted Shares that can be granted and their respective percentage of the issued Shares (excluding treasury shares) as of the date of the annual report
2022 Restricted Share Incentive Scheme	17,585,000 (0.42%)
2024 Restricted Share Incentive Scheme	24,910,000 (0.59%)

As of January 1, 2025 and December 31, 2025, the number of restricted Shares that can be granted under the 2022 Restricted Share Incentive Scheme and the 2024 Restricted Share Incentive Scheme was 0. During the Reporting Period, no restricted A Shares were granted under the 2022 Restricted Share Incentive Scheme or the 2024 Restricted Share Incentive Scheme.

4. Maximum entitlement of participants

The aggregate number of Shares of the Company granted to any participant through all Restricted Share Incentive Schemes within the validity period shall not exceed 1% of the total share capital of the Company.

5. Date of grant and term of the Scheme

The date on which the restricted Shares are granted shall be determined by the Board within 60 days after the date of approval of the Restricted Share Incentive Schemes by the general meeting. The grant of restricted Shares shall be approved by the Board, registered and announced within 60 days after the approval of the Restricted Share Incentive Schemes by the general meeting. The Restricted Share Incentive Schemes shall be effective from the date of completion of the grant of restricted Shares under the Schemes up to the date when the restricted Shares granted under the Schemes are no longer under any lock-ups or have been repurchased and canceled, provided that the term of the Schemes shall not each exceed 48 months.

6. Sale restriction and vesting arrangements

The Restricted Share Incentive Schemes shall be effective from the date of completion of the grant of restricted Shares under the Schemes up to the date when the restricted Shares granted under the Schemes are no longer under any lock-ups or have been repurchased and cancelled, provided that the term of the Schemes shall not each exceed 48 months. The lock-up period for restricted Shares commences from date of grant of restricted Shares to the grantee. The lock-up periods of the restricted Shares are divided into three schedules: 12 months, 24 months and 36 months. During the lock-up period, the restricted Shares granted to the grantee shall not be transferred, used as guarantee or for repayment of debt. The restricted Shares may only be unlocked upon fulfilment of the conditions set out in the schemes. The vesting arrangements of the restricted Shares are as follows:

(a) unlocked in tranche of 30% during one of the three unlocking periods that occur between the first trading date after the 12-month anniversary from the date of grant and the last trading day up to the 24-month anniversary of the date of grant;

(b) unlocked in tranche of 30% during one of the three unlocking periods that occur between the first trading date after the 24-month anniversary from the date of grant and the last trading day up to the 36-month anniversary of the date of grant;

(c) unlocked in tranche of 40% during one of the three unlocking periods that occur between the first trading date after the 36-month anniversary from the date of grant and the last trading day up to the 48-month anniversary of the date of grant.

7. Consideration for the grant of restricted Shares

Upon the grant of restricted Shares, the participants shall pay the funds for the subscription of restricted Shares to the designated account of the Company in accordance with the grant price, which shall be confirmed by a certified public accountant; otherwise, it shall be deemed that the participants have given up the subscription of the restricted Shares granted to them.

No consideration was paid/required to be paid by the participants upon the unlocking of restricted Shares under the Restricted Share Incentive Schemes.

8. Determination basis of grant price

The grant price of each restricted Shares under the 2022 Restricted Share Incentive Scheme shall not be lower than the higher of (1) 50% of the average trading price of the A Shares on the trading date before the announcement of the draft scheme; and (2) 50% of the average trading price of the A Shares during the 20 trading dates before the announcement of the draft 2022 Restricted Share Incentive Scheme.

The grant price of each restricted Shares under the 2024 Restricted Share Incentive Scheme shall not be lower than the higher of (1) 50% of the average trading price of the A Shares on the trading date before the announcement of the draft scheme; and (2) 50% of the average trading price of the A Shares during the 60 trading dates before the announcement of the draft 2024 Restricted Share Incentive Scheme. The grant prices of restricted Shares will be adjusted upon the occurrence of certain events during the period from the date of the announcement of the draft scheme to the date on which registration is completed with respect to the grant of restricted Shares to the participants, including payment of dividend, rights issue, increase in the share capital by way of capitalization of capital reserves, issue of bonus shares, subdivision of shares and issue of new shares.

9. Changes in the number of restricted Shares during the Reporting Period

Name of Restricted Share Incentive Scheme	Name and category of the participants	Date of grant [1]	Grant price (RMB/share)	Number of locked-up restricted A Shares as of January 1, 2025 (shares) [1][2]	Number of restricted A Shares unlocked (i.e. vested) during the Reporting Period (shares) [1]	Number of restricted A Shares lapsed during the Reporting Period (shares)	Number of restricted A Shares cancelled and repurchased during the Reporting Period (shares)	Repurchase price of the cancelled restricted A Shares (RMB/share)	Number of locked-up restricted A Shares as of December 31, 2025 (shares) [1][3]	Weighted average closing price of relevant Shares immediately before the vesting date (RMB/share)
2022 Restricted Share Incentive Scheme	Wang Dayong	2022.5.31	10.00	32,000	32,000	–	–	N/A	–	27.68
	Ni Xiaoming	2022.5.31	10.00	28,000	28,000	–	–	N/A	–	27.68
	Chen Yuzhong	2022.5.31	10.00	32,000	32,000	–	–	N/A	–	27.68
	Non-director employees	2022.5.31	10.00	6,714,000	6,580,000	134,000	198,000	9.05	–	27.68
	Total			6,806,000	6,672,000	134,000	198,000		–	
2024 Restricted Share Incentive Scheme	Wang Dayong	2024.6.03	11.75	100,000	30,000	–	–	N/A	70,000	27.04
	Ni Xiaoming	2024.6.03	11.75	80,000	24,000	–	–	N/A	56,000	27.04
	Chen Yuzhong	2024.5.13	11.75	80,000	24,000	–	–	N/A	56,000	27.04
	Non-director employees	2024.5.13	11.75	24,190,000	7,126,500	414,000	714,000	11.4	16,513,000	27.04
		2024.6.03	11.75	160,000	48,000	–	–	N/A	112,000	27.04
	Total			24,610,000	7,252,500	414,000	714,000		16,807,000	

Notes:

(1) The vesting arrangements of the restricted Shares are as follows:

(a) unlocked in tranche of 30% during one of the three unlocking periods that occur between the first trading date after the 12-month anniversary from the date of grant and the last trading day up to the 24-month anniversary of the date of grant;

(b) unlocked in tranche of 30% during one of the three unlocking periods that occur between the first trading date after the 24-month anniversary from the date of grant and the last trading day up to the 36-month anniversary of the date of grant;

(c) unlocked in tranche of 40% during one of the three unlocking periods that occur between the first trading date after the 36-month anniversary from the date of grant and the last trading day up to the 48-month anniversary of the date of grant.

(2) No consideration was paid/required to be paid by the participants on the unlocking of restricted Shares under the Restricted Share Incentive Schemes.

(3) During the Reporting Period, the Company has not granted restricted Shares under any Restricted Shares Incentive Scheme. Upon consideration and approval at the Company's 2025 first extraordinary general meeting held on August 21, 2025, the Company resolved to repurchase and cancel the 912,000 restricted A Shares that had been granted to participants who no longer qualified under the incentive scheme and remained subject to lock-up restrictions. None of the participants is a connected person of the Company.

(II) Stock Appreciation Right Incentive Plans

Board Report

7. Waiting period and exercising period of the stock appreciation rights

The stock appreciation rights held by the Stock Appreciation Right Incentive Plans are subject to a waiting period of 12 months, commencing from date of grant of the stock appreciation rights and the date when the rights can be vested. After the waiting period, subject to the exercising of rights during 12 months, 24 months, and 36 months, respectively, and the attainment of performance targets and personal evaluation, the participants' entitlement to the corresponding portion of the stock appreciation rights will be exercised in three tranches in the proportion of 30%, 30% and 40% respectively. Upon vesting, the Company will pay for each stock appreciation right the difference between the price of each Share of the day of vesting and the vesting price.

8. Changes in the number of stock appreciation rights during the Reporting Period

Name of Stock Ownership Scheme	Name and category of the participants [1]	Date of grant	Number of locked-up A Share appreciation rights as of January 1, 2025 (shares) [2]	Number of A Share appreciation rights vested during the Reporting Period (shares) [2]	Number of A Share appreciation rights lapsed during the Reporting Period (shares)	Number of A Share appreciation rights cancelled during the Reporting Period (shares)	Exercise price (RMB/share) [3]	Number of locked-up A Share appreciation rights as of December 31, 2025 (shares) [2][4]	Weighted average closing price of relevant Shares immediately before the vesting date (RMB/share)
2022 Stock Appreciation Right Incentive Plan	Non-director employees	2022.5.31	170,000	132,000	38,000	38,000	9.05	–	27.68
2024 Stock Appreciation Right Incentive Plan	Non-director employees	2024.5.13	560,000	138,000	100,000	100,000	11.4	322,000	27.04

Notes:

(1) No award shares were granted under any Stock Appreciation Right Incentive Plans to Directors, chief executive, or substantial Shareholders, or their respective associates.

(2) The vesting arrangements of the stock appreciation rights are as follows:

The stock appreciation rights held by the Stock Appreciation Right Incentive Plans are subject to a waiting period of 12 months, commencing from date of grant of the stock appreciation rights and the date when the rights can be vested. After the waiting period, subject to the exercising of rights during 12 months, 24 months, and 36 months, respectively, and the attainment of performance targets and personal evaluation, the participants' entitlement to the corresponding portion of the stock appreciation rights will be exercised in three tranches in the proportion of 30%, 30% and 40% respectively. When vesting, the Company will pay for each stock appreciation right the difference between the price of each Share of the day of vesting and the vesting price.

(3) During the validity period of the stock appreciation right granted under the Stock Appreciation Right Incentive Plans, the vest price will be adjusted in the event of payment of dividend, increase in the share capital by way of capitalization of capital reserves, issue of bonus shares, subdivision of shares or share reduction, or rights issue in accordance with the relevant provisions of the Stock Appreciation Right Incentive Plans.

(4) During the Reporting Period, the Company has not granted stock appreciation rights under any Stock Appreciation Right Incentive Plan.

During the Reporting Period, the number of Shares that could be issued in respect of options and awards granted under all share schemes of the Company was 0.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORT

The Company regards environmental protection, integrity and transparency as key aspects of its business operations and development, and is committed to creating a positive and lasting impact on its stakeholders through environmentally and socially responsible operations.

This year, the Company has complied with the mandatory disclosure requirements and the "comply or explain" provisions set forth in the Environmental, Social and Governance Reporting Code. For details, please refer to the 2025 Environmental, Social and Governance (ESG) Report published by the Company.

For details regarding corporate governance, please also refer to the "Corporate Governance Report" in this annual report.

CHARITABLE DONATIONS

During the Reporting Period, the Group's charitable donation expenses amounted to approximately RMB0.425 million.

DISTRIBUTABLE RESERVES

As of December 31, 2025, the Company's distributable reserves amounted to RMB14,139.0 million. Details of changes in reserves during the year are set forth in Note 34 to the consolidated financial statements.

COMPLIANCE WITH LAWS AND REGULATIONS AND LEGAL PROCEEDINGS

The Board places great emphasis on ensuring that the Company's policies and practices comply with applicable laws and regulations. As of December 31, 2025, to the best knowledge and belief of the Board, the Company did not have any material violations or non-compliance with laws and regulations applicable to the Company. There were no events that had a material impact on the Company's business and operations.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of Directors, Supervisors and Senior Management

From the Listing Date to the Latest Practicable Date, general information and biographies of the Company's Directors, Supervisors and members of senior management are set forth in the section headed "Directors, Supervisors and Senior Management" in this annual report.

Directors' Service Contracts

Such appointments shall be subject to the relevant provisions of the Company's Articles of Association regarding the resignation, removal, and rotation of Directors.

Except for contracts entered into by Directors and Supervisors in connection with other management positions held within the Group, none of the Directors or Supervisors has any existing or proposed service contracts with any member of the Group. None of the Directors or Supervisors has entered into or proposed to enter into any service contract with the Company which cannot be terminated by the Company within one year without any compensation (other than statutory compensation).

Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures

Interest/Short Positions in the Shares of the Company

As at December 31, 2025, to the best knowledge of the Directors, the Directors and chief executive of the Company had interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provision of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to herein, or will be required, pursuant to the Model Code as set out in Appendix C3 to the Listing Rules, to be notified to the Company and the Stock Exchange after the H Shares are listed thereon (for this purpose, the relevant provisions of the SFO will be interpreted as if they apply to the chief executive), are as follows:

Name of Director/ chief executive	Nature of interests	Class of Shares	Number of Shares held [1]	Percentage in equity interests of the relevant class of Shares of the Company [2]	Percentage in total share capital of the Company [2]
Zhang Yabo	Interest in controlled corporation [3][4]	A Shares	1,612,862,266(L)	43.22%	38.33%
	Beneficial owner [3]	A Shares	39,024,200(L)	1.05%	0.93%
	Others [5]	A Shares	8,351,021(L)	0.22%	0.20%
Wang Dayong	Beneficial owner	A Shares	352,562(L)	0.01%	0.01%
Ni Xiaoming	Beneficial owner	A Shares	325,062(L)	0.01%	0.01%
Chen Yuzhong	Beneficial owner	A Shares	416,750(L)	0.01%	0.01%
Zhang Shaobo	Interest in controlled corporation [3][4]	A Shares	1,612,862,266(L)	43.22%	38.33%
	Interest held jointly with other persons [3]	A Shares	39,024,200(L)	1.05%	0.93%
	Others [5]	A Shares	8,351,021(L)	0.22%	0.20%

Notes:

(1) The letter (L) denotes the long positions in the Shares.

(2) The calculation is based on the total number of 4,208,013,935 Shares, comprising 3,731,477,535 A Shares (including treasury shares) and 476,536,400 H Shares, in issue as at December 31, 2025.

(3) Mr. Zhang Yabo directly held 39,024,200 A Shares, and held 1,612,862,266 A Shares through Sanhua Holding. Mr. Zhang Daocai, Mr. Zhang Yabo and Mr. Zhang Shaobo are parties acting in concert in respect of their shareholding interests in the Company. Therefore, each of Mr. Zhang Daocai, Mr. Zhang Yabo and Mr. Zhang Shaobo is deemed to be interested in the interest of each other under the SFO. Sanhua Holding was held as to (i) 28.77% by Xinchang Huaqing Investment, which was held as to 51% by Mr. Zhang Daocai, 6% by Ms. Yu Qingjuan, who is the spouse of Mr. Zhang Daocai, 22% by Mr. Zhang Yabo, and 21% by Mr. Zhang Shaobo, (ii) 11.78% by Mr. Zhang Yabo, (iii) 10.04% by Mr. Zhang Shaobo, (iv) 12.35% by Xinchang Huaxin Industrial, which was held as to 38.84% by Mr. Zhang Yabo, and (v) 9.04% by Zhejiang Huateng Industrial, which was held as to 45.45% by Mr. Zhang Shaobo. Therefore, the A Shares held by Sanhua Holding are deemed to be held by Mr. Zhang Yabo and Mr. Zhang Shaobo.

(4) Sanhua Green Energy is held as to 46.22% by Sanhua Holding, 28.20% by Wealth Info, which is ultimately wholly-owned by Sanhua Holding through Hield International. Therefore, Sanhua Holding is deemed to be interested in all the A Shares held by Sanhua Green Energy under the SFO.

(5) Any Shareholder controlling one-third or more of the voting rights at a general meeting of the relevant listed corporation will also be deemed to have an interest in treasury shares. As at December 31, 2025, treasury shares were 8,351,021 A Shares.

Interest in associated corporations of the Company

Name of Director/ chief executive	Name of associated corporations	Nature of interests	Number of Shares held in associated corporations [1]	Approximate percentage of shareholding interests in associated corporations
Zhang Yabo	Sanhua Holding	Beneficial owner [2]	86,000,000(L)	11.78%
		Interest held jointly with other persons [2]	349,300,000(L)	47.85%
		Interest in controlled corporation [2]	90,120,000(L)	12.35%
Wang Dayong	Sanhua Holding	Beneficial owner	19,000,000(L)	2.60%
Ren Jintu	Sanhua Holding	Beneficial owner	16,000,000(L)	2.19%
Ni Xiaoming	Sanhua Holding	Beneficial owner	15,000,000(L)	2.05%
Chen Yuzhong	Sanhua Holding	Beneficial owner	14,000,000(L)	1.92%
Zhang Shaobo	Sanhua Holding	Beneficial owner [2]	73,300,000(L)	10.04%
		Interest held jointly with other persons [2]	386,120,000(L)	52.89%
		Interest in controlled corporation [2]	66,000,000(L)	9.04%

Directors' and Supervisors' Interests in Transactions, Arrangements and Contracts

At the end of the Reporting Period or at any time during the Reporting Period, save as disclosed in the section headed "Connected Transactions" below, there was no transaction, arrangement or contract that was significant to the Group's business to which the Company or any of its subsidiaries was a party, and in which any person who served as a Director or Supervisor at any time during the Reporting Period, or any of their connected entities, had a material direct or indirect interest.

Loans and Guarantees Provided to Directors or Their Connected Persons

Except for the Company's connected subsidiaries, during the Reporting Period, the Company did not provide any loans or loan guarantees, either directly or indirectly, to the Company's Directors or their connected persons.

Directors' Interest in Competing Business

For the year ended December 31, 2025, none of the Directors had an interest in any business that directly or indirectly competed with the Company's business under Rule 8.10(2) of the Listing Rules.

Rights of Directors and Supervisors to Acquire Shares or Debentures

Save as disclosed in this annual report, neither the Company nor any of its subsidiaries was a party to any arrangement that would enable Directors, Supervisors and chief executive to benefit from acquiring shares or debentures of the Company or any other corporation during the Reporting Period.

Permitted Indemnity Provision

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the Reporting Period. The Company has arranged appropriate insurance coverage for potential legal actions and liabilities against the Directors, Supervisors and the senior management.

EMPLOYEE INFORMATION

Relationships with Employees

Adhering to employee-centered core values, the Group focuses on improving the working environment for employees, realizing their personal value, improving their quality of life and promoting their career growth, which are also important parts of the Group's development strategy. The Group treats employees as the Group's core assets and strives to enhance the morale and cohesion of the Group. In addition, the Group aims to create a healthy, positive, and cooperative working environment. The Group takes care of employees through "Sanhua Family" fund to help the employees facing financial difficulties.

Number of Employees

As at December 31, 2025, the Group had 19,090 full-time employees worldwide. Total remuneration of employees amounted to RMB5,323.5 million. The table below sets forth a breakdown of employees by professional category as of December 31, 2025:

Professional category	Number of employees (persons)
Production personnel	12,441
Sales personnel	719
Technical personnel	3,671
Finance personnel	454
Administration personnel	1,805
Total	19,090

Remuneration Policy

The company has established a remuneration and incentive system that is closely aligned with its business development and human resources strategies. Based on market remuneration levels and a job valuation system, as well as taking into account employee capabilities and performance outcomes, the Company has established a comprehensive remuneration system structured on base salary, benefits, bonuses, and long-term incentives, along with supporting management systems. Through a scientific value assessment and feedback mechanism, this system effectively motivates employees to continuously create value, thereby providing internal momentum for the Company's high-quality development.

The Company conducts regular remuneration reviews and market salary surveys to ensure that its overall remuneration levels remain competitive. Additionally, the Company conducts evaluations each year for rewards such as the research and development achievement award, quality achievement award, management achievement award, patent award, cost reduction in procurement award, lean improvement award, and value contribution award. These initiatives effectively incentivize talent to actively innovate and create value, thereby driving the Company's high-quality development. In 2018, the Company launched its first equity incentive plan; in 2020, the second restricted equity incentive plan; in 2022, the third equity incentive plan; and in 2024, the fourth equity incentive plan. These plans have played a crucial role in motivating and retaining the Company's core and key talent, thereby laying a solid talent foundation for the Company's sustained development.

Training Programs

In line with the 2021–2025 development plan, the Company has implemented a talent strategy that "prioritizes internal development, with moderate external recruitment". The TDR (Talent Development Review) assessment serves as a long-term mechanism for realizing the "Talent of Sanhua" initiative, facilitating the alignment of strategy, business operations, organizational structure, and talent development. Through multi-level assessments, the Company identifies high-potential talent, standardizes management terminology, and develops retention and development plans for key personnel, thereby ensuring talent development meets the needs of the Company's strategic growth.

Integrating the TDR assessment, the Company has established a corporate talent development system focused on leadership development, professional development, and new hire training. Through "Hang" series of leadership development, the Company progressively enhances the comprehensive management capabilities of its managerial cadres and high-potential management trainees. Through the professional development, covering finance, HRBP (Human Resources Business Partner), IT, and other initiatives, the Company builds a professional talent pipeline of the Group. Through the new hire training, including management trainee and campus recruitment programs, the Company cultivates outstanding high-potential talent for the Company in the future.

At the same time, the Company strengthens foundational infrastructure, continuously introduces learning technologies, certify internal instructors, develops internal course resources, and builds an internal learning platform of the Company. By leveraging the "five forces" mechanism, namely, traction (cultural traction), internal drive (growth-driven), external momentum (instructor-driven), support (resource-based support), and organizational learning (learning-oriented organizational building), the Company promotes self-directed learning among all employees and the transformation and upgrading of talent, thereby enhancing the global competitiveness of both the organization and talent.

Board Report

CONNECTED TRANSACTIONS

For the year ended December 31, 2025, the Group entered into the following partially-exempt connected transactions, which are required to be disclosed in this annual report pursuant to Rule 14A.71 of the Listing Rules:

The Company (on behalf of the Group) and Sanhua Holding (on behalf of Sanhua Holding Group) entered into the Provision of Products Framework Agreement and the Procurement of Materials Framework Agreement on June 10, 2025. The parties renewed the agreements and entered into the 2026 Provision of Products Framework Agreement and the 2026 Procurement of Materials Framework Agreement on December 17, 2025.

Sanhua Holding is a member of the Company's Controlling Shareholders Group and a connected person of the Company. Therefore, transactions contemplated under the Provision of Products Framework Agreement, the Procurement of Materials Framework Agreement, the 2026 Provision of Products Framework Agreement and the 2026 Procurement of Materials Framework Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

Provision of Products Framework Agreement

On June 10, 2025, the Company (on behalf of the Group) and Sanhua Holding (on behalf of Sanhua Holding Group) entered into the Provision of Products Framework Agreement, pursuant to which, the Group will supply to Sanhua Holding Group manufactured products including but not limited to power, filters, molds, valve products, heat exchangers and home appliances (the "Component Products"). The filters, molds, valve products, heat exchangers are procured by Sanhua Holding Group to manufacture products including pneumatic solenoid valves and textile machine solenoid valves, as well as their assemblies.

The term of the Provision of Products Framework Agreement commenced on the Listing Date and ended on December 31, 2025. Both parties or their respective subsidiaries will enter into separate underlying agreements which will set out the specific terms and conditions according to the principles provided in the Provision of Products Framework Agreement.

Pricing Policy

The amount to be paid by Sanhua Holding Group to the Group under the Provision of Products Framework Agreement generally adopt a cost-plus method and will be determined through fair negotiations, taking into account the factors including (i) the market price of the relevant products; (ii) the costs and profit margins of the Group; and (iii) the prices offered by the Group to other customers purchasing similar products.

Annual Caps and Basis of Determination

The annual caps for the transaction amounts to be paid to the Group by Sanhua Holding Group and its associates under the Provision of Products Framework Agreement is RMB70.79 million. The annual caps are determined based on:

(1) the historical amounts of the transactions between the Group and Sanhua Holding Group for the three years ended December 31, 2024 in respect of the provision of such products;

(2) the existing orders the Group has at hand that reflect a strong customer demand and the expected increasing demand of Sanhua Holding Group for such products, considering the business expansion of Sanhua Holding Group in 2025. As of March 31, 2025, the transaction amount with Sanhua Holding Group for the Group's product sales totaled RMB9.99 million. Due to anticipated seasonal fluctuations in both purchase quantities and pricing, the Group expects increased sales in the subsequent quarters of 2025; and

(3) other factors including but not limited to the expected market price of the similar products on normal commercial terms.

In addition, based the Group's ongoing collaboration and negotiations with Sanhua Holding Group, the Group has gained insights into their latest market analysis and business development strategies, based on which Sanhua Holding Group foresees an increase in the demand for the Company's products (mainly as components of the products of Sanhua Holding Group). This anticipated growth in business volume indicates an increase in demand on the Group's products to meet their evolving needs.

Reasons for and Benefits of Entering into the Provision of Products Framework Agreement

For the three years ended December 31, 2024, the Group has supplied the Component Products to Sanhua Holding Group and the Group expects that it will continue to provide the products after the Listing. The Group has a long-term and stable business relationship with Sanhua Holding Group. Sanhua Holding Group is familiar with the products the Group manufactured and procures these products for its research and development, testing and employee benefits purposes. The Group is not and will not be bound to collaborate with Sanhua Holding Group, and the Group will only manufacture and provide the required products to Sanhua Holding Group if the Group considers it is in the interests of the Company and Shareholders as a whole. Such cooperation with Sanhua Holding Group not only brings the Group additional sales but also the opportunities to expand its reach and further promote the Group's offerings.

Procurement of Materials Framework Agreement

On June 10, 2025, the Company (on behalf of the Group) and Sanhua Holding (on behalf of Sanhua Holding Group) entered into the Procurement of Materials Framework Agreement, pursuant to which, the Group will procure various materials, powers and supplies from relevant members of Sanhua Holding Group ("Products Providers").

The term of the Procurement of Materials Framework Agreement commenced on the Listing Date and ended on December 31, 2025. Both parties or their respective subsidiaries will enter into separate underlying agreements which will set out the specific terms and conditions for the procurement of materials and powers according to the principles provided in the Procurement of Materials Framework Agreement.

Pricing Policy

The amount to be paid by the Group to Sanhua Holding Group under the Procurement of Materials Framework Agreement generally adopt a cost-plus method and will be determined through fair negotiations, taking into account the factors including the type of materials and the transaction volume and the prices at which the Group procures similar materials of the same nature, type, and quantity from other independent third parties.

Annual Caps and Basis of Determination

The annual caps for the transaction amounts to be paid by the Group to Sanhua Holding Group under the Procurement of Materials Framework Agreement is RMB107.37 million. The annual caps are determined based on:

(1) the historical amounts of the transactions between the Group and Sanhua Holding Group for the three years ended December 31, 2024 in respect of the procurement of the above materials;

(2) the existing orders the Group made and the expected demand of the Group for such materials and powers due to the Group's plan for business expansion, increasing market opportunities and consumer spending. As of March 31, 2025, the transaction amount with Sanhua Holding Group for the Group's procurement of materials and power totaled RMB17.38 million. Due to anticipated seasonal fluctuations in both purchase quantities and pricing, the Group expects increased procurement in the subsequent quarters of 2025; and

(3) other factors including but not limited to the expected market price of such materials and the expected market trend.

In addition, based on the Group's recent business development outlook, the Group anticipates an increased need to procure materials and powers from Sanhua Holding Group to support the Group's own business growth. This projection also takes into account the volume and value of existing orders the Group has from some of its customers. To ensure the Group can promptly seize market opportunities and fulfill customers' orders, the Group has agreed with Sanhua Holding Group on a higher annual cap to secure a stable supply of materials and energy as compared to historical transaction amount.

Reasons for and Benefits of Entering into the Procurement of Materials Framework Agreement

The Group has been purchasing such materials and powers from the Products Providers for the three years ended December 31, 2024 in the ordinary and usual course of business. The Group and Sanhua Holding Group has established a long-term and stable business relationship, and these Products Providers have acquired a comprehensive understanding of the Group's business and operational requirements of the materials and powers that the Group needs. In relation to procurement of powers, the Group has leased several properties from Sanhua Holding Group for manufacturing and production, according to local governmental regulations on public utilities supply, the powers the Group used for manufacturing and production, including electricity, water and gas, to be used by the Group will be recorded under Sanhua Holding Group's account registered with the local power providers, the Group therefore needs to pay for these powers through Sanhua Holding Group.

2026 Provision of Products Framework Agreement

As the Provision of Products Framework Agreement expired on December 31, 2025, and the Company expects such transactions to continue thereafter, on December 17, 2025, the Company (on behalf of the Group) and Sanhua Holding (on behalf of Sanhua Holding Group) renewed the agreement and entered into the 2026 Provision of Products Framework Agreement, in relation to the supply of manufactured products by the Group to Sanhua Holding Group. The Group will supply Sanhua Holding Group with Component Products. The filters, molds, valve products, and heat exchangers are procured by Sanhua Holding Group to manufacture products including pneumatic solenoid valves and textile machine solenoid valves, as well as their assemblies.

Pricing Policy

The amount to be paid by Sanhua Holding Group to the Group under the 2026 Provision of Products Framework Agreement generally adopt a cost-plus method. The costs are mainly determined, after arm's length negotiation between the parties, on the basis of the raw material costs and additional costs, including fees in relation to depreciation, auxiliary materials, and labour costs. Profits are mainly determined based on reasonable profit margins and are ultimately determined based on the arm's length negotiations between the parties in accordance with normal commercial terms. Based on historical transactions, the profit margin for such products generally ranges from 10% to 35%, depending on factors such as product type and procurement scale. The Company will also take into account the prices offered by the Group to at least two other comparable customers for the purchase of similar products to the extent practicable. In addition, the Group will implement internal control measures to ensure that the pricing of the continuing connected transactions is fair and reasonable.

Historical Amounts

The amounts of fees paid by Sanhua Holding Group to the Group under the Provision of Products Framework Agreement for the year ended December 31, 2025 was approximately RMB42.30 million.

Annual Caps and Basis of Determination

It is estimated that the maximum aggregate amount of fees to be paid by Sanhua Holding Group to the Group under the 2026 Provision of Products Framework Agreement will not exceed RMB84.00 million for the year ending December 31, 2026.

The aforementioned annual cap was determined by the Directors after considering the following factors: (i) historical transaction amounts for the eleven months ended November 30, 2025; (ii) the estimated scale of potential cooperation under current negotiations, where Sanhua Holding Group intends to procure the Component Products from the Group in 2026. Sanhua Holding Group's demand for the Group's Component Products is expected to increase in 2026 due to its business expansion; (iii) the procurement of refrigeration-related components by Sanhua Holding Group from the Group commenced in 2025, with the Group expected to supply at scale in 2026. The transaction amounts for such products are expected to increase by approximately RMB20.0 million to RMB30.0 million in 2026; and (iv) an approximate 5% buffer set for price changes of related products and potential market fluctuations.

Reasons for and Benefits of Entering into the 2026 Provision of Products Framework Agreement

The Group maintains a long-term and stable business relationship with Sanhua Holding Group. Sanhua Holding Group is familiar with the products the Group manufactured and procures these products for its research and development, testing and employee benefits purposes. The Group is not and will not be bound to collaborate with Sanhua Holding Group, and the Group will only manufacture and provide the required products to Sanhua Holding Group if the Company considers such cooperation to be in the interests of the Company and its Shareholders as a whole. Such cooperation with Sanhua Holding Group not only brings the Group additional sales but also the opportunities to expand the Group's reach and further promote offerings of the Group. Sanhua Holding Group possesses a thorough understanding of the Group's product type, product quality, and cooperation model. Continuing this partnership is cost-effective and mutually beneficial for both parties.

2026 Procurement of Materials Framework Agreement

As the Procurement of Materials Framework Agreement expired on December 31, 2025, and the Company expects such transactions to continue thereafter, on December 17, 2025, the Company (on behalf of the Group) and Sanhua Holding (on behalf of Sanhua Holding Group) renewed the agreement and entered into the 2026 Procurement of Materials Framework Agreement, in relation to procurement of various materials, power and supplies from Sanhua Holding Group by the Group.

Pricing Policy

The amount to be paid by the Group to Sanhua Holding Group under the 2026 Procurement of Materials Framework Agreement shall be determined by commercial negotiation between the parties according to the principles of fairness and reasonableness, taking into account the factors including but not limited to the type of materials, transaction volume and the prices for the procurement of similar materials of the same nature, type and quantity

Historical Amounts

The amounts of fees paid by the Group to Sanhua Holding Group under the Procurement of Materials Framework Agreement for the year ended December 31, 2025 was approximately RMB58.57 million.

Annual Caps and Basis of Determination

It is estimated that the maximum aggregate amount of fees to be paid by the Group to Sanhua Holding Group under the 2026 Procurement of Materials Framework Agreement will not exceed RMB108.00 million for the year ending December 31, 2026. The aforementioned annual cap was determined by the Directors after considering the following factors: (i) historical transaction amounts for the eleven months ended November 30, 2025; (ii) the volume and value of existing orders the Group has from certain of its customers; (iii) the Company's expected growth in business scale in 2026, attributable to the Group's business expansion plans; (iv) the estimated transaction volumes for materials, power and supplies procurement following the implementation of the Group's 2026 sales plan, which is prepared according to annual production forecasts and production plans for each business unit; (v) the close cooperation between both parties since Sanhua Holding Group began supplying materials, power and supplies to the Group, with the expectation that the Group's demand for materials, power and supplies from Sanhua Holding Group will further increase in the future; and (vi) an approximate 5% buffer set for price changes of related materials and potential market fluctuations.

Reasons for and Benefits of Entering into the 2026 Procurement of Materials Framework Agreement

The Group has been purchasing materials, power and supplies from Sanhua Holding Group over the years in the ordinary and usual course of business. The Group and Sanhua Holding Group has established a long-term and stable business relationship, and Sanhua Holding Group has acquired a comprehensive understanding of the Group's business and operational requirements of the materials, power and supplies. Therefore, the Company believes it is in the best interest of the Company and its Shareholders as a whole to continue to procure such materials, power and supplies from Sanhua Holding Group who is capable of fulfilling the Group's demands with a stable and high-quality supply of materials, power and supplies on terms which are similar to or better than those offered by Independent Third Parties.

For further details regarding the aforementioned connected transactions, please refer to the Company's Prospectus and the announcement dated December 17, 2025.

Review of Continuing Connected Transactions

The Company's auditor was engaged to conduct audit work in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Pursuant to Rule 14A.56 of the Listing Rules, the auditor has issued a letter to the Board that nothing has come to their attention that causes them to believe that the continuing connected transactions disclosed by the Group (except those transactions which are fully exempted pursuant to Rule 14A.76(1) of the Listing Rules):

1. have not been approved by the Board;

2. were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;

3. were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and

4. have exceeded the relevant annual caps set by the Company.

The independent non-executive Directors of the Company confirm that the transactions have been entered into by the Group in the ordinary and usual course of its business, on normal commercial terms or better and in accordance with the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

These connected transactions have complied with the requirements under Chapter 14A of the Listing Rules. Except as disclosed above, the related party transactions set out in Note 38 to the consolidated financial statements do not constitute connected transactions under Chapter 14A of the Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Relevant Period.

CONTRACTS AND RELATIONSHIPS WITH CONTROLLING SHAREHOLDERS

During the Reporting Period, other than the continuing connected transactions as disclosed, neither the Company nor any of its subsidiaries entered into any material contracts with the controlling shareholders or their subsidiaries, nor were there any material contracts under which the controlling shareholders or their subsidiaries provided services to the Company or its subsidiaries.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

On September 18, 2017, Mr. Zhang Yabo, Mr. Zhang Daocai, Mr. Zhang Shaobo and Sanhua Holding, together with Sanhua Green Energy, a substantial shareholder of the Company, each provided a long-term non-compete undertaking to the Company. For details regarding the non-competition undertaking, please refer to the Prospectus dated June 13, 2025.

The independent non-executive Directors of the Company have reviewed the compliance and implementation of the non-competition undertakings and confirmed that all such undertakings have been complied with during the Reporting Period.

AUDIT COMMITTEE

Independent Auditor's Report

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
We refer to Note 8 to the consolidated financial statements and accounting policies in Note 4 to the consolidated financial statements. During the year ended December 31, 2025, the Group recognized revenue primarily from the sale of refrigeration and air-conditioning product components and automotive components amounting to approximately RMB30,985,466,000. We identified revenue recognition as a key audit matter because revenue is one of a key performance measurement and therefore there is an inherent risk that the management of the Company could inappropriately recognize revenue to achieve specific targets or expectations.	Our audit procedures to assess revenue recognition included: • Evaluating the design and implementation of internal controls and testing their operating effectiveness over revenue recognition; • Inspecting customer contracts, on a sampling basis, to identify terms and conditions relating to the transfer of control over the products sold and assessing the Group's timing of revenue recognition with reference to the requirements of prevailing accounting standards and testing their operating effectiveness and consistency; • Performing analytical procedures to identify any significant or unusual fluctuations in revenue during the reporting period and investigating the reasons for such fluctuations with management of the Company and assessing the reasonableness of the findings with supporting evidences; • Conducting test of details, on a sampling basis, to review supporting evidences related to revenue recognition, including sales contracts, sales invoices, settlement records, delivery documents and reconciliation of settlement vouchers; • Obtaining electronic port information and comparing them with the export sales register;

Key audit matter	How our audit addressed the key audit matter
	• Sending audit confirmation letters of trade receivables, on a sampling basis, to verify the sales amounts of certain customers; • Performing customer background search and evaluating the appropriateness of their commercial rationale; and • Conducting cut-off testing to verify that revenue was recognized in the proper accounting period.
Completeness and valuation of derivative financial instruments We refer to Notes 10 and 26 to the consolidated financial statements and accounting policies in Note 4 to the consolidated financial statements. During the year ended December 31, 2025, the Group engaged in trading of derivative financial instruments, including forward contracts, options and future contracts, via both exchange-traded and over-the-counter markets. The Group recorded a fair value gain on derivative financial instruments and a net loss on disposal of derivative financial instruments of approximately RMB82,195,000 and RMB29,775,000 respectively. We identified the completeness and valuation of derivative financial instruments as a key audit matter because of their complexity and leverage impacts. There is a risk of misstatement arising from incomplete books and records and the application of inappropriate valuation methodologies.	Our audit procedures to assess the completeness and valuation of derivative financial instruments included: • Obtaining understanding of the economic and business objective on trading of derivative financial instruments; • Strengthening the implementation of substantive procedures and expanding the scope of substantive testing; • Inspecting the supporting documents related to purchases, sales, settlements and holdings of the derivative financial instruments; • Sending audit confirmation letters to financial institutions and counterparties to verify the existence of the derivative financial instruments; • Obtaining publicly available market quotes or valuation reports issued by independence third party, and examine the reliability of valuation and validity of the accounting treatments; and • Analyzing the effectiveness of hedge, and assessing the compliance, reasonableness and reliability of the accounting information of the selected accounting treatments.

OTHER INFORMATION

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other fconsolidatetimancip a (it)0. ge5 (io)0n.iosioio t

Consolidated Statement of Profit or Loss

For the year ended December 31, 2025

	Notes	2025 RMB'000	2024 RMB'000
Revenue	8	31,011,745	27,947,165
Cost of revenue	11	(22,205,064)	(20,326,346)
Gross profit		8,806,681	7,620,819
General and administrative expenses	11	(2,091,739)	(1,946,785)
Selling and marketing expenses	11	(751,525)	(726,437)
Research and development expenses	11	(1,374,071)	(1,351,799)
Net reversal of impairment losses/ (net impairment losses) on financial assets	5(b)	23,481	(56,379)
Other income	9	410,563	292,301
Other losses, net	10	(187,336)	(83,795)
Operating profit		4,836,054	3,747,925
Finance income	13	194,187	67,221
Finance costs	13	(194,948)	(132,384)
Finance costs, net		(761)	(65,163)
Share of results of associates	17	8,464	8,925
Profit before income tax		4,843,757	3,691,687
Income tax expenses	14	(737,067)	(579,961)
Profit for the year		4,106,690	3,111,726
Attributable to:			
– Owners of the Company		4,062,892	3,099,165
– Non-controlling interests		43,798	12,561
		4,106,690	3,111,726
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)			
– Basic	16	1.03	0.84
– Diluted	16	1.03	0.84

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2025

	2025 RMB'000	2024 RMB'000
Profit for the year	4,106,690	3,111,726
Other comprehensive income/(expense)		
Items that may be reclassified to profit or loss in subsequent periods, net of tax:		
– Currency translation differences of foreign operations	157,147	(253,120)
Other comprehensive income/(expense) for the year, net of tax	157,147	(253,120)
Total comprehensive income for the year	4,263,837	2,858,606
Attributable to:		
– Owners of the Company	4,220,039	2,846,045
– Non-controlling interests	43,798	12,561
	4,263,837	2,858,606

Consolidated Statement of Financial Position

As at December 31, 2025

	Notes	2025 RMB'000	2024 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	18	13,920,809	12,274,558
Investment properties	21	6,905	7,053
Right-of-use assets	19	1,164,886	1,205,331
Deferred tax assets	22	129,819	112,699
Intangible assets	20	48,660	36,520
Investments in associates	17	44,589	40,600
Other non-current assets	24	367,949	376,825
Total non-current assets		15,683,617	14,053,586
Current assets			
Inventories	25	5,639,792	5,280,442
Prepayments and other receivables	24	322,076	417,039
Trade and notes receivables	23	10,993,194	9,628,337
Financial assets at fair value through profit or loss	26	527,065	6,237
Term deposits and restricted cash	27	2,424,796	1,805,065
Cash and cash equivalents	27	12,487,189	3,443,503
Current tax assets		40,810	20,736
Other current assets	24	1,287,592	1,699,804
Total current assets		33,722,514	22,301,163
Total assets		49,406,131	36,354,749
LIABILITIES			
Non-current liabilities			
Borrowings	28	862,697	2,045,773
Lease liabilities	19	205,928	237,913
Deferred tax liabilities	22	217,239	258,264
Other non-current liabilities	31	714,798	659,851
Total non-current liabilities		2,000,662	3,201,801

Consolidated Statement of Financial Position

As at December 31, 2025

	Notes	2025 RMB'000	2024 RMB'000
Current liabilities			
Borrowings	28	2,879,815	2,053,766
Trade and notes payables	29	10,189,209	9,777,262
Contract liabilities	8	76,167	49,462
Lease liabilities	19	103,527	90,574
Current income tax liabilities		207,493	174,168
Financial liabilities at fair value through profit or loss	26	16,364	79,678
Accruals and other payables	30	1,881,893	1,407,120
Other current liabilities	31	10,771	1,274
Total current liabilities		15,365,239	13,633,304
Total liabilities		17,365,901	16,835,105
EQUITY			
Equity attributable to owner of the Company			
– Share capital	32	4,208,014	3,732,390
– Treasury shares	33	(520,488)	(381,848)
– Other reserves	34	13,922,401	4,296,916
– Retained earnings		14,139,001	11,650,312
		31,748,928	19,297,770
Non-controlling interests		291,302	221,874
TOTAL EQUITY		32,040,230	19,519,644
TOTAL LIABILITIES AND EQUITY		49,406,131	36,354,749

The consolidated financial statements on pages 94 to 208 were approved and authorized for issue by the board of directors on March 23, 2026 and are signed on its behalf by:

Zhang Yabo
Director

Wang Dayong
Director

Consolidated Statement of Changes in Equity

For the year ended December 31, 2025

Consolidated Statement of Changes in Equity

For the year ended December 31, 2025

	Attributable to owners of the Company						
	Share capital RMB'000 (Note 32)	Treasury shares RMB'000 (Note 33)	Other reserves RMB'000 (Note 34)	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 2024	3,732,616	(423,469)	4,582,315	10,002,942	17,894,404	169,304	18,063,708
Profit for the year	–	–	–	3,099,165	3,099,165	12,561	3,111,726
Other comprehensive expense	–	–	(253,120)	–	(253,120)	–	(253,120)
Total comprehensive income for the year	–	–	(253,120)	3,099,165	2,846,045	12,561	2,858,606
Capital injection	–	–	–	–	–	50,835	50,835
Appropriations to statutory reserves	–	–	152,050	(152,050)	–	–	–
Cancellation of shares under share incentive schemes	(226)	2,124	(1,898)	–	–	–	–
Recognition of share-based payments	–	339,475	(177,729)	–	161,746	–	161,746
Dividends declared (Note 15)	–	–	–	(1,299,745)	(1,299,745)	(15,528)	(1,315,273)
Repurchase of shares (Note 33)	–	(299,978)	–	–	(299,978)	–	(299,978)
Transaction with non-controlling interests	–	–	(4,702)	–	(4,702)	4,702	–
Balance at December 31, 2024	3,732,390	(381,848)	4,296,916	11,650,312	19,297,770	221,874	19,519,644

Consolidated Statement of Cash Flows

For the year ended December 31, 2025

	Note	2025 RMB'000	2024 RMB'000
Cash flows from operating activities			
Cash generated from operations	36	5,436,187	4,643,925
Interest received		194,187	67,221
Income tax paid		(724,970)	(684,961)
Net cash from operating activities		4,905,404	4,026,185
Cash flows from investing activities			
Proceeds from return on investments		21,646	13,273
Proceeds from disposal of property, plant and equipment, intangible assets and other non-current assets		40,227	109,300
Withdraw of term deposits and wealth management products		6,849,058	6,907,449
Government grant received in relation to assets		158,027	277,351
Payments for purchase of investments		(482,029)	(10,382)
Payments for purchase of property, plant and equipment, intangible assets and other non-current assets		(3,152,387)	(3,290,148)
Placement of term deposits and wealth management products		(7,015,370)	(7,131,657)
Payments for settlement of derivative financial instruments		(29,775)	(43,616)
Others		3,043	(2,661)
Net cash used in investing activities		(3,607,560)	(3,171,091)

Consolidated Statement of Cash Flows

For the year ended December 31, 2025

	Note	2025 RMB'000	2024 RMB'000
Cash flows from financing activities			
Gross proceeds from issuance of H shares		9,802,605	–
Proceeds from share incentive schemes (Note 35)		–	292,693
Capital contributions from the non-controlling interests		45,157	44,682
Proceeds from borrowings		1,820,329	2,390,679
Repayments of borrowings		(2,212,069)	(1,852,949)
Principal elements of lease payments		(104,406)	(105,305)
Interests paid		(138,447)	(150,575)
Dividends paid to the Company's shareholders		(932,420)	(1,299,745)
Dividends paid to the non-controlling interests		(30,431)	(13,000)
Payments for repurchase of shares		(313,188)	(302,102)
Payments for listing expenses		(151,929)	(796)
Others		17,260	41,119
Net cash from/(used in) financing activities		7,802,461	(955,299)
Net increase/(decrease) in cash and cash equivalents		9,100,305	(100,205)
Cash and cash equivalents at beginning of the year		3,443,503	3,624,955
Effects of exchange rate changes on cash and cash equivalents		(56,619)	(81,247)
Cash and cash equivalents at the end of the year	27	12,487,189	3,443,503

1. GENERAL INFORMATION

Zhejiang Sanhua Intelligent Controls Co., Ltd. (the "Company") is a joint stock company with limited liability incorporated in the People's Republic of China (the "PRC") and its shares are listed on the Shenzhen Stock Exchange (stock code: 002050) on June 7, 2005 and The Stock Exchange of Hong Kong Limited (stock code: 2050) on June 23, 2025. The parent and the ultimate holding company of the Company is Sanhua Holding Group Co., Ltd. (g € › p « Þ " ® !) (the "Holding Company"), which is also incorporated in the PRC. The directors of the Company consider that the ultimate controlling parties of the Company are Mr. Zhang Daocai, Mr. Zhang Yabo (an executive director of the Company) and Mr. Zhang Shaobo (a non-executive director of the Company). The registered office and principal place of business of the Company is located at No. 219 Woxi Avenue, Chengtan Street, Xinchang, Shaoxing, Zhejiang Province, PRC.

The Company and its subsidiaries (the "Group") are principally engaged in research and development ("R&D"), production and sales of refrigeration and air-conditioning product components and automotive components, which are widely used in the refrigeration and air-conditioning product market and the automotive market, including both of new energy vehicles ("NEVs") and traditional fuel vehicles.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company and its subsidiaries established in the PRC. Other than those subsidiaries established in overseas whose functional currencies are their local currencies. All values are rounded to the nearest thousands (RMB'000) except when otherwise indicated.

2. APPLICATION OF NEW AND AMENDMENTS TO IFRS ACCOUNTING STANDARDS

Amendments to an IFRS Accounting Standards that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to an IFRS Accounting Standard as issued by the International Accounting Standards Board ("IASB") for the first time, which are mandatorily effective for the Group's annual period beginning on January 1, 2025 for the preparation of the consolidated financial statements:

Amendments to IAS 21	Lack of Exchangeability

The application of the amendments to an IFRS Accounting Standard in the current year has had no material impact on the Group's financial positions and performance for the current and prior year and/or on the disclosures set out in these consolidated financial statements.

New and amendments to IFRS Accounting Standards in issue but not yet effective

The Group has not early applied the following new and amendments to IFRS Accounting Standards that have been issued but are not yet effective:

Amendments to IFRS 9 and IFRS 7	Amendments to the Classification and Measurement of Financial Instruments[2]
Amendments to IFRS 9 and IFRS 7	Contracts Referencing Nature-dependent Electricity[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IFRS Accounting Standards	Annual Improvements to IFRS Accounting Standards – Volume 11[2]
IFRS 18	Presentation and Disclosure in Financial Statements[3]
Amendments to IAS 21	Translation to a Hyperinflationary Presentation Currency

2. APPLICATION OF NEW AND AMENDMENTS TO IFRS ACCOUNTING STANDARDS (continued)

IFRS 18 Presentation and Disclosure in Financial Statements

IFRS 18 Presentation and Disclosure in Financial Statements, which set out requirements on presentation and disclosures in financial statements, will replace IAS 1 Presentation of Financial Statements. This new IFRS Accounting Standard, while carrying forward many of the requirements in IAS 1, introduces new requirements to present specified categories and defined subtotals in the statement of profit or loss; provide disclosures on management-defined performance measures in the notes to the financial statements and improve aggregation and disaggregation of information to be disclosed in the financial statements. In addition, some IAS 1 paragraphs have been moved to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and IFRS 7 Financial Instruments: Disclosures. Minor amendments to IAS 7 Statement of Cash Flows and IAS 33 Earnings per Share are also made.

IFRS 18, and amendments to other standards, will be effective for annual periods beginning on or after January 1, 2027, with early application permitted. IFRS 18 requires retrospective application with specific transition provision. The application of the new standard is not expected to have significant impact on the financial performance and position of the Group in terms of recognition and measurement. However, it is expected to affect the structure and presentation of the consolidated statement of profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATION FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and by the Hong Kong Companies Ordinance.

4. MATERIAL ACCOUNTING POLICY INFORMATION

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

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

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

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognized. A gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate.

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Business combinations

(i) Business combination not under common controls

The acquisition method of accounting is used to account for all business combinations (except for the business combinations under common controls), regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value, with changes in fair value recognized in profit or loss.

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Business combinations (continued)

(ii) Business combination under common controls

An acquisition of a business which is a business combination under common control is accounted for in a manner similar to a uniting of interests whereby the assets and liabilities acquired are accounted for at carryover predecessor values to the other party to the business combination with all periods presented as if the operations of the Group and the business acquired have always been combined. The difference between the consideration paid by the Group and the net assets or liabilities of the business acquired is adjusted against equity.

Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group like transactions and events in similar circumstances, unless allowed by other standards. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Investments in associates (continued)

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognized in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of IFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

The investments in associates are stated at cost less impairment in the Company's statement of financial position. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

Changes in the Group's interests in associates

When the Group reduces its ownership interests in an associate but the Group continues to use the equity method (including situations that change of ownership interest in an associate due to capital increase of other shareholders to the associate), the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interests if that gain or loss would have been reclassified to profit or loss on the disposal of the related assets or liabilities.

Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment test of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount of the investee's net assets including goodwill.

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Revenue recognition

The Group is principally engaged in the R&D, production and sales of refrigeration and air-conditioning product components and automotive components, which are widely used in the refrigeration and air-conditioning product market and the automotive market, including both NEVs and traditional fuel vehicles.

The Group recognizes revenue when (or as) a performance obligation is satisfied, i. e., when control of the goods or services underlying the particular performance obligation is transferred to the customer.

If control of the goods and services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods and 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 recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

If a customer pays consideration or the Company has a right to an amount of consideration that is unconditional, before the Company transfers a good or service to the customer, the Company presents the contract liability when the payment is made. A contract liability is the Company's obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer.

Revenue from domestic sales of products shall be recognized based on the sales contracts, settlement vouchers and other documents upon completion of product delivery and the buyer's confirmation for the acceptance of the products. Upon confirming the acceptance, the buyer has the right to sell the products at its discretion and takes the risks of any price fluctuation and obsolescence and loss of the products.

Revenue from oversea sales of products shall be recognized based on the sales contracts, customs declaration form, bill of lading, and other documents upon completion of customs declaration or shipping out of the port and arriving to the named port or place of destination. Upon the completion of customs declaration or arrival to the named port or place of destination, the buyer has the right to sell the products at its discretion and takes the risks of any price fluctuation and obsolescence and loss of the products.

Revenue from metal scrap is recognized after weighing and picking up the materials and obtaining the receipt certificate.

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognized at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of "Other reserves" (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Borrowing costs

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

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Government grant

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

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

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable. Such grants are presented under “Other income”.

Employee Benefits

(i) Short-Term Obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees’ services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the statement of financial position.

(ii) Housing funds, medical insurances and other social insurances

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group’s liability in respect of these funds is limited to the contributions payable in each year. Contributions to the housing funds, medical insurances and other social insurances are expensed as incurred.

(iii) Post-employment benefits

The Group classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate fund and will have no obligation to pay further contributions; and defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, the Group’s defined contribution plans mainly include basic pensions and unemployment insurance, while the defined benefit plans are certain oversea subsidiaries provide supplemental retirement benefits beyond the national regulatory insurance system.

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Employee Benefits (continued)

(iv) Basic pensions

The Group's employees participate in the basic pension plan set up and administered by local authorities of Ministry of Human Resource and Social Security. Monthly payments of premiums on the basic pensions are calculated according to prescribed bases and percentage by the relevant local authorities. When employees retire, the relevant local authorities are obliged to pay the basic pensions to them. The amounts based on the above calculations are recognized as liabilities in the accounting period in which the service has been rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

(v) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

Share-based payments

Share-based payments can be distinguished into equity-settled share-based payments and cash-settled share-based payments. Equity-settled share-based payments are transactions of the Group settled through the payment of shares or other equity instruments in consideration for receiving services.

Equity-settled share-based payments made in exchange for services rendered by employees are measured at the fair value of equity instruments granted to employees. Instruments which are vested immediately upon the grant are charged to relevant costs or expenses at the fair value on the date of grant and the capital reserve is credited accordingly. Instruments of which vesting is conditional upon completion of services or fulfillment of performance conditions are measured by recognizing services rendered during the period in relevant costs or expenses and crediting the capital reserve accordingly at the fair value on the date of grant according to the best estimates conducted by the Group at each date of the end of the reporting period during the pending period. For details see Note 34.

No expense is recognized for awards that do not ultimately vest due to non-fulfillment of non-market conditions and/or vesting conditions. For the market or non-vesting condition under the share-based payments agreement, it should be treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that other performance condition and/or vesting conditions are satisfied.

Where the terms of an equity-settled share-based payment are modified, as a minimum, services obtained are recognized as if the terms had not been modified. In addition, an expense is recognized for any modification which increases the total fair value of the instrument ranted or is otherwise beneficial to the employee as measured at the date of modification.

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Taxation

Income tax expense represents the sum of current and deferred income tax expense.

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

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

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

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 profits will be available to allow all or part of the asset to be recovered.

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Taxation (continued)

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

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

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognized due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modification, that are not subject to initial recognition exemption are recognized on the date of remeasurement or modification.

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

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Property, plant and equipment

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

Freehold lands are not depreciated and are measured at cost less subsequent accumulated impairment losses.

Buildings in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including costs of testing whether the related assets is functioning properly and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Sale proceeds of items that are produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly), and the related costs of producing those items are recognized in the profit or loss. The cost of those items is measured in accordance with the measurement requirements of IAS 2. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

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

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

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognized so as to write-off the cost of investment properties over their estimated useful lives and after taking into account of their estimate residual value, using the straight-line method.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Intangible assets (continued)

Internally-generated intangible assets – research and development expenditure

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

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

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

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

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Leases

The Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception of the contract. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed. As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

The Group as a Lessee

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to 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 lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Leases (continued)

The Group as a Lessee (continued)

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease Liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group presents lease liabilities as a separate line item in the consolidated statement of financial position.

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Leases (continued)

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognized as an expense on a straight-line basis over the lease term.

Refundable rental deposits

Refundable rental deposits received are accounted for under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Impairment on property, plant and equipment, right-of-use assets, and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Impairment on property, plant and equipment, right-of-use assets, and intangible assets other than goodwill (continued)

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Cash and cash equivalents

Cash and cash equivalents presented on the consolidated statement of financial position include:

(a) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; and

(b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts which are repayable on demand and form an integral part of the Group's cash management. Such overdrafts are presented as short-term borrowings in the consolidated statement of financial position.

Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realizable value. Costs of inventories are determined on the month-end weighted average method. Cost comprises direct materials, direct labor and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs of purchased inventory are determined after deducting rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established generally by regulation or convention in the market place concerned.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification and subsequent measurement of financial assets
Financial assets that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a designated and effective hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortized cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortized cost and interest income

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "Other losses, net" line item.

Impairment of financial assets subject to impairment assessment under IFRS 9

The Group performs impairment assessment under ECL model on financial assets (including trade and notes receivables, other receivables, term deposits and restricted cash, and cash and cash equivalents) which are subject to impairment assessment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of past events and current conditions at the reporting date as well as the forecast of future economic conditions.

The Group always recognizes lifetime ECL for trade receivables. The Group always recognizes lifetime ECL for trade receivables without significant financing component.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial assets (continued)

Impairment of financial assets subject to impairment assessment under IFRS 9 (continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, 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. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

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

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

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

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial assets (continued)

Impairment of financial assets subject to impairment assessment under IFRS 9 (continued)

(ii) Definition of default

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

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 1 year past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

(e) the disappearance of an active market for that financial asset because of financial difficulties

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognized in profit or loss.

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial assets (continued)

Impairment of financial assets subject to impairment assessment under IFRS 9 (continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and forward-looking information, including time value of money where appropriate, that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortized cost of the financial asset.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount through a loss allowance account.

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial assets (continued)

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- For financial assets measured at amortized cost that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the "Other losses, net" line item as part of the net foreign exchange differences; and

- For financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the "Other losses, net" line item as part of the gain/(loss) from changes in fair value of financial assets;

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which HKFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

Financial liabilities at amortized cost

Financial liabilities including borrowings, trade and notes payables and lease liabilities are subsequently measured at amortized cost, using the effective interest method.

4. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial liabilities and equity (continued)

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments. These foreign exchange gains and losses are recognized in the "Other losses, net" line item in profit or loss as part of ne foreign exchange differences for financial liabilities that are not part of a designated hedging relationship.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognized in profit or loss for financial liabilities that are not part of a designated hedging relationship.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognized assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

At the inception of the hedging, the Group documents the economic, relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedges items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in profit or loss and are included in "Other losses, net" line item.

5. FINANCIAL INSTRUMENTS

(a) CATEGORIES OF FINANCIAL INSTRUMENTS

	2025 RMB'000	2024 RMB'000
Financial assets		
Financial assets measured at FVTPL:		
Equity instruments	408,317	–
Structured deposit product	100,015	–
Exchange forward contracts	12,130	6,237
Commodity future contracts	6,603	–
Financial assets measured at amortized cost:		
Trade and notes receivables	10,993,194	9,628,337
Other receivables and other non-current assets	99,504	89,657
Term deposits and restricted cash	2,424,796	1,805,065
Cash and cash equivalents	12,487,189	3,443,503
Wealth management products measured at amortized cost (Note 24)	1,041,536	1,499,928
Financial liabilities		
Financial liabilities measured at FVTPL:		
Exchange forward contracts	7,309	76,859
Commodity future contracts	9,055	2,819
Financial liabilities measured at amortized cost:		
Trade and notes payables	10,189,209	9,777,262
Accruals and other payables (excluding non-financial liabilities) (Note 30)	913,642	545,413
Lease liabilities	309,455	328,487
Borrowings	3,742,512	4,099,539

5. FINANCIAL INSTRUMENTS (continued)

(b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include financial assets measured at FVTPL, trade and notes receivables, other receivables and other non-current assets, term deposits and restricted cash, cash and cash equivalents, wealth management products measured at amortized cost, financial liabilities measured at FVTPL, trade and notes payables, accruals and other payables, lease liabilities and borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk, and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the respective functional currency of the Group's subsidiaries. The functional currencies of the subsidiaries outside the PRC are mainly United States Dollar ("USD") and Euro ("EUR") whereas functional currency of the subsidiaries operate in the PRC is RMB. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and tries to minimize these exposures through natural hedges, wherever possible.

As at December 31, 2025, the Group's major financial assets/liabilities exposed to foreign exchange risk, representing those financial assets/liabilities denominated in USD and EUR and included in a group entity with different functional currency:

	2025 RMB'000	2024 RMB'000
Financial assets denominated in:		
USD	8,054,293	2,756,203
EUR	350,824	562,268
Others	335,910	368,463
Financial liabilities denominated in:		
USD	644,550	757,069
EUR	860,871	831,178
Others	239,497	202,581

5. FINANCIAL INSTRUMENTS (continued)

(b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

(i) Foreign exchange risk (continued)

As shown in the table above, the Group is primarily exposed to changes in USD and EUR exchange rates. The sensitivity of profit or loss to changes in the exchange rates arises mainly from USD and EUR denominated financial instruments is as follows:

	2025 RMB'000	2024 RMB'000
USD/RMB exchange rate-		
Increase 5%	370,487	99,957
Decrease 5%	(370,487)	(99,957)
EUR/RMB exchange rate-		
Increase 5%	(25,502)	(13,446)
Decrease 5%	25,502	13,446

Other foreign currencies of changes have no significant impact on foreign exchange risk.

(ii) Interest rate risk

The Group's interest rate risk primarily arises from bank balances and interest-bearing borrowings. Bank balances carried at variable rates and borrowings issued at floating rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the proportion of borrowings issued at floating rates and fixed rates based on the market environment.

As at December 31, 2025, total borrowings of the Group bearing floating rates amounted to approximately RMB2,382,234,000 (2024: RMB2,048,388,000).

If interest rate had been 50 basis points higher or lower with all other variables held constant, the profit before tax would increase/decrease approximately by RMB50,525,000 (2024: RMB6,976,000) for the year ended December 31, 2025.

Considering the repricing or maturity date, the fair value interest rate risk arises from borrowings and bank balances carried at fixed rates is not significant for the Group.

5. FINANCIAL INSTRUMENTS (continued)

(b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

(iii) Other price risk

The Group is exposed to price risk on financial instruments in respect of investment in equity securities and derivative financial instruments, including commodity future contracts and exchange forward contracts, measured at FVTPL.

Sensitivity analysis

The sensitivity analyses have been determined based on the exposure to price risk at the reporting date. For sensitivity analysis of financial instruments at FVTPL, the sensitivity rate is increased to 5% in current year as a result of the volatile financial market.

If the prices of the respective financial instruments had been 5% (2024: 5%) higher/lower, the profit for the year ended December 31, 2025 would increase/decrease by RMB20,534,000 (2024: decrease/increase by RMB3,672,000) as a result of fair value change on the financial instruments at FVTPL.

Credit risk and impairment assessment

Credit risk arises from cash and cash equivalents, term deposits and restricted cash, as well as trade and notes receivables, other receivables and other non-current assets. The carrying amount of each class of the above financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

(a) Risk management

To manage this risk, cash and cash equivalents as well as term deposits and restricted cash are mainly placed with state-owned or reputable financial institutions which are all high-credit-quality financial institutions.

To manage risk from trade and notes receivables as well as other receivables, the Group has policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of the counterparties. It also has continuous monitoring procedures to ensure the collection of the receivables as scheduled and follow up action is taken to recover overdue debts, if any.

5. FINANCIAL INSTRUMENTS (continued)

(b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and impairment assessment (continued)

(b) Impairment of financial assets

The Group has three types of financial assets that are subject to the expected credit loss model:

- Cash and cash equivalents, term deposits and restricted cash;
- Trade and notes receivables; and
- Other receivables and other non-current assets.

Credit risk of cash and cash equivalents, term deposits and restricted cash

Cash and cash equivalents, term deposits and restricted cash are mainly placed with reputable Chinese and international financial institutions. There has been no recent history of default in relation to these financial institutions. The expected credit loss was immaterial as at December 31, 2025.

Credit risk of trade and notes receivables

(i) Trade receivables

The Group applies the IFRS 9 simplified approach to measure expected credit loss which uses a lifetime expected loss allowance for all trade receivables.

To measure ECL, trade receivables have been grouped based on shared credit risk characteristics and aging. The Group also made individual assessment on the recoverability of its trade receivables for certain customers based on historical settlement record.

The historical loss rates are calculated based on the historical payment profiles of sales and the corresponding historical incurred credit losses. The historical loss rates are adjusted to reflect t01 14s0rate Tc 0nd ed baare adjust an.5 (e)0.5 (l)0.5 (at)0.5 (iwelbiliincurrre .02(l)0.5 (at)0.5 (ilit ca oemected tory o0sm in)2ashered . Therubj cs0 Twyistolutom6 Td baailch6d

5. FINANCIAL INSTRUMENTS (continued)

(b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and impairment assessment (continued)

(b) Impairment of financial assets (continued)

Credit risk of trade and notes receivables (continued)

(i) Trade receivables (continued)

As at December 31, 2025, the loss allowance of individually impaired trade receivables and grouped trade receivables are determined as follows:

Assess individually:

	Trade receivables RMB'000	ECL rate	Loss allowance RMB'000	Reason
Trade receivables	1,614	56.76%	916	Financial difficulty or delay of payment

Assessed based on grouping:

Domestic product components grouping

	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Expected loss rate	4.50%	30.00%	60.00%	100%	
Gross carrying amount	5,239,320	6,929	1,439	1,495	5,249,183
Loss allowance	235,769	2,079	864	1,495	240,207

Overseas product components grouping

	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Expected loss rate	3.88%	30.00%	60.00%	100%	
Gross carrying amount	2,452,654	3,917	112	240	2,456,923
Loss allowance	95,058	1,175	67	240	96,540

5. FINANCIAL INSTRUMENTS (continued)

(b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and impairment assessment (continued)

(b) Impairment of financial assets (continued)

Credit risk of trade and notes receivables (continued)

(i) Trade receivables (continued)

As at December 31, 2024, the loss allowance of individually impaired trade receivables and grouped trade receivables are determined as follows:

Assess individually:

	Trade receivables RMB'000	ECL rate	Loss allowance RMB'000	Reason
Trade receivables	13,188	39.66%	5,231	Financial difficultly or delay of payment

Assessed based on grouping:

Domestic product components grouping

	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Expected loss rate	4.67%	31.25%	60.76%	100%	
Gross carrying amount	4,878,183	2,701	1,478	244	4,882,606
Loss allowance	227,726	844	898	244	229,712

Overseas product components grouping

	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Expected loss rate	5.16%	30.78%	82.90%	100%	
Gross carrying amount	2,398,811	21,707	1,269	139	2,421,926
Loss allowance	123,838	6,681	1,052	139	131,710

5. FINANCIAL INSTRUMENTS (continued)

(b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and impairment assessment (continued)

(b) Impairment of financial assets (continued)

Credit risk of trade and notes receivables (continued)

(i) Trade receivables (continued)

The loss allowances for trade receivables for the years ended December 31, 2025 and 2024 reconcile to the opening loss allowances are as follows:

	2025 RMB'000	2024 RMB'000
Opening loss allowance	366,653	311,916
(Reversal of)/loss on allowance recognized, net	(28,837)	54,918
Receivables written off	(153)	(181)
Closing loss allowance	337,663	366,653

(ii) Notes receivables

The Group measured provisions for impairment of notes receivables based on the lifetime ECL and assessed that there was no significant credit risk associated with its bank acceptance notes as the Group did not expect that there would be any significant losses from non-performance by these reputable banks. For the commercial acceptance notes and finance company acceptance notes, which are usually settled within 6 months to 1 year from the respective issuance date, the Group provided the expected credit loss as at December 31, 2025 amounting to RMB16,859,000 (2024: RMB8,620,000).

Movements on the provision of ECL for notes receivables at amortized cost are as follows:

	2025 RMB'000	2024 RMB'000
Opening loss allowance	8,620	7,619
Loss on allowance recognized, net	8,239	1,001
Closing loss allowance	16,859	8,620

5. FINANCIAL INSTRUMENTS (continued)

(b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and impairment assessment (continued)

(b) Impairment of financial assets (continued)

Credit risk of other receivables and other non-current assets

Other receivables and other non-current assets subject to credit risks at the end of each of the periods are mainly comprised of custom and other deposits, tax refund receivables and others. The Group considers the probability of default upon initial recognition of the assets and whether there has been a significant increase in credit risk on an ongoing basis throughout each of the periods. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the assets as of the reporting date with the risk of default as of the date of initial recognition. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations;
- external credit rating of the counterparty;
- actual or expected significant changes in the operating results of the debtor; and
- significant changes in the expected performance and behavior of the debtor, including changes in the payment status of debtor.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 365 days past due in making a contractual payment.

5. FINANCIAL INSTRUMENTS (continued)

(b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and impairment assessment (continued)

(b) Impairment of financial assets (continued)

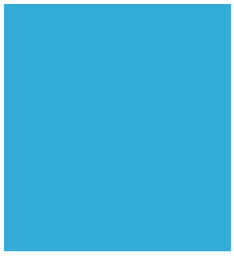
Credit risk of other receivables and other non-current assets (continued)

If the credit risk of the asset is in line with original expectations, the Group categorizes the asset as performing and recognizes 12 months expected credit losses (Stage 1). If a significant credit risk of the asset has occurred compared to original expectations or the credit is impaired, the asset is categorized as underperforming or non-performing and lifetime expected credit losses are recognized (Stages 2 and 3):

	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
December 31, 2025				
Expected loss rate	3.77%	10.00%	38.46%	
Gross carrying amount	94,457	7,092	3,613	105,162
Loss allowance	3,559	709	1,390	5,658
December 31, 2024				
Expected loss rate	3.70%	10.00%	42.89%	
Gross carrying amount	76,932	10,421	10,845	98,198
Loss allowance	2,848	1,042	4,651	8,541

The loss allowances for other receivables and other non-current assets subject to credit risks for the years ended December 31, 2025 and 2024 reconcile to the opening loss allowances are as follows:

	2025	2024



5. FINANCIAL INSTRUMENTS (continued)

(b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group intends to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the policy of the Group is to regularly monitor the Group's liquidity risk and to maintain adequate liquid assets such as cash and cash equivalents and term deposits or to retain adequate financing arrangements to meet the Group's liquidity requirements.

The tables below analyze the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at each balance sheet date to their contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at December 31, 2025					
Trade and notes payables	10,189,209	–	–	–	10,189,209
Accruals and other payables (excluding non-financial liabilities)	913,642	–	–	–	913,642
Lease liabilities	107,683	77,280	110,106	28,315	323,384
Borrowings	2,919,518	893,244	–	–	3,812,762

5. FINANCIAL INSTRUMENTS (continued)

(c) Fair value estimation

Determination of fair value and the fair value hierarchy of financial instruments
This note provides information on how the Group determines the fair values of various financial assets and liabilities.

For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

5. FINANCIAL INSTRUMENTS (continued)

(c) Fair value estimation (continued)

Determination of fair value and the fair value hierarchy of financial instruments (continued)

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at December 31, 2025				
Financial assets at FVTPL				
Equity instruments	408,317	–	–	408,317
Structured deposit product	–	100,015	–	100,015
Exchange forward contracts	–	12,130	–	12,130
Commodity future contracts	6,603	–	–	6,603
Financial liabilities at FVTPL				
Exchange forward contracts	–	7,309	–	7,309
Commodity future contracts	9,055	–	–	9,055
As at December 31, 2024				
Financial assets at FVTPL				
Exchange forward contracts	–	6,237	–	6,237
Financial liabilities at FVTPL				
Exchange forward contracts	–	76,859	–	76,859
Commodity future contracts	2,819	–	–	2,819

The timing of transfers is determined at the date of the event or change in circumstances that caused the transfers. During the years ended December 31, 2025 and 2024, there was no transfer between Level 1 and Level 2.

5. FINANCIAL INSTRUMENTS (continued)

(c) Fair value estimation (continued)

Determination of fair value and the fair value hierarchy of financial instruments (continued)

Financial assets/ financial liabilities	Fair value as at 2025 RMB'000	Fair value as at 2024 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)
Listed equity securities in Hong Kong	408,317	–	Level 1	Quoted bid prices in an active market
Structured deposit product	100,015	–	Level 2	Future cash flows are estimated based on exchange spot rate movements at the end of the reporting period.
Exchange forward contracts	Assets: 12,130 Liabilities: 7,309	Assets: 6,237 Liabilities:76,859	Level 2	Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates.
Commodity future contracts	Assets: 6,603 Liabilities: 9,055	Assets: nil Liabilities: 2,819	Level 1	Quoted bid prices in an active market

6. CAPITAL RISK 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 maximize shareholders' value.

The Group manages its capital structure 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 year ended December 31, 2025.

The Group monitors capital on the basis of the debt to asset ratio as at December 31, 2025 and 2024 are as follows:

	2025 RMB'000	2024 RMB'000
Total assets	49,406,131	36,354,749
Total liabilities	17,365,901	16,835,105
Debt to asset ratio	35.1%	46.3%

7. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's material accounting policies, which are described in Note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

7. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty

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

(a) Allowance for expected credit losses on receivables

The loss allowances for receivables are based on assumptions about the risk of default and expected loss rates. The Group uses judgments in making these assumptions and selecting the inputs to the

7. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

(c) Property, plant and equipment and intangible assets – estimated useful lives and residual values

The Group determines the estimated useful lives and residual values (if applicable) and consequently the related depreciation/amortization charges for its property, plant and equipment and intangible assets (excluding freehold land and goodwill). These estimates are based on the historical experience, anticipated change of technology, market condition and the actual consumptions of related assets. The depreciation/amortization charge will increase when useful lives are less than previously estimated. In addition, technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in change in useful lives and residual values and therefore change in depreciation/amortization expense in future periods.

(d) Income tax

The Group estimates its income tax provision and deferred taxation in accordance with the prevailing tax rules and regulations, taking into account any special approvals obtained from the relevant tax authorities and any preferential tax treatment to which it is entitled in each location or jurisdiction in which the Group operates. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, the differences will have an impact on the income tax and deferred tax provisions in the period in which the determination is made.

Deferred tax assets are recognized for unused tax losses and deductible temporary differences, such as the provision for impairment of receivables, inventories and property, plant and equipment and accruals of expenses not yet deductible for tax purposes, to the extent that it is probable that taxable profits will be available against which the unused tax losses and the deductible temporary differences can be utilized. Significant estimation is required in determining the recoverability of deferred tax assets.

In the event that future tax rules and regulations or related circumstances change, adjustments to current and deferred taxation may be necessary which would have an impact on the Group's results or financial position.

8. OPERATING SEGMENT INFORMATION AND REVENUE

(a) Description of segments and principal activities

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker ("CODM"). The executive directors, who have been identified as being the CODM, consist of the chief executive officer, the chief financial officer and the managers for each business unit. The CODM assesses the financial performance and position of the Group and makes strategic decisions. The CODM also reviews the Group's internal reporting in order to assess performance, allocate resources, and determine the operating segments based on these reports.

As at December 31, 2025, the CODM has identified the following reportable segments from a product perspective:

- Refrigeration and air-conditioning product components business; and
- Automotive components business

(b) Segment information

For the year ended December 31, 2025, the CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses, general and administrative expenses and research and development expenses are common costs incurred for these operating segments as a whole and therefore, they are not included in the measure of the segments' performance which is used by the CODM as a basis for the purpose of resource allocation and assessment of segment performance. Net reversal of impairment losses/(net impairment losses) on financial assets, other income, other losses, net, finance costs, net and income tax expenses are also not allocated to individual operating segments.

8. OPERATING SEGMENT INFORMATION AND REVENUE (continued)

(b) Segment information (continued)

Segment information for the year ended December 31, 2025 is as follows:

	Refrigeration and air-conditioning product components RMB'000	Automotive components RMB'000	Inter segment elimination RMB'000	Total RMB'000
Revenue from contracts with external customers	18,565,510	12,419,956	–	30,985,466
Other revenue (i)	19,234	7,045	–	26,279
Segment revenue	18,584,744	12,427,001	–	31,011,745
Operating costs	(13,283,267)	(8,921,797)	–	(22,205,064)
Segment profit	5,301,477	3,505,204	–	8,806,681
Share of results of associates	8,464	–	–	8,464
Other profit or loss				(3,971,388)
Profit before income tax				4,843,757
Segment information of assets and liabilities provided to the CODM for the assessment of performance of different segments:				
Total assets	32,115,236	17,290,895	–	49,406,131
Total liabilities	9,956,333	7,409,568	–	17,365,901
Items regularly provided to the CODM but not included in the measure of segment profit or segment assets and liabilities:				
Investments in associates	44,589	–	–	44,589
Increase in non-current assets (ii)	1,409,208	1,506,457	–	2,915,665
Net reversal of impairment losses on financial assets	8,312	15,169	–	23,481
Depreciation and amortization	659,388	597,054	–	1,256,442
Impairment losses on inventories and non-current assets	49,222	73,484	–	122,706

8. OPERATING SEGMENT INFORMATION AND REVENUE (continued)

(b) Segment information (continued)

Segment information for the year ended December 31, 2024 is as follows:

	Refrigeration and air-conditioning product components RMB'000	Automotive components RMB'000	Inter segment elimination RMB'000	Total RMB'000
Revenue from contracts with external customers	16,560,605	11,359,289	–	27,919,894
Other revenue (i)	–	27,271	–	27,271
Segment revenue	16,560,605	11,386,560	–	27,947,165
Operating costs	(12,078,850)	(8,247,496)	–	(20,326,346)
Segment profit	4,481,755	3,139,064	–	7,620,819
Share of results of associates	8,925	–	–	8,925
Other profit or loss				(3,938,057)
Profit before income tax				3,691,687
Segment information of assets and liabilities provided to the CODM for the assessment of performance of different segments:				
Total assets	21,845,244	14,509,505	–	36,354,749
Total liabilities	10,033,499	6,801,606	–	16,835,105
Items regularly provided to the CODM but not included in the measure of segment profit or segment assets and liabilities:				
Investments in associates	40,600	–	–	40,600
Increase in non-current assets (ii)	1,329,950	2,991,794	–	4,321,744
Net impairment losses on financial assets	37,554	18,825	–	56,379
Depreciation and amortization	625,367	388,157	–	1,013,524
Impairment losses on inventories and non-current assets	54,273	8,648	–	62,921

Notes:

(i) Other revenue mainly represents lease income.

(ii) Increase in non-current assets other than long-term investments, goodwill, deferred tax assets and other non-current assets.

8. OPERATING SEGMENT INFORMATION AND REVENUE (continued)

(c) Revenue

Revenue represents the net invoiced value of goods sold, after allowance for returns and trade discounts. An analysis of the Group's revenue is as follows:

	2025 RMB'000	2024 RMB'000
Revenue recognized under IFRS 15		
– Refrigeration and air-conditioning product components	18,565,510	16,560,605
– Automotive components	12,419,956	11,359,289
	30,985,466	27,919,894
Revenue recognized under other accounting standard		
– Rental income from investment properties	26,279	27,271
	31,011,745	27,947,165

The revenue within the scope of IFRS 15 categorized by timing of revenue recognition is shown in the table below:

	2025 RMB'000	2024 RMB'000

8. OPERATING SEGMENT INFORMATION AND REVENUE (continued)

(c) Revenue (continued)

Revenue from major customers

	2025 RMB'000	2024 RMB'000
Customer A[1]	3,381,275	3,527,626

[1] Revenue from automotive components segment.

The remaining revenue derived from other single external customers were less than 10% of the Group's total revenue for the years ended December 31, 2025 and 2024.

(d) Contract liabilities

During the years ended December 31, 2025 and 2024, the additions to the contract liabilities were primarily due to cash collections in advance of fulfilling performance obligations, while the reductions to the contract liabilities were primarily due to the recognition of revenues upon fulfilment of performance obligations.

	2025 RMB'000	2024 RMB'000
Contract liabilities	76,167	49,462

As at 1 January 2024, the contract liabilities amounted to RMB51,789,000.

The following table shows the amount of revenue, which was included in the contract liabilities at the beginning of the year, recognized during the years ended December 31, 2025 and 2024 relates to carried-forward contract liabilities:

	2025 RMB'000	2024 RMB'000
Revenue recognized that was included in the beginning balance	49,462	51,789

Management expects that the unsatisfied obligation of RMB76,167,000 and RMB49,462,000 as at December 31, 2025 and 2024, will be recognized as revenue within the next twelve months.

8. OPERATING SEGMENT INFORMATION AND REVENUE (continued)

(e) Geographical information

The Group's operations are located on the PRC and other countries or regions. Information about the Group's revenue from external customers is presented based on the location of the customers. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers		Non-current assets (Note)	
	2025	2024	2025	2024
	RMB'000	RMB'000	RMB'000	RMB'000
The PRC	17,688,256	15,446,506	11,452,574	10,507,716
North America	6,694,921	7,094,512	1,506,875	1,458,538
Europe	2,531,019	2,623,526	486,719	498,452
Asia (excluding the PRC)				

9. OTHER INCOME

	2025 RMB'000	2024 RMB'000
Government grants (Note 31(a))	269,453	205,283
Additional deduction for VAT (i)	70,008	21,948
Interest income (ii)	68,413	63,095
Others	2,689	1,975
	410,563	292,301

Notes:

(i) Pursuant to the Announcement [2023] No.43 "Notice on the Additional Value-Added Tax ("VAT") Deduction Policy for Advanced Manufacturing Enterprises (• ë õ ‹ † ¡ ¿ 8 † 8 # = ü ê ¯ A Y ® S ')" issued in 2023 by the Ministry of Finance and the State Taxation Administration, advanced manufacturing enterprises are eligible for a 5% additional VAT deduction based on deductible input VAT from January 1, 2023 to December 31, 2027.

(ii) The amount mainly comprises interest income on the Group's term deposits classified as financial assets at amortized cost calculated using the effective interest method. Interest income from cash and cash equivalent is included in "Finance costs, net" (Note 13).

10. OTHER LOSSES, NET

	2025 RMB'000	2024 RMB'000
Net losses on disposal of derivative financial instruments	(29,775)	(38,483)
Fair value changes on derivative financial instruments	82,195	(90,734)
Fair value changes on equity instruments	(70,529)	–
Net foreign exchange differences	(150,372)	62,261
Net losses on disposal of property, plant and equipment,		

38. RELATED PARTY TRANSACTIONS (continued)

(c) Balance with related parties

	2025 RMB'000	2024 RMB'000
Trade and notes receivables		
Fellow subsidiaries of the parent company	14,699	7,765
Associates of the Group	7	80
Associates of the parent company	2	–
Others	–	125
	14,708	7,970
Less: credit loss allowance	(919)	(398)
	13,789	7,572

For the year ended December 31, 2025, the amount of expense recognized in the year in respect of credit loss allowance are RMB521,000 (2024: RMB395,000).

	2025 RMB'000	2024 RMB'000
Trade and notes payables		
Fellow subsidiaries of the parent company	10,471	4,937
Associates of the Group	3,459	9,565
Associates of the parent company	589	–
	14,519	14,502
Prepayments, other receivables and other assets:		
Fellow subsidiaries of the parent company	–	670
Associates of the Group	1,000	–
Others	–	458
	1,000	1,128
Less: credit loss allowance	–	(67)
	1,000	1,061

38. RELATED PARTY TRANSACTIONS (continued)

(c) Balance with related parties (continued)

For the year ended December 31, 2025, the amount of expense reversed in the year in respect of credit loss allowance are RMB67,000 (2024: nil).

	2025 RMB'000	2024 RMB'000
Accruals and other payables:		
Parent company	1,783	–
Fellow subsidiaries of the parent company	–	970
Associates of the parent company	100	100
	1,883	1,070

All the balances with the related parties are trade in nature.

(d) Key management compensation

Compensation of the key management personnel of the Group, including amounts paid to the Company's directors and supervisors as disclosed in Note 12(a), was as follows:

	2025 RMB'000	2024 RMB'000
Fees	561	324
Salaries, wages and bonuses	17,299	20,870
Share-based compensation expenses	2,077	2,197
Pension costs, housing fund, medical insurance and other social benefits	455	432
	20,392	23,823

As at December 31, 2025, approximately RMB8,975,000 (2024: RMB7,140,000) of payroll payables which were unpaid as at year end and are included in accruals and other payables. The share-based payments provided to key management personnel consist of restricted share incentive schemes which are equity-settled, see Note 35.

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

As at the date of this report and during the years ended December 31, 2025 and 2024, the Company's principal subsidiaries are as follows:

	Name of subsidiary	Place of incorporation/ operation and type of legal entity	Share capital registered/ paid-up capital '000	Equity interest and voting right held by the Company 2025	2024	Principal activities
1.	Zhejiang Sanhua Trading Co., Ltd. (ê g € q Þ " ® !)	PRC, limited liability company	RMB50,000	100%	100%	Marketing of refrigeration and A/C electrical components
2.	Zhejiang Sanhua Climate & Appliance Control Group Co., Ltd. (ê g € ¡ 8 « Þ " ® !)	PRC, limited liability company	RMB250,000	100%	100%	Manufacturing and sales of refrigeration equipment, automatic control components, mechanical equipment and household appliances
3.	Zhejiang Sanhua Automotive Components Co., Ltd. (ê g € Û g Å • Þ " ® !)	PRC, limited liability company	RMB2,160,000	100%	100%	Manufacturing and marketing of automotive components
4.	Sanhua (Hangzhou) Micro Channel Heat Exchanger Co., Ltd. (È g € · 8 l œ Þ " ® !)	PRC, limited liability company	RMB360,000	100%	100%	Development and manufacturing of microchannel heat exchanger products and components
5.	Shaoxing Sanhua New Energy Automotive Components Co., Ltd.* (W 3 g € - • U Û Å • Þ " ® !)	PRC, limited liability company	RMB1,250,000	–	100%	Manufacturing, wholesale, retail and technology development of automotive components
6.	Zhejiang Sanhua Commercial Refrigeration Co., Ltd. (ê g € \ ¡ 8 Þ " ® !)	PRC, limited liability company	RMB1,655,290	100%	100%	Manufacturing and marketing of refrigeration and A/C electrical components
7.	Shaoxing Sanhua New Energy Automotive Components Co., Ltd. (W 3 g € Û M # Å ¦ Þ " ® !)	PRC, limited liability company	RMB1,350,000	100%	100%	Manufacturing, wholesale and retail of automotive components
8.	Zhejiang Sanhua Automotive Components Trading Co., Ltd. (ê g € Û g q Þ " ® !)	PRC, limited liability company	RMB50,000	100%	100%	Wholesale and retail of automotive components
9.	Sanhua International Singapore Pte. Ltd. (g € 7 ç - } ÷ [Þ " ® !)	Singapore	USD175,150	100%	100%	Refrigeration and A/C electrical components manufacturing, marketing and investment management
10.	Sanhua International, Inc. (g € 7 ç Þ " ® !)	USA	USD37,550	100%	100%	Refrigeration and A/C electrical components manufacturing, marketing and investment management
11.	Sanhua Singapore Automotive Investment Pte. Ltd. (g € - } Û ³ Þ " ® !)	Singapore	USD70,100	100%	100%	Manufacturing, sales and development of automotive components

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

As at the date of this report and during the years ended December 31, 2025 and 2024, the Company's principal subsidiaries are as follows: (continued)

Name of subsidiary	Place of incorporation/ operation and type of legal entity	Share capital registered/ paid-up capital '000	Equity interest and voting right held by the Company 2025	Equity interest and voting right held by the Company 2024	Principal activities
12. R-Squared Puckett, Inc. (R ä ® 4 $ ¡ ¿ Þ " ® !)	USA	USD1	100%	100%	Development and manufacturing and sales of microchannel heat exchanger products and components
13. Wuhu Sanhua Auto-Control Components Co., Ltd. (> ³ g € › © œ • Þ " ® !)	PRC, limited liability company	RMB300,000	100%	100%	Manufacturing and sales of automatic control components, refrigeration equipment, mechanical equipment, household appliances, testing equipment, instruments and meters
14. Sanhua Automotive Poland Sp. z o.o. (g € * † Û g Å • Þ " ª , ® !)	Poland	PLN85,465	100%	100%	Manufacturing and sales of automotive components
15. Guangdong Sanhua Green Energy Auto Parts Co., Ltd. (? g € - • U Û Å • Þ " ® !)	PRC, limited liability company	RMB1,000,000	100%	100%	Manufacturing, retail and wholesale of auto parts and sales of new energy auto electrical accessories
16. Sanhua Automotive Mexico S. de R.L.de C.V. (g € Û g Å • ^ i Þ " ® !)	Mexico	MXN1,095,682	100%	100%	Manufacturing of automotive components
17. Sanhua (Vietnam) Co., Ltd. (g €(s Ì) Þ " ® !)	Vietnam	USD38,500	100%	100%	R&D, manufacturing and sales of air conditioner and refrigerator refrigeration components
18. AWECO Polska Appliance Sp. z o.o. (- þ Å * † e œ £ ê Þ " ª , ® !)	Poland	MXN50	100%	100%	R&D, manufacturing and sales of components for coffee machines and dishwashers

* The subsidiary was amalgamated by a subsidiary of the Group in April 2025.

Note:

As at December 31, 2025 and 2024, the Group had certain subsidiaries with non-controlling interests. In the opinion of the directors, none of these non-controlling interests are individually material to the Group's financial position and results of operations for the years ended December 31, 2025 and 2024. Therefore, no individual subsidiary financial information is disclosed. The aggregate financial information of these subsidiaries is set out below:

	2025 RMB'000	2024 RMB'000
Non-controlling interests in equity	291,302	221,874
Profit allocated to non-controlling interests	43,798	12,561
Dividends declared to non-controlling interests	27,903	15,528

40. EVENTS AFTER THE REPORTING PERIOD

Distribution plan for final dividend

On March 23, 2026, the Directors of the Company proposed a final dividend of RMB2.8 per 10 ordinary shares (tax inclusive) payable to the shareholders of the Company for the year ended December 31, 2025. This proposed final dividend is not reflected as a dividend payable as of December 31, 2025, but will be recorded as a distribution of retained earnings for the subsequent period. The final dividend is subject to approval by the shareholders in the forthcoming Annual General Meeting of the Company.

41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2025 RMB'000	2024 RMB'000
ASSETS		
Non-current assets		
Property, plant and equipment	1,787,053	1,754,409
Right-of-use assets	122,351	128,793
Deferred tax assets	10,731	–
Intangible assets	22,223	22,812
Investments in associates	39,301	34,628
Investments in subsidiaries	10,096,299	9,121,409
Other non-current assets	94,271	80,435
Total non-current assets	12,172,229	11,142,486
Current assets		
Inventories	1,152,995	1,109,270
Prepayments and other receivables	25,153	73,894
Amounts due from subsidiaries	862,648	477,400
Trade and notes receivables	1,402,464	1,184,885
Financial assets at FVTPL	106,723	6,237
Term deposits and restricted cash	1,191,800	1,077,255
Cash and cash equivalents	9,250,278	204,567
Current tax assets	9,983	–
Other current assets	201,386	1,318,633
Total current assets	14,203,430	5,452,141
Total assets	26,375,659	16,594,627

41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

	Notes	2025 RMB'000	2024 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		862,697	2,045,773
Lease liabilities		–	1,719
Deferred tax liabilities		–	40,768
Other non-current liabilities		81,689	56,310
Total non-current liabilities		944,386	2,144,570
Current liabilities			
Borrowings		1,589,254	1,132,674
Trade and notes payables		1,534,302	1,768,810
Contract liabilities		6,893	224
Lease liabilities		2,344	1,613
Financial liabilities at FVTPL		8,498	446
Accruals and other payables		1,016,821	595,210
Amounts due to subsidiaries		1,327,228	555,840
Total current liabilities		5,485,340	4,054,817
Total liabilities		6,429,726	6,199,387
EQUITY			
Equity attributable to owner of the Company			
– Share capital	32	4,208,014	3,732,390
– Treasury shares	33	(520,488)	(381,848)
– Other reserves	41(a)	14,625,324	5,207,773
– Retained earnings	41(b)	1,633,083	1,836,925
TOTAL EQUITY		19,945,933	10,395,240
TOTAL LIABILITIES AND EQUITY		26,375,659	16,594,627

41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

Movement in the Company's reserves

(a) Other reserves

	Share premium RMB'000	Statutory reserve RMB'000	Other reserves RMB'000	Total RMB'000
Balance at January 1, 2024	4,175,597	883,821	175,681	5,235,099
Share incentive schemes:				
– Share-based payment expenses	–	–	109,071	109,071
– Treasury shares transferred to the grantees	(284,970)	–	–	(284,970)
– Exercise of restricted shares	38,190	–	(38,190)	–
– Cancellation of shares under share incentive schemes	(1,898)	–	–	(1,898)
– Others	556	–	(2,135)	(1,579)
Appropriation to statutory reserve	–	152,050	–	152,050
Balance at December 31, 2024 and January 1, 2025	3,927,475	1,035,871	244,427	5,207,773
Share incentive schemes:				
– Share-based payment expenses	–	–	92,631	92,631
– Exercise of restricted shares	42,076	–	(42,076)	–
– Cancellation of shares under share incentive schemes	(9,020)	–	–	(9,020)
– Others	6,221	–	16,543	22,764
Issuance of H shares	9,326,069	–	–	9,326,069
Transaction costs attributable to issue of H shares	(151,929)	–	–	(151,929)
Appropriation to statutory reserve	–	137,036	–	137,036
Balance at December 31, 2025	13,140,892	1,172,907	311,525	14,625,324

41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

Movement in the Company's reserves (continued)

(b) Retained earnings

	2025 RMB'000	2024 RMB'000
At the beginning of the year	1,836,925	1,768,214
Profit for the year	1,370,361	1,520,506
Dividends (Note 15)	(1,437,167)	(1,299,745)
Appropriation to statutory reserves	(137,036)	(152,050)
	1,633,083	1,836,925

42. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

Five Year Financial Summary

	Year ended December 31,				
	2025	2024	2023	2022	2021*
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	31,011,745	27,947,165	24,557,802	21,347,550	16,020,810
Gross profit	8,806,681	7,620,819	6,735,488	5,461,612	1,869,619
Operating Profit	4,836,054	3,747,925	3,718,623	3,226,061	1,986,765
Profit before income tax	4,843,757	3,691,687	3,553,264	3,051,258	1,976,629
Profit attributable to owners of the Company	4,062,892	3,099,165	2,920,993	2,573,344	1,684,044
Total comprehensive income for the year	4,263,837	2,858,606	3,057,015	2,728,920	1,665,039
Total comprehensive income attributable to owners of the Company	4,220,039	2,846,045	3,044,293	2,694,212	1,644,259

	As at December 31,				
	2025	2024	2023	2022	2021*
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total non-current assets	15,683,617	14,053,586	11,819,045	9,205,510	7,048,876
Total current assets	33,722,514	22,301,163	20,071,540	18,755,704	16,571,091
Total assets	49,406,131	36,354,749	31,890,585	27,961,214	23,619,967
Total non-current liabilities	2,000,662	3,201,801	2,008,032	5,385,990	4,016,423
Total current liabilities	15,365,239	13,633,304	11,818,845	9,455,924	8,350,953
Total liabilities	17,365,901	16,835,105	13,826,877	14,841,914	12,367,376
Total shareholders' equity attributable to owners of the Company	31,748,928	19,297,770	17,894,404	12,941,310	11,150,308
Total equity	32,040,230	19,519,644	18,063,708	13,119,300	11,252,591

* The audited figures were prepared in accordance with the relevant accounting principles in the PRC.