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POWER XINCHEN

新 晨 动 力

XINCHEN CHINA POWER HOLDINGS LIMITED

新 晨 中 國 動 力 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1148)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board of directors (the “**Board**”) of Xinchen China Power Holdings Limited (the “**Company**”) announces the unaudited consolidated interim financial results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended	
		30.6.2020	30.6.2019
	<i>NOTES</i>	RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	3	741,953	1,154,612
Cost of sales		(695,607)	(1,001,051)
Gross profit		46,346	153,561
Other income	4	15,097	11,446
Impairment losses	5	(13,582)	(544)
Other gains and losses	6	(10,069)	(832)
Selling and distribution expenses		(14,392)	(18,422)
Administrative expenses		(54,990)	(61,682)
Other expenses		(7,517)	(2,384)
Finance costs		(38,967)	(41,760)
(Loss)/Profit before tax	7	(78,074)	39,383
Income tax expense	8	(541)	(7,455)
(Loss)/Profit for the period		(78,615)	31,928

		Six months ended	
		30.6.2020	30.6.2019
<i>NOTES</i>		<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(unaudited)
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Fair value loss on:			
Receivables measured at fair value through other comprehensive income (“FVTOCI”)			
		<u>(282)</u>	<u>(1,484)</u>
		<u>(282)</u>	<u>(1,484)</u>
		<u>(78,897)</u>	<u>30,444</u>
		<u>(0.061)</u>	<u>0.025</u>
(Loss)/Earnings per share – Basic (<i>RMB</i>)	<i>10</i>	<u>(0.061)</u>	<u>0.025</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	<i>NOTES</i>	30.6.2020 RMB'000 (unaudited)	31.12.2019 <i>RMB'000</i> (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	<i>11</i>	2,422,274	2,543,565
Prepaid lease payments		128,353	130,164
Intangible assets	<i>11</i>	700,507	669,384
Loan to a shareholder		15,035	14,314
Deferred tax assets		18,900	18,182
		<hr/> 3,285,069	<hr/> 3,375,609
CURRENT ASSETS			
Inventories		615,468	658,422
Trade and other receivables	<i>12a</i>	639,273	437,624
Receivables measured at FVTOCI	<i>12b</i>	37,895	34,348
Tax recoverable		9,979	9,555
Amounts due from related companies	<i>13</i>	923,670	1,145,866
Pledged/restricted bank deposits		462,535	266,068
Bank balances and cash		63,762	98,188
		<hr/> 2,752,582	<hr/> 2,650,071
TOTAL ASSETS		<hr/> 6,037,651	<hr/> 6,025,680

	<i>NOTES</i>	30.6.2020 RMB'000 (unaudited)	31.12.2019 <i>RMB'000</i> (audited)
CURRENT LIABILITIES			
Trade and other payables	<i>14</i>	1,206,678	1,176,139
Amounts due to related companies	<i>15</i>	192,836	215,304
Lease liabilities	<i>16</i>	5,243	8,407
Borrowings due within one year		1,259,098	1,008,088
		<u>2,663,855</u>	<u>2,407,938</u>
NET CURRENT ASSETS		<u>88,727</u>	<u>242,133</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,373,796</u>	<u>3,617,742</u>
NON-CURRENT LIABILITIES			
Borrowings due after one year		421,372	577,723
Lease liabilities	<i>16</i>	1,808	5,231
Deferred income		37,593	42,868
		<u>460,773</u>	<u>625,822</u>
NET ASSETS		<u>2,913,023</u>	<u>2,991,920</u>
CAPITAL AND RESERVES			
Share capital	<i>17</i>	10,457	10,457
Reserves		2,902,566	2,981,463
TOTAL EQUITY		<u>2,913,023</u>	<u>2,991,920</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants as well as with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to Hong Kong Financial Reporting Standard (“HKFRS”) 3	Definition of Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Amendments to HKAS 1 and HKAS 8	Definition of Material

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

3. REVENUE AND SEGMENT INFORMATION

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

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

3.1 Segment revenue and segment results

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

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

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

	Segment revenue		Segment results	
	Six months ended 30.6.2020 <i>RMB'000</i> (Unaudited)	30.6.2019 <i>RMB'000</i> (Unaudited)	Six months ended 30.6.2020 <i>RMB'000</i> (Unaudited)	30.6.2019 <i>RMB'000</i> (Unaudited)
Gasoline engines	260,111	570,653	(6,881)	55,127
Diesel engines	92,736	234,064	5,053	39,440
Engine components	389,106	349,895	48,174	58,994
Total segment and consolidated	<u>741,953</u>	<u>1,154,612</u>	46,346	153,561
Other income			15,097	11,446
Impairment losses			(13,582)	(544)
Other gains and losses			(10,069)	(832)
Selling and distribution expenses			(14,392)	(18,422)
Administrative expenses			(54,990)	(61,682)
Other expenses			(7,517)	(2,384)
Finance costs			(38,967)	(41,760)
(Loss)/Profit before tax			<u>(78,074)</u>	<u>39,383</u>

Revenue reported above represents revenue generated from sales of goods or service provision to external customers. There were no inter-segment sales during the six months ended 30 June 2020 and 2019.

Segment results represent the (loss)/profit contributed by each segment before the allocation of other income, impairment losses, other gains and losses, selling and distribution expenses, administrative expenses, other expenses and finance costs. This is the measure reported to the Board for the purpose of resource allocation and performance assessment.

3.2 Segment assets and liabilities

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

3.3 Geographical information

The majority of the Group's operations and non-current assets are located in the People's Republic of China (the "PRC"); and almost all of the Group's revenue from external customers is generated in the PRC, which is the country of domicile of Mianyang Xincheng Engine Co., Ltd.* (綿陽新晨動力機械有限公司) ("Mianyang Xincheng") and its subsidiary.

* *English name for reference only*

4. OTHER INCOME

	Six months ended	
	30.6.2020	30.6.2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Government grants	10,543	6,274
Bank interest income	3,948	4,609
Imputed interest income from loan to a shareholder	472	437
Rental income under operating leases	134	126
	15,097	11,446

5. IMPAIRMENT LOSSES

	Six months ended	
	30.6.2020 <i>RMB'000</i> (unaudited)	30.6.2019 <i>RMB'000</i> (unaudited)
Impairment losses recognised on:		
– Trade and other receivables (<i>Note 12a</i>)	13,582	417
– Amounts due from related companies (<i>Note 13</i>)	–	127
	13,582	544
	13,582	544

6. OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2020 <i>RMB'000</i> (unaudited)	30.6.2019 <i>RMB'000</i> (unaudited)
Net gain arising on financial assets at fair value through profit or loss (“FVTPL”), realised	–	4,614
Net gain arising on financial liabilities at FVTPL, realised	–	1,121
Net gain arising on financial liabilities at FVTPL, unrealised	–	280
Foreign exchange losses, net	(8,649)	(2,784)
Gain on disposal of assets classified as held for sale	–	652
Gain on disposal of miscellaneous materials	780	–
Net loss arising on receivables measured at FVTOCI	(2,869)	(5,041)
Gain on disposal of property, plant and equipment (<i>Note 11</i>)	2	–
Reversal of provision for impairment losses on amounts due from related companies (<i>Note 13</i>)	571	–
Others	96	326
	(10,069)	(832)
	(10,069)	(832)

7. (LOSS)/PROFIT BEFORE TAX

(Loss)/Profit before tax has been arrived at after charging:

	Six months ended	
	30.6.2020 RMB'000 (unaudited)	30.6.2019 RMB'000 (unaudited)
Employee benefits expenses (including directors):		
– Salaries and other benefits	54,075	68,405
– Retirement benefit scheme contributions	3,542	16,732
	<hr/>	<hr/>
Total staff costs	57,617	85,137
	<hr/>	<hr/>
Depreciation of right-of-use assets	3,338	3,566
Depreciation of property, plant and equipment	128,009	144,403
Depreciation of prepaid lease payments	1,811	1,654
Amortisation of intangible assets (included in cost of sales)	6,290	18,399
	<hr/>	<hr/>
Total depreciation and amortisation	139,448	168,022
	<hr/> <hr/>	<hr/> <hr/>

8. INCOME TAX EXPENSE

	Six months ended	
	30.6.2020 RMB'000 (unaudited)	30.6.2019 RMB'000 (unaudited)
PRC Enterprise Income Tax (“EIT”)		
– Current tax	1,259	7,455
– Under provision in prior year	–	–
	<hr/>	<hr/>
	1,259	7,455
Deferred tax	(718)	–
	<hr/>	<hr/>
	541	7,455
	<hr/> <hr/>	<hr/> <hr/>

Mianyang Xincheng was subject to 15% EIT rate for both periods ended 30 June 2020 and 2019, which is lower than the standard tax rate of 25%. According to the announcement of “the State Administration of Taxation on issues concerning Enterprise Income Tax Related with enhancing the Western Region Development Strategy”(國家稅務總局關於深入實施西部大開發戰略有關稅收政策問題的通知), Mianyang Xincheng was registered with the local tax authority to be eligible to the reduced 15% EIT rate from 2011 to 2020. The preferential EIT rate is subject to assessment by the local tax authority on annual basis.

9. DIVIDENDS

No dividend has been paid or declared by the Company during both periods ended 30 June 2020 and 2019, nor has any dividend been proposed since the end of the reporting period.

10. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended	
	30.6.2020	30.6.2019
	(unaudited)	(unaudited)
(Loss)/Earnings		
(Loss)/Profit for the period attributable to owners of the Company for the purpose of basic (loss)/earnings per share (RMB'000)	<u>(78,615)</u>	<u>31,928</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	<u>1,282,211,794</u>	<u>1,282,211,794</u>

No diluted earnings per share are presented as there was no dilutive potential ordinary share outstanding during the periods or as at the end of reporting periods.

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

During the current interim period, the Group acquired property, plant and equipment, other than construction in progress, amounting to approximately RMB556,000 (six months ended 30 June 2019: approximately RMB5,329,000) for the purpose of upgrading its manufacturing capacity of the Group. During the current interim period, the Group disposed certain plant and equipment with an aggregate carrying amount of approximately RMB190,000 (six months ended 30 June 2019: nil) resulting in a gain on disposal of approximately RMB2,000 (six months ended 30 June 2019: nil).

In addition, during current interim period, the Group had approximately RMB12,929,000 (six months ended 30 June 2019: approximately RMB170,992,000) addition to construction in progress, primarily for scaling up the Group's production facilities and capacity. Included in the total addition was approximately RMB5,618,000 (six months ended 30 June 2019: approximately RMB5,075,000) interests capitalised.

During the current interim period, the Group capitalised development costs of technical know-how of new automotive engines amounting to approximately RMB37,413,000 (six months ended 30 June 2019: approximately RMB32,894,000) for the purposes of expanding its products range of gasoline and diesel engines. Included in the total addition was approximately RMB2,107,000 (six months ended 30 June 2019: approximately RMB2,107,000) interest capitalised.

The Group entered into lease agreements in respect of office premises and production facilities for 2 years and 3 years respectively as at 1 January 2019. The Group makes fixed payments during the contract period. During the six months ended 30 June 2020, the Group entered into a modified contract and revised the monthly rental of production facilities. As the modification did not add the right to use one or more underlying assets, it was not accounted for as a separate lease. Accordingly, the Group remeasured the existing lease liabilities including the lease payments for the revised monthly rental using a revised discount rate. The difference between the carrying amount of the modified lease liability and the lease liability immediately before the modification of approximately RMB3,239,000 was adjusted to the right-of-use assets.

As at 30 June 2020, the carrying amounts of the Group's right-of-use assets in respect of office premises and production facilities amounting to approximately RMB6,717,000 (six months ended 30 June 2019: approximately RMB17,987,000).

12. TRADE AND OTHER RECEIVABLES AND RECEIVABLES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

a. Trade and other receivables comprise the following:

	30.6.2020 <i>RMB'000</i> (unaudited)	31.12.2019 <i>RMB'000</i> (audited)
Trade receivables	568,243	261,957
Less: Expected credit losses (“ECL”) allowance	(35,674)	(8,677)
	<hr/>	<hr/>
Trade receivables, net	532,569	253,280
Bills receivable	45,761	76,772
Less: ECL allowance	(167)	(136)
	<hr/>	<hr/>
Total trade and bills receivables	578,163	329,916
Prepayments for purchase of raw materials and engine components	12,862	14,190
Other receivables (<i>Note</i>)	48,527	93,797
Less: ECL allowance	(279)	(279)
	<hr/>	<hr/>
	639,273	437,624
	<hr/> <hr/>	<hr/> <hr/>

Note: Included in the balance is value added tax recoverable of approximately RMB19,909,000 (at 31 December 2019: approximately RMB49,352,000).

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

	30.6.2020 <i>RMB'000</i> (unaudited)	31.12.2019 <i>RMB'000</i> (audited)
Within 1 month	133,752	82,535
Over 1 month but within 2 months	9,064	15,846
Over 2 months but within 3 months	5,677	3,945
Over 3 months but within 6 months	3,512	2,806
Over 6 months but within 1 year	19,173	82,387
Over 1 year	361,391	65,761
	<hr/>	<hr/>
	532,569	253,280
	<hr/> <hr/>	<hr/> <hr/>

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

	30.6.2020 RMB'000 (unaudited)	31.12.2019 RMB'000 (audited)
Within 3 months	37,718	49,764
Over 3 months but within 6 months	7,876	26,872
	45,594	76,636

At 30 June 2020 and 31 December 2019, the Group engaged an independent qualified valuer to assess the impairment of its customers based on provision matrix. The table below provided information about the exposure to credit risk and ECL for trade receivables which were assessed based on provision matrix as at 30 June 2020 and 31 December 2019:

30 June 2020

	Gross carrying amount RMB'000 (unaudited)	Loss rate range %	ECL RMB'000 (unaudited)
Not past due	126,454	0.74-4.75	1,141
<i>Past due:</i>			
Within 1 month	22,634	0.74-4.75	474
Over 1 month but within 3 months	2,514	0.74-4.75	51
Over 3 months but within 6 months	17,759	0.74-32.14	763
Over 6 months but within 1 year	13,779	2.92-32.14	688
Over 1 year	385,103	2.92-32.14	32,557
	568,243		35,674

31 December 2019

	Gross carrying amount RMB'000 (audited)	Loss rate range %	ECL RMB'000 (audited)
Not past due	67,399	0.74-1.21	509
<i>Past due:</i>			
Within 1 month	31,804	0.74-1.21	375
Over 1 month but within 3 months	4,346	0.74-4.75	70
Over 3 months but within 6 months	11,922	0.74-4.75	434
Over 6 months but within 1 year	92,997	1.21-4.75	4,272
Over 1 year	53,489	4.75-32.14	3,017
	261,957		8,677

Movement in the ECL of trade receivables:

	30.6.2020 RMB'000 (unaudited)	31.12.2019 RMB'000 (audited)
At beginning of period/year	8,677	2,978
Transferred from ECL of amounts due from related companies (<i>Note 13</i>)	13,446	–
ECL recognised	<u>13,551</u>	<u>5,699</u>
At end of the reporting period/year	<u><u>35,674</u></u>	<u><u>8,677</u></u>

Movement in the ECL of bills receivables:

	30.6.2020 RMB'000 (unaudited)	31.12.2019 RMB'000 (audited)
At beginning of period/year	136	–
ECL recognised	<u>31</u>	<u>136</u>
At end of the reporting period/year	<u><u>167</u></u>	<u><u>136</u></u>

Movement in the ECL of other receivables:

	30.6.2020 RMB'000 (unaudited)	31.12.2019 RMB'000 (audited)
At beginning of period/year	279	–
ECL recognised	<u>–</u>	<u>279</u>
At end of the reporting period/year	<u><u>279</u></u>	<u><u>279</u></u>

b. Receivables measured at fair value through other comprehensive income:

	30.6.2020 RMB'000 (unaudited)	31.12.2019 RMB'000 (audited)
Receivables measured at FVTOCI from third parties	37,895	24,640
Receivables measured at FVTOCI from related companies	<u>–</u>	<u>9,708</u>
	<u><u>37,895</u></u>	<u><u>34,348</u></u>

13. AMOUNTS DUE FROM RELATED COMPANIES

Analysed as:

	30.6.2020 RMB'000 (unaudited)	31.12.2019 RMB'000 (audited)
Trade related	923,539	1,145,725
Non-trade related	131	141
	923,670	1,145,866

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

	30.6.2020 RMB'000 (unaudited)	31.12.2019 RMB'000 (audited)
Huachen Group[#]		
Shenyang Brilliance Power Train Machinery Co., Ltd.* 瀋陽華晨動力機械有限公司 (“Shenyang Brilliance”)	284,877	320,399
Huachen Automotive Group Holdings Company Limited* 華晨汽車集團控股有限公司 (“Huachen Automotive”)	24,458	22,419
	309,335	342,818
Brilliance China Group^{##}		
Shenyang XingYuanDong Automobile Component Co., Ltd.* 瀋陽興遠東汽車零部件有限公司	144,503	141,658
Renault Brilliance JinBei Automobile Co., Ltd.* 華晨雷諾金杯汽車有限公司 (“Renault Brilliance”)	5,939	4,771
Shenyang ChenFa Automobile Component Co., Ltd.* 瀋陽晨發汽車零部件有限公司 (“Shenyang ChenFa”)	287,479	276,377
BMW Brilliance Automotive Ltd.* 華晨寶馬汽車有限公司 (“BMW Brilliance Automotive”)	176,087	133,374
	614,008	556,180
Wuliangye Group^{###}		
Mianyang Xinhua Trading Co., Ltd.* 綿陽新華商貿有限公司 (“Xinhua Trading”)	196	102
Other related companies		
Mianyang Huarui Automotive Company Limited* [^] 綿陽華瑞汽車有限公司 (“Mianyang Huarui”)	–	132,520
Mianyang Huaxiang Machinery Manufacturing Co., Ltd.* [^] 綿陽華祥機械製造有限公司 (“Mianyang Huaxiang”)	–	109,274
Shenyang Jinbei Vehicle Manufacturing Co., Ltd.* ^{^^} 瀋陽金杯車輛製造有限公司 (“Jinbei Vehicle Manufacturing”)	–	4,831
	–	246,625
	923,539	1,145,725

Notes:

- * *English name for reference only*
- # *Huachen Automotive and its subsidiaries collectively referred to as “Huachen Group”*
- ## *Brilliance China Automotive Holdings Limited (“Brilliance China”, Brilliance China and its subsidiaries collectively referred to as “Brilliance China Group”)*
- ### *Sichuan Province Yibin Wuliangye Group Co., Ltd.* 四川省宜賓五糧液集團有限公司 (“Wuliangye”, Wuliangye and its subsidiaries collectively referred to as “Wuliangye Group”)*
- ^ *There were common directors who had influence over the Group and the entities and hence, Mianyang Huarui and Mianyang Huaxiang (a subsidiary of Mianyang Huarui) are considered as related parties of the Group in accordance with HKAS 24 Related Party Disclosures as at 31 December 2019. As at 30 June 2020, there is no common director who has influence over the Group and the entities and hence, Mianyang Huarui and Mianyang Huaxiang are no longer considered as related parties of the Group.*
- ^^ *There were common directors who had influence over the Group and the entity and hence, Jinbei Vehicle Manufacturing is considered as a related party of the Group in accordance with HKAS 24 Related Party Disclosures as at 31 December 2019. As at 30 June 2020, there is no common director who has influence over the Group and the entity and hence, Jinbei Vehicle Manufacturing is no longer considered as related party of the Group.*

The Group applied simplified approach to provide the ECL prescribed by HKFRS 9. To measure the ECL of amounts due from related companies, the balances have been assessed based on individual assessment. At 30 June 2020 and 31 December 2019, the Group engaged a valuer to assess the credit rating for its customers and applying the expected loss rate ranging from 0.1% to 0.5% (31 December 2019: 0.1% to 6.3%) over the gross carrying amounts. As at 30 June 2020, ECL allowance amounting to approximately RMB1,464,000 (31 December 2019: approximately RMB15,481,000) was recognised based on individual assessment by reference to the Group’s historical credit loss experiences, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

Movement in the ECL:

	30.6.2020 RMB’000 (unaudited)	31.12.2019 RMB’000 (audited)
At beginning of period/year	15,481	15,481
Transferred to ECL of trade receivables (<i>Note 12a</i>)	(13,446)	–
Reversal of ECL	(571)	–
	<hr/> 1,464 <hr/>	<hr/> 15,481 <hr/>
At end of the reporting period/year	1,464	15,481

14. TRADE AND OTHER PAYABLES

Trade and other payables comprise the following:

	30.6.2020 RMB'000 (unaudited)	31.12.2019 RMB'000 (audited)
Trade payables	515,986	572,322
Bills payable	442,016	361,981
Total trade and bills payables	958,002	934,303
Accrued purchase of raw materials	183,474	164,405
Construction payables	4,735	4,400
Payroll and welfare payables	19,561	31,468
Advances from customers (<i>Note i</i>)	2,040	1,752
Provision for warranty (<i>Note ii</i>)	4,006	4,006
Retention money	12,205	13,936
Other tax payables	272	230
Accrued operating expenses	9,854	10,012
Other payables	12,529	11,627
	1,206,678	1,176,139

Notes:

- i. As at 30 June 2020 and 31 December 2019, the balance represented the contract liabilities, i.e. the Group's obligation to transfer goods or services to customers for which the Group had received consideration from the customers. During the period ended 30 June 2020, the contract liabilities balance at the beginning of the period were fully recognised as revenue from sales of goods.
- ii. The balance of provision for warranty represents management's best estimate of the Group's liability under the one year warranty granted on the sale of automotive engines and automotive engine components, based on prior experience and industry average for defective products at the end of the reporting period.

The credit period of trade payables and bills payable is normally within 3 months and 3 to 12 months, respectively. The following is an aging analysis of trade payables presented based on the invoice date as at the end of the reporting period:

	30.6.2020 RMB'000 (unaudited)	31.12.2019 RMB'000 (audited)
Within 3 months	281,277	364,909
Over 3 months but within 6 months	114,394	81,309
Over 6 months but within 1 year	46,277	72,150
Over 1 year but within 2 years	74,038	53,954
	515,986	572,322

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

	30.6.2020 RMB'000 (unaudited)	31.12.2019 RMB'000 (audited)
Within 3 months	230,444	156,021
Over 3 months but within 6 months	146,572	205,960
Over 6 months but within 1 year	65,000	–
	442,016	361,981

15. AMOUNTS DUE TO RELATED COMPANIES

	30.6.2020 RMB'000 (unaudited)	31.12.2019 RMB'000 (audited)
Trade related:		
Huachen Group		
Huachen Automotive	610	610
Shenyang Brilliance	4,704	127
Shenyang Brilliance Jinbei Automobile Sales Co., Ltd.* 瀋陽華晨金杯汽車銷售有限公司	9	–
	5,323	737
Brilliance China Group		
Mianyang Brilliance Ruian Automotive Components Co., Ltd.* 綿陽華晨瑞安汽車零部件有限公司	31,247	19,580
Shenyang ChenFa	3,583	3,574
BMW Brilliance Automotive	14,699	14,060
Shenyang Jinbei Vehicle Dies Manufacturing Co., Ltd.* 瀋陽金杯汽車模具製造有限公司	14	11
Renault Brilliance	5,517	5,519
	55,060	42,744
Wuliangye Group		
Xinhua Trading	28	–
Mianyang Xinhua Internal Combustion Engine Joint-Stock Company Limited* 綿陽新華內燃機股份有限公司 (“Xinhua Combustion Engine”)	120,364	159,328
Sichuan Yi Bin Pushi Automotive Components Co., Ltd.* 四川省宜賓普什汽車零部件有限公司	7,630	10,154
Mianyang Xin Xinmao Trading Co., Ltd.* 綿陽新鑫茂商貿有限公司	696	696
	128,718	170,178
	189,101	213,659

* *English name for reference only*

	30.6.2020 <i>RMB'000</i> (unaudited)	31.12.2019 <i>RMB'000</i> (audited)
Non-trade related:		
Huachen Group		
Huachen Automotive	341	341
Shenyang Brilliance	<u>1,848</u>	<u>–</u>
	<u>2,189</u>	<u>341</u>
Brilliance China Group		
Brilliance China	1,546	1,276
Wuliangye Group		
Xinhua Combustion Engine	<u>–</u>	<u>28</u>
	<u>3,735</u>	<u>1,645</u>
	<u>192,836</u>	<u>215,304</u>
	30.6.2020 <i>RMB'000</i> (unaudited)	31.12.2019 <i>RMB'000</i> (audited)
Trade related balances analysed as:		
Trade payables	29,984	127,238
Bills payable	<u>159,117</u>	<u>86,421</u>
	<u>189,101</u>	<u>213,659</u>

The average credit period for supply of goods/raw material and provision of services is 3 to 6 months. The aging of trade related amounts due to related companies presented based on the invoice date as at the end of the reporting period is as follows:

	30.6.2020 <i>RMB'000</i> (unaudited)	31.12.2019 <i>RMB'000</i> (audited)
Within 3 months	439	86,457
Over 3 months but within 6 months	12,494	15,114
Over 6 months but within 1 year	4,721	16,310
Over 1 year	<u>12,330</u>	<u>9,357</u>
	<u>29,984</u>	<u>127,238</u>

The bills payable are guaranteed by banks in the PRC and have maturities of 3 to 12 months. The following is an aging analysis of bills payable (trade related) presented based on the issuance date of bills as at the end of the reporting period:

	30.6.2020 RMB'000 (unaudited)	31.12.2019 RMB'000 (audited)
Within 3 months	102,257	44,490
Over 3 months but within 6 months	33,360	41,931
Over 6 months but within 1 year	23,500	–
	159,117	86,421

The trade related amounts are interest-free, unsecured and with credit period of 3 to 6 months.

The non-trade related amounts are interest-free, unsecured and repayable on demand.

16. LEASE LIABILITIES

	30.6.2020 RMB'000 (unaudited)	31.12.2019 RMB'000 (audited)
Total minimum lease payments:		
Due within one year	5,495	8,962
Due in the second to fifth years	1,848	5,424
	7,343	14,386
Future finance charges on leases liabilities	(292)	(748)
Present value of leases liabilities	7,051	13,638
	30.6.2020 RMB'000 (unaudited)	31.12.2019 RMB'000 (audited)
Present value of minimum lease payments:		
Due within one year	5,243	8,407
Due in the second to fifth years	1,808	5,231
	7,051	13,638
<i>Less:</i>		
Portion due within one year included under current liabilities	(5,243)	(8,407)
Portion due after one year included under non-current liabilities	1,808	5,231

17. SHARE CAPITAL

	Number of shares	Amount HK\$
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
At 1 January 2019, 30 June 2019 and 30 June 2020	<u>8,000,000,000</u>	<u>80,000,000</u>
<i>Issued and fully paid:</i>		
At 31 December 2019 and 30 June 2020	<u>1,282,211,794</u>	<u>12,822,118</u>
	30.6.2020	31.12.2019
	RMB'000	RMB'000
	(unaudited)	(audited)
Share capital presented in the condensed consolidated statement of financial position	<u>10,457</u>	<u>10,457</u>

MANAGEMENT'S DISCUSSION & ANALYSIS

Business review

As the novel coronavirus took its toll during the reporting period, industries across the board showed significantly decline in sales figures, and the automobile industry was no exception. In the first half of 2020, the Group achieved total unaudited revenue of approximately RMB741.95 million, representing a decrease of approximately 35.7% compared to approximately RMB1,154.61 million for the corresponding period last year. The decrease in revenue was mainly due to a decrease in the sales of engines. Apart from the reason mentioned above, the decrease in the sales of the engines was caused by the unfavorable automobile market environment. Even before the deadly outbreak, car sales in China were in decline due to a slowing economy and trade tensions with the United States.

Sales volume of engines decreased by approximately 60.6%, from approximately 72,600 units in the first half of 2019 to approximately 28,620 units in the first half of 2020, mainly due to the decrease in sales of both gasoline and diesel engines.

With respect to the engines business segment, the Group recorded approximately 56.2% decrease in the segment revenue, from approximately RMB804.72 million in the first half of 2019 to approximately RMB352.85 million in the first half of 2020. The decrease was mainly due to a decrease in the sales of both gasoline and diesel engines.

With respect to the engine components segment, the Group recorded approximately 11.2% increase in the segment revenue, from approximately RMB349.90 million in the first half of 2019 to approximately RMB389.11 million in the first half of 2020. The increase was mainly due to a slight increase in the sales of connecting rods and increase in sales of accessories in the first half of 2020. The Group sold approximately 252,950 units of crankshaft in the first half of 2020, representing approximately 2.0% decrease compared to approximately 258,200 units for the corresponding period of 2019. The decrease was due to the decrease in demand for Bx8 crankshafts as requested by BMW Brilliance Automotive.

The Group sold approximately 396,500 units of connecting rods in the first half of 2020, representing approximately 29.7% increase compared to approximately 305,800 units for the corresponding period of 2019. The increase in the unit sales of connecting rods was mainly due to an increase in demand of Bx8 connecting rods during the reporting period.

The unaudited cost of sales amounted to approximately RMB695.61 million in the first half of 2020, representing a decrease of approximately 30.5% compared to approximately RMB1,001.05 million for the corresponding period last year. The decrease was less than the corresponding decrease in the Group's total unaudited revenue, as there was only slight decrease in fixed cost.

The gross profit margin of the Group decreased as the volume of production decreased significantly whilst the fixed cost remained during the period. It was approximately 6.3% in the first half of 2020 whilst it was approximately 13.3% in the first half of 2019.

The unaudited other income increased from approximately RMB11.45 million for the first half of 2019 to approximately RMB15.10 million for the first half of 2020, representing an increase of approximately 31.9%. The increase was mainly due to the increase in government grants recognized during the period.

Impairment losses increased from approximately RMB0.54 million in the first half of 2019 to approximately RMB13.58 million in the first half of 2020. The increase was mainly due to an impairment of trade and other receivables from certain customers.

The unaudited other gains and losses increased from net losses of approximately RMB0.83 million for the first half of 2019 to net losses of approximately RMB10.07 million for the first half of 2020. The increase was mainly due to more unrealized foreign exchange translation loss recognized and less net gain arising on financial assets at fair value through profit and loss account recognized in the first half of 2020.

The unaudited selling and distribution expenses decreased by approximately 21.9%, from approximately RMB18.42 million in the first half of 2019 to approximately RMB14.39 million in the first half of 2020, representing approximately 1.6% and approximately 1.9% of the revenue in the first half of 2019 and 2020 respectively. The decrease in terms of value was mainly due to a decrease in transportation and sales staff costs.

The unaudited administrative expenses decreased by approximately 10.8%, from approximately RMB61.68 million in the first half of 2019 to approximately RMB54.99 million in the first half of 2020, representing approximately 5.3% and approximately 7.4% of the revenue in the first half of 2019 and 2020 respectively. The decrease in value was mainly due to the general decrease in other staff costs, depreciation and office expenses. The increase in terms of percentage was mainly due to a larger extent of decrease in sales volume.

The unaudited finance costs decreased by approximately 6.7%, from approximately RMB41.76 million in the first half of 2019 to approximately RMB38.97 million in the first half of 2020. The decrease was mainly due to decrease in the discount rate of short-term financing by discounting bills during the course of business.

The Group's unaudited profit before tax was approximately RMB39.38 million in the first half of 2019, whereas there was unaudited loss before tax of approximately RMB78.07 million in the first half of 2020.

The unaudited income tax expenses decreased by approximately 92.7%, from approximately RMB7.46 million in the first half of 2019 to approximately RMB0.54 million in the first half of 2020. The decrease was due to the decrease in business transacted during the period.

In the first half of 2020, the Group recorded unaudited net loss attributable to the owners of the Company of approximately RMB78.62 million, which compares to unaudited net profit attributable to the owners of the Company of approximately RMB31.93 million for the six months ended 30 June 2019.

Liquidity and financial resources

As at 30 June 2020, the Group had approximately RMB63.76 million in bank balances and cash (31 December 2019: approximately RMB98.19 million), and approximately RMB462.54 million in pledged/restricted bank deposits (31 December 2019: approximately RMB266.07 million).

As at 30 June 2020, the Group had trade and other payables of approximately RMB1,206.68 million (31 December 2019: approximately RMB1,176.14 million), bank borrowings due within one year in the amount of approximately RMB1,259.10 million (31 December 2019: approximately RMB1,008.09 million), and bank borrowings due after one year in the amount of approximately RMB421.37 million (31 December 2019: approximately RMB577.72 million).

Pledge of assets

As at 30 June 2020, the Group pledged certain of its land use rights, buildings, plant and machinery with a total value of approximately RMB82.86 million (31 December 2019: approximately RMB100.15 million) to certain banks to secure certain credit facilities granted to the Group.

As at 30 June 2020, the Group also pledged bank deposits of approximately RMB460.20 million (31 December 2019: approximately RMB261.30 million) to certain banks to secure certain credit facilities granted to the Group.

Gearing ratio

As at 30 June 2020, the Debt-to-Equity ratio of the Group, computed by dividing total liabilities by total equity attributable to the owners of the Company, was approximately 1.07 (31 December 2019: approximately 1.01).

As at 30 June 2020, the gearing ratio, computed by dividing bank borrowings by total equity attributable to owners of the Company, was approximately 57.7% (31 December 2019: approximately 53.0%). Both Debt-to-Equity ratio and gearing ratio were slightly increased, which were mainly due to increase in total bank borrowings and decrease in total equity.

Contingent liabilities

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

Capital commitments

As at 30 June 2020, the Group had capital commitments of approximately RMB388.07 million (31 December 2019: approximately RMB479.09 million), of which contracted capital commitments amounted to approximately RMB70.26 million (31 December 2019: approximately RMB101.09 million), which is primarily related to the capital expenditure in respect of acquisition of property, plant and equipment, and new engine development.

Foreign exchange risks

The Group's functional currency is Renminbi. Since the Group has certain assets and liabilities, such as receivables, payables, cash and bank borrowings, denominated in foreign currencies, such as United States Dollar and Hong Kong Dollar, the Group is exposed to foreign currency translation risk. The Group will monitor its foreign exchange risks and may consider hedging its foreign currency exposure, if and when necessary.

Employees and remuneration policy

As at 30 June 2020, the Group had approximately 1,274 employees (30 June 2019: approximately 1,603). Employee costs amounted to approximately RMB57.62 million for the six months ended 30 June 2020 (six months ended 30 June 2019: approximately RMB85.14 million). The Group will endeavor to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' remuneration is based on their performance.

Outlook

In the first half of 2020, the country shutdown in February and March to fight the novel coronavirus pandemic and the consumers' concerns over a slowing economy and trade tension with the United States resulted in the further dampened sales of the passenger vehicles segment of the automotive sector in the PRC after the lackluster performance in 2019. According to the China Association of Automobile Manufacturers ("CAAM"), the sales of passenger vehicles segment recorded a decline of 22.5% on a year-on-year basis in the first half of 2020 whilst the sales of commercial vehicles segment recorded a growth of 9.5%. Passenger vehicles account for about 76.7% of sales of the automotive sector. The decline of the passenger vehicles segment was mainly driven by a decrease in demand for sedan cars and sport-utility vehicles ("SUVs"). As such, the sale volume of our engine products decreased significantly during the reporting period.

The current global economic uncertainties and pandemic development may continue to pose threat to the PRC's automobile markets. In view of this situation, the PRC government has already implemented various policies to boost the automobile sales, including purchase subsidies, relaxation of new issuance of license plates in core cities, exemption of vehicle purchase tax, to promote automobile sales growth. As we see from the latest statistics released by CAAM, the automobile sales in June 2020 shows a sign of rebound as both the passenger vehicles (in particular, the SUV units) and commercial vehicles post double-digit growth year-on-year. This is attributable to the release of the long-accumulated purchase power as the outbreak of the novel coronavirus in the beginning of the year restrains people from shopping. Amid the continual woe of the novel coronavirus, however, the PRC government shows capability to keep the confirmed cases at a low level nationwide. Pent-up demand and consumers trying to avoid public transport to lower the risks of being infected will help getting more customers back into showrooms after lockdown measures eased. Thus, it is expected that in the second half of the year automobile sales may be able to approach the same level as last year.

During the reporting period, the Group recorded a significant decline in the sales of both the gasoline and diesel engines due to decrease in demand from customers. The sales of engine components recorded a slight increase in revenue.

Regarding the prince engine business (the CE engine business), the sales is much lower than the original forecast. This is mainly affected by the unexpected withdrawal of orders from some of the customers as the novel coronavirus pandemic hugely affected the industry chain during the period. This trend is particularly obvious in the mid to lower-end market. The Group has confidence that more contribution from the sales of CE engines will be back on track from the second half of 2020 and the years ahead. We have been preparing various versions of Prince engines with different power output to be industrialized. Our CE engine technology is authorized and developed on the basis of BMW Prince Engine, which has won the World's Best Ten Engines in eight consecutive years. CE engine adopted leading and mature technologies with strategic positioning of "high starting point, high quality, and high platform". An expert team from BMW Germany provided all-around supports on research and development, industrialization, supply chain management, quality management and project management, ensuring the engine production is in accordance with BMW process certification, BMW quality philosophy and BMW quality standard.

CE engine family currently consists of three displacements model of 1.2L, 1.6L and 1.8L with different performance level and hybrid derivatives. CE engine meets requirements of CN6b emission regulation and the fourth phase fuel consumption. The CE engine is applicable for SUV, passenger vehicle, multi-purpose vehicle, A-class vehicle models, etc. Although the sales volume shows disappointing results during the period which is badly affected by the pandemic across the country and the world, the Group still believes that CE engines will become the key driver for the Group's engine business going forward. In addition to existing customers, we are in new cooperation with a number of automobile manufacturers which confirmed orders for CE engines in the coming few years.

At present, our XCE branded traditional and CE engines are all CN6 emission standard compliant. The switch from CN5 to CN6 is a huge technical test for engine manufacturers as the time allowed for the switch is shortened, leaving us a very short reaction time to deal with the change. Since we have an independent, robust technological research and development system, this would enable us to fulfil this national requirement before the deadline in July 2020.

Regarding engine components business, the crankshaft production line for Bx8 engines and connecting rods production showed a continued growth in sales in the first half of 2020 when compared to the corresponding period in 2019. As set out in Brilliance China's annual report for 2019, BMW Brilliance Automotive achieved sales of 545,919 (2018: 466,182 units) BMW vehicles in 2019 which showed a double-digit growth and it is expected that the demand of finished crankshaft for Bx8 engines will increase as new models of BMW vehicles will be put up for sales in the coming few years. Apart from this, BMW officially nominated us as the next generation of Bx8 engine crankshaft and connecting rod supplier and the supply period has been extended to 2030, and the shared order of connecting rod production will be increased from 30% to 50%.

In addition, BMW has fully affirmed us the pursuit of excellent quality, and it is another milestone in the development components business. So far, we delivered over 2.0 million crankshafts and 5.0 million connecting rods to BMW. At the same time, we maintained high quality of customer after-sales service for 7 consecutive years. We won the BMW "Quality Excellence Award" and became BMW's excellent supplier. We will continue to uphold the core values of being close to our customers, and be responsible, open and transparent, and continuous innovation to further enhance core competitiveness and push forward the development of the Group.

The Group will continue to explore new business opportunities with BMW AG, BMW Brilliance Automotive and other strategic partners in the future.

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2020.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to achieving and maintaining the highest standards of corporate governance, consistent with the needs and requirements of the business and its shareholders. The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules. The Company has complied with all code provisions of the CG Code throughout the six months ended 30 June 2020.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters, including the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2020.

At present, the audit committee comprises Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin, all of whom are independent non-executive directors. Mr. Chi Guohua is the chairman of the audit committee.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises two executive directors: Mr. Wu Xiao An (also known as Mr. Ng Siu On) (*Chairman*) and Mr. Wang Yunxian (*Chief Executive Officer*); two non-executive directors: Mr. Gao Weimin and Mr. Yang Ming; and four independent non-executive directors: Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin.

By Order of the Board
Xinchen China Power Holdings Limited
Wu Xiao An
(also known as Ng Siu On)
Chairman

Hong Kong, 20 August 2020