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 2021

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 2021 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

		Six months ended	
	Notes	**30.6.2021** ***RMB'000*** **(unaudited)**	30.6.2020 *RMB'000* (unaudited)
Revenue	*3*	**939,319**	741,953
Cost of sales		**(823,195)**	(695,607)
Gross profit		**116,124**	46,346
Other income	*4*	**8,554**	15,097
Impairment losses	*5*	**(4,789)**	(13,582)
Other gains and losses	*6*	**16,066**	(10,069)
Selling and distribution expenses		**(10,099)**	(14,392)
Administrative expenses		**(57,089)**	(54,990)
Other expenses		**(6,605)**	(7,517)
Finance costs		**(30,872)**	(38,967)
Profit/(Loss) before tax	*7*	**31,290**	(78,074)
Income tax credit/(expense)	*8*	**831**	(541)
Profit/(Loss) for the period		**32,121**	(78,615)

	Notes	Six months ended 30.6.2021 RMB'000 (unaudited)	30.6.2020 RMB'000 (unaudited)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Fair value loss on:			
Receivables measured at fair value through other comprehensive income ("FVTOCI")		**–**	(282)
Other comprehensive loss for the period		**–**	(282)
Total comprehensive income/(loss) for the period		**32,121**	(78,897)
Earnings/(Loss) per share – Basic *(RMB)*	*10*	**0.025**	(0.061)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	**30.6.2021**	31.12.2020
		RMB'000	*RMB'000*
		(unaudited)	(audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	**2,178,521**	2,297,808
Prepaid lease payments		**124,137**	125,937
Intangible assets	*11*	**710,921**	707,184
Loan to a shareholder		**14,615**	14,326
Deferred tax assets		**11,781**	10,206
		3,039,975	3,155,461
CURRENT ASSETS			
Inventories		**508,168**	634,399
Trade and other receivables	*12*	**219,044**	286,963
Tax recoverable		**2,452**	2,663
Amounts due from related companies	*13*	**335,852**	333,522
Pledged/restricted bank deposits		**323,864**	538,459
Bank balances and cash		**483,878**	55,285
		1,873,258	1,851,291
TOTAL ASSETS		**4,913,233**	5,006,752

	Notes	30.6.2021 *RMB'000* (unaudited)	31.12.2020 *RMB'000* (audited)
CURRENT LIABILITIES			
Trade and other payables	*14*	**1,078,472**	1,182,809
Amounts due to related companies	*15*	**579,021**	215,112
Lease liabilities	*16*	**2,191**	5,100
Borrowings due within one year		**726,077**	1,067,468
		2,385,761	2,470,489
NET CURRENT LIABILITIES		**(512,503)**	(619,198)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,527,472**	2,536,263
NON-CURRENT LIABILITIES			
Borrowings due after one year		**283,346**	320,394
Deferred income		**28,455**	32,319
		311,801	352,713
NET ASSETS		**2,215,671**	2,183,550
CAPITAL AND RESERVES			
Share capital	*17*	**10,457**	10,457
Reserves		**2,205,214**	2,173,093
TOTAL EQUITY		**2,215,671**	2,183,550

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 June 2021

1. BASIS OF PREPARATION AND GOING CONCERN ASSUMPTION

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").

The condensed consolidated financial statements have been prepared on a going concern basis, notwithstanding the fact that the Group had net current liabilities of approximately RMB512,503,000 as at 30 June 2021.

The condensed consolidated financial statements have been prepared on a going concern basis on the assumption that the Group is able to operate as a going concern for the foreseeable future. In the opinion of the directors, the Group can meet is financial obligations as and when they fall due within the next year from the date of approval of these condensed consolidated financial statements, after taking into consideration of the measures and arrangements that the Group has implemented or is in the process of implementing as detailed below:

– The subsidiaries of the Company, Mianyang Xinchen Engine Co., Ltd.*（綿陽新晨動力機械有限公司）("Mianyang Xinchen"), Mianyang Xinchen Engine Co., Ltd. Shenyang Branch*（綿陽新晨動力機械有限公司瀋陽分公司）and Xinchen Engine (Shenyang) Co., Limited*（新晨動力機械（瀋陽）有限公司）, have entered into the support agreement dated 11 May 2021 (as supplemented and revised by a supplemental agreement thereto dated 2 July 2021) with BMW Brilliance Automotive Ltd.*（華晨寶馬汽車有限公司）("BMW Brilliance Automotive"), a sino-foreign equity joint venture company incorporated in the People's Republic of China (the "PRC") which is owned as to 50% by an indirect wholly owned subsidiary of Brilliance China Automotive Holdings Limited ("Brilliance China") and 50% by BMW Holdings B.V., for borrowing the loan in the principal amount of RMB500 million to be advanced by BMW Brilliance Automotive;

– The Group is in negotiation with financial institutions for the renewals of the Group's short term bank and other borrowings, applying for new borrowings and future credit facilities; and

– The directors have evaluated all the relevant facts available to them and made a business plan to improve its liquidity by (i) monitoring the production activities in order to fulfill the forecast production volume and meet sales forecast; and (ii) taking measures to tighten cost controls over various production costs and expenses.

The directors of the Company have reviewed the Group's cash flow forecast prepared by management, which covers a period of five years from the end of the reporting period. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient cash resources to satisfy its working capital and other financing obligations for the next twelve months from the date of approval of these condensed consolidated financial statements after having taking into account of the Group's projected cash flows, current financial resources and capital expenditure requirements with respect to the production facilities and development of its business. Accordingly, the directors are of the opinion that it is appropriate to prepare the condensed consolidated financial statements for the six months ended 30 June 2021 on a going concern basis.

Should the going concern assumption be inappropriate, adjustments may have to be made to write down the values of assets to their recoverable amounts, to provide for any further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the condensed consolidated financial statements.

* *English name for reference only*

2. PRINCIPAL ACCOUNTING POLICIES

Amended Hong Kong Financial Reporting Standard(s) ("HKFRS(s)") that are effective for annual periods beginning or after 1 January 2021

The interim 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 2020, except for the adoption of new standards effective as of 1 January 2021. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

Except for those mentioned below, 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.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 "Interest Rate Benchmark Reform – Phase 2" ("Phase 2 Amendments")

The Phase 2 Amendments provide practical relief from certain requirements in HKFRSs. These reliefs relate to modifications of financial assets and financial liabilities (measured at amortised costs) and lease contracts or hedging relationships triggered by a replacement of a benchmark interest rate in a contract with a new alternative benchmark risk-free rate.

The Group initially applied Phase 2 Amendments on 1 January 2021 and applied the amendments retrospectively. However, in accordance with the exceptions permitted in Phase 2 Amendments, the Group has elected not to restate the prior period to reflect the application of these amendments, including not providing additional disclosures for 2020. There is no impact on opening equity balances as a result of retrospective application.

Impact on measurement of financial assets and financial liabilities

For changes in the basis for determining the contractual cash flows of financial assets and financial liabilities which are measured at amortised cost as a result of interest rate benchmark reform, the Group applies the practical expedient to account for these changes such that it will not derecognise the carrying amounts of financial assets and financial liabilities and recognise an immediate gain or loss for changes solely arised from the interest rate benchmark reform, but will instead revise the effective interest rates of the financial assets and financial liabilities. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- The change is necessary as a direct consequence of the interest rate benchmark reform; and

- The new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately before the change).

For other changes made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Group first applies the practical expedient to the changes required by interest rate benchmark reform by updating the effective interest rate. The Group then applies the applicable requirements in HKFRS 9 "Financial Instrument" on modification of a financial asset or a financial liability to the additional changes to which the practical expedient does not apply.

Impact on lease contracts

For changes in the basis for determining the future lease payments in lease contracts as a result of interest rate benchmark reform, the Group, as a lessee, applies the practical expedient to remeasure the lease liabilities by discounting the revised lease payments using the unchanged discount rate, and makes a corresponding adjustment to the related right-of-use assets. A lease modification is required by interest rate benchmark reform if the following conditions are met:

- The modification is necessary as a direct consequence of interest rate benchmark reform; and
- The new basis for determining the lease payments is economically equivalent to the previous basis (i.e. the basis immediately before the change).

If lease modifications are made in addition to those lease modifications required by interest rate benchmark reform, the Group applies the applicable requirements in HKFRS 16 to account for all lease modifications made at the same time, including those required by interest rate benchmark reform.

Issued but not yet effective HKFRSs

At the date of authorisation of these condensed consolidated interim financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group. The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning on or after the effective date of the pronouncement. The directors expected that the new and amended HKFRSs issued but not effective are not expected to have a material impact on the Group's condensed consolidated interim financial statements.

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 of 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		**Six months ended**	
	30.6.2021	30.6.2020	**30.6.2021**	30.6.2020
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Gasoline engines	**322,999**	260,111	**1,233**	(6,881)
Diesel engines	**23,255**	92,736	**845**	5,053
Engine components	**593,065**	389,106	**114,046**	48,174
Total segment and consolidated	**939,319**	741,953	**116,124**	46,346
Other income			**8,554**	15,097
Impairment losses			**(4,789)**	(13,582)
Other gains and losses			**16,066**	(10,069)
Selling and distribution expenses			**(10,099)**	(14,392)
Administrative expenses			**(57,089)**	(54,990)
Other expenses			**(6,605)**	(7,517)
Finance costs			**(30,872)**	(38,967)
Profit/(Loss) before tax			**31,290**	(78,074)

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 2021 and 2020.

Segment results represent the profit earned 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 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 Xinchen and its subsidiary.

4. OTHER INCOME

	Six months ended	
	30.6.2021	30.6.2020
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Government grants	**5,453**	10,543
Bank interest income	**2,506**	3,948
Imputed interest income from loan to a shareholder	**446**	472
Rental income under operating leases	**149**	134
	8,554	15,097

5. IMPAIRMENT LOSSES

	Six months ended 30.6.2021 RMB'000 (unaudited)	30.6.2020 RMB'000 (unaudited)
Impairment losses recognised on:		
– Trade and other receivables *(Note 12)*	**4,594**	13,582
– Amounts due from related companies *(Note 13)*	**195**	–
	4,789	13,582

6. OTHER GAINS AND LOSSES

	Six months ended 30.6.2021 RMB'000 (unaudited)	30.6.2020 RMB'000 (unaudited)
Foreign exchange gain/(losses), net	**2,512**	(8,649)
Gain on disposal of miscellaneous materials	**1,593**	780
Net loss arising on receivables measured at FVTOCI	**–**	(2,869)
Gain on disposal of property, plant and equipment *(Note 11)*	**–**	2
Reversal of provision for impairment losses on amounts due from related companies	**–**	571
Written off of amounts due to related companies	**11,699**	–
Others	**262**	96
	16,066	(10,069)

7. PROFIT/(LOSS) BEFORE TAX

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

	Six months ended	
	30.6.2021	30.6.2020
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Employee benefits expenses (including directors):		
– Salaries and other benefits	**57,229**	54,075
– Retirement benefit scheme contributions	**13,455**	3,542
Total staff costs	**70,684**	57,617
Depreciation of right-of-use assets	**1,157**	3,338
Depreciation of property, plant and equipment	**125,893**	128,009
Depreciation of prepaid lease payments	**1,800**	1,811
Amortisation of intangible assets (included in cost of sales)	**7,980**	6,291
Total depreciation and amortisation	**136,830**	139,449

8. INCOME TAX CREDIT/(EXPENSE)

	Six months ended	
	30.6.2021	30.6.2020
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
PRC Enterprise Income Tax ("EIT")		
– Current tax	**(743)**	(1,259)
– Deferred tax	**1,574**	718
	831	(541)

According to the announcement of "The State Administration of Taxation on issues concerning EIT 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 Xinchen was registered with the local tax authority to be eligible to the reduced EIT rate of 15% from 2011 to 2020.

According to the extension announcement of "The State Administration of Taxation on extension on EIT related with enhancing the Western Region Development Strategy"*（國家稅務總局關於延續西部大開發企業所得稅政策的公告）, Mianyang Xinchen will be further eligible to the reduced EIT rate of 15% from 2021 to 2030.

Other group entities established in the PRC are subject to 25% statutory enterprise income tax.

* *English name for reference only*

9. DIVIDENDS

No dividend has been paid or declared by the Company during both periods ended 30 June 2021 and 2020, nor has any dividend been proposed since the end of the reporting period.

10. EARNINGS/(LOSS) PER SHARE

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

	Six months ended	
	30.6.2021	30.6.2020
	(unaudited)	(unaudited)
Earnings/(Loss)		
Profit/(Loss) for the period attributable to owners of the Company for the purpose of basic earnings/(loss) per share (RMB'000)	**32,121**	(78,615)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	**1,282,211,794**	1,282,211,794

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 RMB4,000 (six months ended 30 June 2020: approximately RMB556,000) for the purpose of upgrading its manufacturing capacity of the Group. There was no disposal of plant and equipment during the current interim period (six months ended 30 June 2020: approximately RMB190,000) and there was no relevant realised gain (six months ended 30 June 2020: approximately RMB2,000).

In addition, during current interim period, the Group had approximately RMB7,759,000 (six months ended 30 June 2020: approximately RMB12,929,000) addition to construction in progress, primarily for scaling up the Group's production facilities and capacity. There was no interests capitalized during the current interim period (six months ended 30 June 2020: approximately RMB5,618,000).

During the current interim period, the Group capitalised development costs of technical know-how of new automotive engines amounting to approximately RMB11,717,000 (six months ended 30 June 2020: approximately RMB37,414,000) for the purposes of expanding its products range of gasoline and diesel engines. There was no interests capitalized during the current interim period (six months ended 30 June 2020: approximately RMB2,107,000).

As at 30 June 2021, the carrying amounts of the Group's right-of-use assets in respect of office premises and production facilities amounting to approximately RMB379,000 (31 December 2020: approximately RMB1,536,000).

12. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise the following:

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables	**467,904**	529,655
Less: Allowance for credit losses	**(277,294)**	(272,700)
Trade receivables, net	**190,610**	256,955
Bills receivable	**5,918**	1,100
Less: Allowance for credit losses	**(100)**	(100)
Total trade and bills receivables	**196,428**	257,955
Prepayments for purchase of raw materials and engine components	**17,172**	19,911
Other receivables	**5,444**	9,097
	219,044	286,963

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 expected credit losses ("ECL") allowance, presented based on the invoice date as at the end of the reporting period:

	30.06.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 1 month	**12,835**	92,811
Over 1 month but within 2 months	**12,774**	60,298
Over 2 months but within 3 months	**20,643**	6,434
Over 3 months but within 6 months	**2,709**	8,412
Over 6 months but within 1 year	**63,800**	11,980
Over 1 year	**77,849**	77,020
	190,610	256,955

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:

	30.6.2021 ***RMB'000*** **(unaudited)**	31.12.2020 *RMB'000* (audited)
Within 3 months	**1,000**	1,000
Over 3 months but within 6 months	**4,818**	–
	5,818	1,000

At 30 June 2021 and 31 December 2020, the Group assessed 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 2021 and 31 December 2020:

30 June 2021

	Gross carrying amount ***RMB'000*** **(unaudited)**	**Loss rate range** ***%***	**ECL** ***RMB'000*** **(unaudited)**
Not past due	**11,319**	**0.92-1.53**	**162**
Past due:			
Within 1 month	**14,071**	**0.92-2.36**	**217**
Over 1 month but within 3 months	**22,682**	**1.53-3.68**	**631**
Over 3 months but within 6 months	**55,071**	**1.53-6.15**	**2,291**
Over 6 months but within 1 year	**19,197**	**6.15-43.57**	**2,156**
Over 1 year	**345,564**	**43.57-100.00**	**271,837**
	467,904		**277,294**

31 December 2020

	Gross carrying amount *RMB'000* (audited)	Loss rate range *%*	ECL *RMB'000* (audited)
Not past due	93,937	0.92-1.53	1,151
Past due:			
Within 1 month	43,003	0.92-2.36	921
Over 1 month but within 3 months	32,821	1.53-3.68	1,010
Over 3 months but within 6 months	6,396	1.33-43.57	352
Over 6 months but within 1 year	17,981	6.15-100.00	5,784
Over 1 year	335,517	43.57-100.00	263,482
	529,655		272,700

Movement in the ECL of trade receivables:

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
At beginning of period/year	**272,700**	8,677
Transferred from		
ECL of amounts due from related companies *(Note 13)*	**–**	13,446
ECL recognised	**4,594**	250,577
At end of the reporting period/year	**277,294**	272,700

Movement in the ECL of bills receivables:

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
At beginning of period/year	**100**	136
ECL recognised	**–**	–
Reversal of provision for ECL	**–**	(36)
At end of the reporting period/year	**100**	100

Movement in the ECL of other receivables:

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
At beginning of period/year	**–**	279
ECL recognised	**–**	–
Reversal of provision for ECL	**–**	(279)
At end of the reporting period/year	**–**	–

13. AMOUNTS DUE FROM RELATED COMPANIES

Analysed as:

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade related	**335,724**	333,394
Non-trade related	**128**	128
	335,852	333,522

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

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Brilliance China Group#		
Shenyang XingYuanDong Automobile Component Co., Ltd.* 瀋陽興遠東汽車零部件有限公司	**84,811**	101,811
Renault Brilliance JinBei Automobile Co., Ltd.* 華晨雷諾金杯汽車有限公司 ("Renault Brilliance")	**64,802**	7,344
Shenyang ChenFa Automobile Component Co., Ltd.* 瀋陽晨發汽車零部件有限公司 ("Shenyang ChenFa")	**98,834**	98,916
BMW Brilliance Automotive	**86,969**	125,050
	335,416	333,121
Wuliangye Group##		
Mianyang Xinhua Trading Co., Ltd.* 綿陽新華商貿有限公司 ("Xinhua Trading")	**308**	273
	335,724	333,394

Notes:

* *English name for reference only*

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")*

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 2021 and 31 December 2020, the Group assessed the credit rating for its customers and applying the expected loss rate ranging from 0.1% to 100% (31 December 2020: 0.1% to 100%) over the gross carrying amounts. As at 30 June 2021, ECL allowance amounting to approximately RMB466,812,000 (31 December 2020: approximately RMB466,617,000) 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:

	30.6.2021 ***RMB'000*** **(unaudited)**	31.12.2020 *RMB'000* (audited)
At beginning of period/year	**466,617**	15,481
Transferred to ECL of trade receivables *(Note 12)*	**–**	(13,446)
ECL recognised	**195**	464,582
At end of the reporting period/year	**466,812**	466,617

14. TRADE AND OTHER PAYABLES

Trade and other payables comprise the following:

	30.6.2021 ***RMB'000*** **(unaudited)**	31.12.2020 *RMB'000* (audited)
Trade payables	**496,914**	470,170
Bills payable	**381,213**	434,044
Total trade and bills payables	**878,127**	904,214
Accrued purchase of raw materials	**113,338**	185,351
Construction payables	**4,688**	3,929
Payroll and welfare payables	**20,603**	32,160
Advances from customers *(Note i)*	**16,310**	13,125
Provision for warranty *(Note ii)*	**8,324**	7,512
Retention money	**13,427**	14,522
Other tax payables	**8,770**	8,455
Accrued operating expenses	**7,727**	7,092
Other payables	**7,158**	6,449
	1,078,472	1,182,809

Notes:

i. As at 30 June 2021 and 31 December 2020, 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 2021, 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:

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**258,476**	280,251
Over 3 months but within 6 months	**84,354**	74,627
Over 6 months but within 1 year	**90,842**	40,375
Over 1 year but within 2 years	**63,242**	74,917
	496,914	470,170

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:

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**99,165**	221,706
Over 3 months but within 6 months	**180,066**	98,538
Over 6 months but within 1 year	**101,982**	113,800
	381,213	434,044

15. AMOUNTS DUE TO RELATED COMPANIES

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade related:		
Huachen Group#		
Huachen Automotive Group Holdings Company Limited* 華晨汽車集團控股有限公司 ("Huachen Automotive")	**808**	743
Shenyang Brilliance Power Train Machinery Co., Ltd* 瀋陽華晨動力機械有限公司 ("Shenyang Brilliance")	**124**	4,704
	932	5,447
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	**9,373**	22,809
Shenyang ChenFa	**3,583**	3,583
BMW Brilliance Automotive	**523,451**	24,958
Shenyang Jinbei Vehicle Dies Manufacturing Co., Ltd.* 瀋陽金杯汽車模具製造有限公司	**15**	15
Renault Brilliance	**–**	4,889
	536,422	56,254
Wuliangye Group		
Xinhua Trading	**96**	139
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")	**35,285**	141,398
Sichuan Yi Bin Pushi Automotive Components Co., Ltd.* 四川省宜賓普什汽車零部件有限公司	**1,122**	2,290
Mianyang Xin Xinmao Trading Co., Ltd.* 綿陽新鑫茂商貿有限公司	**1,448**	696
	37,951	144,523
	575,305	206,224

* *English names for reference only*

\# *Huachen Automotive and its subsidiaries collectively referred to as "Huachen Group"*

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Non-trade related:		
Huachen Group		
Huachen Automotive	**341**	341
Shenyang Brilliance	**1,848**	7,119
	2,189	7,460
Brilliance China Group		
Brilliance China	**1,527**	1,428
	3,716	8,888
	579,021	215,112

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade related balances analysed as:		
Trade payables	**558,891**	94,116
Bills payable	**16,414**	112,108
	575,305	206,224

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:

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**544,373**	71,880
Over 3 months but within 6 months	**1,122**	261
Over 6 months but within 1 year	**1,184**	5,110
Over 1 year	**12,212**	16,865
	558,891	94,116

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 at the end of the reporting period:

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**628**	10,920
Over 3 months but within 6 months	**10,718**	12,169
Over 6 months but within 1 year	**5,068**	89,019
	16,414	112,108

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

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Total minimum lease payments:		
Due within one year	**2,233**	5,231
Future finance charges on leases liabilities	**(42)**	(131)
Present value of leases liabilities	**2,191**	5,100

17. SHARE CAPITAL

	Number of shares	Amount
		HK$
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2020, 31 December 2020 and 30 June 2021	8,000,000,000	80,000,000
Issued and fully paid:		
At 31 December 2020 and 30 June 2021	1,282,211,794	12,822,118

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Share capital presented in the condensed consolidated statement of financial position	**10,457**	10,457

MANAGEMENT'S DISCUSSION & ANALYSIS

Business review

In the first half of 2021, the Group achieved total unaudited revenue of approximately RMB939.32 million, representing an increase of approximately 26.6% compared to approximately RMB741.95 million for the corresponding period last year. The increase in revenue was mainly due to an increase in the sales of engine components, in particular, the sales of crankshafts during the period. The increase in the sales of crankshafts was caused by the favourable growth in premium automobile market as demonstrated by our customer BMW Brilliance Automotive.

Sales volume of engines decreased by approximately 4.1%, from approximately 28,620 units in the first half of 2020 to approximately 27,440 units in the first half of 2021, mainly due to the decrease in sales volume of diesel engines.

With respect to the engines business segment, the Group recorded approximately 1.9% decrease in the segment revenue, from approximately RMB352.85 million in the first half of 2020 to approximately RMB346.25 million in the first half of 2021. The decrease was mainly due to a decrease in the sales of diesel engines.

With respect to the engine components and service income segment, the Group recorded approximately 52.4% increase in the segment revenue, from approximately RMB389.11 million in the first half of 2020 to approximately RMB593.07 million in the first half of 2021. The increase was mainly due to a significant increase in the sales of crankshafts in the first half of 2021. The Group sold approximately 375,950 units of crankshaft in the first half of 2021, representing approximately 48.6% increase compared to approximately 252,950 units for the corresponding period of 2020. The increase was mainly due to the increase in demand for Bx8 crankshafts from BMW Brilliance Automotive.

The Group sold approximately 506,300 units of connecting rods in the first half of 2021, representing approximately 27.7% increase compared to approximately 396,500 units for the corresponding period of 2020. The increase in the unit sales of connecting rods was mainly due to an increase in demand for the Bx8 connecting rods during the reporting period.

The unaudited cost of sales amounted to approximately RMB823.20 million in the first half of 2021, representing an increase of approximately 18.3% compared to approximately RMB695.61 million for the corresponding period last year. The increase was due to the increase in the Group's total unaudited revenue.

The gross profit margin of the Group increased and this was mainly due to the significant increase in the sales of engine components with higher profit margin. It was approximately 12.4% in the first half of 2021 whilst it was approximately 6.2% in the first half of 2020.

The unaudited other income decreased from approximately RMB15.10 million for the first half of 2020 to approximately RMB8.55 million for the first half of 2021, representing a decrease of approximately 43.3%. The decrease was mainly due to the decrease in government grants and bank interest income. Impairment losses decreased from approximately RMB13.58 million for the first half of 2020 to approximately RMB4.79 million for the first half of 2021. The decrease was mainly due to less impairment of trade and other receivables incurred during the period.

The unaudited other gains and losses increased from net losses of approximately RMB10.07 million for the first half of 2020 to net gains of approximately RMB16.07 million for the first half of 2021. The change was mainly due to the increase in foreign exchange gains and write-off of amounts due to related companies during the period.

The unaudited selling and distribution expenses decreased by approximately 29.8%, from approximately RMB14.39 million in the first half of 2020 to approximately RMB10.10 million in the first half of 2021, representing approximately 1.9% and approximately 1.1% of the revenue in the first half of 2020 and 2021 respectively. The decrease in terms of value was mainly due to a decrease in transportation and sales staff costs.

The unaudited administrative expenses increased by approximately 3.82%, from approximately RMB54.99 million in the first half of 2020 to approximately RMB57.09 million in the first half of 2021, representing approximately 7.4% and approximately 6.1% of the revenue in the first half of 2020 and 2021 respectively. The increase in value was mainly due to the general increase in other staff costs, depreciation and office expenses. The decrease in terms of percentage was mainly due to a larger extent of sales base achieved.

The unaudited finance costs decreased by approximately 20.8%, from approximately RMB38.97 million in the first half of 2020 to approximately RMB30.87 million in the first half of 2021. The decrease was mainly due to a decrease in short-term financing by discounting bills during the course of business and repayment of certain bank loans during the period.

The Group's unaudited loss before tax was approximately RMB78.07 million in the first half of 2020, whereas there was unaudited profit before tax of approximately RMB31.29 million in the first half of 2021.

Income tax credit of approximately RMB0.83 million was recorded during the period, as compared to an income tax expense of approximately RMB0.54 million for the first half of 2020. This was due to the recognition of deferred tax assets in view of the tax losses incurred.

In the first half of 2021, the Group recorded unaudited net profit attributable to the owners of the Company of approximately RMB32.12 million, which compares to a net loss to its equity shareholders of approximately RMB78.62 million for the six months ended 30 June 2020.

Liquidity and financial resources

As at 30 June 2021, the Group had approximately RMB483.88 million in bank balances and cash (31 December 2020: approximately RMB55.29 million), and approximately RMB323.86 million in pledged/restricted bank deposits (31 December 2020: approximately RMB538.46 million).

As at 30 June 2021, the Group had trade and other payables of approximately RMB1,078.47 million (31 December 2020: approximately RMB1,182.81 million), bank borrowings due within one year in the amount of approximately RMB726.08 million (31 December 2020: approximately RMB1,067.47 million), and bank borrowings due after one year in the amount of approximately RMB283.35 million (31 December 2020: approximately RMB320.39 million).

Pledge of assets

As at 30 June 2021, the Group pledged certain of its land use rights, buildings, plant and machinery with a total value of approximately RMB134.36 million (31 December 2020: approximately RMB136.12 million) to certain banks to secure certain credit facilities granted to the Group.

As at 30 June 2021, the Group also pledged bank deposits of approximately RMB260.98 million (31 December 2020: approximately RMB486.63 million) to certain banks to secure certain credit facilities granted to the Group.

Gearing ratio

As at 30 June 2021, the debt-to-equity ratio of the Group, computed by dividing total liabilities by total equity attributable to the equity owners of the Company, was approximately 1.22 (31 December 2020: approximately 1.29).

As at 30 June 2021, the gearing ratio, computed by dividing bank borrowings by total equity attributable to owners of the Company, was approximately 45.56% (31 December 2020: approximately 63.56%). Both the debt-to-equity ratio and the gearing ratio decreased, which were mainly due to a decrease in total bank borrowings.

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 2021, the Group had capital commitments of approximately RMB250.54 million (31 December 2020: approximately RMB250.54 million), of which contracted capital commitments amounted to approximately RMB41.58 million (31 December 2020: approximately RMB43.22 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 RMB. 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 2021, the Group had approximately 1,147 employees (30 June 2020: approximately 1,274). Employee costs amounted to approximately RMB70.68 million for the six months ended 30 June 2021 (2020: approximately RMB57.62 million). The Group will endeavour to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' remuneration is based on their performance.

Outlook

Under the impact of the Covid-19 pandemic, most of the automobile makers virtually stopped their production, in particular in the first half of 2020. As the outbreak gradually became under control, the domestic economic climate increased and the market gradually picked up. In the first half of 2021, according to the China Association of Automobile Manufacturers, the sales of passenger vehicles segment recorded a rise of 27.0% on a year-on-year basis in the first half of 2021 whilst the sales of commercial vehicles segment recorded a growth of 20.9%. Passenger vehicles account for about 77.6% of sales of the automotive sector. The increase of the sales of vehicles was driven by an increase in demand for sedan cars, multi-purpose vehicles ("**MPVs**"), sport-utility cars ("**SUVs**") and commercial vehicles. As such, the sale volume of our engine-related products increased during the reporting period.

The PRC government continues to implement 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. Thus, China's automobile market is posting stable performance with good momentum for growth. Notably, the semi-annual new energy vehicle ("**NEV**") sales rocketed over 200% year-on-year to 1.2 million units, which approached almost the full-year volume for the year of 2020.

It is expected that China's annual automobile sales will record year-over-year growth in 2021, ending three consecutive years of decrease. The continued recovery in domestic economy and the ongoing implementation of governmental stimulus will provide tremendous support for the automobile market development in the second half of this year. Nevertheless, the market is being affected by chip shortage and the rise in raw material prices.

During the reporting period, the Group recorded an increase in sales which is mainly due to a significant increase in the sales of engine components, in particular, the sales of crankshafts during the period.

Regarding the traditional gasoline, diesel and prince engine business (the CE engine business), the sales is lower than the original forecast. This is mainly affected by the continual withdrawal of orders from some of the customers. Apart from the impact of the Covid-19 pandemic which still hovers around to a certain extent, the rapid development of NEVs leads to the diminished demand of vehicle upgrade with high-end combustion engines. There are fewer automobile manufacturers which continue to develop new fuel-driven engine models, and some of our long term customers also experienced financial difficulty which disrupted their production cycles, and hence, our sales volume of engines were also affected.

In view of the above situation, we have been carrying out some re-engineering work to our CE-family engines in order to pave for a way out in the ever-changing automobile market in China. After almost two years of hard work, we have developed a NEV-compatible CE engines which are used in the range extender of the electric drive system for the next generation of NEVs. It is planned to commence industrialization of the NEV-compatible CE engines in the first half of 2022. In addition, we are still working hard to explore more major NEV customers to adopt our NEV-compatible CE engines for range extension purpose.

NEV-compatible CE engines are based on the upgrade version of the BMW's authorized prince engine prototype. We have obtained BMW authorization which is a prerequisite for the production of NEV-compatible CE engines and BMW has agreed to award to our Group the extension of the original authorization period to 2032.

BMW Prince Engine 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 in 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 meets requirements of CN6b emission regulation and the fourth phase fuel consumption. The CE engine is applicable for SUV, passenger vehicle, MPV, A-class vehicle models, etc. At present, all our XCE branded traditional and CE engines are CN6 emission standard compliant.

Regarding engine components business, the crankshaft production line for Bx8 engines and connecting rods production showed a continued and significant growth in sales in the first half of 2021 when compared to the corresponding period in 2020. As reported by media in China, in the first half of 2021, sales of BMW vehicles showed 41.9% year-on-year growth reaching approximately 467,000 units and therefore the demand of finished crankshaft and connecting rods for Bx8 engines increased much as more new models of BMW vehicles are being put up for sales. BMW officially nominated us as the exclusive Bx8 engine crankshaft supplier and non-exclusive connecting rod supplier and the supply period will be until 2030, and the shared order of connecting rod production will be increased from 40% to 50%.

In addition, BMW has fully affirmed our pursuit of excellent quality, and it is another milestone in the development components business. So far, we delivered over 2.7 million crankshafts and 6.3 million connecting rods to BMW. At the same time, we maintained high quality of customer after-sales service for eight 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, be responsible, open and transparent, and will through continuous innovation 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 major customers in the future.

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: 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 2021.

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 2021.

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 2021.

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: Ms. Ma Nina 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, 19 August 2021