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POWER XINCHEN

新 晨 動 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 2022

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 2022 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	<i>Notes</i>	Six months ended	
		30.6.2022 <i>RMB'000</i> (unaudited)	30.6.2021 <i>RMB'000</i> (unaudited)
Revenue	3	490,468	939,319
Cost of sales		(460,617)	(823,195)
Gross profit		29,851	116,124
Other income	4	5,783	8,554
Reversal of/(Provision for) impairment losses, net	5	15,686	(4,789)
Other gains and losses	6	2,363	16,066
Selling and distribution expenses		(6,514)	(10,099)
Administrative expenses		(48,727)	(57,089)
Other expenses		(5,279)	(6,605)
Finance costs		(28,204)	(30,872)
(Loss)/Profit before tax	7	(35,041)	31,290
Income tax (expense)/credit	8	(2,732)	831
(Loss)/Profit for the period		(37,773)	32,121

		Six months ended	
		30.6.2022	30.6.2021
<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 gain on:			
Receivables measured at fair value through other comprehensive income (“FVTOCI”)		137	–
Other comprehensive income for the period		137	–
Total comprehensive (loss)/income for the period		(37,636)	32,121
(Loss)/Earnings per share – Basic (<i>RMB</i>)	<i>10</i>	(0.029)	0.025

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	Notes	30.6.2022 RMB'000 (unaudited)	31.12.2021 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	1,222,529	1,880,317
Prepaid lease payments		119,756	121,816
Intangible assets	11	618,367	646,684
Deferred tax assets		16,818	19,550
Loan to a shareholder		15,459	14,784
Other assets	11	213,696	213,696
		<u>2,206,625</u>	<u>2,896,847</u>
CURRENT ASSETS			
Inventories		492,405	471,886
Other assets	11	564,961	–
Trade and other receivables	12	167,516	144,142
Receivables measured at FVTOCI		2,159	12,950
Amounts due from related companies	13	101,960	150,662
Tax recoverable		1,548	1,548
Pledged/restricted bank deposits		207,976	273,937
Bank balances and cash		81,204	12,853
		<u>1,619,729</u>	<u>1,067,978</u>
TOTAL ASSETS		<u><u>3,826,354</u></u>	<u><u>3,964,825</u></u>

	<i>Notes</i>	30.6.2022 RMB'000 (unaudited)	31.12.2021 <i>RMB'000</i> (audited)
CURRENT LIABILITIES			
Trade and other payables	<i>14</i>	708,832	822,755
Amounts due to related companies	<i>15</i>	53,569	81,675
Borrowings due within one year		1,150,285	1,068,232
Lease liabilities	<i>16</i>	1,136	2,095
		<u>1,913,822</u>	<u>1,974,757</u>
NET CURRENT LIABILITIES		<u>(294,093)</u>	<u>(906,779)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>1,912,532</u>	<u>1,990,068</u>
NON-CURRENT LIABILITIES			
Borrowings due after one year		135,060	172,060
Lease liabilities	<i>16</i>	2,222	2,157
Deferred income		22,270	25,235
		<u>159,552</u>	<u>199,452</u>
NET ASSETS		<u>1,752,980</u>	<u>1,790,616</u>
CAPITAL AND RESERVES			
Share capital	<i>17</i>	10,457	10,457
Reserves		1,742,523	1,780,159
TOTAL EQUITY		<u>1,752,980</u>	<u>1,790,616</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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 RMB294,093,000 as at 30 June 2022 (31 December 2021: RMB906,779,000).

The condensed consolidated interim 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 of the Company, the Group can meet its financial obligations as and when they fall due within the next year from the end of the reporting period, after taking into consideration the measures and arrangements that the Group has implemented or is in the process of implementing as detailed below:

- The substantial shareholder, Brilliance China Automotive Holdings Limited (“**Brilliance China**”), has undertaken to provide continuing financial support to the Group for a period of twelve months from the date of approval of the condensed consolidated financial statements by the directors in order to maintain the Group as a going concern;
- The Group is in negotiation with financial institutions for the renewals of the Group’s short-term bank borrowings upon expiry, new borrowings and applying for future credit facilities. Up to the date of approval of these condensed consolidated financial statements, the banks have shown the positive support on the Group and the Group has not received any demand notice from the banks for the repayment of the borrowing. Therefore, the directors of the Company are confident that most of the borrowings can be renewed upon expiration based on the Group’s past experience and credit history; 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 fulfil the forecast production volume and meet sales forecast, (ii) taking measures to tighten cost controls over various production costs and expenses, and (iii) any feasible financial arrangement.

The directors of the Company have reviewed the Group’s cash flow forecast prepared by management, which covers a period of twelve months 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 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 2022 on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the management of the Company will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group’s ability to generate adequate financing and operating cash flows in the near future and obtain the continuous financial support from its substantial shareholders.

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.

2. PRINCIPAL ACCOUNTING POLICIES

Amended Hong Kong Financial Reporting Standard(s) (“HKFRS(s)”) that are effective for annual periods beginning or after 1 January 2022

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

The condensed consolidated interim financial statements for the six months ended 30 June 2022 have been prepared in accordance with the accounting policies adopted in the Group’s annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following amended HKFRSs which are effective as of 1 January 2022. 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 beyond 30 June 2021
Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRS Standards 2018-2020
Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combination

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

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 will not 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 sale 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	
	30.6.2022	30.6.2021	30.6.2022	30.6.2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Gasoline engines	128,652	322,999	(8,644)	1,233
Diesel engines	41,125	23,255	(1,427)	845
Engine components	320,691	593,065	39,922	114,046
Total segment and consolidated	490,468	939,319	29,851	116,124
Other income			5,783	8,554
Reversal of/(Provision for) impairment losses, net			15,686	(4,789)
Other gains and losses			2,363	16,066
Selling and distribution expenses			(6,514)	(10,099)
Administrative expenses			(48,727)	(57,089)
Other expenses			(5,279)	(6,605)
Finance costs			(28,204)	(30,872)
(Loss)/Profit before tax			(35,041)	31,290

Revenue reported above represents revenue generated from sale of goods or service provision to external customers. There were no inter-segment sales during the six months ended 30 June 2022 and 2021.

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 total assets and total liabilities analysed by reportable operating segment are 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 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.

4. OTHER INCOME

	Six months ended	
	30.6.2022 RMB'000 (unaudited)	30.6.2021 RMB'000 (unaudited)
Government grants	4,221	5,453
Bank interest income	1,337	2,506
Imputed interest income from loan to a shareholder	–	446
Rental income under operating leases	225	149
	<u>5,783</u>	<u>8,554</u>

5. REVERSAL OF/(PROVISION FOR) IMPAIRMENT LOSSES, NET

	Six months ended	
	30.6.2022 RMB'000 (unaudited)	30.6.2021 RMB'000 (unaudited)
Impairment losses reversed/(recognised) on:		
– Trade and other receivables (Note 12)	(76)	(4,594)
– Amounts due from related companies (Note 13)	15,762	(195)
	<u>15,686</u>	<u>(4,789)</u>

6. OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2022 RMB'000 (unaudited)	30.6.2021 RMB'000 (unaudited)
Foreign exchange (losses)/gain, net	(5,254)	2,512
Gain on disposal of miscellaneous materials	1,718	1,593
Net loss arising on receivables measured at FVTOCI	(2,348)	–
Gain on disposal of property, plant and equipment (Note 11)	3,840	–
Gain on disposal of intangible asset (Note 11)	4,000	–
Written off of amounts due to related companies	–	11,699
Others	407	262
	<u>2,363</u>	<u>16,066</u>

7. (LOSS)/PROFIT BEFORE TAX

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

	Six months ended	
	30.6.2022 RMB'000 (unaudited)	30.6.2021 RMB'000 (unaudited)
Employee benefits expenses (including directors):		
– Salaries and other benefits	46,199	57,229
– Retirement benefit scheme contributions	9,999	13,455
	<hr/>	<hr/>
Total staff costs	56,198	70,684
	<hr/>	<hr/>
Depreciation of right-of-use assets	1,075	1,157
Depreciation of property, plant and equipment	109,009	125,893
Depreciation of prepaid lease payments	2,060	1,800
Amortisation of intangible assets (included in cost of sales)	9,586	7,980
	<hr/>	<hr/>
Total depreciation and amortisation	121,730	136,830
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8. INCOME TAX (EXPENSE)/CREDIT

	Six months ended	
	30.6.2022 RMB'000 (unaudited)	30.6.2021 RMB'000 (unaudited)
PRC Enterprise Income Tax (“EIT”)		
– Current tax	–	(743)
– Deferred tax	(2,732)	1,574
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	(2,732)	831
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According to the extension announcement of “The State Administration of Taxation on extension on EIT related with enhancing the Western Region Development Strategy” (國家稅務總局關於延續西部大開發企業所得稅政策的公告), Mianyang Xincheng will be eligible to the reduced EIT rate of 15% from 2021 to 2030.

Pursuant to the relevant laws and regulations in the PRC, Xincheng Engine (Shenyang) Co., Limited* (新晨動力機械(瀋陽)有限公司) (“**Shenyang Xincheng**”) obtained the High and New Technology Enterprises qualification. Accordingly, it enjoyed a preferential income tax rate of 15% during the six months ended 30 June 2022 and 2021.

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

9. DIVIDENDS

No dividend has been paid or declared by the Company during both periods ended 30 June 2022 and 2021, 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	
	30.6.2022	30.6.2021
	(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><u>(37,773)</u></u>	<u><u>32,121</u></u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	<u><u>1,282,211,794</u></u>	<u><u>1,282,211,794</u></u>

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

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

During the current interim period, the Group acquired property, plant and equipment, other than construction in progress, amounting to approximately RMB92,000 (six months ended 30 June 2021: approximately RMB4,000) for the purpose of upgrading its manufacturing capacity of the Group. During the current interim period, the Group disposed of certain plant and equipment with an aggregate carrying amount of approximately RMB7,075,000 (six months ended 30 June 2021: nil) resulting in a gain on disposal of approximately RMB3,840,000 (six months ended 30 June 2021: nil).

In addition, during current interim period, the Group had approximately RMB24,079,000 (six months ended 30 June 2021: approximately RMB7,759,000) addition to construction in progress, primarily for scaling up the Group's production facilities and capacity.

During the current interim period, the Group capitalised development costs of technical know-how of new automotive engines amounting to approximately RMB14,270,000 (six months ended 30 June 2021: approximately RMB11,717,000) for the purposes of expanding its products range of gasoline and diesel engines. During the current interim period, the Group disposed of certain intangible asset with an aggregate carrying amount of approximately RMB33,000,000 (six months ended 30 June 2021: nil) resulting in a gain on disposal of approximately RMB4,000,000 (six months ended 30 June 2021: nil).

On 25 May 2022, the Group entered into an asset purchase agreement with BMW Brilliance Automotive Ltd.* (華晨寶馬汽車有限公司) (“**BMW Brilliance Automotive**”) in which the Group agreed to sell and BMW Brilliance Automotive agreed to purchase the production lines, supporting equipment and facilities relation to the production of crankshaft and connecting rod (the “**Disposed Assets**”), with a total book value of approximately RMB564,961,000 and resulting in a transfer from property, plant and equipment to asset held for disposal amounting to RMB564,961,000 (six months ended 30 June 2021: nil). The transfer of the Disposed Assets to BMW Brilliance Automotive is expected to be completed within one year from the date of classification to asset held for disposal.

As at 30 June 2022, the carrying amounts of the Group's right-of-use assets in respect of office premises and production facilities amounting to approximately RMB3,317,000 (31 December 2021: approximately RMB4,232,000).

12. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise the following:

	30.6.2022 RMB'000 (unaudited)	31.12.2021 RMB'000 (audited)
Trade receivables	442,800	440,297
<i>Less: Allowance for credit losses</i>	(363,952)	(363,876)
	<hr/>	<hr/>
Trade receivables, net	78,848	76,421
Bills receivable	29,916	41,613
	<hr/>	<hr/>
Total trade and bills receivables	108,764	118,034
Prepayments for purchase of raw materials and engine components	45,637	18,846
Other receivables	13,115	7,262
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	167,516	144,142
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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:

	30.06.2022 RMB'000 (unaudited)	31.12.2021 RMB'000 (audited)
Within 1 month	31,633	23,331
Over 1 month but within 2 months	970	3,120
Over 2 months but within 3 months	796	284
Over 3 months but within 6 months	2,306	8,644
Over 6 months but within 1 year	10,512	7,819
Over 1 year	32,631	33,223
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	78,848	76,421
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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:

	30.6.2022 RMB'000 (unaudited)	31.12.2021 RMB'000 (audited)
Within 3 months	11,714	17,948
Over 3 months but within 6 months	5,652	23,635
Over 6 months but within 1 year	12,550	30
	29,916	41,613

At 30 June 2022 and 31 December 2021, 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 2022 and 31 December 2021:

30 June 2022

	Gross carrying amount RMB'000 (unaudited)	Loss rate range %	ECL RMB'000 (unaudited)
Not past due	22,079	0.72-1.19	306
<i>Past due:</i>			
Within 1 month	8,056	0.72-1.84	87
Over 1 month but within 3 months	4,348	0.72-1.84	43
Over 3 months but within 6 months	2,358	2.86-100.00	315
Over 6 months but within 1 year	11,028	4.57-100.00	730
Over 1 year	394,931	4.57-100.00	362,471
	442,800		363,952

31 December 2021

	Gross carrying amount RMB'000 (audited)	Loss rate range %	ECL RMB'000 (audited)
Not past due	8,073	0.72-1.19	58
<i>Past due:</i>			
Within 1 month	18,658	0.72-1.84	209
Over 1 month but within 3 months	274	0.72-1.84	3
Over 3 months but within 6 months	9,071	2.86-100.00	405
Over 6 months but within 1 year	28,899	4.57-100.00	5,713
Over 1 year	375,322	4.57-100.00	357,488
	440,297		363,876

Movement in the ECL of trade receivables:

	30.6.2022 RMB'000 (unaudited)	31.12.2021 RMB'000 (audited)
At beginning of period/year	363,876	272,700
ECL recognised	76	91,176
	<hr/>	<hr/>
At end of the reporting period/year	363,952	363,876
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13. AMOUNTS DUE FROM RELATED COMPANIES

Analysed as:

	30.6.2022 RMB'000 (unaudited)	31.12.2021 RMB'000 (audited)
Trade related	101,937	150,640
Non-trade related	23	22
	<hr/>	<hr/>
	101,960	150,662
	<hr/> <hr/>	<hr/> <hr/>

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

	30.6.2022 RMB'000 (unaudited)	31.12.2021 RMB'000 (audited)
Brilliance China Group[#]		
Shenyang XingYuanDong Automobile Component Co., Ltd.* 瀋陽興遠東汽車零部件有限公司	49,327	64,635
BMW Brilliance Automotive	43,237	85,922
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	92,564	150,557
	<hr/> <hr/>	<hr/> <hr/>
Wuliangye Group^{##}		
Mianyang Xinhua Trading Co., Ltd.* 綿陽新華商貿有限公司 (“Xinhua Trading”)	82	83
	<hr/> <hr/>	<hr/> <hr/>
Sichuan Li Xincheng Technology Co., Ltd.* 四川理想新晨科技有限公司	9,291	–
	<hr/> <hr/>	<hr/> <hr/>
	101,937	150,640
	<hr/> <hr/>	<hr/> <hr/>

[#] *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 2022, the Group assessed the credit rating for its customers by applying the expected loss rate ranging from 0.1% to 100% (31 December 2021: 0.1% to 100%) over the gross carrying amounts. As at 30 June 2022, ECL allowance amounting to approximately RMB658,556,000 (31 December 2021: approximately RMB674,318,000) 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:

	30.6.2022 RMB'000 (unaudited)	31.12.2021 RMB'000 (audited)
At beginning of period/year	674,318	466,617
ECL reversed (<i>Note</i>)	(15,829)	(13,238)
ECL recognised	67	220,939
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At end of the reporting period/year	658,556	674,318
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Note:

Reversal of provision for loss allowance of approximately RMB15,829,000 (31 December 2021: approximately RMB13,238,000) was recognised because part of the receivables from Brilliance China Group which has been partially impaired as at 31 December 2021, was collected during the period ended 30 June 2022.

14. TRADE AND OTHER PAYABLES

Trade and other payables comprise the following:

	30.6.2022 RMB'000 (unaudited)	31.12.2021 RMB'000 (audited)
Trade payables	368,319	414,839
Bills payable	288,723	336,646
	<hr/>	<hr/>
Total trade and bills payables	657,042	751,485
Construction payables	7,016	4,717
Payroll and welfare payables	8,758	18,115
Advances from customers (<i>Note i</i>)	3,569	9,622
Provision for warranty (<i>Note ii</i>)	4,813	5,887
Retention money	10,967	13,741
Other tax payables	6,840	4,618
Accrued operating expenses	2,588	7,960
Other payables	7,239	6,610
	<hr/>	<hr/>
	708,832	822,755
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Notes:

- i. As at 30 June 2022 and 31 December 2021, 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 2022, the contract liabilities balance at the beginning of the period were fully recognised as revenue from sale 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:

	30.6.2022 RMB'000 (unaudited)	31.12.2021 RMB'000 (audited)
Within 3 months	196,621	287,987
Over 3 months but within 6 months	39,684	26,504
Over 6 months but within 1 year	26,115	26,025
Over 1 year but within 2 years	54,344	48,004
Over 2 years	51,555	26,319
	368,319	414,839

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:

	30.6.2022 RMB'000 (unaudited)	31.12.2021 RMB'000 (audited)
Within 3 months	182,156	127,816
Over 3 months but within 6 months	105,507	187,250
Over 6 months but within 1 year	1,060	21,580
	288,723	336,646

15. AMOUNTS DUE TO RELATED COMPANIES

	30.6.2022 <i>RMB'000</i> (unaudited)	31.12.2021 <i>RMB'000</i> (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 ”)	610	610
Shenyang Brilliance Power Train Machinery Co., Ltd.* 瀋陽華晨動力機械有限公司	156	155
	<u>766</u>	<u>765</u>
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	3,579	4,545
Shenyang ChenFa Automobile Component Co., Ltd.* 瀋陽晨發汽車零部件有限公司	3,583	3,583
BMW Brilliance Automotive	36,643	24,049
Shenyang Jinbei Vehicle Dies Manufacturing Co., Ltd.* 瀋陽金杯汽車模具製造有限公司	–	15
	<u>43,805</u>	<u>32,192</u>
Wuliangye Group		
Xinhua Trading	–	10
Mianyang Xinhua Internal Combustion Engine Joint-Stock Company Limited* 綿陽新華內燃機股份有限公司	5,993	31,177
Sichuan Yi Bin Pushi Automotive Components Co., Ltd.* 四川省宜賓普什汽車零部件有限公司	553	705
Mianyang Xin Xinmao Trading Co., Ltd.* 綿陽新鑫茂商貿有限公司	696	696
	<u>7,242</u>	<u>32,588</u>
	<u>51,813</u>	<u>65,545</u>

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

	30.6.2022 RMB'000 (unaudited)	31.12.2021 RMB'000 (audited)
Non-trade related:		
Brilliance China Group		
Brilliance China	1,756	1,499
BMW Brilliance Automotive	—	14,631
	<u>1,756</u>	<u>16,130</u>
	<u>53,569</u>	<u>81,675</u>

	30.6.2022 RMB'000 (unaudited)	31.12.2021 RMB'000 (audited)
Trade related balances analysed as:		
Trade payables	45,624	39,988
Bills payable	6,189	25,557
	<u>51,813</u>	<u>65,545</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:

	30.6.2022 RMB'000 (unaudited)	31.12.2021 RMB'000 (audited)
Within 3 months	24,052	30,922
Over 3 months but within 6 months	17,827	560
Over 6 months but within 1 year	445	733
Over 1 year	3,300	7,773
	<u>45,624</u>	<u>39,988</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 at the end of the reporting period:

	30.6.2022 RMB'000 (unaudited)	31.12.2021 RMB'000 (audited)
Within 3 months	150	3,100
Over 3 months but within 6 months	6,039	17,457
Over 6 months but within 1 year	–	5,000
	<u>6,189</u>	<u>25,557</u>

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

	30.6.2022 RMB'000 (unaudited)	31.12.2021 RMB'000 (audited)
Total minimum lease payments:		
Due within one year	2,291	2,192
Due in the second to fifth years	1,145	2,191
	<u>3,436</u>	<u>4,383</u>
Future finance charges on leases liabilities	(78)	(131)
	<u>3,358</u>	<u>4,252</u>

17. SHARE CAPITAL

	Number of shares	Amount HK\$
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
At 1 January 2021, 31 December 2021 and 30 June 2022	8,000,000,000	80,000,000
<i>Issued and fully paid:</i>		
At 31 December 2021 and 30 June 2022	<u>1,282,211,794</u>	<u>12,822,118</u>
	30.6.2022 RMB'000 (unaudited)	31.12.2021 RMB'000 (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

In the first half of 2022, the Group achieved total unaudited revenue of approximately RMB490.47 million, representing a decrease of approximately 47.78% compared to approximately RMB939.32 million for the corresponding period last year. The decrease in revenue was mainly due to a decrease in the sales of traditional gasoline engines during the period. Sales of engine components also declined and this was due to the suspension of component operation for a few weeks during the period because of the escalation of the pandemic outbreak in Shenyang and Shanghai cities, as this disrupted the supply chain and production cycle of both the upstream suppliers and the downstream customers respectively.

Sales volume of engines decreased by approximately 50.72%, from approximately 27,440 units in the first half of 2021 to approximately 13,522 units in the first half of 2022, mainly due to the decrease in sales of gasoline engines.

With respect to the engines business segment, the Group recorded approximately 50.97% decrease in the segment revenue, from approximately RMB346.25 million in the first half of 2021 to approximately RMB169.78 million in the first half of 2022. The decrease was mainly due to a decrease in the sales of gasoline engines.

With respect to the engine components and service income segment, the Group recorded approximately 45.93% decrease in the segment revenue, from approximately RMB593.07 million in the first half of 2021 to approximately RMB320.69 million in the first half of 2022. The decrease was mainly due to a moderate decrease in the sales of crankshafts and connecting rods in the first half of 2022. The Group sold approximately 335,747 units of crankshaft in the first half of 2022, representing approximately 10.69% decrease compared to approximately 375,950 units for the corresponding period of 2021, the decrease was mainly due to the suspension of component operation for a few weeks during the period after the escalation of the pandemic outbreak causing lockdown in the cities.

The Group sold approximately 429,800 units of connecting rods in the first half of 2022, representing approximately 15.11% decrease compared to approximately 506,300 units for the corresponding period of 2021. The decrease in the sales of connecting rods was mainly due to a decrease in production of Bx8 connecting rods during the reporting period as the lockdown of the factory plant took the toll.

The unaudited cost of sales amounted to approximately RMB460.62 million in the first half of 2022, representing a decrease of approximately 44.05% compared to approximately RMB823.20 million for the corresponding period last year. The decrease was generally in line with the decrease in the Group's total unaudited revenue.

The gross profit margin of the Group decreased as the volume of production decreased whilst the fixed cost for the period remained at a similar level as that of the same period in 2021. It was approximately 6.09% in the first half of 2022 whilst it was approximately 12.36% in the first half of 2021.

The unaudited other income decreased from approximately RMB8.55 million for the first half of 2021 to approximately RMB5.78 million for the first half of 2022, representing a decrease of approximately 32.39%. The decrease was mainly due to the decrease in government grants and bank interest income.

There was reversal of impairment loss of approximately RMB15.69 million incurred for the first half of 2022 whereas impairment losses amounted to approximately RMB4.79 million for the first half of 2021. The change was mainly due to the settlement of certain impaired amounts due from a related company in the first half of 2022.

The unaudited other gains and losses decreased from net gains of approximately RMB16.07 million for the first half of 2021 to net gains of approximately RMB2.36 million for the first half of 2022. The decrease was mainly due to the increase in unrealized foreign exchange losses and no write-off of amounts due to related companies during the period in 2022.

The unaudited selling and distribution expenses decreased by approximately 35.50%, from approximately RMB10.10 million in the first half of 2021 to approximately RMB6.51 million in the first half of 2022, representing approximately 1.08% and approximately 1.33% of the revenue in the first half of 2021 and 2022 respectively. The decrease in terms of value was mainly due to a decrease in transportation and sales staff costs. The increase in terms of percentage value was mainly due to a greater extent of decrease in revenue during the period in 2022.

The unaudited administrative expenses decreased by approximately 14.65%, from approximately RMB57.09 million in the first half of 2021 to approximately RMB48.73 million in the first half of 2022, representing approximately 6.08% and approximately 9.93% of the revenue in the first half of 2021 and 2022 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 value was mainly due to a greater extent of decrease in revenue during the period.

The unaudited finance costs decreased by approximately 8.64%, from approximately RMB30.87 million in the first half of 2021 to approximately RMB28.20 million in the first half of 2022. The decrease was mainly due to a decrease in short-term financing by discounting bills during the course of business.

The Group's unaudited profit before tax was approximately RMB31.29 million in the first half of 2021, whereas there was unaudited loss before tax of approximately RMB35.04 million in the first half of 2022. This was mainly due to the decline in business during the period.

Income tax expense of approximately RMB2.73 million was recorded during the period, as compared to income tax credit of approximately RMB0.83 million for the first half of 2021. This was due to the decrease of deferred tax assets in view of additional intangible assets amortisation.

For the first half of 2022, the Group recorded unaudited loss attributable to the owners of the Company of approximately RMB37.77 million, which compares to a net profit of approximately RMB32.12 million for the six months ended 30 June 2021.

Liquidity and financial resources

As at 30 June 2022, the Group had approximately RMB81.20 million in bank balances and cash (31 December 2021: approximately RMB12.85 million), and approximately RMB207.98 million in pledged/restricted bank deposits (31 December 2021: approximately RMB273.94 million).

As at 30 June 2022, the Group had trade and other payables of approximately RMB708.83 million (31 December 2021: approximately RMB822.76 million), bank borrowings due within one year in the amount of approximately RMB1,150.29 million (31 December 2021: approximately RMB1,068.23 million), and bank borrowings due after one year in the amount of approximately RMB135.06 million (31 December 2021: approximately RMB172.06 million).

Pledge of assets

As at 30 June 2022, the Group pledged certain of its land use rights, buildings, plant and machinery with a total value of approximately RMB946.13 million (31 December 2021: approximately RMB890.14 million) to certain banks to secure certain credit facilities and the other borrowing granted to the Group.

As at 30 June 2022, the Group also pledged bank deposits of approximately RMB156.30 million (31 December 2021: approximately RMB250.62 million) to certain banks to secure certain credit facilities granted to the Group.

As at 30 June 2022, the Group has not pledged any trade receivables with an aggregate gross amount, before impairment loss (31 December 2021: approximately RMB82.64 million) to secure general banking facilities granted to the Group.

Gearing ratio

As at 30 June 2022, 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 1.18 (31 December 2021: approximately 1.21). The decrease in the debt-to-equity ratio was mainly due to the decrease in payables during the period.

As at 30 June 2022, the gearing ratio, computed by dividing borrowings by total equity attributable to owners of the Company, was approximately 73.32% (31 December 2021: approximately 69.27%). The increase in gearing ratio was mainly due to the increase in 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 2022, the Group had capital commitments of approximately RMB577.66 million (31 December 2021: approximately RMB561.08 million), of which contracted capital commitments amounted to approximately RMB355.76 million (31 December 2021: approximately RMB345.74 million), which is primarily related to the capital expenditure in respect of acquisition of property, plant and equipment, capital injection to an associate 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 2022, the Group had approximately 988 employees (30 June 2021: approximately 1,147). Employee costs amounted to approximately RMB56.20 million for the six months ended 30 June 2022 (2021: approximately RMB70.68 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.

Significant acquisitions and disposals

As disclosed in the Company's announcement dated 25 May 2022 and circular dated 26 July 2022, Shenyang Xincheng, Mianyang Xincheng and Mianyang Xincheng Engine Co., Ltd. Shenyang Branch* (綿陽新晨動力機械有限公司瀋陽分公司) (collectively, the "Sellers") entered into a conditional original asset purchase agreement (資產購買協議) dated 25 May 2022 (as supplemented and amended by a supplementary agreement to asset purchase agreement (資產購買協議之補充協議) dated 25 May 2022) (the "Asset Purchase Agreement") with BMW Brilliance Automotive, in relation to the disposal of the production lines, supporting equipment and facilities relating to the production of crankshaft and connecting rod owned by Mianyang Xincheng and Shenyang Xincheng, together with all rights, title, and interest in and to, among others, the related contracts and the intellectual property pertaining to the Sellers' operations of their crankshaft and connecting rod business (the "Disposed Assets") by the Sellers to BMW Brilliance Automotive at a consideration of approximately RMB925.86 million. It was also disclosed that Shenyang Xincheng entered into an equipment lease agreement (設備租賃協議) (the "Lease Agreement") dated 25 May 2022 with BMW Brilliance Automotive for the lease-back of the Disposed Assets by Shenyang Xincheng from BMW Brilliance Automotive immediately upon completion of the disposal of the Disposed Asset pursuant to the Asset Purchase Agreement. The lease term under the Lease Agreement is 66 months and the total rent payable by Shenyang Xincheng to BMW Brilliance Automotive over the lease term is RMB930.26 million. According to HKFRS 16, the Company will recognize the lease of the Disposed Assets under the Lease Agreement as a right-of-use asset.

Completion of the Asset Purchase Agreement is expected to take place in September 2022.

Outlook

Under the continual impact of the COVID-19 pandemic, most of the production of automobile makers were still affected to a certain extent in the first half of 2022. In March, Shanghai's auto industry was shut down because of COVID lockdowns, and the PRC automobile production and sales were cut substantially. In the second quarter of the year, sales started to rebound, especially after the implementation of a favorable policy on vehicle purchase tax in June from 10% to 5% of the purchase price. The market gradually picked up, but not booming overall in the first half of the year 2022. According to the China Association of Automobile Manufacturers, the sales of passenger vehicles recorded a slight rise of 3.40% on a year-on-year basis whilst the sales of commercial vehicles segment recorded a significant decline of 41.2%. Passenger vehicles account for about 85.9% of sales of the automotive sector. The overall decrease of the sales of vehicles was driven by a decrease in sales for multi-purpose vehicles and commercial vehicles.

The slash of the purchase tax by half between 1 June and 31 December this year for passenger vehicles under RMB300,000 with engine displacements within two litres is expected to benefit more than 10 million vehicles and boost more than 1.5 million car sales. In addition to this policy, some vehicle companies have also introduced subsidies. Consumers who purchase some popular models will be “partially exempted” or “completely exempted” from the remaining purchase tax. This will bring much benefits to upstream manufacturers and also the downstream insurance and financial service providers.

It is expected that China's annual auto sales will record a slight year-over-year growth in 2022, mainly driven by the expected growth in new energy vehicles (“NEVs”) and passenger vehicles. The continued recovery in domestic economy and the ongoing implementation of governmental stimulus will provide tremendous support for the auto market development in the second half of this year. Nevertheless, the market is still being affected by chip shortage and the rise in raw material prices.

During the reporting period, the Group recorded a decrease in sales which is mainly due to a significant decrease in the sales of traditional gasoline engines during the period. This was affected by the restructure of Renault Brilliance Jinbei Automotive Company Limited* (華晨雷諾金杯汽車有限公司), which was one of our core customers in the first half of 2021, resulting in a dramatic decline in sales recorded during the period. Apart from the impact of the COVID-19 pandemic which still hovers around to a certain extent, the rapid development of NEVs leads to a slightly diminished demand of vehicle upgrade with high-end combustion engines. Despite this, we continue to look for new customers in an attempt to supplement this shortfall, SAIC MAXUS Automotive Company Limited (“SAIC Maxus”) is one of them.

In view of the above situation, we have been carrying out some re-engineering work to our CE-family engines in order to pave a way forward in the ever-changing automobile market in China. 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. Our joint venture company (“JVC”) with Li Auto Inc. commenced industrialization of the NEV-compatible CE engines in the first half of 2022. Its first full-size sport-utility vehicle model L9 will be powered by our 1.5T four-cylinder CE engines with extended range reaching over 1,300 km and will be rolled out to the market in the second half of 2022. According to Li Auto Inc.’s official announcement, there were over 30,000 pre-order sales after L9 was being launched in 72 hours. Our JVC is planning to initiate the second phrase of capacity expansion project to cope with the expected demand of L9 and possibly its other models. In addition, we are still working hard to explore more major NEV customers to adopt our NEV-compatible engines for range extension purpose.

NEV-compatible 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 engines and BMW has agreed to award to our Group the extension of the original authorization period to 2032.

Regarding engine components business, the crankshaft production line for Bx8 engines and connecting rods production showed a decline in sales in the first half of 2022 when compared to the corresponding period in 2021. As reported by media in China, in the first half of 2022, sales of BMW vehicles showed 18.9% year-on-year decrease with approximately 378,700 units delivered and therefore the demand of finished crankshaft and connecting rods for Bx8 engines decreased correspondingly. Such decline was expected to be temporary as this was mainly due to the epidemic, shortage of raw material and components supply. In the absence of further lockdown in the cities in PRC where our plants locate, we expect that the engine component business should be returning to normal production level in the second half of 2022.

As a means of improving the liquidity, the Group is expected to complete in September 2022 the disposal of its crankshaft and connecting rods production lines which are used to exclusively manufacture engine components to BMW Brilliance Automotive. This transaction is to be beneficial to the Group as this enables the Group to obtain additional working capital to support its business activities, capital expenditure and repayment of certain other loans while at the same time maintaining the operation rights over the crankshaft and connecting rod production lines by leasing them back from BMW Brilliance Automotive, which will continue to generate cash flow to the Group. Therefore, the disposal represents a good opportunity for the Group to realize its investment in its assets so as to deploy its resources in a more efficient manner.

The Group will continue to explore new business opportunities with BMW AG, BMW Brilliance Automotive, Li Auto Inc., SAIC Maxus 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 2022 (six months ended 30 June 2021: 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 2022.

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 Part 2 of Appendix 14 to the Listing Rules. The Company has complied with all code provisions of the CG Code (to the extent which has come into effect as at 30 June 2022) throughout the six months ended 30 June 2022.

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 2022.

At present, the audit committee comprises Mr. Chi Guohua, Mr. Wang Jun and Mr. Huang Haibo, 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. Han Song and Mr. Yang Ming; and three independent non-executive directors: Mr. Chi Guohua, Mr. Wang Jun and Mr. Huang Haibo.

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

Hong Kong, 18 August 2022

* for identification purposes only