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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 RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

The board of directors (the “**Board**”) of Xinchen China Power Holdings Limited (the “**Company**”) announces the audited consolidated financial results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2022 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	<i>Notes</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Revenue	4	1,652,481	1,462,777
Cost of sales		(1,550,089)	(1,386,340)
Gross profit		102,392	76,437
Other income	5	24,978	109,204
Impairment losses, net	6	(1,010)	(298,877)
Other gains and losses	7	11,528	5,074
Selling and distribution expenses		(12,370)	(17,388)
Administrative expenses		(143,883)	(199,129)
Finance costs	8	(62,350)	(58,365)
Other expenses		(12,610)	(16,616)
Share of loss of associate		(17,406)	–
Loss before tax		(110,731)	(399,660)
Income tax (expense)/credit	9	(5,098)	6,887
Loss for the year	10	(115,829)	(392,773)

	<i>Notes</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Other comprehensive income:			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Fair value gain/(loss) on:			
Receivables measured at fair value through other comprehensive income ("FVTOCI")		<u>139</u>	<u>(161)</u>
Total comprehensive loss for the year		<u>(115,690)</u>	<u>(392,934)</u>
Loss per share – Basic and diluted (<i>RMB</i>)	<i>12</i>	<u><u>(0.090)</u></u>	<u><u>(0.306)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	<i>Notes</i>	2022 RMB'000	2021 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		1,197,268	1,876,085
Right of use assets		510,517	4,232
Prepaid lease payments		117,695	121,816
Interest in an associate		211,263	–
Intangible assets		603,379	646,684
Deferred tax assets		16,044	19,550
Loan to a shareholder		11,876	14,784
Other assets	<i>13</i>	–	213,696
		2,668,042	2,896,847
Current assets			
Inventories		483,140	471,886
Trade and other receivables	<i>14</i>	783,560	144,142
Receivables measured at FVTOCI		3,278	12,950
Amounts due from related companies	<i>15</i>	10,433	150,662
Tax recoverable		–	1,548
Pledged/restricted bank deposits		148,619	273,937
Bank balances and cash		59,059	12,853
		1,488,089	1,067,978
Current liabilities			
Trade and other payables	<i>16</i>	589,616	822,755
Amounts due to related companies		35,772	81,675
Amount due to an associate		467,461	–
Borrowings due within one year	<i>18</i>	551,740	1,068,232
Lease liabilities	<i>17</i>	170,024	2,095
Tax payable		1,052	–
		1,815,665	1,974,757

	<i>Notes</i>	2022 RMB'000	2021 <i>RMB'000</i>
Net current liabilities		<u>(327,576)</u>	<u>(906,779)</u>
Total assets less current liabilities		<u>2,340,466</u>	<u>1,990,068</u>
Non-current liabilities			
Borrowings due after one year	<i>18</i>	108,184	172,060
Lease liabilities	<i>17</i>	537,835	2,157
Deferred income		<u>19,521</u>	<u>25,235</u>
		<u>665,540</u>	<u>199,452</u>
Net assets		<u>1,674,926</u>	<u>1,790,616</u>
Capital and reserves			
Share capital	<i>19</i>	10,457	10,457
Reserves		<u>1,664,469</u>	<u>1,780,159</u>
Total equity		<u>1,674,926</u>	<u>1,790,616</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Act (Revised) of the Cayman Islands on 10 March 2011. Brilliance China Automotive Holdings Limited (“Brilliance China”, Brilliance China and its subsidiaries collectively referred to as “Brilliance China Group”), a company listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), and 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”), a state owned enterprise registered in the People’s Republic of China (the “PRC”), are able to exercise significant influence over the Company. In March 2013, the Company completed the listing of its shares on the Main Board of the Stock Exchange.

The consolidated financial statements are presented in Renminbi (“RMB”), which is same as the functional currency of the Company and its subsidiaries.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

Amended HKFRSs that are effective for annual periods beginning on or after 1 January 2022

In the current year, the Group has applied for the first time the following amended HKFRSs issued by the Hong Kong Institute of Certified Public Accountants, which are relevant to the Group’s operations and effective for the Group’s consolidated financial statements for the annual period beginning on 1 January 2022:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to Hong Kong Accounting Standard (“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 the 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.

3. BASIS OF PREPARATION

In preparing the consolidated financial statements of the Group, the directors of the Company have given consideration to the future liquidity of the Group in light of its net loss of approximately RMB115,829,000 (2021: RMB392,773,000) incurred for the year ended 31 December 2022 and, as at that date, the Group had net current liabilities of approximately RMB327,576,000 (2021: RMB906,779,000) and incurred net cash outflows from operating activities of approximately RMB176,249,000 (2021: RMB27,003,000) for the year then ended.

As at 31 December 2022, the Group’s total borrowings comprising bank and other borrowings and lease liabilities amounting to approximately RMB1,367,783,000 (2021: RMB1,244,544,000). The balance of approximately RMB721,764,000 (2021: RMB1,070,327,000) will be due in the coming twelve months from the end of the reporting period, including the borrowing of approximately RMB60,000,000 (2021: RMB70,000,000) from a non-related party, which shall be due after twelve months from the end of reporting period in accordance with the scheduled repayment dates as set out in the respective loan agreements but are reclassified to current liabilities due to the unfulfillment of a loan covenant following the deterioration of the financial conditions of Huachen Automotive Group Holdings Company Limited* (華晨汽車集團控股有限公司) (“Huachen Automotive”, Huachen Automotive and its subsidiaries collectively referred to as “Huachen Group”), the guarantor of this borrowing, and thereby triggered the default of this borrowing of the Group; accordingly, this borrowing became repayable on demand as at 31 December 2022.

Despite of these circumstances, the 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 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 of the measures and arrangements that the Group has implemented or is in the process of implementing as detailed below:

- The substantial shareholder, 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 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. As at 31 December 2022, the Group had available unutilised bank facilities of RMB65,405,000. Up to the date of approval of these 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 the entire 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 fulfill 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 financial obligations for the next twelve months from the end of the reporting period after having taken 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 consolidated financial statements of the Group for the year ended 31 December 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 shareholder.

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 consolidated financial statements.

4. 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.

The Group's operations and main revenue streams are those described as below. The Group's revenue is derived from contracts of customers. Revenue from 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.

4.1 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, are produced by using similar production processes and are distributed and sold to similar classes of customers, their segment 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:

For the year ended 31 December 2022

	Gasoline engines RMB'000	Diesel engines RMB'000	Engine components RMB'000	Total RMB'000
Revenue from external customers, segment revenue <i>(Note)</i>	938,017	77,137	637,327	1,652,481
Segment results	(33,455)	(2,486)	138,333	102,392
Other income				24,978
Impairment losses, net				(1,010)
Other gains and losses				11,528
Selling and distribution expenses				(12,370)
Administrative expenses				(143,883)
Finance costs				(62,350)
Other expenses				(12,610)
Share of loss of associate				(17,406)
Loss before tax				(110,731)

For the year ended 31 December 2021

	Gasoline engines <i>RMB'000</i>	Diesel engines <i>RMB'000</i>	Engine components <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from external customers, segment revenue ^(Note)	<u>450,784</u>	<u>53,303</u>	<u>958,690</u>	<u>1,462,777</u>
Segment results	<u>(10,901)</u>	<u>1,025</u>	<u>86,313</u>	<u>76,437</u>
Other income				109,204
Impairment losses, net				(298,877)
Other gains and losses				5,074
Selling and distribution expenses				(17,388)
Administrative expenses				(199,129)
Finance costs				(58,365)
Other expenses				<u>(16,616)</u>
Loss before tax				<u>(399,660)</u>

Note: There is no inter-segment sales during the years of 2022 and 2021.

Other segment information included in the measurement of segment results:

	Gasoline engines <i>RMB'000</i>	Diesel engines <i>RMB'000</i>	Engine components <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
For the year ended					
31 December 2022					
Depreciation and amortisation	<u>87,974</u>	<u>18,375</u>	<u>49,338</u>	<u>28,095</u>	<u>183,782</u>
Provision of inventories	<u>879</u>	<u>104</u>	<u>–</u>	<u>–</u>	<u>983</u>
For the year ended					
31 December 2021					
Depreciation and amortisation	<u>114,411</u>	<u>36,856</u>	<u>138,867</u>	<u>41,409</u>	<u>331,543</u>
Provision of inventories	<u>6,786</u>	<u>497</u>	<u>–</u>	<u>–</u>	<u>7,283</u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represent the profit earned by each segment before the allocation of selling and distribution expenses, administrative expenses, finance costs, other income, impairment losses, net, other gains and losses and other expenses. This is the measure reported to the Board for the purposes of resource allocation and performance assessment.

4.2 Performance obligations for contracts with customers

The Group sells gasoline engines, diesel engines and engine components directly to the customers which are vehicle manufacturers in the PRC.

For the sale of goods to the customers, revenue is recognised when control of the goods has transferred, being the point the goods have been delivered to and received by customers. The normal credit term is 30 to 90 days upon delivery.

For some customers who buy engine components, the Group receives considerations from the customers in advance. Such advance payment is recognised as contract liabilities until the goods have been delivered to the customers.

Sales-related warranties associated with gasoline engines and diesel engines cannot be purchased separately and they serve as an assurance that the goods sold comply with agreed-upon specifications. Accordingly, the Group accounts for warranties in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

4.3 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 and operating segment are not presented.

4.4 Geographical information

All of the Group's operations and non-current assets are located in the PRC; and all of the Group's revenue from external customers is generated in the PRC.

4.5 Information about major customers

Revenue from major customers which individually accounts for 10% or more of the Group's total revenue are sales of gasoline engines, diesel engines, engine components.

	2022	2021
	RMB'000	RMB'000
Customer A	724,135	–
Customer B	559,484	838,671
Customer C <i>(Note)</i>	764	143,357
	<u>724,900</u>	<u>982,028</u>

Note: The revenue from Customer C for the year ended 31 December 2022 did not exceed 10% of total revenue for the year ended 31 December 2022. The amounts shown above are for the comparative purpose only.

5. OTHER INCOME

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Rental income under operating leases	6,938	332
Utility income	3,758	–
Bank interest income	3,701	5,619
Compensation income <i>(Note)</i>	–	92,881
Government grants	9,634	9,198
Imputed interest income from loan to a shareholder	936	888
Waiver of long-outstanding trade and other payables	11	286
	<u>24,978</u>	<u>109,204</u>

Note: Default compensation receivable from a related company as a result of discounted sales of engines and engine components at auction. These engines and engine components were produced or procured under the sales contract previously signed with the related company.

6. IMPAIRMENT LOSSES, NET

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Impairment loss on trade and other receivables, net of reversal	22,477	91,176
(Reversal of impairment loss)/Impairment loss on amounts due from related companies, net	<u>(21,467)</u>	<u>207,701</u>
	<u>1,010</u>	<u>298,877</u>

As at 31 December 2022 and 2021, the Group considered there are significant increase in credit risk of the receivables due from certain debtors having considered the economic environment in which the debtors operate and the liquidity condition of the debtors and, therefore, resulting a significant amount of expected credit loss (“ECL”) allowance was recognised.

7. OTHER GAINS AND LOSSES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Foreign exchange (losses)/gains, net	(9,945)	3,951
Gain on disposal of miscellaneous materials	3,434	3,478
Net loss arising on receivables measured at FVTOCI	(3,362)	(2,933)
Gain/(Loss) on disposal of property, plant and equipment	4,360	(10)
Gain arising from sale and leaseback transaction	12,674	–
Gain on disposal of intangible assets	4,000	–
Others	367	588
	<u>11,528</u>	<u>5,074</u>

8. FINANCE COSTS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Interest on borrowings:		
Finance charges on lease liabilities	11,188	198
Adjustment on loan to a shareholder	5,017	–
Borrowings	<u>46,145</u>	<u>58,167</u>
	<u>62,350</u>	<u>58,365</u>

9. INCOME TAX EXPENSE/(CREDIT)

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
PRC Enterprise Income Tax (“EIT”)		
– Provision for the year	1,052	1,080
– Under provision in prior year	<u>540</u>	<u>1,377</u>
	1,592	2,457
Deferred tax	<u>3,506</u>	<u>(9,344)</u>
	<u>5,098</u>	<u>(6,887)</u>

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 Engine Co., Limited* (綿陽新晨動力機械有限公司) (“Minyang Xincheng”) will be further 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% (2021: income tax rate of 15%) for the year ended 31 December 2022.

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

Under the EIT laws of PRC, withholding tax is imposed on dividends in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB206,939,000 (2021: RMB205,612,000) as the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future. The directors of PRC subsidiaries plan to set aside such undistributed profits of PRC subsidiaries for investment purpose.

The tax expense for the year can be reconciled to the loss before tax per consolidated statement of profit or loss and other comprehensive income as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Loss before tax	<u>(110,731)</u>	<u>(399,660)</u>
Tax at the PRC tax rate of 15% (2021: 15%)	(16,609)	(59,949)
Tax effect of expenses not deductible for tax purpose	26,298	63,226
Tax effect of income not taxable for tax purpose	(3,941)	(1,187)
Under provision in prior year	540	1,377
Tax incentives on eligible expenditures ^(Note)	(4,742)	(19,565)
Tax effect of tax losses not recognised	<u>3,552</u>	<u>9,211</u>
Income tax expense/(credit)	<u>5,098</u>	<u>(6,887)</u>

Note: The eligible expenditures represent research and development costs charged to profit or loss for the year, which is subject to an additional 100% (2021: 100%) tax deduction in the calculation of income tax expense.

10. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Directors' remuneration	10,981	6,642
Other staff costs	105,127	94,590
Contributions to retirement benefits scheme other than directors	<u>23,493</u>	<u>26,454</u>
Total staff costs	<u>139,601</u>	<u>127,686</u>
Depreciation of property, plant and equipment	116,085	245,443
Depreciation of right-of-use assets	35,814	3,730
Depreciation of prepaid lease payments	4,121	4,121
Amortisation of intangible assets	<u>27,762</u>	<u>78,249</u>
Total depreciation and amortisation	<u>183,782</u>	<u>331,543</u>
Auditors' remuneration	1,468	1,260
Research and development costs recognised as other expenses	9,718	7,659
Impairment loss of property, plant and equipment	8,528	16,580
Impairment loss of intangible assets	6,907	9,115
Included in cost of sales:		
Cost of inventories recognised as expense	1,498,723	1,319,823
Provision for inventories, net	983	7,283
Warranty claims expenses	<u>7,876</u>	<u>22,217</u>

11. DIVIDENDS

No dividend has been paid or declared by the Company during the years ended 31 December 2022 and 2021, nor has any dividend been proposed since the end of the reporting period.

12. LOSS PER SHARE

The calculation of the basic loss per share attributable to the owners of the Company is based on the loss of RMB115,829,000 (2021: RMB392,773,000), and weighted average number of shares of 1,282,211,794 (2021: 1,282,211,794), for the year ended 31 December 2022.

No diluted earnings per share is presented as there was no potential dilutive ordinary share outstanding during the year or as at the end of reporting period. The amount presented for diluted earnings per share is the same as basic earnings per share amount.

13. OTHER ASSETS

On 27 August 2021, Mianyang Xincheng entered into an investment agreement (the “Investment Agreement”) with Beijing CHJ Automotive Technology Co., Ltd* (北京車和家汽車科技有限公司), a company established in the PRC and controlled by Li Auto Inc., for the establishment of Sichuan Li Xincheng Technology Co., Ltd* (四川理想新晨科技有限公司) (“Li Xincheng”) in the PRC. Pursuant to the Investment Agreement, Mianyang Xincheng agreed to inject capital assets into Li Xincheng for the registered capital of Li Xincheng, which mainly comprise equipment and machinery and constructions in-progress relating to CE engine assembly line and cylinder block machining line (the “Contribution Assets”), with a total book value and appraised value of approximately RMB218,485,000 and RMB213,696,000, respectively and resulting an impairment loss of property, plant and equipments amounted to RMB4,789,000 and a transfer from property, plant and equipments to asset held for disposal amounting to RMB213,696,000. The transfer of the Contribution Assets into Li Xincheng was completed during the year ended 31 December 2022.

14. TRADE AND OTHER RECEIVABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables	975,781	440,297
<i>Less: Allowance for credit losses</i>	<u>(299,539)</u>	<u>(363,876)</u>
Trade receivables, net	676,242	76,421
Bills receivable	82,199	41,613
<i>Less: Allowance for credit losses</i>	<u>—</u>	<u>—</u>
Total trade and bills receivables	758,441	118,034
Prepayments for purchase of raw materials and engine components	19,433	18,846
Other receivables	5,686	7,262
<i>Less: Allowance for credit losses</i>	<u>—</u>	<u>—</u>
	<u>783,560</u>	<u>144,142</u>

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 allowance for credit losses, presented based on the invoice date at the end of the reporting period:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 1 month	659,005	23,331
Over 1 month but within 2 months	7,089	3,120
Over 2 months but within 3 months	449	284
Over 3 months but within 6 months	645	8,644
Over 6 months but within 1 year	267	7,819
Over 1 year	8,787	33,223
	<u>676,242</u>	<u>76,421</u>

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 3 months	26,039	17,948
Over 3 months but within 6 months	39,790	23,635
Over 6 months but within 1 year	16,370	30
	<u>82,199</u>	<u>41,613</u>

15. AMOUNTS DUE FROM RELATED COMPANIES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Non-trade related	24	22
Trade related ^(Note)	<u>10,409</u>	<u>150,640</u>
	<u>10,433</u>	<u>150,662</u>

Note:

Analysed as:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables	10,409	150,557
Prepayment	<u>–</u>	<u>83</u>
	<u>10,409</u>	<u>150,640</u>

The Group has pledged certain amounts due from related companies, before ECL allowance, amounting to RMB10,498,000 as at 31 December 2022 (2021: RMB82,635,000) to secure general banking facilities granted to the Group.

Trade related amounts due from related companies are unsecured, interest free and with a credit period ranging from 45 to 90 days from the invoice date and a further 3 to 6 months for bills receivable. The following is an aging analysis of trade receivables, net of allowance for credit losses, presented based on the invoice date at the end of the reporting period:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 3 months	–	85,922
Over 6 months but within 1 year	<u>10,409</u>	<u>64,635</u>
	<u>10,409</u>	<u>150,557</u>

The Group's credit limits offered to related companies are based on assessment of their financial viability and reputation in the industry, including historical payment records.

16. TRADE AND OTHER PAYABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade payables	248,390	414,839
Bills payable	<u>236,515</u>	<u>336,646</u>
Total trade and bills payables	484,905	751,485
Construction payables	4,744	4,717
Payroll and welfare payables	15,857	18,115
Advance from customers ^(Note a)	4,910	9,622
Provision for warranty ^(Note b)	5,782	5,887
Retention money	13,184	13,741
Other tax payables ^(Note c)	51,507	4,618
Provision for operating expenses	3,215	7,960
Other payables	<u>5,512</u>	<u>6,610</u>
	<u>589,616</u>	<u>822,755</u>

Notes:

- a. As at 31 December 2022 and 2021, the balances amounting to RMB4,910,000 and RMB9,622,000, respectively, represented the contract liabilities, i.e. the Group's obligation to transfer goods or services to customers for which the Group has received consideration from the customers. During the year ended 31 December 2022, the contract liabilities balance at the beginning of the year were fully recognised as revenue from sale of goods.
- b. The balance of provision for warranty represents management's best estimate of the Group's liability under the one year warranty granted to customers on the sale of automotive engines and automotive engine components, based on prior experience and industry averages for defective products at the end of reporting period.
- c. Included in the balance is value added tax payable of RMB51,112,000 (2021: RMB4,345,000).

The credit periods of trade payables and bills payable are normally within 3 months and 3 to 6 months, respectively. The following is an aging analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2022 RMB'000	2021 RMB'000
Within 3 months	161,559	287,987
Over 3 months but within 6 months	36,188	26,504
Over 6 months but within 1 year	3,449	26,025
Over 1 year but within 2 years	13,202	48,004
Over 2 years	33,992	26,319
	248,390	414,839

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

	2022 RMB'000	2021 RMB'000
Within 3 months	79,093	127,816
Over 3 months but within 6 months	157,422	187,250
Over 6 months but within 1 year	-	21,580
	236,515	336,646

17. LEASE LIABILITIES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Total minimum lease payments:		
Due within one year	199,010	2,192
Due in the second to fifth years	<u>587,602</u>	<u>2,191</u>
	786,612	4,383
Future finance charges on lease liabilities	<u>(78,753)</u>	<u>(131)</u>
Present value of lease liabilities	<u><u>707,859</u></u>	<u><u>4,252</u></u>

Note:

As at 31 December 2022, lease liabilities amounting to RMB707,859,000 (2021: RMB4,252,000) are effectively secured by the related underlying assets as the rights to the leased asset would be reverted to the lessor in the event of default by repayment by the Group.

18. BORROWINGS

a. Bank borrowings

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Carrying amount repayable:		
Within 1 year or on demand	481,740	488,232
After 1 year but within 2 years	77,365	74,000
After 2 years but within 5 years	<u>30,819</u>	<u>98,060</u>
	589,924	660,292
Less: amounts shown under current liabilities	<u>(481,740)</u>	<u>(488,232)</u>
Amounts shown under non-current liabilities	<u><u>108,184</u></u>	<u><u>172,060</u></u>
Secured <i>(Note a)</i>	388,965	346,820
Unsecured <i>(Note b)</i>	<u>200,959</u>	<u>313,472</u>
	<u><u>589,924</u></u>	<u><u>660,292</u></u>

b. Other borrowings

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Carrying amount repayable:		
Within 1 year or on demand	<u>10,000</u>	<u>510,000</u>
	10,000	510,000
Carrying amount of borrowings that are repayable on demand due to breach of loan covenants (shown under current liabilities) <i>(Note c)</i>	60,000	70,000
Less: amounts shown under current liabilities	<u>(70,000)</u>	<u>(580,000)</u>
Amounts shown under non-current liabilities	<u>–</u>	<u>–</u>
Secured <i>(Note d)</i>	–	500,000
Unsecured <i>(Note e)</i>	<u>70,000</u>	<u>80,000</u>
	<u>70,000</u>	<u>580,000</u>

Notes:

- a. At 31 December 2022 and 2021, the balances were secured by property, plant and equipment, prepaid lease payments and amounts due from related companies.
- b. At 31 December 2022, included in the unsecured borrowings is RMB106,965,000 guaranteed by companies within the Group (2021: RMB231,548,000 guaranteed by companies within the Group). The remaining balance of RMB93,994,000 (2021: RMB81,924,000) was unguaranteed, unsecured and arose from discounting, with recourse of bills receivable.

At 31 December 2022, other than borrowing which are denominated in US\$, i.e. US\$1,000,000, equivalent to approximately RMB6,965,000 (2021: US\$19,000,000, equivalent to approximately RMB121,138,000), the remaining loans are all denominated in RMB.
- c. At 31 December 2022, other borrowings of approximately RMB60,000,000 (2021: RMB70,000,000) from a non-related party, which shall be due after twelve months from the end of reporting period in accordance with the scheduled repayment dates as set out in the respective loan agreements but are reclassified to current liabilities due to the unfulfilment of a loan covenant following the deterioration of the financial conditions of Huachen Automotive, the guarantor of this borrowing, and thereby triggered the default of this borrowing of the Group; accordingly, this borrowing became repayable on demand as at 31 December 2022 and 2021.
- d. At 31 December 2021, included in the balances was other borrowings amounting to RMB500,000,000 from BMW Brilliance Automotive Ltd.* (華晨寶馬汽車有限公司) (“BMW Brilliance Automotive”) which was secured by property, plant and equipment and prepaid lease payments, bearing interest at 4.6% per annum and repayable on demand as at 31 December 2021. At 31 December 2022, the balance was settled.
- e. At 31 December 2022, included in the balances was other borrowings amounting to RMB70,000,000 (2021: RMB80,000,000) from a non-related party which was unsecured, bearing interest at 1.2% per annum and repayable on demand as at 31 December 2022 and 2021.

19. SHARE CAPITAL

Details of movement of the share capital of the Company are as follows:

	Number of shares	Amount HK\$
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
At date of incorporation, 1 January 2021, 31 December 2021 and 2022	<u>8,000,000,000</u>	<u>80,000,000</u>
<i>Issued and fully paid:</i>		
At 1 January 2021, 31 December 2021 and 2022	<u>1,282,211,794</u>	<u>12,822,118</u>
	2022 RMB'000	2021 RMB'000
Share capital presented in consolidated statement of financial position	<u>10,457</u>	<u>10,457</u>

20. RELATED PARTY DISCLOSURES

Other than those disclosed elsewhere in the consolidated financial statements, during the year, the Group entered into the following transactions with related parties:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Sale of goods		
Brilliance China Group <i>(Note)</i>	61,393	982,707
Huachen Group	–	227
Li Xinchun	34,936	–
	<u>96,329</u>	<u>982,934</u>
Purchase of goods		
Brilliance China Group <i>(Note)</i>	13,719	102,762
Huachen Group	–	211
Wuliangye Group	36,941	75,127
Li Xinchun	720,695	–
	<u>771,355</u>	<u>178,100</u>
Provision of service		
Li Xinchun	2,112	–
	<u>2,112</u>	<u>–</u>
Lease payment and auxiliary services received		
Brilliance China Group	2,469	2,366
Huachen Group	–	274
	<u>2,469</u>	<u>2,640</u>
Lease income and auxiliary services charged		
Li Xinchun	9,472	–
	<u>9,472</u>	<u>–</u>
Compensation income		
Brilliance China Group	–	92,881
	<u>–</u>	<u>92,881</u>
Cleaning and greening services received		
Wuliangye Group	–	87
	<u>–</u>	<u>87</u>
Consulting service received		
Wuliangye Group	–	50
	<u>–</u>	<u>50</u>
Water and electricity costs (received)/charged		
Wuliangye Group	(759)	16
	<u>(759)</u>	<u>16</u>
Repairment fee		
Wuliangye Group	22	74
	<u>22</u>	<u>74</u>
Interest expense charged		
Brilliance China Group <i>(Note)</i>	2,683	14,631
	<u>2,683</u>	<u>14,631</u>
Sale of intangible assets		
Li Xinchun	37,000	–
	<u>37,000</u>	<u>–</u>

Note: During the year ended 31 December 2022, the amount included sale and purchase transaction and interest expense charged with BMW Brilliance Automotive from 1 January 2022 to 10 February 2022 (2021: 1 January 2021 to 31 December 2021).

BUSINESS REVIEW AND PROSPECT

According to the China Association of Automobile Manufacturers' statistics, the automobile industry showed a growth of 2.1% year on year in vehicle sales totaling approximately 26.8 million units in 2022, showing a slight growth despite chip shortage, rise in raw material prices and continual woe of the Covid-19 pandemic in China. The resurgence of consumer confidence in spending and the purchase tax cut policy also mitigated the negative impact which brought to the automobile industry during the year. In 2022, sales of passenger vehicles, including sedan car, sport-utility vehicle (“SUV”) and multi-purpose vehicle (“MPV”), amounted to about 23.5 million units, up by 9.5% year on year and sales of commercial vehicles reached 3.3 million units, down by 31.2%. The sales of new energy vehicles (“NEV”) was 6.88 million units, up by 93.4% year on year, and accounted for only about 25.6% of the country's total sales in 2022, indicating a high potential growth. Thus, the NEV sector started to provide a solid support to the sales of vehicles in 2022 and the growth of this NEV market is going to accelerate in the future.

The PRC government also lowered the value-added tax on used cars to just 0.5% until the end of 2023 and encouraged the finance sector to offer consumers more attractive credit services to revitalize the automobile industry. Furthermore, some cities granted a cash subsidy to car buyers. In 2022, China's annual automobile sales continued to account for approximately one-third of the world's sales. It is such an important market that, in particular, the scale of NEV market in China accounted for more than 60% of all the NEVs sold worldwide in 2022. China's State Council planned a development blueprint for the NEV industry from 2021 to 2035, targeting a 20% share of NEV in the country's total sales by 2025. This was achieved three years earlier than the schedule. The proportion of NEV sales out of the total vehicle sales will rise to approximately 40% by 2030. In 2035, NEV will account for over 50% of the total vehicle sales. The entire industry continues the process of transformation and upgrading and therefore, we are optimistic about the future of our industry.

During the year, our joint venture company (the “JVC”) with Li Auto Inc. showed a robust growth which was in line with the NEV market momentum in China. As mentioned above, the PRC has become the world's largest NEV market and in recent years, the PRC government has provided great support such as subsidies and implemented various favorable policies to drive the development of the NEV market. Purchasers of NEV will benefit from vehicle-related tax exemptions in China and certain local government policies in favor of NEV, such as no quota limitations for vehicle license plate application and exemption from traffic restrictions. Thus, the business of the JVC will be well supported. The participation of our Group in the JVC is a first strategic move to enter the NEV market. The JVC will at the same time serve as the platform for the long-term strategic cooperation between our Group and Li Auto Inc., which aims to provide a quality and stable supply of range extender engines (which are equipped with BMW technology) for use in NEV (e.g. L9, L8 and L7 vehicle models) produced by Li Auto Inc.. We have also been exploring cooperation opportunities with other NEV manufacturers, for example, MAXUS and Rox Motor, in order to widen our market exposure during the beginning phase of NEV boom in China.

We have been carrying out some re-engineering to our CE-family engines in order to pave a way out in the ever-changing automobile market in China. After almost two years of hard work, we have developed NEV-compatible CE engines which are used in the range extender of the electric drive system for the next generation of NEV. Industrialization of the NEV-compatible CE engines commenced in 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. In simple terms, the range extender is an auxiliary power unit consisting of a small internal combustion engine coupled with an electric generator which is used to re-charge the battery pack of NEV. Lack of power points for recharging, too much time spent on long queues waiting to recharge specially during long holidays, the time spent on recharging and the power cut in certain areas in China in prior years, sparked the risk of commuting with pure electric vehicles as charging station suspended operation during rush hours. Subsequently, the sales of extended-range electric vehicle (“**E-REV**”) showed an obvious growth and topped the table.

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 to 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. Based on the CE16/CE12 engine prototype, we are currently working on the following hybrid engine projects with various displacement, namely CE15F, 1TZH-E and B15F series which cater for E-REV, plug-in hybrid vehicle or hybrid electric vehicle. We have signed contracts with various customers and commenced vehicle matching work and we expect that the industrialization of these engines will be in 2023 and onwards. These engines meet the requirements of the China 6 emission and Europe Real Driving Emission regulations, with good quality to be exported to other countries in the future.

BMW Prince Engine won the World’s Best Ten Engines in eight consecutive years. CE engine adopted leading and mature technologies with strategic positioning of “high starting point, high quality, and high platform”. An expert team from BMW Germany provided all-around supports on research and development, industrialization, supply chain management, quality management and project management, ensuring the engine production is in accordance with BMW process certification, BMW quality philosophy and BMW quality standard. CE engine meets requirements of China 6b emission regulation and the fourth phase fuel consumption. The CE engine is applicable to SUV, passenger vehicle, MPV, A-class vehicle models, etc. At present, all our branded traditional and CE engines are China 6 emission standard compliant.

As disclosed in the interim report for the six months ended 30 June 2022, in view of the diminished demand of vehicle upgrade with high-end combustion engines, our long term customers have not rolled out new models with fuel-driven engine models and this affected sales volumes of our traditional and the CE engines. However, starting from the second half of 2022, there was trading of the range extender engines produced by our JVC and this accounted for the increase in the overall revenue. In 2022, the Group recorded a total sales of approximately RMB1,652.48 million, representing an increase of approximately 12.97% as compared to 2021. There was a decrease in sales of crankshafts by approximately 30.94%, amounting to approximately RMB537.85 million, which was mainly attributable to the decrease in the demand by BMW Brilliance Automotive for our Group's Bx8 crankshafts. Such decline was due to the pandemic and was expected to be temporary in nature. 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 have delivered over 3.5 million crankshafts and 7.6 million connecting rods to BMW. During the year, we also started to supply crankshafts to BYD and connecting rods to BYD and Li Auto Inc., and look forward to becoming a long term supplier to them.

Some of our customers experienced financial difficulty in their operation and disrupted their production cycles, and the ripple effect caused impairment in certain of our trade receivables. Also, there are impairment in intangible assets, property, plant and equipment and inventories, which led to a net loss attributable to owners of the Company of approximately RMB115.83 million, representing a year-on-year reduction in loss of approximately 70.51% as compared to a net loss of approximately RMB392.77 million in 2021. The decrease in loss was mainly due to less impairment in trade receivables during the year.

The scaling down of available banking facilities, issues with trade receivables and the decrease in traditional sales add pressure to the liquidity of our Group. As disclosed in the Company's announcement, the disposal of our crankshaft and connecting rods production lines which are used to exclusively manufacture engine components to BMW Brilliance Automotive was approved by the shareholders of the Company in August 2022. Closing of the disposal took place in September 2022. This transaction was beneficial to the Group as this enables the Group to obtain additional working capital to support its business activities while maintaining the operation rights over the crankshaft and connecting rod production lines by leasing them back from BMW Brilliance Automotive. We were also seeking measures to alleviate the situation including sales of fixed assets, speeding up payment by customers, striving for renewal and extension of borrowings, and looking for new bank financings and investors.

From the perspective of the development trend of the automobile industry and with the steady recovery of the economy in China upon the recovering from Covid-19 infections, consumer demand will resume and the overall potential of the Chinese automobile market is still huge. Therefore, it is estimated that the Chinese automobile market has already bottomed out. In the coming years, the market will restore its positive growth through the development of vehicle electrification, vehicle digitalization, vehicle built-in intelligence and in-car internet. These will accelerate the transformation and upgrading of the automotive industry.

Our Group will continue to explore cooperation opportunities with BMW AG, BMW Brilliance Automotive, Li Auto Inc. MAXUS, BYD and other business partners in the future to cope with the ever-changing automobile industry trend. In particular, our Group will continue to actively identify potential merger and acquisition opportunities and assess possibilities of forming joint ventures with other potential partners to expand its product portfolio and strengthen its core competitiveness.

MANAGEMENT'S DISCUSSION & ANALYSIS

In 2022, the Group achieved total consolidated sales of approximately RMB1,652.48 million, representing an increase of approximately 12.97% compared to 2021 (approximately RMB1,462.78 million). The increase was mainly due to the trading of range extender engines produced by our JVC, despite there was decrease in the sales of engines, together with the decrease in the sales of Bx8 crankshafts. As Covid-19 continued to take its toll during the reporting year, the automobile industry was no exception. The decrease in sales of engines was due to lacklustre demand of engines from various automobile manufacturers during the year caused by the slowing economy. The decrease in the sales of crankshafts was mainly due to the decrease in the demand by BMW Brilliance Automotive for the Group's Bx8 crankshafts.

In respect of the engines business segment, the Group recorded approximately 101.38% increase in segment revenue, from approximately RMB504.09 million in 2021 to approximately RMB1,015.15 million in 2022. Sales volume of engines increased by approximately 105.95% from around 42,000 units in 2021 to around 86,500 units in 2022. The increase was mainly due to the increase in the trading of range extender gasoline engines produced by our JVC since the second half of 2022.

In respect of the engine components segment, the Group recorded approximately 33.52% decrease in segment revenue, from approximately RMB958.69 million in 2021 to approximately RMB637.33 million in 2022. The decrease was mainly due to fewer Bx8 crankshafts and connecting rods produced and supplied to BMW Brilliance Automotive during the year. The Group sold around 491,000 units of crankshafts to BMW Brilliance Automotive in 2022, representing a decrease of approximately 29.15% from around 693,000 units in 2021. There was also a decrease in the demand for connecting rods. The Group sold around 715,000 units of connecting rods to BMW Brilliance Automotive in 2022, down by approximately 30.50% from around 1,030,000 units in 2021.

The consolidated cost of sales in 2022 amounted to approximately RMB1,550.09 million, up by approximately 11.81% when compared to approximately RMB1,386.34 million recorded in 2021. The increase in cost of sales was due to the trading of range extender gasoline engines.

The gross profit margin of the Group increased from approximately 5.23% in 2021 to approximately 6.19% in 2022, which was mainly due to the higher proportion of sales relating to engine component business which has higher profit margin.

Impairment losses decreased from approximately RMB298.88 million in 2021 to approximately RMB1.01 million in 2022. The decrease was mainly due to less impairment of trade-related receivables based on the expected credit losses assessment performed by an independent qualified professional valuer.

Other gains and losses increased from gains of approximately RMB5.07 million in 2021 to gains of approximately RMB11.53 million in 2022. The increase was mainly due to the gain on disposal of production lines being recognized in 2022.

Selling and distribution expenses decreased by approximately 28.87%, from approximately RMB17.39 million in 2021 to approximately RMB12.37 million and the inclusion of trading of range extender gasoline engines which broadened the revenue base in 2022, representing approximately 1.19% and approximately 0.75% of the revenue in 2021 and 2022, respectively. The decrease in value was mainly due to the decrease in sales staff expense during 2022.

Administrative expenses decreased by approximately 27.74%, from approximately RMB199.13 million in 2021 to approximately RMB143.88 million in 2022, representing approximately 13.61% and approximately 8.71% of the revenue in 2021 and 2022, respectively. The decrease in terms of percentage was mainly due to decrease in office expense, professional fees and the inclusion of trading of range extender gasoline engines which broadened the revenue base during the year.

Finance costs increased by approximately 6.83%, from approximately RMB58.37 million in 2021 to approximately RMB62.35 million in 2022. The increase was mainly due to the recognition of imputed interest of a loan to a shareholder during the year.

Other expenses decreased by approximately 24.13% from approximately RMB16.62 million in 2021 to approximately RMB12.61 million in 2022, which was mainly due to the decrease in research expenses incurred in 2022.

The Group's loss before tax was approximately RMB399.66 million in 2021 whereas the Group's loss before tax was approximately RMB110.73 million in 2022.

Income tax credit was approximately RMB6.89 million in 2021 whereas there was income tax expenses of approximately RMB5.10 million in 2022. The change was mainly due to the movement of deferred tax assets.

For the year 2022, the loss attributable to owners of the Company was approximately RMB115.83 million, as compared to a net loss of approximately RMB392.77 million for the year ended 31 December 2021. Basic loss per share in 2022 amounted to approximately RMB0.09, as compared to basic loss per share of approximately RMB0.306 in 2021.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2022, the Group had approximately RMB59.06 million in cash and cash equivalents (31 December 2021: RMB12.85 million), and approximately RMB135.13 million in pledged bank deposits (31 December 2021: RMB250.62 million). The Group had trade and other payables of approximately RMB589.62 million (31 December 2021: RMB822.76 million), borrowings due within one year in the amount of approximately RMB551.74 million (31 December 2021: RMB1,068.23 million), and borrowings due after one year in the amount of approximately RMB108.18 million (31 December 2021: RMB172.06 million).

CAPITAL STRUCTURE

As at 31 December 2022, the Group's total assets was approximately RMB4,156.13 million (31 December 2021: RMB3,964.83 million), which was funded by the following: (1) share capital of approximately RMB10.46 million (31 December 2021: RMB10.46 million), (2) reserves of approximately RMB1,664.47 million (31 December 2021: RMB1,780.16 million) and (3) total liabilities of approximately RMB2,481.20 million (31 December 2021: RMB2,174.21 million).

CONTINGENT LIABILITIES

During the year, 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 considers that the risk of default in payment of the endorsed and discounted bills receivable is low because all endorsed and discounted bills receivable are issued and guaranteed by reputable banks in the PRC.

PLEDGE OF ASSETS

As at 31 December 2022, the Group pledged certain of its receivables with an aggregate gross amount, before impairment loss, of approximately RMB10.50 million (31 December 2021: RMB82.64 million) to secure general banking facilities granted to the Group.

As at 31 December 2022, the Group has pledged certain land use rights, buildings, plant and machinery with an aggregate carrying value of approximately RMB574.40 million (31 December 2021: RMB890.14 million) to certain banks to secure general banking facilities and other borrowing granted to the Group.

As at 31 December 2022, the Group pledged bank deposits in the amount of approximately RMB135.13 million (31 December 2021: RMB250.62 million) to secure general banking facilities and other borrowing granted to the Group.

GEARING RATIO

As at 31 December 2022, the debt-to-equity ratio, computed by dividing total liabilities by total equity attributable to owners of the Company, was approximately 1.48 (31 December 2021: 1.21). The increase in the debt-to-equity ratio was mainly due to the increase in lease liabilities in 2022.

As at 31 December 2022, the gearing ratio, computed by dividing borrowings by total equity attributable to owners of the Company, was approximately 39.40% (31 December 2021: 69.27%). The decrease in gearing ratio was mainly due to the decrease in borrowings as a result of continual repayment of loans in 2022.

FOREIGN EXCHANGE RISKS

The Group's functional currency is RMB. Since the Group has certain assets and liabilities, such as receivables, payables, bank borrowings and cash and cash equivalents, denominated in foreign currencies, such as United States Dollar (“US\$”) and Hong Kong Dollar (“HK\$”), the Group is exposed to foreign currency translation risk.

The Group has monitored and will continue to monitor its foreign exchange risks and may consider hedging its foreign currency exposure, if and when necessary. Certain portion of US\$-denominated bank borrowings was hedged with forward contracts during the year under review in order to minimize exposure to foreign exchange risk.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2022, the Group employed approximately 998 employees (31 December 2021: approximately 1,130 employees). Employee costs amounted to approximately RMB139.60 million for the year ended 31 December 2022 (31 December 2021: approximately RMB127.69 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 took place in September 2022.

Save as disclosed above, there were no other significant investments, material acquisitions or disposals of subsidiaries, associates and joint ventures by the Group during the year ended 31 December 2022.

CAPITAL COMMITMENT

As at 31 December 2022, the Group had capital commitments of approximately RMB350.73 million (31 December 2021: RMB561.08 million), among which contracted capital commitments amounted to approximately RMB104.33 million (31 December 2021: RMB345.74 million), which is primarily related to capital expenditure in respect of acquisition of property, plant and equipment, capital injection to an associate and new engine development.

ENVIRONMENTAL AND SOCIAL

As a responsible corporation, the Group is committed to maintaining the highest environmental and social standards to ensure sustainable development of its business. During the year, the Group has endeavored to manage, monitor, recommend and report on environmental and social aspects.

The Group has complied with all relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment and environment. The Group understands a better future depends on everyone's participation and contribution. Towards that end, it has encouraged employees, customers, suppliers and other stakeholders to participate in environmental and social activities which benefit the community as a whole.

The Group maintains strong relationships with its employees, has enhanced cooperation with its suppliers and has provided high quality products and services to its customers so as to ensure sustainable development.

DIVIDEND

The Board did not recommend the payment of any dividend in respect of the year ended 31 December 2022 (2021: Nil).

CLOSURE OF REGISTER OF MEMBERS

The Company's forthcoming annual general meeting will be held at 9:00 a.m. on Monday, 19 June 2023.

The Hong Kong branch register of members of the Company will be closed from Wednesday, 14 June 2023 to Monday, 19 June 2023, both dates inclusive, during which period no transfer of shares will be registered. Only shareholders of the Company whose names appear on the register of members of the Company on Wednesday, 14 June 2023 or their proxies or duly authorised corporate representatives are entitled to attend the annual general meeting. In order to qualify for attending the annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 13 June 2023.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 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 Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company has complied with all code provisions of the CG Code throughout the year ended 31 December 2022.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry with all directors of the Company, all directors confirmed that they have complied with the required standard set out in the Model Code and the Company’s code of conduct regarding securities transaction by directors during the year ended 31 December 2022.

SCOPE OF WORK OF THE AUDITORS

The figures in respect of the Group’s consolidated statement of financial position, consolidated income statement and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Group’s auditor, Grant Thornton Hong Kong Limited (the “**Auditor**”), to the amounts set out in the Group’s draft consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by the Auditor on the preliminary announcement.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial report matters, including the consolidated financial statements of the Group for the year ended 31 December 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 of the Company. Mr. Chi Guohua is the chairman of the audit committee.

PUBLICATION OF ANNUAL REPORT

The 2022 annual report of the Company containing the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.xinchenpower.com) respectively in due course.

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, 28 March 2023

* *for identification purposes only*