POWER XINCHEN
新晨动力

XINCHEN CHINA POWER HOLDINGS LIMITED
新晨中國動力控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1148

Interim Report 2021

RESULTS

The board of directors (the "**Board**") of Xinchen China Power Holdings Limited (the "**Company**") presents the unaudited consolidated interim financial results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2021 together with comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

		Six months ended	
		30.6.2021	30.6.2020
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*4*	**939,319**	741,953
Cost of sales		**(823,195)**	(695,607)
Gross profit		**116,124**	46,346
Other income	*5*	**8,554**	15,097
Impairment losses	*6*	**(4,789)**	(13,582)
Other gains and losses	*7*	**16,066**	(10,069)
Selling and distribution expenses		**(10,099)**	(14,392)
Administrative expenses		**(57,089)**	(54,990)
Other expenses		**(6,605)**	(7,517)
Finance costs		**(30,872)**	(38,967)
Profit/(Loss) before tax	*8*	**31,290**	(78,074)
Income tax credit/(expense)	*9*	**831**	(541)
Profit/(Loss) for the period		**32,121**	(78,615)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Fair value loss on:			
Receivables measured at fair value through other comprehensive income ("**FVTOCI**")		**–**	(282)
Other comprehensive loss for the period		**–**	(282)
Total comprehensive income/(loss) for the period		**32,121**	(78,897)
Earnings/(Loss) per share – Basic *(RMB)*	*11*	**0.025**	(0.061)

The notes on pages 7 to 25 are an integral part of this interim report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	30.6.2021 RMB'000 (unaudited)	31.12.2020 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	12	**2,178,521**	2,297,808
Prepaid lease payments		**124,137**	125,937
Intangible assets	12	**710,921**	707,184
Loan to a shareholder	13	**14,615**	14,326
Deferred tax assets		**11,781**	10,206
		3,039,975	3,155,461
CURRENT ASSETS			
Inventories	14	**508,168**	634,399
Trade and other receivables	15	**219,044**	286,963
Tax recoverable		**2,452**	2,663
Amounts due from related companies	16	**335,852**	333,522
Pledged/restricted bank deposits	17	**323,864**	538,459
Bank balances and cash	17	**483,878**	55,285
		1,873,258	1,851,291
TOTAL ASSETS		**4,913,233**	5,006,752

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

As at 30 June 2021

	Notes	30.6.2021 RMB'000 (unaudited)	31.12.2020 RMB'000 (audited)
CURRENT LIABILITIES			
Trade and other payables	*18*	**1,078,472**	1,182,809
Amounts due to related companies	*19*	**579,021**	215,112
Lease liabilities	*21*	**2,191**	5,100
Borrowings due within one year	*20*	**726,077**	1,067,468
		2,385,761	2,470,489
NET CURRENT LIABILITIES		**(512,503)**	(619,198)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,527,472**	2,536,263
NON-CURRENT LIABILITIES			
Borrowings due after one year	*20*	**283,346**	320,394
Deferred income		**28,455**	32,319
		311,801	352,713
NET ASSETS		**2,215,671**	2,183,550
CAPITAL AND RESERVES			
Share capital	*22*	**10,457**	10,457
Reserves		**2,205,214**	2,173,093
TOTAL EQUITY		**2,215,671**	2,183,550

The notes on pages 7 to 25 are an integral part of this interim report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	Share capital *RMB'000*	Share premium *RMB'000* *(Note a)*	Special reserve *RMB'000* *(Note b)*	Surplus reserves *RMB'000* *(Note c)*	Deemed distribution to a shareholder *RMB'000* *(Note d)*	Contribution from a shareholder *RMB'000* *(Note e)*	FVTOCI reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2020 (audited)	10,457	700,258	193,457	394,440	(11,285)	8,319	(269)	1,696,543	2,991,920
Loss for the period	–	–	–	–	–	–	–	(78,615)	(78,615)
Other comprehensive loss for the period	–	–	–	–	–	–	(282)	–	(282)
Total comprehensive loss for the period	–	–	–	–	–	–	(282)	(78,615)	(78,897)
At 30 June 2020 (unaudited)	10,457	700,258	193,457	394,440	(11,285)	8,319	(551)	1,617,928	2,913,023
At 1 January 2021 (audited)	10,457	700,258	193,457	394,760	(11,285)	8,319	–	887,584	2,183,550
Profit for the period and total comprehensive income for the period	–	–	–	–	–	–	–	32,121	32,121
At 30 June 2021 (unaudited)	10,457	700,258	193,457	394,760	(11,285)	8,319	–	919,705	2,215,671

Notes:

(a) Share premium represents the difference between the par value of the share issued and the subscription and issue prices of new shares in prior years.

(b) Special reserve represents the difference between paid-in capital of Mianyang Xinchen Engine Co., Limited*（綿陽新晨動力機械有限公司）(“**Mianyang Xinchen**”) and issued share capital of the Company arising from group reorganization.

(c) Surplus reserves comprise statutory surplus reserve and discretionary surplus reserve of Mianyang Xinchen, a major operating subsidiary of the Group, which are non-distributable and the transfer to these reserves is determined according to the relevant laws in the People's Republic of China (the “**PRC**”) and by the board of Mianyang Xinchen in accordance with its Articles of Association. Statutory surplus reserve amounting to approximately RMB265,016,000 as at 30 June 2021 (31 December 2020: approximately RMB265,016,000), can be used to make up for previous year's losses or convert into additional capital of Mianyang Xinchen. Discretionary surplus reserve amounting to approximately RMB129,744,000 as at 30 June 2021 (31 December 2020: approximately RMB129,744,000) can be used to expand the existing operations of Mianyang Xinchen.

(d) Deemed distribution to a shareholder represents the fair value adjustments on an interest-free loan to a subsidiary of a joint controlling shareholder of Mianyang Xinchen in prior years.

(e) Contribution from a shareholder represents the fair value adjustments on shares awarded by Lead In Management Limited (“**Lead In**”) to a third party in prior years. Details of which are set out in Note 13.

* *English name for reference only*

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

	Six months ended	
	30.6.2021	30.6.2020
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit/(Loss) before taxation	**31,290**	(78,074)
Adjustments for non-cash items	**176,967**	179,727
Operating cash flows before changes in working capital	**208,257**	101,653
Decrease in inventories	**126,231**	42,688
Decrease/(Increase) in trade and other receivables	**63,325**	(215,231)
Increase in receivables measured at FVTOCI	**–**	(3,829)
(Decrease)/Increase in trade and other payables	**(117,239)**	24,541
(Increase)/Decrease in amounts due from related companies	**(2,525)**	222,757
Increase/(Decrease) in amounts due to related companies	**363,909**	(24,558)
Cash generated from operations	**641,958**	148,021
Income tax paid	**(533)**	(1,683)
Net cash generated from operating activities	**641,425**	146,338
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	**2,506**	3,948
Purchase of property, plant and equipment	**(7,763)**	(7,867)
Proceeds on disposal of property, plant and equipment	**–**	192
Development costs paid	**(11,717)**	(35,307)
Withdrawal of pledged/restricted bank deposits	**249,443**	218,939
Placement of pledged/restricted bank deposits	**(34,848)**	(415,406)
Repayment from a related company	**–**	10
Net cash generated from/(used in) investing activities	**197,621**	(235,491)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Cont'd)

For the six months ended 30 June 2021

	Six months ended	
	30.6.2021	30.6.2020
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Interest paid	**(30,872)**	(46,692)
Repayment of borrowings	**(457,440)**	(385,393)
New borrowings raised	**80,768**	488,070
Payment of lease liabilities	**(2,909)**	(3,348)
Advance from related companies	**–**	2,118
Repayment to a related company	**–**	(28)
Net cash (used in)/generated from financing activities	**(410,453)**	54,727
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**428,593**	(34,426)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**55,285**	98,188
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash	**483,878**	63,762

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

1. CORPORATE 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 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 principal activities of the Company and its direct wholly-owned subsidiary, Southern State Investment Limited, are investment holding. The principal activities of Mianyang Xinchen, an indirect wholly-owned subsidiary of the Company, are development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles and manufacture of engine parts and components of the passenger vehicles and light duty commercial vehicles in the PRC.

* *English name for reference only*

2. 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 (the "**Listing Rules**").

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

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

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

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

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

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

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

* *English name for reference only*

3. PRINCIPAL ACCOUNTING POLICIES

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

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

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of new standards effective as of 1 January 2021. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

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

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

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

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

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

Impact on measurement of financial assets and financial liabilities

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

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

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

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

3. **PRINCIPAL ACCOUNTING POLICIES (Cont'd)**

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

Impact on lease contracts

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

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

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

Issued but not yet effective HKFRSs

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

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 or services provided.

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

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, 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.

4. REVENUE AND SEGMENT INFORMATION (Cont'd)

4.1 Segment revenue and segment results (Cont'd)

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

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

Revenue reported above represents revenue generated from sales of goods or service provision to external customers. There were no inter-segment sales during the six months ended 30 June 2021 and 2020.

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

4.2 Segment assets and liabilities

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

4.3 Geographical information

The majority of the Group's operations and non-current assets are located in the PRC; and almost all of the Group's revenue from external customers is generated in the PRC, which is the country of domicile of Mianyang Xinchen and its subsidiary.

5. OTHER INCOME

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

6. IMPAIRMENT LOSSES

	Six months ended	
	30.6.2021	30.6.2020
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Impairment losses recognised on:		
– Trade and other receivables *(Note 15)*	**4,594**	13,582
– Amounts due from related companies *(Note 16)*	**195**	–
	4,789	13,582

7. OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2021	30.6.2020
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Foreign exchange gain/(losses), net	**2,512**	(8,649)
Gain on disposal of miscellaneous materials	**1,593**	780
Net loss arising on receivables measured at FVTOCI	**–**	(2,869)
Gain on disposal of property, plant and equipment *(Note 12)*	**–**	2
Reversal of provision for impairment losses on amounts due from related companies	**–**	571
Written off of amounts due to related companies	**11,699**	–
Others	**262**	96
	16,066	(10,069)

8. PROFIT/(LOSS) BEFORE TAX

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

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

9. INCOME TAX CREDIT/(EXPENSE)

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

According to the announcement of "The State Administration of Taxation on issues concerning EIT related with enhancing the Western Region Development Strategy"*（國家稅務總局關於深入實施西部大開發戰略有關稅收政策問題的通知）, Mianyang Xinchen was registered with the local tax authority to be eligible to the reduced EIT rate of 15% from 2011 to 2020.

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

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

* *English name for reference only*

10. DIVIDENDS

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

11. EARNINGS/(LOSS) PER SHARE

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

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

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

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

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

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

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

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

13. LOAN TO A SHAREHOLDER

As detailed in Note 28, the Company has two trust arrangements which entitle the beneficiaries to subscribe for shares of the Company (the "**Shares**") through Lead In for their services to the Group. Under the loan agreements dated 18 October 2011, each of the two shareholders of the Company, namely Brilliance Investment Holdings Limited ("**Brilliance Investment**") and Xinhua Investment Holdings Limited ("**Xinhua Investment**"), advanced loans in equal amounts of HK$20,000,000 to the Company (collectively, the "**Loans from Shareholders**"). In return, (i) the Company lent an aggregate amount of HK$40,000,000, equal to the Loans from Shareholders, to Lead In (the "**Loan to a Shareholder**") with an original repayment term of one year from the date of loan agreement entered by the Company and Lead In, and (ii) Lead In used the funding obtained from the Company to subscribe for 36,977,960 Shares under the Discretionary Trust (as defined and detailed in Note 28). The Company does not have the power to direct the relevant activities of Lead In and the ability to use its power over the entities to affect its exposure of returns as detailed in Note 28. Therefore, the Group considers the funding to Lead In is classified as loan to a shareholder. All the loan are non-trade related, unsecured and interest free.

The Company has repaid Loans from Shareholders in October 2013, whilst the Loan to a Shareholder was renewed annually and is further extended to October 2021.

At 30 June 2021, the management of the Company expected the balance would not be recovered within one year and the outstanding balance is classified as non-current assets. The balance is measured at imputed interest rate of 3% per annum, and an imputed interest income with an amount of approximately RMB446,000 (six months ended 30 June 2020: approximately RMB472,000) is recognised in profit or loss for the period.

Based on assessment by the management of the Group, no additional impairment have been recognised for Loan to a Shareholder as the amount of impairment measured under the expected credit losses ("**ECL**") model is considered as insignificant.

14. INVENTORIES

There was no additional provision during the current interim period (six months ended 30 June 2020: approximately RMB266,000) of inventories were made, which is determined with reference to the net realisable value of the inventory items.

15. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise the following:

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

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

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

15. TRADE AND OTHER RECEIVABLES (Cont'd)

Trade and other receivables comprise the following: (Cont'd)

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

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

At 30 June 2021 and 31 December 2020, the Group assessed the impairment of its customers based on provision matrix. The table below provided information about the exposure to credit risk and ECL for trade receivables which were assessed based on provision matrix as at 30 June 2021 and 31 December 2020:

30 June 2021

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

31 December 2020

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

15. TRADE AND OTHER RECEIVABLES (Cont'd)

Trade and other receivables comprise the following: (Cont'd)

Movement in the ECL of trade receivables:

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
At beginning of period/year	**272,700**	8,677
Transferred from ECL of amounts due from related companies *(Note 16)*	**–**	13,446
ECL recognised	**4,594**	250,577
At end of the reporting period/year	**277,294**	272,700

Movement in the ECL of bills receivables:

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

Movement in the ECL of other receivables:

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

16. AMOUNTS DUE FROM RELATED COMPANIES

Analysed as:

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

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

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

Notes:

* *English name for reference only*

The Group applied simplified approach to provide the ECL prescribed by HKFRS 9. To measure the ECL of amounts due from related companies, the balances have been assessed based on individual assessment. At 30 June 2021 and 31 December 2020, the Group assessed the credit rating for its customers and applying the expected loss rate ranging from 0.1% to 100% (31 December 2020: 0.1% to 100%) over the gross carrying amounts. As at 30 June 2021, ECL allowance amounting to approximately RMB466,812,000 (31 December 2020: approximately RMB466,617,000) was recognised based on individual assessment by reference to the Group's historical credit loss experiences, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

16. AMOUNTS DUE FROM RELATED COMPANIES (Cont'd)

Movement in the ECL:

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

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade related balances analysed as:		
Trade receivables	**335,416**	333,121
Prepayment	**308**	273
	335,724	333,394

Trade related amounts due from related companies are unsecured, interest free and with a credit period ranging from 45 days 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 ECL allowance, presented based on the invoice date as at the end of the reporting period:

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**218,582**	229,089
Over 3 months but within 6 months	**18,000**	204
Over 6 months but within 1 year	**–**	11,225
Over 1 year	**98,834**	92,603
	335,416	333,121

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Non-trade related:		
Brilliance China Group and Wuliangye Group	**128**	128

17. PLEDGED/RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

Balances denominated in foreign currencies:

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Hong Kong Dollars	**12,335**	21,076
United States Dollars	**759**	768

Other than bank balances shown above, all other remaining bank balances are denominated in RMB.

18. TRADE AND OTHER PAYABLES

Trade and other payables comprise the following:

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

Notes:

i. As at 30 June 2021 and 31 December 2020, the balance represented the contract liabilities, i.e. the Group's obligation to transfer goods or services to customers for which the Group had received consideration from the customers. During the period ended 30 June 2021, the contract liabilities balance at the beginning of the period were fully recognised as revenue from sales of goods.

ii. The balance of provision for warranty represents management's best estimate of the Group's liability under the one year warranty granted on the sale of automotive engines and automotive engine components, based on prior experience and industry average for defective products at the end of the reporting period.

18. TRADE AND OTHER PAYABLES (Cont'd)

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

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

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

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

19. AMOUNTS DUE TO RELATED COMPANIES

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade related:		
Huachen Group#		
Huachen Automotive Group Holdings Company Limited* 華晨汽車集團控股有限公司 ("**Huachen Automotive**")	**808**	743
Shenyang Brilliance Power Train Machinery Co., Ltd* 瀋陽華晨動力機械有限公司 ("**Shenyang Brilliance**")	**124**	4,704
	932	5,447
Brilliance China Group		
Mianyang Brilliance Ruian Automotive Components Co., Ltd.* 綿陽華晨瑞安汽車零部件有限公司	**9,373**	22,809
Shenyang ChenFa	**3,583**	3,583
BMW Brilliance Automotive	**523,451**	24,958
Shenyang Jinbei Vehicle Dies Manufacturing Co., Ltd.* 瀋陽金杯汽車模具製造有限公司	**15**	15
Renault Brilliance	**–**	4,889
	536,422	56,254
Wuliangye Group		
Xinhua Trading	**96**	139
Mianyang Xinhua Internal Combustion Engine Joint-Stock Company Limited* 綿陽新華內燃機股份有限公司 ("**Xinhua Combustion Engine**")	**35,285**	141,398
Sichuan Yi Bin Pushi Automotive Components Co., Ltd.* 四川省宜賓普什汽車零部件有限公司	**1,122**	2,290
Mianyang Xin Xinmao Trading Co., Ltd.* 綿陽新鑫茂商貿有限公司	**1,448**	696
	37,951	144,523
	575,305	206,224
Non-trade related:		
Huachen Group		
Huachen Automotive	**341**	341
Shenyang Brilliance	**1,848**	7,119
	2,189	7,460
Brilliance China Group		
Brilliance China	**1,527**	1,428
	3,716	8,888
	579,021	215,112

* *English names for reference only*

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

19. AMOUNTS DUE TO RELATED COMPANIES (Cont'd)

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

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

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

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

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

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

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

20. BORROWINGS

During the current interim period, the Group obtained new bank borrowings amounting to approximately RMB80,768,000 (six months ended 30 June 2020: approximately RMB488,070,000) carrying interest ranging from 3.15% to 5.50% (six months ended 30 June 2020: 2.97% to 5.00%) per annum. The proceeds of the borrowings were used to finance the acquisition and construction of new plant facilities and used for working capital and other general purposes.

21. LEASE LIABILITIES

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

22. SHARE CAPITAL

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

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

23. FINANCIAL INSTRUMENTS

Set out below is an overview of financial assets, other than cash and pledged/restricted bank deposits, and financial liabilities held by the Group as at 30 June 2021 and 31 December 2020:

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Financial assets:		
At amortised cost*	**1,345,264**	1,193,881
Financial liabilities:		
At amortised cost**	**2,491,844**	2,532,088
Lease liabilities	**2,191**	5,100
	2,494,035	2,537,188

* *Prepayments, deposits and value added tax recoverable are excluded.*

** *Advances from customers, provision for warranty, payroll and welfare payables and other tax payables are excluded.*

24. OPERATING LEASE COMMITMENTS

The Group as lessor

Property rental income earned was approximately RMB149,000 for the six months ended 30 June 2021 (six months ended 30 June 2020: approximately RMB134,000).

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within one year	**92**	14

25. CAPITAL COMMITMENTS

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Capital expenditure in respect of acquisition of property, plant and equipment, prepaid lease payments and development costs:		
– contracted for but not provided in the condensed consolidated financial statements	**41,584**	43,223

26. 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 of cash. In the opinion of the directors, the Group has transferred the significant risks and rewards relating to these bills receivable, and the Group's obligations to the corresponding counterparties were discharged in accordance with the commercial practice in the PRC and the risk of the default in payment of the endorsed and discounted bills receivable is low because all endorsed and discounted bills receivable are issued and guaranteed by the reputable PRC banks. As a result, the relevant assets and liabilities were not recognised in the condensed consolidated financial statements. The maximum exposure to the Group that may result from the default of these endorsed and discounted bills receivable at the end of the reporting period are as follows:

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Settlement of trade and other payables	**329,655**	292,576
Discounted bills for raising of cash	**165,600**	182,907
Outstanding endorsed and discounted bills receivable with recourse	**495,255**	475,483

Maturity analysis of the outstanding endorsed and discounted bills receivable:

	30.6.2021	31.12.2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**293,893**	1,146
Over 3 months but within 6 months	**136,724**	53,298
Over 6 months but within 12 months	**64,638**	421,039
	495,255	475,483

27. RELATED PARTY DISCLOSURES

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

	Six months ended	
	30.6.2021	30.6.2020
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Sale of goods		
Brilliance China Group	**691,021**	443,269
Huachen Group	**–**	20,199
Wuliangye Group	**44**	68,535
	691,065	532,003
Purchase of goods		
Brilliance China Group	**54,103**	47,156
Wuliangye Group	**56,057**	37,617
Huachen Group	**–**	4,050
	110,160	88,823
Lease payment and auxiliary services		
Huachen Group	**1,848**	1,848
Brilliance China Group	**1,197**	1,864
	3,045	3,712
Repairment fee		
Wuliangye Group	**14**	79
Cleaning and greening services received		
Wuliangye Group	**87**	100
Water and electricity costs charged		
Wuliangye Group	**24**	442

Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("**State-controlled Entities**"). The Group has entered into various transactions in the ordinary course of business, including deposits placements, borrowings and other general banking facilities, with banks which are PRC government related entities. In addition, the Group itself is jointly controlled by a subsidiary of Brilliance China and a subsidiary of Wuliangye, each of which are ultimately controlled by the PRC government. Apart from the transactions with Brilliance China Group, Huachen Group and Wuliangye Group disclosed above, the Group also conducts business with other State-controlled Entities. The directors of the Company consider those State-controlled Entities as independent third parties so far as the Group's business transactions with them are concerned.

28. SHARE BASED PAYMENT TRANSACTION

Share Incentive Scheme

During the year ended 31 December 2011, the Company established a share incentive scheme to provide an incentive to directors, management, employees and relevant personnel of the Group who have contributed or will make contributions to the development and growth of the Group (the "**Beneficiaries**") which contains two trust arrangements, namely a fixed trust (the "**Fixed Trust**") and a discretionary trust (the "**Discretionary Trust**"). On 31 October 2011, the Company issued 93,999,794 Shares, representing approximately 9.998% of then enlarged issued share capital of the Company, to Lead In, which held on trust for the relevant Beneficiaries under the two trust arrangements at subscription price of HK$1.0817 per Share. The subscription price of HK$1.0817 per Share was considered as fair value since it was determined based on the Mianyang Xinchen's valuation report, which was issued by an independent valuer for the purpose of group reorganisation and it was also used to determine the consideration for the shares issued to Dongfeng Motors Engineering Co., Ltd. (i.e. HK$1.0817 per Share), which is an independent third party prior to its investment.

All Shares under the Fixed Trust were awarded to the Beneficiaries. No Share had been awarded under the Discretionary Trust for the six months ended 30 June 2021. As at 30 June 2021, Lead In held 33,993,385 Shares under the Discretionary Trust.

During the six months ended 30 June 2021 and 2020, no Share has been exercised, lapsed or forfeited under the Discretionary Trust.

MANAGEMENT'S DISCUSSION & ANALYSIS

Business review

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Liquidity and financial resources

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

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

Pledge of assets

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

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

Gearing ratio

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

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

Contingent liabilities

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

Capital commitments

As at 30 June 2021, the Group had capital commitments of approximately RMB250.54 million (31 December 2020: approximately RMB250.54 million), of which contracted capital commitments amounted to approximately RMB41.58 million (31 December 2020: approximately RMB43.22 million), which is primarily related to the capital expenditure in respect of acquisition of property, plant and equipment, and new engine development.

Foreign exchange risks

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

Employees and remuneration policy

As at 30 June 2021, the Group had approximately 1,147 employees (30 June 2020: approximately 1,274). Employee costs amounted to approximately RMB70.68 million for the six months ended 30 June 2021 (six months ended 30 June 2020: approximately RMB57.62 million). The Group will endeavour to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' remuneration is based on their performance.

Outlook

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

The PRC government continues to implement various policies to boost the automobile sales, including purchase subsidies, relaxation of new issuance of license plates in core cities, exemption of vehicle purchase tax. Thus, China's automobile market is posting stable performance with good momentum for growth. Notably, the semi-annual new energy vehicle ("**NEV**") sales rocketed over 200% year-on-year to 1.2 million units, which approached almost the full-year volume for the year of 2020.

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

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

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

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

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

BMW Prince Engine has won the World's Best Ten Engines in eight consecutive years. CE engine adopted leading and mature technologies with strategic positioning of "high starting point, high quality, and high platform". An expert team from BMW in Germany provided all-around supports on research and development, industrialization, supply chain management, quality management and project management, ensuring the engine production is in accordance with BMW process certification, BMW quality philosophy and BMW quality standard. CE engine meets requirements of CN6b emission regulation and the fourth phase fuel consumption. The CE engine is applicable for SUV, passenger vehicle, MPV, A-class vehicle models, etc. At present, all our XCE branded traditional and CE engines are CN6 emission standard compliant.

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

In addition, BMW has fully affirmed our pursuit of excellent quality, and it is another milestone in the development components business. So far, we delivered over 2.7 million crankshafts and 6.3 million connecting rods to BMW. At the same time, we maintained high quality of customer after-sales service for eight consecutive years. We won the BMW "Quality Excellence Award" and became BMW's excellent supplier. We will continue to uphold the core values of being close to our customers, be responsible, open and transparent, and will through continuous innovation further enhance core competitiveness and push forward the development of the Group.

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

INTERIM DIVIDEND

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

SHARE INCENTIVE SCHEME ESTABLISHED BY LEAD IN

The share incentive scheme (the "**Incentive Scheme**") was established in 2011 to serve as a retention tool, and to align the interests of the Beneficiaries identified by the trustees of the trusts (further described hereinafter) with that of the Company. Lead In was incorporated for the purpose of holding the Shares on trust for the Beneficiaries pursuant to the Incentive Scheme.

The terms of the Incentive Scheme and the trust arrangements are not subject to the provisions of Chapter 17 of the Listing Rules as these arrangements do not involve the grant of options by the Company to subscribe for Shares after the listing of the Company's shares on the Stock Exchange.

Lead In is currently owned as to 50% by Mr. Wu Xiao An and as to 50% by Mr. Wang Yunxian, both are executive directors of the Company. Lead In holds such Shares on trust for the Beneficiaries under two separate trust arrangements, namely the "Fixed Trust" and the "Discretionary Trust".

All Shares under the Fixed Trust were awarded to the Beneficiaries. No Share had been awarded under the Discretionary Trust for the six months ended 30 June 2021. As at 30 June 2021, Lead In held 33,993,385 Shares under the Discretionary Trust.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 25 April 2012, which was amended and restated on 8 February 2013 (the "**Share Option Scheme**").

The Share Option Scheme will remain in force for a period of 10 years from 13 March 2013. The period during which an option may be exercised will be determined by the directors of the Company at their absolute discretion, save that no option shall be exercised later than 10 years from the date of grant.

No share options had been granted by the Company under the Share Option Scheme since its inception and for the six months ended 30 June 2021 and no expenses were recognised by the Group for the period under review (six months ended 30 June 2020: nil).

CHANGE IN DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the change in information of the directors of the Company subsequent to the date of 2020 annual report of the Company is set out below:

– Ms. Ma Nina resigned as Deputy Chief Accountant of Huachen Automotive on 30 April 2021 and director of Shanghai Shenhua Holdings Co., Ltd.（上海申華控股股份有限公司）, a company whose shares are listed on the Shanghai Stock Exchange, on 25 June 2021.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2021, so far as known to the directors of the Company, each of the following persons (other than a director or chief executive of the Company) had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (the "**SFO**"):

Name of Shareholder	Capacity	Number of Shares	Approximate percentage of shareholding[6]
Brilliance Investment	Beneficial owner	400,000,000	31.20%
Brilliance China[1]	Interest in a controlled corporation	400,000,000	31.20%
Huachen Automotive[2]	Interest in a controlled corporation	400,000,000	31.20%
Xinhua Investment	Beneficial owner	400,000,000	31.20%
Xinhua Combustion Engine[3]	Interest in a controlled corporation	400,000,000	31.20%
Sichuan Yibin Pushi Group Co., Ltd.[4]	Interest in a controlled corporation	400,000,000	31.20%
Wuliangye[5]	Interest in a controlled corporation	400,000,000	31.20%

Notes:

(1) Brilliance Investment is wholly-owned by Brilliance China and Brilliance China is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Brilliance Investment is interested.

(2) Brilliance China is beneficially owned as to approximately 30.43% by Huachen Automotive and Huachen Automotive is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Brilliance Investment is interested.

(3) Xinhua Investment is a direct wholly-owned subsidiary of Xinhua Combustion Engine and Xinhua Combustion Engine is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Xinhua Investment is interested.

(4) Xinhua Combustion Engine is a direct non wholly-owned subsidiary of Sichuan Yibin Pushi Group Co., Ltd. ("**Pushi Group**") and Pushi Group is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Xinhua Investment is interested.

(5) Pushi Group is a direct wholly-owned subsidiary of Wuliangye and Wuliangye is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Xinhua Investment is interested.

(6) These percentages are calculated on the basis of 1,282,211,794 Shares in issue as at 30 June 2021.

Save as disclosed herein, as at 30 June 2021, there was no other person (other than a director or chief executive of the Company) so far as known to the directors of the Company, as having an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2021, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange, are set out below:

Interest in the shares of the Company

Name of director	Nature of interest	Number and class of Shares	Approximate percentage of shareholding[3]
Mr. Wu Xiao An (also known as Ng Siu On)[1]	Beneficial owner	8,320,041 ordinary	0.65%
	Trustee and interest in a controlled corporation	33,993,385 ordinary	2.65%
Mr. Wang Yunxian[2]	Beneficial owner	6,471,143 ordinary	0.50%
	Trustee and interest in a controlled corporation	33,993,385 ordinary	2.65%

Notes:

(1) Mr. Wu Xiao An is a trustee of the Discretionary Trust (which holds 33,993,385 Shares for the Beneficiaries) under the Incentive Scheme and holds 50% interests in Lead In. Accordingly, Mr. Wu is deemed or taken to be interested in approximately 2.65% of the issued share capital of the Company.

(2) Mr. Wang Yunxian is a trustee of the Discretionary Trust (which holds 33,993,385 Shares for the Beneficiaries) under the Incentive Scheme and holds 50% interests in Lead In. Accordingly, Mr. Wang is deemed or taken to be interested in approximately 2.65% of the issued share capital of the Company.

(3) These percentages are calculated on the basis of 1,282,211,794 Shares in issue as at 30 June 2021.

Save as disclosed above, as at 30 June 2021, none of the directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2021.

DISCLOSURE UNDER RULE 13.21 OF THE LISTING RULES

On 8 June 2020, Mianyang Xinchen (as borrower) and the Company (as guarantor) entered into two banking facility agreements (the "**Facility Letters 2020**") with a financial institution as lender for (i) a term loan facility of US$4,000,000; and (ii) a term loan facility of US$36,000,000, respectively, with the final maturity date being three years from the date of first drawdown. Under the Facility Letters 2020, it shall be an event of default, amongst others, if: (1) Brilliance China holds less than 25% (directly or indirectly) of the issued share capital of the Company; or (2) Wuliangye holds less than 25% (directly or indirectly) of the issued share capital of the Company. Details of the Facility Letters 2020 were set out in the announcement of the Company dated 8 June 2020.

On 28 September 2020, Mianyang Xinchen (as borrower) and the Company (as guarantor) entered into a banking facility agreement (the "**Facility Letter 2020-Sep**") with a financial institution as lender for a term loan facility of up to US$24,000,000 with the final maturity date being thirty months from the date of drawdown. Under the Facility Letter 2020-Sep, it shall be an event of default, amongst others, if: (1) Brilliance China holds less than 25% (directly or indirectly) of the issued share capital of the Company; or (2) Wuliangye holds less than 25% (directly or indirectly) of the issued share capital of the Company. Details of the Facility Letter 2020-Sep were set out in the announcement of the Company dated 28 September 2020.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to achieving and maintaining the highest standards of corporate governance, consistent with the needs and requirements of the business and its shareholders. The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules. The Company has complied with all code provisions of the CG Code throughout the six months ended 30 June 2021.

COMPLIANCE WITH THE 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 of all directors of the Company, all directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2021.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters, including the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2021.

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

BOARD OF DIRECTORS

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

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

Hong Kong, 19 August 2021