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

2023

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 2023 together with comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

		Six months ended	
		30.6.2023	30.6.2022
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*4*	**2,249,808**	490,468
Cost of sales		**(2,142,648)**	(460,617)
Gross profit		**107,160**	29,851
Other income	*5*	**11,508**	5,783
Reversal of impairment losses, net	*6*	**1,587**	15,686
Other gains and losses	*7*	**2,430**	2,363
Selling and distribution expenses		**(14,721)**	(6,514)
Administrative expenses		**(73,569)**	(48,727)
Other expenses		**(9,391)**	(5,279)
Finance costs		**(30,958)**	(28,204)
Share of profit of associate		**31,221**	–
Profit/(loss) before tax	*8*	**25,267**	(35,041)
Income tax expense	*9*	**(3,525)**	(2,732)
Profit/(loss) for the period		**21,742**	(37,773)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Fair value gain on:			
Receivables measured at fair value through other comprehensive income ("**FVTOCI**")		**22**	137
Other comprehensive income for the period		**22**	137
Total comprehensive income/(loss) for the period		**21,764**	(37,636)
Earnings/(loss) per share – Basic *(RMB)*	*11*	**0.017**	(0.029)

The notes on pages 7 to 24 are an integral part of this interim report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	Notes	30.6.2023 RMB'000 (unaudited)	31.12.2022 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	12	**1,619,813**	1,707,785
Prepaid lease payments		**115,635**	117,695
Interest in an associate		**242,484**	211,263
Intangible assets	12	**573,618**	603,379
Deferred tax assets		**12,947**	16,044
Loan to a shareholder	13	**12,901**	11,876
		2,577,398	2,668,042
CURRENT ASSETS			
Inventories	14	**486,628**	483,140
Trade and other receivables	15	**2,180,396**	783,560
Receivables measured at FVTOCI		**–**	3,278
Amounts due from related companies	16	**1,530**	10,433
Pledged/restricted bank deposits	17	**138,477**	148,619
Bank balances and cash	17	**43,710**	59,059
		2,850,741	1,488,089
TOTAL ASSETS		**5,428,139**	4,156,131

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

As at 30 June 2023

	Notes	30.6.2023 RMB'000 (unaudited)	31.12.2022 RMB'000 (audited)
CURRENT LIABILITIES			
Trade and other payables	*18*	**613,974**	601,464
Amounts due to related companies	*19*	**35,863**	23,924
Amount due to an associate	*20*	**1,638,082**	467,461
Borrowings due within one year	*21*	**694,162**	551,740
Lease liabilities	*22*	**155,247**	170,024
Tax payable		**1,440**	1,052
		3,138,768	1,815,665
NET CURRENT LIABILITIES		**(288,027)**	(327,576)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,289,371**	2,340,466
NON-CURRENT LIABILITIES			
Borrowings due after one year	*21*	**106,857**	108,184
Lease liabilities	*22*	**468,619**	537,835
Deferred income		**17,205**	19,521
		592,681	665,540
NET ASSETS		**1,696,690**	1,674,926
CAPITAL AND RESERVES			
Share capital	*23*	**10,457**	10,457
Reserves		**1,686,233**	1,664,469
TOTAL EQUITY		**1,696,690**	1,674,926

The notes on pages 7 to 24 are an integral part of this interim report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	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 2022 (audited)	10,457	700,258	193,457	395,372	(11,285)	8,319	(161)	494,199	1,790,616
Loss for the period	–	–	–	–	–	–	–	(37,773)	(37,773)
Other comprehensive income for the period	–	–	–	–	–	–	137	–	137
At 30 June 2022 (unaudited)	10,457	700,258	193,457	395,372	(11,285)	8,319	(24)	456,426	1,752,980
At 1 January 2023 (audited)	10,457	700,258	193,457	396,699	(11,285)	8,319	(22)	377,043	1,674,926
Profit for the period	–	–	–	–	–	–	–	21,742	21,742
Other comprehensive income for the period	–	–	–	–	–	–	22	–	22
At 30 June 2023 (unaudited)	10,457	700,258	193,457	396,699	(11,285)	8,319	–	398,785	1,696,690

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 RMB266,955,000 as at 30 June 2023 (31 December 2022: approximately RMB266,955,000), 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 2023 (31 December 2022: 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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	Six months ended	
	30.6.2023	30.6.2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit/(loss) before taxation	**25,267**	(35,041)
Adjustments for non-cash items	**139,632**	151,349
Operating cash flows before changes in working capital	**164,899**	116,308
Increase in inventories	**(3,488)**	(20,519)
Increase in trade and other receivables	**(1,398,960)**	(23,450)
Decrease in receivables measured at FVTOCI	**3,300**	10,928
Increase/(decrease) in trade and other payables	**6,582**	(113,721)
Decrease in amounts due from related companies	**12,614**	64,464
Increase/(decrease) in amounts due to related companies	**11,939**	(28,106)
Increase in amount due to an associate	**1,170,621**	–
Cash (used in)/generated from operations	**(32,493)**	5,904
Income tax paid	**(40)**	–
Net cash (used in)/generated from operating activities	**(32,533)**	5,904
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	**921**	1,377
Purchase of property, plant and equipment	**(11,291)**	(24,178)
Proceeds on disposal of property, plant and equipment	**539**	10,922
Proceeds on disposal of intangible assets	**–**	37,000
Development costs paid	**(9,631)**	(14,270)
Withdrawal of pledged/restricted bank deposits	**112,304**	273,936
Placement of pledged/restricted bank deposits	**(102,162)**	(207,976)
Net cash (used in)/generated from investing activities	**(9,320)**	76,811

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Cont'd)

For the six months ended 30 June 2023

	Six months ended	
	30.6.2023	30.6.2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Interest paid	**(30,958)**	(28,204)
Repayment of borrowings	**(347,993)**	(259,801)
New borrowings raised	**489,448**	274,535
Payment of lease liabilities	**(83,993)**	(894)
Net cash generated from/(used in) from financing activities	**26,504**	(14,364)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(15,349)**	68,351
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**59,059**	12,853
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash	**43,710**	81,204

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 in the PRC.

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 RMB288,027,000 as at 30 June 2023.

The condensed consolidated interim financial statements have been prepared on a going concern basis on the assumption that the Group is able to operate as a going concern for the foreseeable future. In the opinion of the directors of the Company, the Group can meet its financial obligations as and when they fall due within the next year from the end of the reporting period, after taking into consideration 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 condensed consolidated financial statements by the directors in order to maintain the Group as a going concern;

– The Group is in negotiation with financial institutions for the renewals of the Group's short term bank borrowings upon expiry, new borrowings and applying for future credit facilities. Up to the date of approval of these condensed consolidated financial statements, the banks have shown the positive support on the Group and the Group has not received any demand notice from the banks for the repayment of the borrowing. Therefore, the directors of the Company are confident that 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 date of approval of these condensed consolidated financial statements after having taking into account of the Group's projected cash flows, current financial resources and capital expenditure requirements with respect to the production facilities and development of its business. Accordingly, the directors are of the opinion that it is appropriate to prepare the condensed consolidated financial statements for the six months ended 30 June 2023 on a going concern basis.

2. **BASIS OF PREPARATION AND GOING CONCERN ASSUMPTION (Cont'd)**

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

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

3. **PRINCIPAL ACCOUNTING POLICIES**

Amended Hong Kong Financial Reporting Standard(s) ("HKFRS(s)") that are effective for annual periods beginning or after 1 January 2023

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

The condensed consolidated interim financial statements for the six months ended 30 June 2023 have been prepared in accordance with the accounting policies adopted in the Group's annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of the following amended HKFRSs which are effective as of 1 January 2023. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

HKFRS 17	Insurance Contracts with related amendments
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules

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

Issued but not yet effective HKFRSs

At the date of authorisation of these condensed consolidated interim financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group. The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning on or after the effective date of the pronouncement. The directors expected that the new and amended HKFRSs issued but not effective 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 sale of gasoline engines, diesel engines and engine components is recognised at a point of time. All the contracts with customers are agreed at fixed price and the expected duration of the contracts is one year or less.

4. **REVENUE AND SEGMENT INFORMATION (Cont'd)**

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.

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**	
	30.6.2023	30.6.2022	**30.6.2023**	30.6.2022
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Gasoline engines	**1,809,884**	128,652	**31,357**	(8,644)
Diesel engines	**40,215**	41,125	**(4,899)**	(1,427)
Engine components	**399,709**	320,691	**80,702**	39,922
Total segment and consolidated	**2,249,808**	490,468	**107,160**	29,851
Other income			**11,508**	5,783
Reversal of impairment losses, net			**1,587**	15,686
Other gains and losses			**2,430**	2,363
Selling and distribution expenses			**(14,721)**	(6,514)
Administrative expenses			**(73,569)**	(48,727)
Other expenses			**(9,391)**	(5,279)
Finance costs			**(30,958)**	(28,204)
Share of profit of associate			**31,221**	–
Profit/(loss) before tax			**25,267**	(35,041)

Revenue reported above represents revenue generated from sale of goods or service provision to external customers. There were no inter-segment sales during the six months ended 30 June 2023 and 2022.

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

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 total assets and total liabilities analysed by reportable operating segment are not presented.

4. REVENUE AND SEGMENT INFORMATION (Cont'd)

4.3 Geographical information

The majority 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, which is the country of domicile of Mianyang Xinchen and its subsidiary.

5. OTHER INCOME

	Six months ended	
	30.6.2023	30.6.2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Bank interest income	**921**	1,337
Government grants	**2,954**	4,221
Imputed interest income from loan to a shareholder	**499**	–
Rental income under operating leases	**4,664**	225
Utility income	**2,470**	–
	11,508	5,783

6. REVERSAL OF IMPAIRMENT LOSSES, NET

	Six months ended	
	30.6.2023	30.6.2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Impairment losses (recognised)/reversed on:		
– Trade and other receivables *(Note 15)*	**(2,124)**	(76)
– Amounts due from related companies *(Note 16)*	**3,711**	15,762
	1,587	15,686

7. OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2023	30.6.2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Foreign exchange gain/(loss), net	**92**	(5,254)
Gain on disposal of miscellaneous materials	**3,301**	1,718
Gain on disposal of property, plant and equipment *(Note 12)*	**230**	3,840
Gain on disposal of intangible asset *(Note 12)*	**–**	4,000
Net loss arising on receivables measured at FVTOCI	**(1,200)**	(2,348)
Others	**7**	407
	2,430	2,363

8. PROFIT/(LOSS) BEFORE TAX

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

	Six months ended	
	30.6.2023	30.6.2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Employee benefits expenses (including directors):		
– Salaries and other benefits	**49,299**	46,199
– Retirement benefit scheme contributions	**12,749**	9,999
Total staff costs	**62,048**	56,198
Depreciation of right-of-use assets	**51,923**	1,075
Depreciation of property, plant and equipment	**47,031**	109,009
Depreciation of prepaid lease payments	**2,060**	2,060
Amortisation of intangible assets (included in cost of sales)	**23,826**	9,586
Total depreciation and amortisation	**124,840**	121,730

9. INCOME TAX EXPENSE

	Six months ended	
	30.6.2023	30.6.2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
PRC Enterprise Income Tax ("**EIT**")		
– Current tax	**428**	–
– Deferred tax	**3,097**	2,732
	3,525	2,732

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 eligible to the reduced EIT rate of 15% from 2022 to 2030.

Pursuant to the relevant laws and regulations in the PRC, Xinchen Engine (Shenyang) Co., Limited*（新晨動力機械（瀋陽）有限公司）obtained the High and New Technology Enterprises qualification. Accordingly, it enjoyed a preferential income tax rate of 15% during the six months ended 30 June 2023 and 2022.

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

10. DIVIDENDS

No dividend has been paid or declared by the Company during both periods ended 30 June 2023 and 2022, 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	
	30.6.2023	30.6.2022
	(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)*	**21,742**	(37,773)
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 potential dilutive 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 RMB35,000 (six months ended 30 June 2022: approximately RMB92,000) for the purpose of upgrading its manufacturing capacity of the Group. During the current interim period, the Group disposed of certain plant and equipment with an aggregate carrying amount of approximately RMB1,045,000 (six months ended 30 June 2022: approximately RMB7,075,000) resulting in a gain on disposal of approximately RMB230,000 (six months ended 30 June 2022: approximately RMB3,840,000).

In addition, during current interim period, the Group had approximately RMB11,256,000 (six months ended 30 June 2022: approximately RMB24,079,000) addition to construction in progress, primarily for scaling up the Group's production facilities and capacity.

During the current interim period, the Group capitalised development costs of technical know-how of new automotive engines amounting to approximately RMB9,631,000 (six months ended 30 June 2022: approximately RMB14,270,000) for the purposes of expanding its products range of gasoline and diesel engines.

As at 30 June 2023, the carrying amounts of the Group's right-of-use assets in respect of office premises and production facilities amounted to approximately RMB458,594,000 (31 December 2022: approximately RMB510,517,000).

13. LOAN TO A SHAREHOLDER

As detailed in Note 29, the Company has two trust arrangements which entitle the Group's employees 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 29). 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 29. 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.

Following the cessation of the operation and further implementation of the share incentive scheme by the Company as detailed in Note 28, depending on, among others, the prevailing trading prices of the Shares held under the Discretionary Trust, Lead In may in future dispose of these Shares gradually and in an orderly manner and use the sale proceeds to repay the Loan to a Shareholder.

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 2023.

13. LOAN TO A SHAREHOLDER (Cont'd)

At 30 June 2023, 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. Management of the Company conducted the 12-month expected credit losses ("**ECL**") assessment on the receivable after taking into account factors that are specific to the debtor, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Group provided loss allowance amounting to HK$18,864,000, equivalent to approximately RMB16,742,000 and RMB16,742,000 as at 30 June 2023 and 31 December 2022, respectively based on periodic individual assessment on the recoverability.

14. INVENTORIES

Based on assessment by the management of the Group, no additional provision during the current interim period 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:

	30.6.2023	31.12.2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables	**2,224,188**	975,781
Less: Allowance for credit losses	**(301,663)**	(299,539)
Trade receivables, net	**1,922,525**	676,242
Bills receivable	**223,279**	82,199
Total trade and bills receivables	**2,145,804**	758,441
Prepayments for purchase of raw materials and engine components	**27,402**	19,433
Other receivables	**7,190**	5,686
	2,180,396	783,560

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:

	30.06.2023	31.12.2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 1 month	**1,749,567**	659,005
Over 1 month but within 2 months	**159,521**	7,089
Over 2 months but within 3 months	**2,505**	449
Over 3 months but within 6 months	**319**	645
Over 6 months but within 1 year	**217**	267
Over 1 year	**10,396**	8,787
	1,922,525	676,242

15. TRADE AND OTHER RECEIVABLES (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:

	30.6.2023	31.12.2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**73,672**	26,039
Over 3 months but within 6 months	**71,058**	39,790
Over 6 months but within 1 year	**78,549**	16,370
	223,279	82,199

At 30 June 2023 and 31 December 2022, 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 2023 and 31 December 2022:

30 June 2023

	Gross carrying amount	**Loss rate range**	**ECL**
	RMB'000	***%***	***RMB'000***
	(unaudited)		**(unaudited)**
Not past due	**1,749,804**	**0.83**	**270**
Past due:			
Within 1 month	**176,060**	**0.83**	**16,293**
Over 1 month but within 3 months	**2,627**	**0.83-1.38**	**144**
Over 3 months but within 6 months	**339**	**1.38-2.13**	**200**
Over 6 months but within 1 year	**243**	**3.32-5.30**	**37**
Over 1 year	**295,115**	**38.45-100.00**	**284,719**
	2,224,188		**301,663**

31 December 2022

	Gross carrying amount	Loss rate range	ECL
	RMB'000	*%*	*RMB'000*
	(audited)		(audited)
Not past due	645,302	0.83-2.13	459
Past due:			
Within 1 month	17,040	0.83-2.13	219
Over 1 month but within 3 months	1,119	1.38-2.13	20
Over 3 months but within 6 months	391	1.38-3.32	11
Over 6 months but within 1 year	268	1.38-5.30	4
Over 1 year	311,661	38.45-100.00	298,826
	975,781		299,539

15. TRADE AND OTHER RECEIVABLES (Cont'd)

Movement in the ECL of trade receivables:

	30.6.2023	31.12.2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
At beginning of period/year	**299,539**	363,876
Transferred from ECL of amounts due from a related company	**–**	28
ECL recognised	**2,124**	22,477
Amount written off	**–**	(86,842)
At end of the reporting period/year	**301,663**	299,539

16. AMOUNTS DUE FROM RELATED COMPANIES

Analysed as:

	30.6.2023	31.12.2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Non-trade related	**25**	24
Trade related	**1,505**	10,409
	1,530	10,433

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

	30.6.2023	31.12.2022
	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(“**Shenyang XingYuanDong**”)	**1,505**	10,409

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 2023 and 31 December 2022, the Group assessed the credit rating for its customers and applying the expected loss rate ranging from 0.1% to 100% (31 December 2022: 0.1% to 100%) over the gross carrying amounts. As at 30 June 2023, ECL allowance amounting to approximately RMB649,112,000 (31 December 2022: approximately RMB652,823,000) 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:

	30.6.2023	31.12.2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
At beginning of period/year	**652,823**	674,318
Transferred to ECL of trade receivables	**–**	(28)
ECL reversed *(Note)*	**(3,711)**	(21,467)
At end of the reporting period/year	**649,112**	652,823

Note:

Reversal of provision for loss allowance of approximately RMB2,205,000 (31 December 2022: approximately RMB13,238,000) was recognised due to the decrease in the past due balance of trade receivables from Brilliance China Group.

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

Balances denominated in foreign currencies:

	30.6.2023	31.12.2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Hong Kong Dollars ("**HK$**")	**1,371**	730
United States Dollars ("**US$**")	**628**	804

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:

	30.6.2023	31.12.2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade payables	**302,556**	260,238
Bills payable	**239,246**	236,515
Total trade and bills payables	**541,802**	496,753
Construction payables	**5,915**	4,744
Payroll and welfare payables	**8,669**	15,857
Advances from customers *(Note i)*	**20,379**	4,910
Provision for warranty *(Note ii)*	**10,127**	5,782
Retention money	**13,460**	13,184
Other tax payables	**4,470**	51,507
Provision for operating expenses	**3,720**	3,215
Other payables	**5,432**	5,512
	613,974	601,464

18. TRADE AND OTHER PAYABLES (Cont'd)

Notes:

i. As at 30 June 2023 and 31 December 2022, 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 2023, the contract liabilities balance at the beginning of the period were fully recognised as revenue from sale of goods.

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

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

	30.6.2023	31.12.2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**243,339**	172,579
Over 3 months but within 6 months	**23,712**	36,188
Over 6 months but within 1 year	**8,700**	3,449
Over 1 year but within 2 years	**5,555**	14,030
Over 2 years	**21,250**	33,992
	302,556	260,238

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:

	30.6.2023	31.12.2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**106,410**	79,093
Over 3 months but within 6 months	**132,836**	157,422
	239,246	236,515

19. AMOUNTS DUE TO RELATED COMPANIES

	30.6.2023	31.12.2022
	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**")	**610**	610
Shenyang Brilliance Power Train Machinery Co., Ltd* 瀋陽華晨動力機械有限公司	**155**	155
	765	765
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	**2,200**	3,108
Shenyang ChenFa Automobile Component Co., Ltd.* 瀋陽晨發汽車零部件有限公司	**3,583**	3,583
Shenyang Jinbei Vehicle Dies Manufacturing Co., Ltd.* 瀋陽金杯汽車模具製造有限公司	**15**	15
Shenyang XingYuanDong	**4**	–
	5,802	6,706
Wuliangye Group		
Mianyang Xinhua Trading Co., Limited* 綿陽新華商貿有限公司	**31**	1
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**")	**24,686**	13,416
Sichuan Yi Bin Pushi Automotive Components Co., Ltd.* 四川省宜賓普什汽車零部件有限公司	**43**	123
Mianyang Xin Xinmao Trading Co., Ltd.* 綿陽新鑫茂商貿有限公司	**655**	655
	25,415	14,195
	31,982	21,666

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

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

	30.6.2023	31.12.2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Non-trade related:		
Brilliance China Group		
Brilliance China	**3,881**	2,258
	35,863	23,924

	30.6.2023	31.12.2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade related balances analysed as:		
Trade payables	**17,539**	11,783
Other payables	**634**	–
Bills payable	**13,809**	9,883
	31,982	21,666

The aging of trade related amounts due to related companies presented based on the invoice date at the end of the reporting period is as follows:

	30.6.2023	31.12.2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**12,330**	6,275
Over 3 months but within 6 months	**364**	247
Over 6 months but within 1 year	**292**	63
Over 1 year	**4,553**	5,198
	17,539	11,783

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:

	30.6.2023	31.12.2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**1,941**	6,203
Over 3 months but within 6 months	**11,868**	3,680
	13,809	9,883

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. AMOUNT DUE TO AN ASSOCIATE

The balance is interest free-unsecured and repayable on demand.

The aging of trade related amounts due to an assoicate presented based on the invoice date at the end of the reporting period is as follows:

	30.6.2023	31.12.2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**1,496,506**	293,065
Over 3 months but within 6 months	**141,576**	174,496
	1,638,082	467,461

21. BORROWINGS

During the current interim period, the Group obtained new bank borrowings amounting to approximately RMB274,052,000 (six months ended 30 June 2022: approximately RMB274,535,000) carrying interest ranging from 4.40% to 6.50% (six months ended 30 June 2022: 3.15% to 5.50%) 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.

22. LEASE LIABILITIES

	30.6.2023	31.12.2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Total minimum lease payments:		
Due within one year	**180,479**	199,010
Due in the second to fifth years	**506,677**	587,602
	687,156	786,612
Future finance charges on leases liabilities	**(63,290)**	(78,753)
Present value of leases liabilities	**623,866**	707,859

23. SHARE CAPITAL

	Number of shares	**Amount**
		HK$
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2022, 31 December 2022 and 30 June 2023	8,000,000,000	80,000,000
Issued and fully paid:		
At 31 December 2022 and 30 June 2023	1,282,211,794	12,822,118

	30.6.2023	31.12.2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Share capital presented in the condensed consolidated statement of financial position	**10,457**	10,457

24. 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 2023 and 31 December 2022:

	30.6.2023	31.12.2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Financial assets:		
At amortised cost#	**2,360,501**	982,101
Receivables measured at FVTOCI	**–**	3,278
	2,360,501	985,379
Financial liabilities:		
At amortised cost##	**2,934,715**	1,671,502
Lease liabilities	**623,866**	707,859
	3,558,581	2,379,361

\# *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.*

25. OPERATING LEASE COMMITMENTS

The Group as lessor

Property rental income earned was approximately RMB242,000 for the period ended 30 June 2023 (six months ended 30 June 2022: approximately RMB225,000).

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

	30.6.2023	31.12.2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within one year	**8,659**	8,647
Over one year but within three years	**6,299**	8,586
	14,958	17,233

26. CAPITAL COMMITMENTS

	30.6.2023 *RMB'000* (unaudited)	31.12.2022 *RMB'000* (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	**16,753**	24,334
– Capital expenditure in respect of investment in associates	**80,000**	80,000

27. 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:

	30.6.2023 *RMB'000* (unaudited)	31.12.2022 *RMB'000* (audited)
Settlement of trade and other payables	**66,250**	112,648
Discounted bills for raising of cash	**89,664**	91,514
Outstanding endorsed and discounted bills receivable with recourse	**155,914**	204,162

Maturity analysis of the outstanding endorsed and discounted bills receivable:

	30.6.2023 *RMB'000* (unaudited)	31.12.2022 *RMB'000* (audited)
Within 3 months	**90,142**	175,528
Over 3 months but within 6 months	**65,772**	28,634
Outstanding endorsed and discounted bills receivable with recourse	**155,914**	204,162

28. 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	
	30.6.2023	30.6.2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Sale of goods		
Brilliance China Group	**323,905**	295,478
Wuliangye Group	**7**	–
Sichuan Li Xinchen Technology Co., Ltd*（四川理想新晨科技有限公司）(**"Li Xinchen"**)	**47,626**	9,358
	371,538	304,836
Purchase of goods		
Brilliance China Group	**25,415**	39,201
Wuliangye Group	**21,991**	19,638
Li Xinchen	**770,125**	–
	817,531	58,839
Disposal of intangible assets		
Li Xinchen	**–**	37,000
Lease payment and auxiliary services		
Brilliance China Group	**1,274**	1,172
Lease income and auxiliary services charged		
Li Xinchen	**6,380**	–
Repairment fee		
Wuliangye Group	**26**	–
Water and electricity costs charged		
Wuliangye Group	**119**	541
Technical consulting and testing service fee		
Li Xinchen	**1,869**	–

28. RELATED PARTY DISCLOSURES (Cont'd)

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 consider those State-controlled Entities to be independent third parties so far as the Group's business transactions with them are concerned.

29. 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.

The Company ceased the operation and further implementation of the share incentive scheme with effect from 6 December 2021.

Prior to 1 January 2017, 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 2023 and 2022. As at 30 June 2023, Lead In held 33,993,385 Shares under the Discretionary Trust.

No Shares were granted, exercised, lapsed or forfeited under the Discretionary Trust during the six months ended 30 June 2023 and 2022.

MANAGEMENT'S DISCUSSION & ANALYSIS

Business review

In the first half of 2023, the Group achieved total unaudited revenue of approximately RMB2,249.81 million, representing an increase of approximately 358.71% compared to approximately RMB490.47 million for the corresponding period last year. The increase in revenue was mainly due to an increase in the sales of range-extended gasoline engines during the period. Sales of engine components also increased and this was due to business pick-up of component operation during the post-Covid period.

Sales volume of engines increased by approximately 1,055.56%, from approximately 13,500 units in the first half of 2022 to approximately 156,000 units in the first half of 2023, mainly due to the increase in sales of range-extended gasoline engines.

With respect to the engines business segment, the Group recorded approximately 989.70% increase in the segment revenue, from approximately RMB169.78 million in the first half of 2022 to approximately RMB1,850.10 million in the first half of 2023. The increase was mainly due to an increase in the sales of range-extended gasoline engines.

With respect to the engine components and service income segment, the Group recorded approximately 24.64% increase in the segment revenue, from approximately RMB320.69 million in the first half of 2022 to approximately RMB399.71 million in the first half of 2023. The increase was mainly due to an increase in the sales of crankshafts and connecting rods in the first half of 2023. The Group sold approximately 413,000 units of crankshaft in the first half of 2023, representing approximately 23.01% increase compared to approximately 335,750 units for the corresponding period of 2022. The increase was mainly due to business pick-up of the component operation during the post-Covid period.

The Group sold approximately 949,000 units of connecting rods in the first half of 2023, representing approximately 120.80% increase compared to approximately 429,800 units for the corresponding period of 2022. The increase in the sales of connecting rods was mainly due to business pick-up during the post-Covid period.

The unaudited cost of sales amounted to approximately RMB2,142.65 million in the first half of 2023, representing an increase of approximately 365.17% compared to approximately RMB460.62 million for the corresponding period last year. The increase was generally in line with the increase in the Group's total unaudited revenue.

The gross profit margin of the Group decreased as the volume of trading of extended-range engines increased substantially which derived a lower profit margin. It was approximately 4.76% in the first half of 2023 whilst it was approximately 6.09% in the first half of 2022.

The unaudited other income increased from approximately RMB5.78 million for the first half of 2022 to approximately RMB11.51 million for the first half of 2023, representing an increase of approximately 99.13%. The increase was mainly due to the increase in rental income under operating leases.

There was decrease of reversal of impairment loss of approximately RMB1.59 million incurred for the first half of 2023 and the reversal amounted to approximately RMB15.69 million for the first half of 2022. The reversal was mainly due to the settlement of certain impaired amounts due from related companies in the first half of 2023.

The unaudited other gains and losses amounted to approximately RMB2.43 million for the first half of 2023 which was approximately RMB2.36 million for the first half of 2022. This was mainly due to the gain on disposal of miscellaneous materials.

The unaudited selling and distribution expenses increased by approximately 126.11%, from approximately RMB6.51 million in the first half of 2022 to approximately RMB14.72 million in the first half of 2023, representing approximately 1.33% and approximately 0.65% of the revenue in the first half of 2022 and 2023 respectively. The increase in terms of value was mainly due to the increase in the volume of the trading of range-extended engines. The decrease in terms of percentage value was mainly due to a greater extent of increase in revenue during the period in 2023.

The unaudited administrative expenses increased by approximately 50.98%, from approximately RMB48.73 million in the first half of 2022 to approximately RMB73.57 million in the first half of 2023, representing approximately 9.93% and approximately 3.27% of the revenue in the first half of 2022 and 2023 respectively. The increase in value was mainly due to the increase in research expenses and the general increase in office expenses. The decrease in terms of percentage value was mainly due to a greater extent of increase in revenue during the period.

The unaudited finance costs increased by approximately 9.79%, from approximately RMB28.20 million in the first half of 2022 to approximately RMB30.96 million in the first half of 2023. The increase was mainly due to the increase in finance charge on lease liabilities during the course of business.

The Group's unaudited loss before tax was approximately RMB35.04 million in the first half of 2022, whereas there was unaudited profit before tax of approximately RMB25.27 million in the first half of 2023. This was mainly due to the growth in business and increase in share of profits of an associate during the post-Covid period.

The unaudited income tax expenses increased by 29.03%, from approximately RMB2.73 million for the first half of 2022 to approximately RMB3.53 million for the first half of 2023. This was due to more businesses transacted during the period.

For the first half of 2023, the Group recorded unaudited profit attributable to the owners of the Company of approximately RMB21.74 million, which compares to a net loss of approximately RMB37.77 million for the six months ended 30 June 2022.

Liquidity and financial resources

As at 30 June 2023, the Group had approximately RMB43.71 million in bank balances and cash (31 December 2022: approximately RMB59.06 million), and approximately RMB138.48 million in pledged/restricted bank deposits (31 December 2022: approximately RMB148.62 million).

As at 30 June 2023, the Group had trade and other payables of approximately RMB613.97 million (31 December 2022: approximately RMB601.46 million), bank borrowings due within one year in the amount of approximately RMB694.16 million (31 December 2022: approximately RMB551.74 million), and bank borrowings due after one year in the amount of approximately RMB106.86 million (31 December 2022: approximately RMB108.18 million).

Pledge of assets

As at 30 June 2023, the Group pledged certain of its land use rights, buildings, plant and machinery with a total value of approximately RMB505.87 million (31 December 2022: approximately RMB574.40 million) to certain banks to secure certain credit facilities and the other borrowing granted to the Group.

As at 30 June 2023, the Group also pledged bank deposits of approximately RMB128.98 million (31 December 2022: approximately RMB135.13 million) to certain banks to secure certain credit facilities granted to the Group.

As at 30 June 2023, the Group has not pledged any trade receivables to secure general banking facilities granted to the Group.

Gearing ratio

As at 30 June 2023, 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 2.20 (31 December 2022: approximately 1.48). The increase in the debt-to-equity ratio was mainly due to the increase in amount due to an associate in relation to the trading of extended-range engines during the period.

As at 30 June 2023, the gearing ratio, computed by dividing borrowings by total equity attributable to owners of the Company, was approximately 47.21% (31 December 2022: approximately 39.40%). The increase in gearing ratio was mainly due to the increase in borrowings during the period.

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 2023, the Group had capital commitments of approximately RMB127.40 million (31 December 2022: approximately RMB350.73 million), of which contracted capital commitments amounted to approximately RMB96.75 million (31 December 2022: approximately RMB104.33 million), which is primarily related to the capital expenditure in respect of acquisition of property, plant and equipment, capital injection to an associate and new engine development.

Foreign exchange risks

The Group's functional currency is RMB. Since the Group has certain assets and liabilities, such as receivables, payables, cash and bank borrowings, denominated in foreign currencies, such as US$ and HK$, 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 2023, the Group had approximately 983 employees (30 June 2022: approximately 988). Employee costs amounted to approximately RMB62.05 million for the six months ended 30 June 2023 (2022: approximately RMB56.20 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

The economy in the PRC rebounded in the first quarter of 2023 as enterprises were endeavouring to recoup the business which had been lost during the Covid pandemic period. However, the second quarter showed a weakening consumer spending sign, retail sales were weak. More job losses and unemployment lead to hesitation to commit big purchases. The PRC government has just made pledges to improve the business environment in order to bolster the automobile and other industries.

In the first half of 2023, the sales of the passenger vehicle segment of the automotive sector in the PRC showed an overall sign of recovery from prolonged pandemic impact. According to the China Association of Automobile Manufacturers, the sales of passenger vehicle segment recorded a growth of 8.8% on a year-on-year basis whilst the sales of commercial vehicle segment recorded a growth of 15.8%. Passenger vehicles accounted for about 85.1% of the sales of the automobile sector. The growth of the passenger vehicle segment was mainly driven by an increase in demand for sport-utility vehicles ("**SUVs**"). The overall increase of 9.8% in the sales of vehicles was driven by an increase in sales of SUVs, multi-purpose vehicles and commercial vehicles. The sales of new energy vehicles ("**NEV**") was 3.75 million units, up by 44.1% year on year, and accounted for about 28.3% of the PRC's total sales in the first half of 2023.

During the reporting period, the Group recorded an increase in sales which is mainly due to a significant increase in the trading of range-extended engines produced by our joint venture company ("**JVC**") with Li Auto Inc., together with the increase in the sales of traditional gasoline engines, crankshafts and connecting rods during the period. The increase was partly driven by the low base in the same period last year due to the impact of the zero-Covid lockdown.

The range-extended model is becoming popular in the new energy vehicle market, especially the recent hot sales of Li Auto Inc. which sells its models L9, L8 and L7 with this technology. Li Auto Inc. has once again pushed the range-extended technology to the forefront and range-extended electric vehicles are undergoing a sale explosion period. Extended-range electric vehicles have become the new favourite and are getting widely recognised by the market. The Group anticipates that the JVC will continue to serve as the platform for the long-term strategic cooperation between the Group and Li Auto Inc. which aims to provide a quality and stable supply of range-extended engines in the years to come. In addition, we are still working hard to explore more major NEV customers to adopt our NEV-compatible engines for range extension purpose.

Regarding the engine components business, the crankshaft production line for Bx8 engines and the connecting rods production line showed an increase in sales in the first half of 2023 when compared to the corresponding period in 2022. As reported by the media in the PRC, in the first half of 2023, sales of BMW vehicles showed 3.7% year-on-year increase with approximately 392,000 units delivered and therefore the demand for finished crankshaft and connecting rods for Bx8 engines increased correspondingly and are returning to normal production level.

The recent announcement by the PRC government regarding a 4-year purchase tax deduction until 31 December 2027 covers pure electric vehicles, fuel cell vehicles, and plug-in hybrid vehicles that include range-extended electric vehicles. Consumers who purchase some popular models will be "partially exempted" or "completely exempted" from the remaining purchase tax. This will bring much benefits to upstream manufacturers and also the downstream insurance and financial service providers.

It is expected that the PRC's annual auto sales will record a slight year-over-year growth in 2023, mainly driven by the expected growth in NEVs and passenger vehicles. Though the market is still being affected by chip shortage and the rise in raw material prices, the continued recovery of domestic economy and the ongoing implementation of governmental stimulus will provide tremendous support for the auto market development in the second half of this year.

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: 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.

Lead In is currently owned as to 50% by Mr. Wu Xiao An and as to 50% by Mr. Deng Han, 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".

The Company ceased the operation and further implementation of the Incentive Scheme with effect from 6 December 2021. The Company would explore and adopt other methods as retention tool in replacement of the Incentive Scheme to meet the current company operating conditions and market environment. Following the cessation of the operation and further implementation of the Incentive Scheme by the Company, depending on, among others, the prevailing trading prices of the Shares, Lead In may in future dispose of the Shares held under the Discretionary Trust gradually and in an orderly manner and use the sale proceeds to repay the loan advanced by the Company to Lead In.

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 2023. As at 30 June 2023, Lead In held 33,993,385 Shares under the Discretionary Trust.

SHARE OPTION SCHEME

A share option scheme (the "**Old Share Option Scheme**") adopted by the Company on 25 April 2012 and amended and restated on 8 February 2013 was effective for a period of 10 years commencing from 13 March 2013. The Old Share Option Scheme expired on 12 March 2023, after which no further options were granted thereunder. As at the date on which the Old Share Option Scheme expired, no options had remained outstanding.

The Company adopted a share option scheme by an ordinary resolution passed by the shareholders of the Company at the annual general meeting of the Company held on 19 June 2023 (the "**New Share Option Scheme**").

The New Share Option Scheme will remain in force for a period of 10 years from 19 June 2023. 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.

The maximum number of shares which may be issued upon the exercise of all options to be granted under the New Share Option Scheme (the "**Scheme Mandate Limit**") was 10% of the shares in issue as at the date of adoption of the New Share Option Scheme. The maximum entitlement of each individual eligible participant as defined in the New Share Option Scheme in any 12-month period must not exceed 1% of the shares in issue, provided that the maximum entitlement for any grantee being a substantial shareholder or an independent non-executive director or any of their respective associates shall be capped at 0.1% of the shares in issue. Any grant exceeding these individual limits shall be subject to shareholders' approval, with the relevant grantees and their associates abstaining from voting.

The number of share options available for grant as at 1 January 2023 was 125,359,979 Shares under the Old Share Option Scheme, whereas the number of share options available for grant was 128,221,179 Shares under the New Share Option Scheme as at 30 June 2023.

No share options had been granted by the Company under the Old Share Option Scheme and the New Share Option Scheme since their inceptions and for the six months ended 30 June 2023 and no expenses were recognised by the Group for the period under review (six months ended 30 June 2022: 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 publication of 2022 annual report of the Company is set out below:

– Mr. Yang Ming resigned as director of Mianyang Xinchen on 28 April 2023.

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

As at 30 June 2023, 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 2023.

Save as disclosed herein, as at 30 June 2023, 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 2023, 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. Deng Han[2]	Beneficial owner	2,994,258 ordinary	0.23%
	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. Deng Han 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. Deng 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 2023.

Save as disclosed above, as at 30 June 2023, 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 2023.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to achieving and maintaining the highest standards of corporate governance, consistent with the needs and requirements of the business and its shareholders. The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Part 2 of Appendix 14 to the Listing Rules. The Company has complied with all code provisions of the CG Code throughout the six months ended 30 June 2023.

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 have confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2023.

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 2023.

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

BOARD OF DIRECTORS

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

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

Hong Kong, 21 August 2023

* *for identification purposes only*