

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 2024

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 2024 together with comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2024

	Notes	Six months ended	
		30.6.2024 RMB'000 (unaudited)	30.6.2023 RMB'000 (unaudited)
Revenue	4	2,619,532	2,249,808
Cost of sales		(2,509,663)	(2,142,648)
Gross profit		109,869	107,160
Other income	5	26,748	11,508
Reversal of impairment losses, net	6	49,117	1,587
Other gains and losses	7	(588)	2,430
Selling and distribution expenses		(16,559)	(14,721)
Administrative expenses		(81,803)	(73,569)
Other expenses		(15,105)	(9,391)
Finance costs		(27,714)	(30,958)
Share of (loss)/profit of associate		(20,154)	31,221
Profit before tax	8	23,811	25,267
Income tax expense	9	(1,686)	(3,525)
Profit for the period		22,125	21,742
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Fair value gain on:			
Receivables measured at fair value through other comprehensive income (“ FVTOCI ”)		–	22
Other comprehensive income for the period		–	22
Total comprehensive income for the period		22,125	21,764
Earnings per share – Basic (RMB)	11	0.017	0.017

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 2024

		30.6.2024	31.12.2023
	Notes	RMB'000	RMB'000
		(unaudited)	(audited)
NON-CURRENT ASSETS			
Property, plant and equipment	12	1,085,636	1,121,871
Right-of-use assets		355,752	406,574
Prepaid lease payments		111,582	113,574
Interest in an associate		271,722	291,876
Intangible assets	12	514,175	535,341
Deferred tax assets		9,559	10,583
Loan to a shareholder	13	9,608	8,811
		<hr/>	<hr/>
		2,358,034	2,488,630
CURRENT ASSETS			
Inventories	14	468,058	482,997
Trade and other receivables	15	2,012,011	2,369,834
Amounts due from related companies	16	15,810	30,720
Pledged/restricted bank deposits	17	186,184	105,083
Bank balances and cash	17	41,369	23,839
		<hr/>	<hr/>
		2,723,432	3,012,473
TOTAL ASSETS		<hr/>	<hr/>
		5,081,466	5,501,103

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)*As at 30 June 2024*

		30.6.2024	31.12.2023
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(audited)
CURRENT LIABILITIES			
Trade and other payables	<i>18</i>	512,811	545,134
Amounts due to related companies	<i>19</i>	65,181	88,682
Amount due to an associate	<i>20</i>	1,605,662	1,996,281
Borrowings due within one year	<i>21</i>	640,406	536,589
Lease liabilities	<i>22</i>	137,343	140,037
Tax payable		2,457	1,440
		<hr/> 2,963,860	<hr/> 3,308,163
NET CURRENT LIABILITIES		<hr/> (240,428)	<hr/> (295,690)
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 2,117,606	<hr/> 2,192,940
NON-CURRENT LIABILITIES			
Borrowings due after one year	<i>21</i>	35,008	64,235
Lease liabilities	<i>22</i>	331,276	397,797
Deferred income		13,178	14,889
		<hr/> 379,462	<hr/> 476,921
NET ASSETS		<hr/> 1,738,144	<hr/> 1,716,019
CAPITAL AND RESERVES			
Share capital	<i>23</i>	10,457	10,457
Reserves		1,727,687	1,705,562
		<hr/> 1,738,144	<hr/> 1,716,019
TOTAL EQUITY		<hr/> 1,738,144	<hr/> 1,716,019

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 2024

	Share capital	Share premium	Special reserve	Surplus reserves	Deemed distribution to a shareholder	Contribution from a shareholder	FVTOCI reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note a)	(Note b)	(Note c)	(Note d)	(Note e)			
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
At 1 January 2024 (audited)	10,457	700,258	193,457	401,475	(11,285)	8,319	-	413,338	1,716,019
Profit for the period	-	-	-	-	-	-	-	22,125	22,125
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-
At 30 June 2024 (unaudited)	10,457	700,258	193,457	401,475	(11,285)	8,319	-	435,463	1,738,144

Notes:

- 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.
- Special reserve represents the difference between paid-in capital of Mianyang Xincheng Engine Co., Limited* (綿陽新晨動力機械有限公司) ("Mianyang Xincheng") and issued share capital of the Company arising from group reorganization.
- Surplus reserves comprise statutory surplus reserve and discretionary surplus reserve of Mianyang Xincheng, 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 Xincheng in accordance with its Articles of Association. Statutory surplus reserve amounting to approximately RMB271,731,000 as at 30 June 2024 (31 December 2023: approximately RMB271,731,000), can be used to make up for previous year's losses or convert into additional capital of Mianyang Xincheng. Discretionary surplus reserve amounting to approximately RMB129,744,000 as at 30 June 2024 (31 December 2023: approximately RMB129,744,000) can be used to expand the existing operations of Mianyang Xincheng.
- 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 Xincheng in prior years.
- 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 2024

	Six months ended	
	30.6.2024	30.6.2023
	RMB'000	RMB'000
	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before taxation	23,811	25,267
Adjustments for non-cash items	127,228	139,632
	<hr/>	<hr/>
Operating cash flows before changes in working capital	151,039	164,899
Decrease/(Increase) in inventories	14,939	(3,488)
Decrease/(Increase) in trade and other receivables	369,602	(1,398,960)
Decrease in receivables measured at FVTOCI	–	3,300
(Decrease)/Increase in trade and other payables	(32,058)	6,582
Decrease in amounts due from related companies	52,248	12,614
(Decrease)/increase in amounts due to related companies	(23,501)	11,939
(Decrease)/Increase in amount due to an associate	(390,619)	1,170,621
	<hr/>	<hr/>
Cash generated from/(used in) operations	141,650	(32,493)
Income tax paid	355	(40)
	<hr/>	<hr/>
<i>Net cash generated from/(used in) operating activities</i>	142,005	(32,533)
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	966	921
Purchase of property, plant and equipment	(15,196)	(11,291)
Proceeds on disposal of property, plant and equipment	2,036	539
Development costs paid	(8,841)	(9,631)
Withdrawal of pledged/restricted bank deposits	–	112,304
Placement of pledged/restricted bank deposits	(81,101)	(102,162)
	<hr/>	<hr/>
<i>Net cash used in investing activities</i>	(102,136)	(9,320)
	<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Cont'd)*For the six months ended 30 June 2024*

	Six months ended	
	30.6.2024	30.6.2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Interest paid	(27,714)	(30,958)
Repayment of borrowings	(190,528)	(347,993)
New borrowings raised	265,118	489,448
Payment of lease liabilities	(69,215)	(83,993)
	<hr/>	<hr/>
<i>Net cash (used in)/generated from financing activities</i>	(22,339)	26,504
	<hr/>	<hr/>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	17,530	(15,349)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	23,839	59,059
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT 30 JUNE,		
represented by bank balances and cash	41,369	43,710
	<hr/>	<hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

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 Xincheng, 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 RMB240,428,000 as at 30 June 2024.

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 2024 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 2024

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 2024 have been prepared in accordance with the accounting policies adopted in the Group's annual consolidated financial statements for the year ended 31 December 2023, except for the adoption of the following amended HKFRSs which are effective as of 1 January 2024. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback
Amendments to HKAS 1	Classification of Liabilities as Current or Non-Current and related amendments to Hong Kong Interpretation 5 (2020)
Amendments to HKAS 1	Non-current Liabilities with Covenants
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements

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	
	30.6.2024	30.6.2023	30.6.2024	30.6.2023
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Gasoline engines	2,174,521	1,809,884	30,439	31,357
Diesel engines	46,652	40,215	(2,150)	(4,899)
Engine components	398,359	399,709	81,580	80,702
Total segment and consolidated	2,619,532	2,249,808	109,869	107,160
Other income			26,748	11,508
Reversal of impairment losses, net			49,117	1,587
Other gains and losses			(588)	2,430
Selling and distribution expenses			(16,559)	(14,721)
Administrative expenses			(81,803)	(73,569)
Other expenses			(15,105)	(9,391)
Finance costs			(27,714)	(30,958)
Share of (loss)/profit of associate			(20,154)	31,221
Profit before tax			23,811	25,267

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 2024 and 2023.

Segment results represent the profit earned by each segment before the allocation of other income, reversal of impairment losses, other gains and losses, selling and distribution expenses, administrative expenses, other expenses, finance costs and share of (loss)/profit of associate. 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 Xincheng and its subsidiary.

5. OTHER INCOME

	Six months ended	
	30.6.2024 RMB'000 (unaudited)	30.6.2023 RMB'000 (unaudited)
Bank interest income	966	921
Additional recoverable value-added tax granted by local tax bureau	6,379	–
Government grants	11,226	2,954
Imputed interest income from loan to a shareholder	535	499
Rental income under operating leases	4,560	4,664
Utility income	3,082	2,470
	<hr/>	<hr/>
	26,748	11,508
	<hr/>	<hr/>

6. REVERSAL OF IMPAIRMENT LOSSES, NET

	Six months ended	
	30.6.2024 RMB'000 (unaudited)	30.6.2023 RMB'000 (unaudited)
Impairment losses reversed/(recognised) on:		
– Trade and other receivables (Note 15)	11,779	(2,124)
– Amounts due from related companies (Note 16)	37,338	3,711
	<hr/>	<hr/>
	49,117	1,587
	<hr/>	<hr/>

7. OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2024 RMB'000 (unaudited)	30.6.2023 RMB'000 (unaudited)
Foreign exchange gains, net	–	92
Gain on disposal of miscellaneous materials	2,120	3,301
(Loss)/gain on disposal of property, plant and equipment (Note 12)	(1,308)	230
Net loss arising on receivables measured at FVTOCI	(1,400)	(1,200)
Others	–	7
	<hr/>	<hr/>
	(588)	2,430
	<hr/>	<hr/>

8. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	Six months ended	
	30.6.2024 RMB'000 (unaudited)	30.6.2023 RMB'000 (unaudited)
Employee benefits expenses (including directors):		
– Salaries and other benefits	50,381	49,299
– Retirement benefit scheme contributions	12,282	12,749
Total staff costs	62,663	62,048
Depreciation of right-of-use assets	50,822	51,923
Depreciation of property, plant and equipment	48,087	47,031
Depreciation of prepaid lease payments	1,992	2,060
Amortisation of intangible assets	30,007	23,826
Total depreciation and amortisation	130,908	124,840

9. INCOME TAX EXPENSE

	Six months ended	
	30.6.2024 RMB'000 (unaudited)	30.6.2023 RMB'000 (unaudited)
PRC Enterprise Income Tax ("EIT")		
– Current tax	662	428
– Deferred tax	1,024	3,097
	1,686	3,525

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

Pursuant to the relevant laws and regulations in the PRC, Xincheng Engine (Shenyang) Co., Limited* (新晨動力機械(瀋陽)有限公司) 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 2024 and 2023.

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 2024 and 2023, nor has any dividend been proposed since the end of the reporting period.

11. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2024 (unaudited)	30.6.2023 (unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share (RMB'000)	22,125	21,742
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings 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 RMB984,000 (six months ended 30 June 2023: approximately RMB35,000) 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 RMB3,344,000 (six months ended 30 June 2023: approximately RMB1,045,000) resulting in a loss on disposal of approximately RMB1,308,000 (six months ended 30 June 2023: gain on disposal of approximately RMB230,000).

In addition, during current interim period, the Group had approximately RMB14,211,000 (six months ended 30 June 2023: approximately RMB11,256,000) 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 RMB8,841,000 (six months ended 30 June 2023: approximately RMB9,631,000) for the purposes of expanding its products range of gasoline and diesel engines.

As at 30 June 2024, the carrying amounts of the Group's right-of-use assets in respect of office premises and production facilities amounted to approximately RMB355,752,000 (31 December 2023: approximately RMB406,574,000).

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 29, 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 2024.

13. **LOAN TO A SHAREHOLDER (Cont'd)**

At 30 June 2024, 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\$23,648,000, equivalent to approximately RMB22,002,000 as at 30 June 2024 and RMB21,409,000 as at 31 December 2023, 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:

	30.6.2024 <i>RMB'000</i> (unaudited)	31.12.2023 <i>RMB'000</i> (audited)
Trade receivables	2,213,547	2,585,795
Less: Allowance for credit losses	(292,894)	(304,673)
	<hr/>	<hr/>
Trade receivables, net	1,920,653	2,281,122
Bills receivable	52,165	35,907
Less: Allowance for credit losses	-	-
	<hr/>	<hr/>
Total trade and bills receivables	1,972,818	2,317,029
Prepayments for purchase of raw materials and engine components	26,775	35,122
Other receivables	12,418	17,683
Less: Allowance for credit losses	-	-
	<hr/>	<hr/>
	2,012,011	2,369,834
	<hr/>	<hr/>

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:

	30.06.2024 <i>RMB'000</i> (unaudited)	31.12.2023 <i>RMB'000</i> (audited)
Within 1 month	1,303,956	1,706,423
Over 1 month but within 2 months	47,960	7,782
Over 2 months but within 3 months	445,620	40,790
Over 3 months but within 6 months	116,569	524,700
Over 6 months but within 1 year	525	49
Over 1 year	6,023	1,378
	<hr/>	<hr/>
	1,920,653	2,281,122
	<hr/>	<hr/>

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:

	30.6.2024 RMB'000 (unaudited)	31.12.2023 <i>RMB'000</i> <i>(audited)</i>
Within 3 months	34,724	12,337
Over 3 months but within 6 months	16,958	23,570
Over 6 months but within 1 year	483	-
	<hr/>	
	52,165	35,907
	<hr/>	

At 30 June 2024 and 31 December 2023, 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 2024 and 31 December 2023:

30 June 2024

	Gross carrying amount RMB'000 (unaudited)	Loss rate range %	ECL RMB'000 (unaudited)
Not past due	1,307,148	0.84-2.07	3,192
<i>Past due:</i>			
Within 1 month	48,976	0.84-7.89	1,016
Over 1 month but within 3 months	445,796	2.07-7.89	176
Over 3 months but within 6 months	116,746	2.07-7.89	177
Over 6 months but within 1 year	570	7.89-35.44	45
Over 1 year	294,311	35.44-100.00	288,288
	<hr/>		
	2,213,547		292,894
	<hr/>		

31 December 2023

	Gross carrying amount RMB'000 (audited)	Loss rate range %	ECL RMB'000 (audited)
Not past due	1,715,844	0.79-4.75	1,922
<i>Past due:</i>			
Within 1 month	41,858	1.31-4.75	873
Over 1 month but within 3 months	478,252	2.07-4.75	575
Over 3 months but within 6 months	46,886	4.75-35.44	6
Over 6 months but within 1 year	1,166	4.75-35.44	92
Over 1 year	301,789	35.44-100.00	301,205
	<hr/>		
	2,585,795		304,673
	<hr/>		

15. **TRADE AND OTHER RECEIVABLES (Cont'd)**

Movement in the ECL of trade receivables:

	30.6.2024 <i>RMB'000</i> (unaudited)	31.12.2023 <i>RMB'000</i> (audited)
At the beginning of the reporting period/year	304,673	299,539
ECL recognised	-	5,452
Reversal of ECL	(11,779)	-
Amount written off	-	(318)
	<hr/>	<hr/>
At the end of the reporting period/year	292,894	304,673

16. **AMOUNTS DUE FROM RELATED COMPANIES**

Analysed as:

	30.6.2024 <i>RMB'000</i> (unaudited)	31.12.2023 <i>RMB'000</i> (audited)
Non-trade related	25	25
Trade related	15,785	30,695
	<hr/>	<hr/>
	15,810	30,720

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

	30.6.2024 <i>RMB'000</i> (unaudited)	31.12.2023 <i>RMB'000</i> (audited)
Brilliance China Group		
Shenyang XingYuanDong Automobile Component Co., Ltd.* 瀋陽興遠東汽車零部件有限公司	1,503	1,503
Wuliangye Group		
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")	14,282	29,192
	<hr/>	<hr/>
	15,785	30,695

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. As at 30 June 2024, the Group assessed the credit rating for its customers and applying the expected loss rate ranging from 0.1% to 100% (31 December 2023: 0.1% to 100%) over the gross carrying amounts. As at 30 June 2024, ECL allowance amounting to approximately RMB267,550,000 (31 December 2023: approximately RMB649,452,000) 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:

	30.6.2024 <i>RMB'000</i> (unaudited)	31.12.2023 <i>RMB'000</i> (audited)
At the beginning of the reporting period/year	649,452	652,823
ECL reversed	(37,338)	(3,709)
ECL recognised	-	338
Write-off of ECL	(344,564)	-
	<hr/>	<hr/>
At the end of the reporting period/year	267,550	649,452
	<hr/>	<hr/>

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

Balances denominated in foreign currencies:

	30.6.2024 <i>RMB'000</i> (unaudited)	31.12.2023 <i>RMB'000</i> (audited)
Hong Kong Dollars	6,995	3,815
United States Dollars	363	617
	<hr/>	<hr/>

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:

	30.6.2024 <i>RMB'000</i> (unaudited)	31.12.2023 <i>RMB'000</i> (audited)
Trade payables	265,541	316,036
Bills payable	184,907	163,845
	<hr/>	<hr/>
Total trade and bills payables	450,448	479,881
Construction payables	5,382	5,846
Payroll and welfare payables	9,661	17,954
Advances from customers (<i>Note i</i>)	14,295	9,483
Provision for warranty (<i>Note ii</i>)	9,222	9,487
Retention money	12,762	11,801
Provision for operating expenses	3,916	3,716
Other payables	7,125	6,966
	<hr/>	<hr/>
	512,811	545,134
	<hr/>	<hr/>

18. TRADE AND OTHER PAYABLES (Cont'd)

Notes:

- i. As at 30 June 2024 and 31 December 2023, 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 2024, 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 6 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:

	30.6.2024	31.12.2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Within 3 months	225,272	237,052
Over 3 months but within 6 months	21,338	29,939
Over 6 months but within 1 year	4,921	10,282
Over 1 year but within 2 years	6,445	14,369
Over 2 years	7,565	24,394
	<hr/> 265,541	316,036

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:

	30.6.2024	31.12.2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Within 3 months	118,507	85,591
Over 3 months but within 6 months	66,400	78,254
	<hr/> 184,907	163,845

19. AMOUNTS DUE TO RELATED COMPANIES

	30.6.2024 RMB'000 (unaudited)	31.12.2023 RMB'000 (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
	<u>610</u>	<u>765</u>
Brilliance China Group		
Mianyang Brilliance Ruian Automotive Components Co., Ltd.* 綿陽華晨瑞安汽車零部件有限公司	3,651	3,237
Shenyang ChenFa Automobile Component Co., Ltd* 瀋陽晨發汽車零部件有限公司	-	3,583
Shenyang Jinbei Vehicle Dies Manufacturing Co., Ltd.* 瀋陽金杯汽車模具製造有限公司	-	15
	<u>3,651</u>	<u>6,835</u>
Wuliangye Group		
Xinhua Combustion Engine	58,363	78,570
Mianyang Xin Xinmao Trading Co., Ltd.* 綿陽新鑫茂商貿有限公司	21	21
	<u>58,384</u>	<u>78,591</u>
	<u>62,645</u>	<u>86,191</u>

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

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

	30.6.2024 RMB'000 (unaudited)	31.12.2023 <i>RMB'000</i> (audited)
Non-trade related:		
Brilliance China Group		
Brilliance China	2,536	2,491
	<hr/>	<hr/>
	65,181	88,682
	<hr/>	<hr/>
	30.6.2024 RMB'000 (unaudited)	31.12.2023 <i>RMB'000</i> (audited)
Trade related balances analysed as:		
Trade payables	8,934	39,372
Bills payable	53,711	46,819
	<hr/>	<hr/>
	62,645	86,191
	<hr/>	<hr/>

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:

	30.6.2024 RMB'000 (unaudited)	31.12.2023 <i>RMB'000</i> (audited)
Within 3 months	6,938	34,452
Over 3 months but within 6 months	1,213	384
Over 1 year	783	4,536
	<hr/>	<hr/>
	8,934	39,372
	<hr/>	<hr/>

The bills payable are guaranteed by banks in the PRC and have maturities of 3 to 6 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:

	30.6.2024 RMB'000 (unaudited)	31.12.2023 <i>RMB'000</i> (audited)
Within 3 months	30,758	36,045
Over 3 months but within 6 months	22,953	10,774
	<hr/>	<hr/>
	53,711	46,819
	<hr/>	<hr/>

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 associate presented based on the invoice date at the end of the reporting period is as follows:

	30.6.2024 <i>RMB'000</i> (unaudited)	31.12.2023 <i>RMB'000</i> (audited)
Within 3 months	1,496,894	1,341,471
Over 3 months but within 6 months	108,644	654,810
Over 6 months but within 12 months	124	–
	<hr/> 1,605,662	<hr/> 1,996,281

21. BORROWINGS

During the current interim period, the Group obtained new bank borrowings amounting to approximately RMB198,066,000 (six months ended 30 June 2023: approximately RMB274,052,000) carrying interest ranging from 3.30% to 4.80% (six months ended 30 June 2023: 4.40% to 6.50%) 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

	30.6.2024 <i>RMB'000</i> (unaudited)	31.12.2023 <i>RMB'000</i> (audited)
Total minimum lease payments:		
Due within one year	155,960	161,850
Due in the second to fifth years	350,717	425,752
	<hr/> 506,677	<hr/> 587,602
Future finance charges on leases liabilities	(38,058)	(49,768)
	<hr/> 468,619	<hr/> 537,834

23. SHARE CAPITAL

	Number of shares	Amount <i>HK\$</i>
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
At 1 January 2023, 31 December 2023 and 30 June 2024	8,000,000,000	80,000,000
<i>Issued and fully paid:</i>		
At 31 December 2023 and 30 June 2024	1,282,211,794	12,822,118
	<hr/> 30.6.2024 <i>RMB'000</i> (unaudited)	<hr/> 31.12.2023 <i>RMB'000</i> (audited)
Share capital presented in the condensed consolidated statement of financial position	<hr/> 10,457	<hr/> 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 2024 and 31 December 2023:

	30.6.2024 RMB'000 (unaudited)	31.12.2023 <i>RMB'000</i> <i>(audited)</i>
<i>Financial assets:</i>		
At amortised cost*	2,228,551	2,510,085
<i>Financial liabilities:</i>		
At amortised cost**	2,821,974	3,193,647
Lease liabilities	468,619	537,834
	3,290,593	3,731,481

* 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 Lessee

At the end of the reporting period, the lease commitments for short-term leases are as follows:

	30.6.2024 RMB'000 (unaudited)	31.12.2023 <i>RMB'000</i> <i>(audited)</i>
Within one year	1,312	1,400

The Group as lessor

Property rental income earned was approximately RMB241,000 for the period ended 30 June 2024 (six months ended 30 June 2023: approximately RMB242,000).

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

	30.6.2024 RMB'000 (unaudited)	31.12.2023 <i>RMB'000</i> <i>(audited)</i>
Within one year	6,299	8,747

26. CAPITAL COMMITMENTS

	30.6.2024 RMB'000 (unaudited)	31.12.2023 <i>RMB'000</i> <i>(audited)</i>
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	12,344	13,280
– Capital expenditure in respect of investment in associates	80,000	80,000
	<hr/>	<hr/>

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:

	30.6.2024 RMB'000 (unaudited)	31.12.2023 <i>RMB'000</i> <i>(audited)</i>
Settlement of trade and other payables	828,022	738,666
Discounted bills for raising of cash	115,861	98,252
	<hr/>	<hr/>

Outstanding endorsed and discounted bills receivable with recourse	943,883	836,918
	<hr/>	<hr/>

Maturity analysis of the outstanding endorsed and discounted bills receivable:

	30.6.2024 RMB'000 (unaudited)	31.12.2023 <i>RMB'000</i> <i>(audited)</i>
Within 3 months	863,241	780,652
Over 3 months but within 6 months	80,642	56,266
	<hr/>	<hr/>
	943,883	836,918
	<hr/>	<hr/>

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	
	30.6.2024 <i>RMB'000</i> (unaudited)	30.6.2023 <i>RMB'000</i> (unaudited)
Sale of goods		
Wuliangye Group	-	7
Sichuan Li Xincheng Technology Co., Ltd* (四川理想新晨科技有限公司) ("Li Xincheng")	44,636	47,626
	<u>44,636</u>	<u>47,633</u>
Purchase of goods		
Brilliance China Group	16,104	25,415
Wuliangye Group	18,360	21,991
Li Xincheng	2,468,804	770,125
	<u>2,503,268</u>	<u>817,531</u>
Lease payment and auxiliary services		
Brilliance China Group	1,250	1,274
Lease income and auxiliary services charged		
Li Xincheng	6,850	6,380
Repairment fee		
Wuliangye Group	15	26
Water and electricity costs charged		
Wuliangye Group	5	119
Technical consulting and testing service fee		
Li Xincheng	1,802	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 2024 and 2023. As at 30 June 2024, 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 2024 and 2023.

MANAGEMENT'S DISCUSSION & ANALYSIS

Business review

In the first half of 2024, the Group achieved total unaudited revenue of approximately RMB2,619.53 million, representing an increase of approximately 16.43% compared to approximately RMB2,249.81 million for the corresponding period last year. The increase in revenue was mainly due to an increase in the trading of extended range gasoline engines during the period.

Sales volume of engines increased by approximately 34.62%, from approximately 156,000 units in the first half of 2023 to approximately 210,000 units in the first half of 2024, mainly due to the increase in trading of extended range gasoline engines.

With respect to the engines business segment, the Group recorded approximately 20.05% increase in the segment revenue, from approximately RMB1,850.10 million in the first half of 2023 to approximately RMB2,221.17 million in the first half of 2024. The increase was mainly due to an increase in the trading of extended range gasoline engines.

With respect to the engine components segment, the Group recorded approximately 0.34% decrease in the segment revenue, from approximately RMB399.71 million in the first half of 2023 to approximately RMB398.36 million in the first half of 2024. The Group sold approximately 378,000 units of crankshaft in the first half of 2024, representing approximately 8.47% decrease compared to approximately 413,000 units for the corresponding period of 2023. The decrease was mainly due to the reduction in demand of the customer because of the gradual shift from traditional engine models to the pure electric ones. This shortfall was mitigated by the sales of crankshaft for use in Li Auto.

The Group sold approximately 1,270,000 units of connecting rods in the first half of 2024, representing approximately 33.83% increase compared to approximately 949,000 units for the corresponding period of 2023. The increase in the sales volume of connecting rods was mainly due to increase in sales for use in Li Auto.

The unaudited cost of sales amounted to approximately RMB2,509.67 million in the first half of 2024, representing an increase of approximately 17.13% compared to approximately RMB2,142.65 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 gasoline engines increased further which derived a slightly lower profit margin. It was approximately 4.19% in the first half of 2024 whilst it was approximately 4.76% in the first half of 2023.

The unaudited other income increased from approximately RMB11.51 million for the first half of 2023 to approximately RMB26.74 million for the first half of 2024, representing an increase of approximately 132.43%. The increase was mainly due to the increase in government grants received during the period.

There was an increase in reversal of impairment loss to approximately RMB49.12 million for the first half of 2024 whereas there was approximately RMB1.59 million reversal amount for the first half of 2023. The reversal was mainly due to the settlement of certain impaired amounts due from related companies in the first half of 2024.

The unaudited other gains and losses amounted to approximately a loss of RMB0.59 million for the first half of 2024 whereas there was a gain of approximately RMB2.43 million for the first half of 2023. The loss was mainly due to the net loss arising from receivables measured at fair value through other comprehensive income recognized and loss on disposal of certain fixed assets.

The unaudited selling and distribution expenses increased by approximately 12.49%, from approximately RMB14.72 million in the first half of 2023 to approximately RMB16.56 million in the first half of 2024, representing approximately 0.65% and approximately 0.63% of the revenue in the first half of 2023 and 2024 respectively. The increase in terms of value was mainly due to the increase in the sales of engines. The decrease in terms of percentage value was mainly due to a greater extent of increase in revenue during the period in 2024.

The unaudited administrative expenses increased by approximately 11.19%, from approximately RMB73.57 million in the first half of 2023 to approximately RMB81.80 million in the first half of 2024, representing approximately 3.27% and approximately 3.12% of the revenue in the first half of 2023 and 2024 respectively. The increase in value was mainly due to the increase in research expenses and the general increase in office expenses. The slight decrease in terms of percentage value was mainly due to a greater extent of increase in revenue during the period.

The unaudited finance costs decreased by approximately 10.48%, from approximately RMB30.96 million in the first half of 2023 to approximately RMB27.71 million in the first half of 2024. The decrease was mainly due to the decrease in finance charge on lease liabilities during the course of business.

The Group's unaudited profit before tax decreased by approximately 5.76%, from approximately RMB25.27 million in the first half of 2023 to approximately RMB23.81 million in the first half of 2024. This was mainly due to the increase of selling and distribution expenses, administrative expenses, research and development expenses and the share of loss of the associate during the period.

The unaudited income tax expenses decreased by 52.17%, from approximately RMB3.53 million for the first half of 2023 to approximately RMB1.69 million for the first half of 2024. The decrease was due to less deferred tax recognized during the period.

For the first half of 2024, the Group recorded unaudited profit attributable to the owners of the Company of approximately RMB22.13 million, representing an increase of approximately 1.79% compared to approximately RMB21.74 million for the corresponding period of 2023.

Liquidity and financial resources

As at 30 June 2024, the Group had approximately RMB41.37 million in bank balances and cash (31 December 2023: approximately RMB23.84 million), and approximately RMB186.18 million in pledged/restricted bank deposits (31 December 2023: approximately RMB105.08 million).

As at 30 June 2024, the Group had trade and other payables of approximately RMB512.81 million (31 December 2023: approximately RMB545.13 million), bank borrowings due within one year in the amount of approximately RMB640.41 million (31 December 2023: approximately RMB536.59 million), and bank borrowings due after one year in the amount of approximately RMB35.01 million (31 December 2023: approximately RMB64.24 million).

Pledge of assets

As at 30 June 2024, the Group pledged certain of its land use rights, buildings, plant and machinery with a total value of approximately RMB300.55 million (31 December 2023: approximately RMB310.04 million) to certain banks to secure certain credit facilities and the other borrowing granted to the Group.

As at 30 June 2024, the Group also pledged bank deposits of approximately RMB185.47 million (31 December 2023: approximately RMB104.01 million) to certain banks to secure certain credit facilities granted to the Group.

As at 30 June 2024, the Group has not pledged any trade receivables to secure general banking facilities granted to the Group.

Gearing ratio

As at 30 June 2024, 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 1.92 (31 December 2023: approximately 2.21). The decrease in the debt-to-equity ratio was mainly due to the decrease in amount due to an associate in relation to the trading of extended range gasoline engines during the period.

As at 30 June 2024, the gearing ratio, computed by dividing borrowings by total equity attributable to owners of the Company, was approximately 38.86% (31 December 2023: approximately 35.01%). The slight increase in gearing ratio was mainly due to the increase in total bank 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 2024, the Group had capital commitments of approximately RMB123.92 million (31 December 2023: approximately RMB127.28 million), among which contracted capital commitments amounted to approximately RMB92.3 million (31 December 2023: approximately RMB93.28 million), which is primarily related to the capital expenditure in respect of acquisition of property, plant and equipment, capital injection to an associate and new engine development.

Foreign exchange risks

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

The Group has monitored and will continue to 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 2024, the Group had approximately 935 employees (30 June 2023: approximately 983). Employee costs amounted to approximately RMB62.66 million for the six months ended 30 June 2024 (30 June 2023: approximately RMB62.05 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

China's economy has shown a robust start in 2024, with 5 percent year-on-year gross domestic product growth during the first half of the year. This positive sign was attributable to the strong indicators in the industrial output and services sectors which coupled with the increase in foreign trade. The automobile manufacturing industry was one of the industrial sectors which contributed the growth. Despite the above mentioned, the first half of 2024 marked certain signs of economic slowdown primarily driven by prolonged difficulties in the property sector and heightened job security concerns, which subdued domestic demand. The PRC government continues to pledge the improvement of the business environment in order to bolster the automobile industry by way of vehicle purchase subsidies and tax exemption etc.

In the first half of 2024, the sales of the passenger vehicle segment of the automobile sector in the PRC continued to edge up year-over-year. According to the China Association of Automobile Manufacturers, the sales of passenger vehicle segment recorded a growth of 6.3% on a year-on-year basis whilst the sales of commercial vehicle segment recorded a growth of 4.9%. Passenger vehicles accounted for about 85.3% 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 6.1% in the sales of vehicles was driven by an increase in sales of SUVs, sedan cars and commercial vehicles. The sales volume of new energy vehicles ("NEVs") was 4.94 million units, up by 31.7% year on year, and accounted for about 35.2% of the PRC's total sales volume in the first half of 2024.

During the reporting period, the Group continued to record an increase in sales which is mainly due to the increase in the trading of extended range gasoline engines produced by our joint venture company (“JVC”) with Li Auto Inc., together with the increase in the sales of traditional gasoline, diesel engines and connecting rods during the period. The increase was in line with the trending up of major economic indicators of the PRC’s automobile industry.

The extended range electric vehicle (“EREV”) model continues to get popularity in the NEV market to an extent which has eaten into the share of sales of all-electric vehicles, as it showed a huge year-on-year growth in the plug-in hybrid vehicle category. The hot sales of Li Auto Inc.’s models L9, L8, L7 and L6 SUV are equipped with this technology. Li Auto Inc. is a pioneer in pushing the extended range technology to the forefront and EREVs are undergoing a sale explosion period. The latest L6 model can offer a range of 200 km on a single charge and over 1,300 km when using the combustion engine to extend the battery’s range. Such a long range of running and price cut in recent periods explain why this new favorite continues to be widely recognized 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 extended range gasoline 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 showed a decrease in sales in the first half of 2024 when compared to the corresponding period in 2023. As reported by the media in the PRC, in the first half of 2024, sales volume of BMW vehicles showed 4.2% year-on-year decrease with approximately 375,900 units delivered and therefore the demand for finished crankshaft for Bx8 engines decreased correspondingly. In view of the downward trend of the engine component business, we are exploring other new customers and the component business for the NEVs.

As mentioned before, a purchase tax deduction until 31 December 2027 covers pure electric vehicles, fuel cell vehicles, and plug-in hybrid vehicles that include EREVs. Consumers who purchase some popular models will be granted an exemption from the purchase tax amounting to as much as RMB30,000 per NEV, but this exemption will be cut by half and capped at RMB15,000 per NEV purchase. This phased approach aims to maintain the momentum of the NEV market while gradually shifting towards more self-sustaining growth.

In July, the monthly sales volume of NEVs in the PRC exceeded that of fuel passenger vehicles for the first time, reaching 51.1%, a year-on-year increase of 15 percentage points. This means that in the terminal sales of passenger vehicles, the sales volume of NEVs has surpassed that of fuel vehicles and has become the mainstream of the market.

It is expected that the PRC's annual automobile sales will record about 3% year-over-year growth in 2024, reaching a new normal of 30 million annual sales. This will mainly be driven by the expected growth in NEVs and passenger vehicles. Given the high level of electrification and smartification, the emergence of Chinese automobile manufacturers and the competitive price-cutting strategy make those historical big names facing a shrink in the market share with thinner profit reported during the period. In the meantime, China has also surged to become the world's biggest car exporter, with much demand coming from developing markets such as Southeast Asia in the first place. We expect to see firm support for the automobile market development in the second half of this year.

The Company is exploring new investment opportunities to diversify the product portfolio and the income sources in order to maintain its core competitiveness.

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2024 (six months ended 30 June 2023: 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 held 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 2024. As at 30 June 2024, Lead In held 33,993,385 Shares under the Discretionary Trust.

SHARE OPTION SCHEME

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 “**Share Option Scheme**”).

The 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 Share Option Scheme (the “**Scheme Mandate Limit**”) was 10% of the shares in issue as at the date of adoption of the Share Option Scheme. The maximum entitlement of each individual eligible participant as defined in the 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 under the Scheme Mandate Limit and the service provider sublimit of the Share Option Scheme were 128,221,179 Shares and 12,822,117 Shares respectively as at 1 January 2024 and 30 June 2024. 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 2024 and no expenses were recognised by the Group for the period under review (six months ended 30 June 2023: nil).

CHANGE IN DIRECTORS’ INFORMATION

There is no change in information of the directors of the Company as required to be disclosed under Rule 13.51B(1) of the Listing Rules since the date of the 2023 annual report up to the date of this interim report.

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

As at 30 June 2024, 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 ⁽⁹⁾
Brilliance Investment	Beneficial owner	400,000,000	31.20%
Brilliance China ⁽¹⁾	Interest in a controlled corporation	400,000,000	31.20%
Xinhua Investment	Beneficial owner	400,000,000	31.20%
Xinhua Combustion Engine ⁽²⁾	Interest in a controlled corporation	400,000,000	31.20%
Sichuan Yibin Pushi Group Co., Ltd. ⁽³⁾	Interest in a controlled corporation	400,000,000	31.20%
Wuliangye ⁽⁴⁾	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) 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.
- (3) 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.
- (4) 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.
- (5) These percentages are calculated on the basis of 1,282,211,794 Shares in issue as at 30 June 2024.

Save as disclosed herein, as at 30 June 2024, 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 2024, 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) 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) 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 2024.

Save as disclosed above, as at 30 June 2024, 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 2024.

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 C1 to the Listing Rules. The Company has complied with all code provisions of the CG Code throughout the six months ended 30 June 2024.

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 C3 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 2024.

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 2024.

At present, the audit committee comprises Mr. Chi Guohua, Mr. Wang Jun and Ms. Dong Yan, 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 three independent non-executive directors: Mr. Chi Guohua, Mr. Wang Jun 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 2024

* for identification purposes only