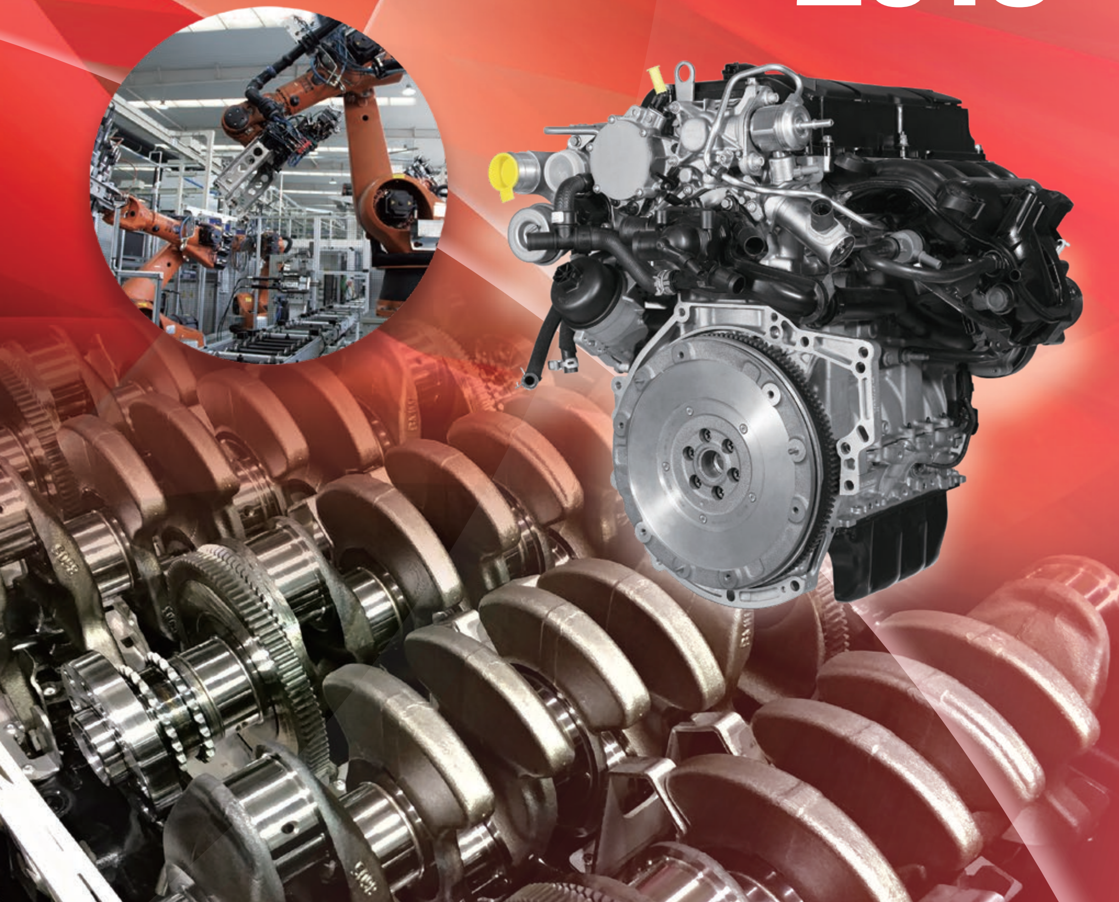
POWER XINCHEN
新晨动力

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 2018



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 2018 together with comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Six months ended	
		30.6.2018	30.6.2017
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*4*	**1,559,485**	1,237,942
Cost of sales		**(1,357,647)**	(1,078,877)
Gross profit		**201,838**	159,065
Other income	*5*	**4,560**	14,510
Other gains and losses	*6*	**9,284**	21,243
Distribution and selling expenses		**(18,201)**	(17,728)
Administrative expenses		**(74,397)**	(65,885)
Other expenses		**(3,580)**	(2,783)
Share of result of a joint venture		**(276)**	(159)
Finance costs		**(42,256)**	(22,860)
Profit before tax	*7*	**76,972**	85,403
Income tax expense	*8*	**(19,352)**	(14,441)
Profit for the period		**57,620**	70,962
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Fair value gain on:			
financial assets from amortised cost to fair value through other comprehensive income		**83**	–
Other comprehensive income for the period		**83**	–
Total comprehensive income for the period		**57,703**	70,962
Earnings per share – Basic *(RMB)*	*10*	**0.045**	0.055

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2018

	Notes	30.6.2018 RMB'000 (unaudited)	31.12.2017 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	**2,614,780**	2,451,686
Prepaid lease payments		**186,539**	133,858
Investment properties	11	**–**	211,508
Intangible assets	11	**632,007**	590,478
Investment in a joint venture		**49,193**	49,469
Loan to a shareholder	12	**27,225**	27,396
Deferred tax assets		**12,497**	12,497
		3,522,241	3,476,892
CURRENT ASSETS			
Inventories	13	**673,980**	608,111
Trade and other receivables	14	**524,290**	879,667
Trade receivables measured at fair value through other comprehensive income ("FVTOCI")	14	**32,572**	–
Prepaid lease payments		**4,743**	3,353
Tax recoverable		**16,002**	–
Amounts due from related companies	15	**1,694,425**	1,464,286
Pledged/restricted bank deposits	16	**649,993**	282,867
Bank balances and cash	16	**404,632**	352,473
		4,000,637	3,590,757
TOTAL ASSETS		**7,522,878**	7,067,649

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

AT 30 JUNE 2018

	Notes	**30.6.2018**	31.12.2017
		RMB'000	*RMB'000*
		(unaudited)	(audited)
CURRENT LIABILITIES			
Trade and other payables	*17*	**2,096,069**	1,812,592
Amounts due to related companies	*18*	**448,489**	348,797
Borrowings due within one year	*19*	**443,344**	789,577
Income tax payables		**–**	14,178
Financial liabilities at fair value through profit or loss	*20*	**13,504**	15,270
		3,001,406	2,980,414
NET CURRENT ASSETS		**999,231**	610,343
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,521,472**	4,087,235
NON-CURRENT LIABILITIES			
Borrowings due after one year	*19*	**1,429,112**	1,029,866
Deferred income		**60,040**	64,966
		1,489,152	1,094,832
NET ASSETS		**3,032,320**	2,992,403
CAPITAL AND RESERVES			
Share capital	*21*	**10,457**	10,457
Reserves		**3,021,863**	2,981,946
TOTAL EQUITY		**3,032,320**	2,992,403

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Surplus reserves RMB'000 (Note a)	Deemed distribution to a shareholder RMB'000 (Note b)	Contribution from a shareholder RMB'000 (Note c)	FVTOCI Reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2017 (audited)	10,457	700,258	193,457	359,728	(11,285)	8,319	–	1,603,376	2,864,310
Profit and total comprehensive income for the period	–	–	–	–	–	–	–	70,962	70,962
At 30 June 2017 (unaudited)	10,457	700,258	193,457	359,728	(11,285)	8,319	–	1,674,338	2,935,272
At 1 January 2018 (audited)	10,457	700,258	193,457	382,987	(11,285)	8,319	–	1,708,210	2,992,403
Adjustment *(Note 3)*	–	–	–	–	–	–	–	(17,786)	(17,786)
At 1 January 2018 (restated)	10,457	700,258	193,457	382,987	(11,285)	8,319	–	1,690,424	2,974,617
Profit for the period	–	–	–	–	–	–	–	57,620	57,620
Other comprehensive income for the period	–	–	–	–	–	–	83	–	83
Total comprehensive income for the period	–	–	–	–	–	–	83	57,620	57,703
At 30 June 2018 (unaudited)	10,457	700,258	193,457	382,987	(11,285)	8,319	83	1,748,044	3,032,320

Notes:

(a) Surplus reserves comprise statutory surplus reserve and discretionary surplus reserve of Mianyang Xinchen Engine Co., Ltd.*（綿陽新晨動力機械有限公司）("Mianyang Xinchen"), a major operating subsidiary of the Group and a sino-foreign equity joint venture enterprise, 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 RMB256,367,000 as at 30 June 2018 (31 December 2017: RMB256,367,000), 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 RMB126,620,000 as at 30 June 2018 (31 December 2017: RMB126,620,000) can be used to expand the existing operations of Mianyang Xinchen.

(b) 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 year.

(c) Contribution from a shareholder represents the fair value adjustments on shares awarded by Lead In Management Limited ("Lead In") to a third party. Details of which are set out in Note 12.

* *English name for reference only*

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended	
	30.6.2018	30.6.2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Operating cash flows before movements in working capital	**262,402**	206,011
Increase in inventories	**(63,037)**	(147,765)
Decrease in trade and other receivables	**322,058**	102,252
Increase in trade and other payables	**319,006**	424,369
Increase in amounts due from related companies	**(246,034)**	(128,154)
Increase in amounts due to related companies	**99,395**	85,116
Cash generated from operations	**693,790**	541,829
Income tax paid	**(49,532)**	(17,420)
NET CASH FROM OPERATING ACTIVITIES	**644,258**	524,409
NET CASH USED IN INVESTING ACTIVITIES:		
Interest received	**1,533**	4,080
Purchase of property, plant and equipment	**(167,695)**	(479,717)
Proceeds on disposal of property, plant and equipment	**829**	–
Development costs paid	**(63,906)**	(121,586)
Withdrawal of pledged/restricted bank deposits	**519,903**	531,283
Placement of pledged/restricted bank deposits	**(887,029)**	(704,174)
Receipt from government grants of assets related	**1,759**	–
Repayment from related parties	**1,077**	364
	(593,529)	(769,750)
NET CASH FROM FINANCING ACTIVITIES:		
Interest paid	**(51,880)**	(25,734)
Repayment of borrowings	**(784,712)**	(518,595)
New bank loans raised	**837,725**	834,000
Advance from a related company	**297**	–
Repayment to a related company	**–**	(1,339)
	1,430	288,332
NET INCREASE IN CASH AND CASH EQUIVALENTS	**52,159**	42,991
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**352,473**	306,014
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash	**404,632**	349,005

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (2010 Revision) of the Cayman Islands on 10 March 2011. Brilliance China Automotive Holdings Limited ("Brilliance China", Brilliance China and its subsidiaries collectively referred to as "Brilliance China Group"), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and Sichuan Province Yibin Wuliangye Group Co., Ltd.*（四川省宜賓五糧液集團有限公司）("Wuliangye", Wuliangye and its subsidiaries collectively referred to as "Wuliangye Group"), a state owned enterprise registered in the PRC, are able to exercise significant influence over the Company. In March 2013, the Company completed the listing of its shares on the Main Board of the Stock Exchange.

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

* *English name for reference only*

2. BASIS OF PREPARATION

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 ("HKICPA") as well as with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

3. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs and an interpretation

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs and an interpretation issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
Hong Kong (International Financial Reporting Interpretation Committee) – Interpretation 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs and an interpretation have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and disclosures as described below.

The adoption of these new and amendments to HKFRSs and an interpretation in the current interim period has had no significant financial effect on the financial position or performance of the Group set out in these condensed consolidated financial statements except for those described below.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

3.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers*

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

Revenue is recognised to depict the transfer of promised services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

3.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers* (Cont'd)

Where a customer does not have the option to purchase a warranty separately, the Group accounts for the warranty in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications (i.e. service-type warranties), which is consistent with its previous treatment.

The Group recognises revenue from the following major sources:

- Revenue from gasoline engines;
- Revenue from diesel engines; and
- Revenue from engine components and service income.

For the sales of gasoline and diesel engines, engine components, revenue was recognised at the point when a customer obtains control of the goods (i.e. being the point the goods are assembled into the vehicles of the customers) which is consistent with its previous treatment.

The Group assessed the impact of applying HKFRS 15 and considered that there is no impact to these condensed consolidated financial statements.

3.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments*

In the current period, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

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

3.2 **Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* (Cont'd)**

3.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

All recognised financial assets that are within the scope of HKFRS 9 (including trade and other receivables, amounts due from related companies, bank deposit and bank balance and cash) are subsequently measured at amortised costs.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

3.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* (Cont'd)

3.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Cont'd)

Classification and measurement of financial assets (Cont'd)

Trade receivables measured at FVTOCI

Subsequent changes in the carrying amounts for trade receivables measured at FVTOCI as a result of interest income calculated using the effective interest method, are recognised in profit or loss. All other changes in the carrying amount of these trade receivables are recognised in OCI and accumulated under the heading of FVTOCI reserve. Impairment allowance is recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these trade receivables. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these trade receivables had been measured at amortised cost. When these trade receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes/excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 3.2.2.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

3.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* (Cont'd)

3.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Cont'd)

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, amounts due from related companies, pledged/restricted bank deposits, bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

The Group always recognises lifetime ECL for receivables in trade receivables, trade receivables measured at FVTOCI and trade-related amounts due from related companies without significant financing component. The ECL on these assets are assessed on a collective basis for portfolios of trade receivables that share similar economic risk characteristics. The ECL on these financial assets are estimated using a provision matrix i.e. analysis of trade-related receivables by aging and apply a probability-weighted estimate of the credit losses within the relevant time band. The probability-weighted estimate of the credit losses is determined based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from financial analysts and governmental bodies, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

3.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* (Cont'd)

3.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Cont'd)

Impairment under ECL model (Cont'd)

Significant increase in credit risk (Cont'd)

Despite the aforegoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default (i.e. no default history), ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when the instrument is more than 90 days past due, unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No additional impairment allowance has been recognised at initial application.

Other than the trade receivables measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade-related receivables where the corresponding adjustment is recognised through a loss allowance account. For financial instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amounts of these financial instrument.

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

3.2 **Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* (Cont'd)**

3.2.2 Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to HKFRS 9 at the date of initial application, 1 January 2018:

	Notes	**Trade and receivables** *RMB'000*	**Amounts due from related companies** *RMB'000*	**Retained profits** *RMB'000*	**Trade receivable measured at FVTOCI** *RMB'000*
Closing balance at 31 December 2017 (measured under HKAS 39)		879,667	1,464,286	–	–
Effect arising from initial application of HKFRS 9:					
Reclassification from:					
Trade and other receivables		(138,034)	–	–	138,034
Remeasurement:					
From amortised cost to fair value	*(a)*	(2,968)	–	(2,968)	–
Impairment under ECL model	*(b)*	–	(14,818)	(14,818)	–
Opening balance at 1 January 2018		738,665	1,449,468	(17,786)	138,034

Notes:

(a) From amortised cost to fair value

As part of the Group's cash flow management, the Group has the practice of discounting some of the discounts trade receivables to financial institutions before the bills are due for payment and derecognises bills discounted on the basis that the Group has transferred substantially all risks and rewards to the relevant counterparties. Accordingly, the Group's bills receivables and the relevant trade receivables from the same customer were considered as within the hold to collect contractual cash flows and to sell business model, and reclassified to trade receivables at FVTOCI. The related fair value losses were adjusted to trade receivables measured at FVTOCI and retained profits as at 1 January 2018.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

3.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* (Cont'd)

3.2.2 Summary of effects arising from initial application of HKFRS 9 (Cont'd)

Notes: (Cont'd)

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables, trade receivables at FVTOCI and trade-related amounts due from related companies. To measure the ECL, these receivables have been group based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise of other receivables, loan to a shareholder, pledged/restricted bank deposits, balances and cash are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of RMB14,818,000 has been recognised against retained profits. The additional loss allowance is charged against the respective asset.

All loss allowances financial assets including trade receivables and trade-related amounts due from related companies as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

	Amounts receivables *RMB'000*	**Trade due from related companies** *RMB'000*
At 31 December 2017 – HKAS39	2,640	–
Amounts remeasured through opening retained profits	–	14,818
At 1 January 2018	2,640	14,818

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. The nature and effect of initially applying HKFRS 15 on the Group's interim financial statements are disclosed in Note 3. Revenue for sales of gasoline engines, diesel engines and engine components is recognized at a point of time. All the contracts with customers are agreed at fixed price and in short-time.

Segment revenue and segment results

The Board reviews operating results and financial information by type of product and/or service. 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 and service income.

4. REVENUE AND SEGMENT INFORMATION (Cont'd)

Segment revenue and segment results (Cont'd)

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

	Segment revenue		Segment results	
	Six months ended		Six months ended	
	30.6.2018	30.6.2017	**30.6.2018**	30.6.2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Gasoline engines	**959,332**	889,756	**114,848**	87,393
Diesel engines	**304,107**	162,638	**32,502**	21,064
Engine components and service income	**296,046**	185,548	**54,488**	50,608
Total segment and consolidated	**1,559,485**	1,237,942	**201,838**	159,065
Unallocated other income			**4,560**	14,510
Unallocated other gains and losses			**9,284**	21,243
Unallocated other expenses				
Distribution and selling expenses			**(18,201)**	(17,728)
Administrative expenses			**(74,397)**	(65,885)
Finance costs			**(42,256)**	(22,860)
Other expenses			**(3,580)**	(2,783)
Share of result of a joint venture			**(276)**	(159)
Profit before tax			**76,972**	85,403

Revenue reported above represents revenue generated from sales of goods or service provision to external customers. There were no inter-segment sales during the six months ended 30 June 2017 and 2018.

Segment results represent the profit earned by each segment before the allocation of distribution and selling expenses, administrative expenses, finance costs, other expenses and share of result of a joint venture. This is the measure reported to the Board for the purpose of resource allocation and performance assessment.

Segment assets and liabilities

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

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	
	30.6.2018	30.6.2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Bank interest income	**1,533**	4,080
Rental income under operating lease, net of outgoing expenses	**3,027**	10,430
	4,560	14,510

6. OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2018	30.6.2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Government grants	**27,625**	4,870
Gain (loss) on disposal of property, plant and equipment	**829**	(151)
Exchange (loss) gains, net	**(24,023)**	15,978
Imputed interest income from loan to a shareholder	**399**	420
Net loss arising on financial liabilities designated as at FVTPL	**1,766**	–
Net gain arising on trade receivables measured at FVTOCI	**2,606**	–
Others	**82**	126
	9,284	21,243

7. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	Six months ended	
	30.6.2018	30.6.2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Employee benefits expenses (including directors):		
– Salaries and other benefits	**90,343**	81,925
– Retirement benefit scheme contributions	**22,487**	15,780
Total staff costs	**112,830**	97,705
Depreciation of property, plant and equipment	**124,406**	68,773
Depreciation of investment properties	**1,207**	3,646
Amortisation of prepaid lease payments	**1,642**	1,070
Amortisation of intangible assets (included in cost of sales)	**22,377**	21,134
Total depreciation and amortisation	**149,632**	94,623

8. INCOME TAX EXPENSE

	Six months ended	
	30.6.2018	30.6.2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
PRC Enterprise Income Tax ("EIT")		
– Current tax	**15,014**	14,441
– Under provision in prior year	**4,338***	–
	19,352	14,441

Mianyang Xinchen was subject to 15% EIT rate for the period ended 30 June 2018 (six months ended 30 June 2017: 15%), which is lower than the standard tax rate of 25%. According to the announcement of "the State Administration of Taxation on issues concerning Enterprise Income Tax Related with enhancing the Western Region Development Strategy"（國家稅務總局關於深入實施西部大開發戰略有關稅收政策問題的通知）, Mianyang Xinchen was registered with the local tax authority to be eligible to the reduced 15% EIT rate from 2011 to 2020. The preferential EIT rate is subject to assessment by the local tax authority on annual basis.

* *Being resulted from disallowing of tax deduction in respect of qualifying research and development expenditures incurred for the prior year.*

9. DIVIDENDS

No dividend has been paid or declared by the Company during both periods ended 30 June 2018 and 2017, nor has any dividend been proposed since the end of the reporting period.

10. 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	
	30.6.2018	30.6.2017
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share *(RMB'000)*	**57,620**	70,962
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 dilutive potential ordinary share outstanding during the periods or as at the end of reporting periods.

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES AND INTANGIBLE ASSETS

During the current interim period, the Group acquired property, plant and equipment, other than construction in progress, amounting to approximately RMB380,000 (six months ended 30 June 2017: approximately RMB2,141,000) for the purpose of upgrading its manufacturing capacity of the Group. The Group has also disposed of certain plant and equipment with an aggregate carrying amount of approximately RMB8,823,000 (six months ended 30 June 2017: approximately RMB151,000) and resulting in a gain on disposal of approximately RMB829,000 (six months ended 30 June 2017: loss approximately RMB151,000).

In addition, during current interim period, the Group had approximately RMB119,620,000 (six months ended 30 June 2017: approximately RMB480,733,000) addition to construction in progress, primarily for scaling up the Group's production facilities and capacity. Included in the total addition is approximately RMB9,624,000 (six months ended 30 June 2017: approximately RMB2,874,000) interests capitalised.

During the current interim period, the properties previously classified as investment properties with carrying amount of RMB156,309,260 at the date of transfer were transferred to the property, plant and equipment upon commencement of the owner-occupation.

During the current interim period, the Group capitalised development costs of technical know-how of new automotive engines amounting to approximately RMB63,906,000 (six months ended 30 June 2017: approximately RMB121,586,000) for the purposes of expanding its products range of gasoline and diesel engines.

12. LOAN TO A SHAREHOLDER

As detailed in Note 27, the Company has two trust arrangements which entitle the beneficiaries to subscribe for shares of the Company (the "Shares") through Lead In for their services to the Group. Under loan agreements dated 18 October 2011, each of the two shareholders of the Company, namely Brilliance Investment Holdings Limited and Xinhua Investment Holdings Limited, 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") 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 27).

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 2018.

At 30 June 2018, the management of the Company expected the balance would not be recovered within one year and the outstanding balance is classified as non-current assets. The balance is measured at imputed interest rate of 3% per annum, and an imputed interest income with an amount of RMB399,000 (the six months ended 30 June 2017: RMB420,000) is recognised in profit or loss for the period.

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

13. INVENTORIES

During the six months ended 30 June 2018, an additional provision of RMB305,000 (the six months ended 30 June 2017: RMB771,000) and a reversal of RMB2,832,000 (the six months ended 30 June 2017: nil) of inventories were made, which is determined with reference to the net realisable value of the inventory items.

14. TRADE AND OTHER RECEIVABLES, BILLS RECEIVABLE MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Trade and other receivables comprise the following:

	30.6.2018	31.12.2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables	284,673	363,735
Less: Allowance for doubtful debts	(3,387)	(2,640)
Trade receivables, net	281,286	361,095
Bills receivable	63,646	331,131
Total trade and bills receivables	344,932	692,226
Prepayments for purchase of raw materials and engine components	40,043	10,965
Other receivables *(Note)*	171,887	176,476
	556,862	879,667
Less: Trade receivables measured at FVTOCI	(32,572)	–
	524,290	879,667

Note: Included in the balance is value added tax recoverable of RMB155,338,000 (at 31 December 2017: RMB167,236,000).

The Group generally allows a credit period of 30 to 60 days from the invoice date for trade receivables and a further 3 to 6 months for bills receivable to its external customers. The following is an aging analysis of trade receivables, net of allowance for doubtful debts, presented based on the invoice date as at the end of the reporting period:

	30.6.2018	31.12.2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 1 month	236,297	260,939
Over 1 month but within 2 months	17,138	64,369
Over 2 months but within 3 months	10,171	21,251
Over 3 months but within 6 months	7,903	9,907
Over 6 months but within 1 year	7,461	3,549
Over 1 year	2,316	1,080
	281,286	361,095

The following is an aging analysis of bills receivable presented based on the bills issue date as at the end of the reporting period:

	30.6.2018	31.12.2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	27,646	153,046
Over 3 months but within 6 months	35,237	167,735
Over 6 months but within 1 year	763	10,350
	63,646	331,131

Starting from 1 January 2018, the Group applied simplified approach to provide the ECL prescribed by HKFRS 9. The impairment methodology is set out in Note 3.

14. TRADE AND OTHER RECEIVABLES, BILLS RECEIVABLE MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Cont'd)

The table below provides information about the exposure to credit risk and ECL model for trade receivables which are assessed based on provision matrix as at 30 June 2018:

	Gross carrying amount	**Weighted average loss rate**	**Loss allowance**
	RMB'000	*%*	*RMB'000*
	(unaudited)		(unaudited)
Not past due	261,622	–	–
Past due:			
Within 1 month	3,943	0.20	8
Over 1 month but within 3 months	8,574	3.99	342
Over 3 months but within 6 months	3,472	23.53	817
Over 6 months but within 1 year	4,603	28.83	1,327
Over 1 year	2,459	36.32	893
	284,673		3,387

Movement in the allowance for doubtful debts:

	30.06.2018
	RMB'000
	(unaudited)
At beginning of year *(Note)*	2,640
Addition	–
Reversal	–
Net remeasurement of loss allowance	747
At end of year	3,387

Note: The Group has initial applied HKFRS 9 on 1 January 2018. Under the transition method chosen, comparative information is not restated.

As at 30 June 2018, all the Group's bills receivable are neither past due nor impaired and no allowance for doubtful debts are provided for the balances as information indicates that the counterparties are highly likely to repay.

15. AMOUNTS DUE FROM RELATED COMPANIES

Analysed as:

	30.6.2018	31.12.2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade related	**1,694,211**	1,462,995
Non-trade related	**214**	1,291
	1,694,425	1,464,286

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

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

	30.6.2018	31.12.2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Huachen Group#		
Shenyang Brilliance Power Train Machinery Co., Ltd.* ("Shenyang Brilliance") 瀋陽華晨動力機械有限公司	**786,563**	726,477
Mianyang Huarui Automotive Company Limited* ("Mianyang Huarui") 綿陽華瑞汽車有限公司	**169,794**	34,015
Mianyang Huaxiang Machinery Manufacturing Co., Ltd* 綿陽華祥機械製造有限公司	**70,775**	106,130
Huachen Automotive Group Holdings Company Limited* ("Huachen Automotive") 華晨汽車集團控股有限公司	**16,923**	22,653
	1,044,055	889,275
Brilliance China Group		
Shenyang XingYuanDong Automobile Component Co., Ltd.* 瀋陽興遠東汽車零部件有限公司	**347,901**	288,637
BMW Brilliance Automotive Ltd.* ("BMW Brilliance Automotive") 華晨寶馬汽車有限公司	**109,945**	179,985
Renault Brilliance JinBei Automobile Co., Ltd.* 華晨雷諾金杯汽車有限公司	**134,776**	98,348
Shenyang ChenFa Automobile Component Co., Ltd.* ("Shenyang ChenFa") 瀋陽晨發汽車零部件有限公司	**52,612**	955
Shenyang Jinbei Vehicle Manufacturing Co., Ltd.* ("Shenyang Jinbei Vehicle") 瀋陽金杯車輛製造有限公司	**4,922**	5,795
	650,156	573,720
	1,694,211	1,462,995

	30.6.2018	31.12.2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade related balances analysed as:		
Trade receivables	**1,653,631**	1,403,932
Bills receivable	**40,580**	58,800
Prepayment	**–**	263
	1,694,211	1,462,995

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

Amounts due from related companies are unsecured, interest free and with a credit period of 3 months from the invoice date and a further 3 to 6 months for bills receivable. The following is an aging analysis of trade receivables presented based on the invoice date as at the end of the reporting period:

	30.6.2018	31.12.2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**755,249**	593,329
Over 3 months but within 6 months	**400,588**	263,144
Over 6 months but within 1 year	**435,689**	423,799
Over 1 year	**62,105**	123,660
	1,653,631	1,403,932

The following is an aging analysis of bills receivable presented based on the bills issue date as at the end of the reporting period:

	30.6.2018	31.12.2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**32,950**	32,900
Over 3 months but within 6 months	**6,730**	24,100
Over 6 months but within 1 year	**900**	1,800
	40,580	58,800

	30.6.2018	31.12.2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Non-trade related:		
Huachen Group, Brilliance China Group and Wuliangye Group	**214**	1,291

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

* *English name for reference only*

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

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

Starting from 1 January 2018, the Group applied simplified approach to provide the ECL prescribed by HKFRS 9. The impairment methodology is set out in Note 3.

The table below provides information about the exposure to credit risk and ECL for amounts due from related parties which are assessed based on provision matrix as at 30 June 2018:

	Gross carrying amount *RMB'000* (unaudited)	**Weighted average loss rate** *(%)*	**Loss allowance** *RMB'000* (unaudited)
Not past due and not impaired	788,199	–	–
Past due:			
Over 3 months but within 6 months	407,318	0.1	407
Over 6 months but within 1 year	436,589	1.0	4,366
Over 1 year	62,105	15.5	9,622
	1,694,211		14,395

Movement in the allowance for doubtful debts:

	30.06.2018 *RMB'000* (unaudited)
At beginning of year *(Note)*	14,818
Net remeasurement of loss allowance	(423)
At end of year	14,395

Note: The Group has initial applied HKFRS 9 on 1 January 2018. Under the transition method chosen, comparative information is not restated.

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

Balances denominated in foreign currencies:

	30.6.2018 ***RMB'000*** **(unaudited)**	31.12.2017 *RMB'000* (audited)
Hong Kong Dollars ("HK$")	**40,586**	48,913
United States Dollars ("US$")	**65,665**	13,720
Euros	**10,268**	300

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

17. TRADE AND OTHER PAYABLES

Trade and other payables comprise the following:

	30.6.2018	31.12.2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade payables	**984,290**	798,899
Bills payable	**667,865**	420,538
Total trade and bills payables	**1,652,155**	1,219,437
Accrued purchase of raw materials	**288,533**	378,399
Construction payables	**39,038**	82,617
Payroll and welfare payables	**52,264**	59,979
Advances from customers *(Note i)*	**6,324**	5,767
Provision for warranty *(Note ii)*	**4,006**	4,006
Retention money	**16,510**	15,804
Other tax payables	**791**	9,619
Accrued operating expenses	**16,738**	22,406
Other payables	**19,710**	14,558
	2,096,069	1,812,592

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:

	30.6.2018	31.12.2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**790,415**	569,447
Over 3 months but within 6 months	**115,807**	130,586
Over 6 months but within 1 year	**48,680**	82,094
Over 1 year but within 2 years	**29,388**	16,772
	984,290	798,899

Notes:

i. As at 30 June 2018, the balance represents the contract liabilities, i.e. the Group's obligation to transfer goods or services to customers for which the Group has received consideration from the customers upon the effective of HKFRS 15.

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

	30.6.2018	31.12.2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**236,865**	248,026
Over 3 months but within 6 months	**431,000**	172,512
	667,865	420,538

18. AMOUNTS DUE TO RELATED COMPANIES

	30.6.2018 *RMB'000* (unaudited)	31.12.2017 *RMB'000* (audited)
Trade related:		
Huachen Group		
Huachen Automotive	**666**	873
Shenyang Brilliance	**27,799**	27,536
Mianyang Huarui	**2**	2
	28,467	28,411
Brilliance China Group		
BMW Brilliance Automotive	**93,680**	136,296
Mianyang Brilliance Ruian Automotive Components Co., Ltd.* 綿陽華晨瑞安汽車零部件有限公司	**39,730**	43,774
Shenyang ChenFa	**3,243**	3,122
Shenyang Jinbei Vehicle Dies Manufacturing Co., Ltd.* 瀋陽金杯汽車模具製造有限公司	**77**	81
	136,730	183,273
Trade related:		
Wuliangye Group		
Sichuan Yi Bin Pushi Automotive Components Co., Ltd* 四川省宜賓普什汽車零部件有限公司	**13,286**	16,691
Mianyang Jianmen Real Estate Development and Construction Limited Liability Company* 綿陽劍門房地產開發建設有限責任公司	**2,884**	2,384
Mianyang Xinhua Internal Combustion Engine Joint-Stock Company Limited* ("Xinhua Combustion Engine") 綿陽新華內燃機股份有限公司	**265,456**	116,766
Mianyang Xinhua Trading Co., Ltd.* 綿陽新華商貿有限公司	**6**	6
Sichuan Yi Bin Wuliangye Group An Ji Logistics Co., Ltd* 四川省宜賓五糧液集團安吉物流公司	**97**	–
	281,729	135,847
	446,926	347,531
Non-trade related:		
Huachen Group		
Huachen Automotive	**462**	341
Brilliance China Group		
Brilliance China	**1,072**	860
Wuliangye Group		
Xinhua Combustion Engine	**29**	65
	1,563	1,266
	448,489	348,797

* *English names for reference only*

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

	30.6.2018	31.12.2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade related balances analysed as:		
Trade payables	**187,896**	270,616
Bills payable	**229,754**	76,915
Accrual	**29,276**	–
	446,926	347,531

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

	30.6.2018	31.12.2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**49,814**	219,866
Over 3 months but within 6 months	**11,028**	28,661
Over 6 months but within 1 year	**117,483**	8,851
Over 1 year	**9,571**	13,238
	187,896	270,616

The bills payable are guaranteed by banks in the PRC and have original maturities of 3 to 6 months. The following is an aging analysis of bills payable are presented based on the bills issue date as at the end of the reporting period:

	30.6.2018	31.12.2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**94,657**	71,975
Over 3 months but within 6 months	**135,097**	4,940
	229,754	76,915

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

19. BORROWINGS

During the current interim period, the Group obtained new bank borrowings amounting to RMB837,725,000 (six months ended 30 June 2017: RMB834,000,000) carrying interest ranging from 2.50% to 5.66% (six months ended 30 June 2017: 2.60% to 5.88%) per annum and are repayable by instalment throughout to April 2021. The proceeds of the rest borrowings were used to finance the acquisition and construction of new plant facilities and used for working capital and other general purposes.

20. FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30.6.2018	31.12.2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Foreign currency forward contracts	**13,504**	15,270

Major terms of the foreign currency forward contracts are as follows:

Notional amount	**Maturity**	**Exchange rates**
US$28,500,000	Settlement on specific dates from 21 August 2018 to 23 September 2019	From RMB7.0726:US$1 to RMB7.1952:US$1

At the end of the reporting period, the fair value of financial instruments has been arrived by reference to the quoted price provided by the contractual bank.

21. SHARE CAPITAL

	Number of shares	**Amount**
		HK$
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2017, 30 June 2017 and 30 June 2018	**8,000,000,000**	80,000,000
Issued and fully paid:		
At 31 December 2017 and 30 June 2018	**1,282,211,794**	12,822,118

	30.6.2018	31.12.2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Share capital presented in the condensed consolidated statement of financial position	**10,457**	10,457

22. FINANCIAL ASSETS AND FINANCIAL LIABILITES

Set out below is an overview of financial assets, other than cash and pledged/restricted bank deposits, held by the Group as at 30 June 2018 and 31 December 2017:

	30.6.2018	31.12.2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Financial assets at amortised cost:		
Trade and other receivables*	**350,763**	696,252
Amount due from related parties	**1,694,425**	1,464,286
Loan to a shareholder	**27,225**	27,396
	2,072,413	2,187,934
Trade receivable measured at fair value through other comprehensive income	**32,572**	–
	2,104,985	2,187,934

Set out below is an overview of financial liabilities held by the Group as at 30 June 2018 and 31 December 2017:

	30.6.2018	31.12.2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Financial liabilities at amortised cost:		
Trade and other payables**	**2,032,684**	1,733,221
Borrowings	**1,872,456**	1,819,443
Amount due to related parties	**448,489**	348,797
	4,353,629	3,901,461

* *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.*

23. OPERATING LEASE COMMITMENTS

The Group as lessee

The minimum lease payment under operating lease in respect of office premises and production facilities amounted to RMB3,669,000 for the period ended 30 June 2018 (six months ended 30 June 2017: RMB4,252,000).

At the end of the reporting period, the Group had commitments for future lease payments under a non-cancellable operating lease which fall due as follows:

	30.6.2018	31.12.2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within one year	**3,423**	7,795

Operating lease payments represent rental payable by the Group for certain office premises and production facilities. Leases are negotiated for original terms of 1 to 2 years with fixed rental.

The Group as lessor

Property rental income earned was RMB3,540,000 for the period ended 30 June 2018 (six months ended 30 June 2017: RMB14,118,000).

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

	30.6.2018	31.12.2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within one year	**–**	4,687

Operating lease income represents rental receivables by the Group for the investment properties with BMW Brilliance Automotive in Shenyang, the PRC.

During current interim period, the Group commenced owner-occupation of the properties previously leased out to BMW Brilliance Automotive.

24. CAPITAL COMMITMENTS

	30.6.2018 *RMB'000* (unaudited)	31.12.2017 *RMB'000* (audited)
Capital expenditure in respect of acquisition of property, plant and equipment, prepaid lease payments and intangible assets:		
– contracted for but not provided in the condensed consolidated financial statements	**150,574**	186,299
Capital expenditure in respect of investment in a joint venture		
– contracted for but not provided in the condensed consolidated financial statements	**75,000**	75,000

25. 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:

	30.6.2018 *RMB'000* (unaudited)	31.12.2017 *RMB'000* (audited)
Settlement of trade and other payables	**659,551**	665,732
Discounted bills for raising of cash	**502,803**	315,132
Outstanding endorsed and discounted bills receivable with recourse	**1,162,354**	980,864

Maturity analysis of the outstanding endorsed and discounted bills receivable:

	30.6.2018 *RMB'000* (unaudited)	31.12.2017 *RMB'000* (audited)
Within 3 months	**523,243**	482,257
Over 3 months but within 6 months	**639,111**	498,607
	1,162,354	980,864

26. 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	
	30.6.2018	30.6.2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Sale of goods		
Brilliance China Group	**477,676**	308,803
Huachen Group	**411,311**	505,923
	888,987	814,726
Purchase of goods		
Brilliance China Group	**95,726**	111,997
Wuliangye Group	**93,922**	58,631
Huachen Group	**48**	1
	189,696	170,629
Purchase of production lines and inventories		
Brilliance China Group	**15,239**	352,415
Rental charged and auxiliary services		
Huachen Group	**2,326**	2,800
Brilliance China Group	**1,343**	1,452
	3,669	4,252
Rental income		
Brilliance China Group	**3,540**	14,118
Maintenance and construction cost charged		
Wuliangye Group	**–**	1,919
Brilliance China Group	**–**	4,157
	–	6,076

26. RELATED PARTY DISCLOSURES (Cont'd)

	Six months ended	
	30.6.2018	30.6.2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Logistics services received		
Wuliangye Group	**77**	698
Cleaning and greening services received		
Wuliangye Group	**–**	192
Consulting services received		
Brilliance China Group	**–**	19,055
Wuliangye Group	**–**	10,736
	–	29,791
Water and electricity costs charged		
Brilliance China Group	**–**	3,893
Wuliangye Group	**591**	258
	591	4,151

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.

27. SHARE BASED PAYMENT TRANSACTION

Share Incentive Scheme

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

All Shares under the Fixed Trust were awarded to the Beneficiaries. No Share had been awarded under the Discretionary Trust for the six months ended 30 June 2018. As at 30 June 2018, Lead In held 33,993,385 Shares under the Discretionary Trust.

During the six months ended 30 June 2018 and 2017, no Shares have been exercised, lapsed or forfeited under the Fixed Trust and the Discretionary Trust.

MANAGEMENT'S DISCUSSION & ANALYSIS

Business review

In the first half of 2018, the Group achieved total unaudited revenue of approximately RMB1,559.49 million, representing an increase of approximately 26.0% compared to approximately RMB1,237.94 million for the corresponding period of last year. The increase in revenue was mainly due to the new sales of prince engines and the increase in the sales of diesel engines and Bx8 crankshafts. The increase in the sales of engines was driven by the launch of new automobile models by the Group's customers. The increase in the sales of crankshafts was mainly due to the increase in the demand by BMW Brilliance Automotive for the Group's Bx8 crankshafts and also the full half-year contribution impact upon the acquisition of the third crankshaft production line in June 2017.

Sales volume of engines decreased by approximately 0.4%, from approximately 119,000 units in the first half of 2017 to approximately 118,500 units in the first half of 2018, mainly due to the decrease in sales of small gasoline engines despite that there was an increase in the sales volume of the Group's prince engines and traditional diesel engines which are of higher selling price per unit. The decrease in sales volume of small gasoline engines was due to the cancellation of the purchase tax reduction scheme, following which the purchase tax rate was restored to 10% since 2018.

With respect to the engines business segment, the Group recorded approximately 20.1% increase in segment revenue, from approximately RMB1,052.39 million in the first half of 2017 to approximately RMB1,263.44 million in the first half of 2018.

With respect to the engine components and service income segment, the Group recorded approximately 59.6% increase in segment revenue, from approximately RMB185.55 million in the first half of 2017 to approximately RMB296.05 million in the first half of 2018. The increase was mainly due to an increase in the sales of crankshafts in the first half of 2018. The Group sold approximately 226,300 units of crankshaft in the first half of 2018, representing approximately 96.8% increase compared to approximately 115,000 units for the corresponding period of 2017. The increase was mainly due to the increase in the demand for Bx8 crankshafts as requested by BMW Brilliance Automotive and also the full half-year contribution impact upon the acquisition of the third crankshaft production line.

The Group sold approximately 273,200 units of connecting rods in the first half of 2018, representing an approximate 26.6% decrease compared to approximately 372,370 units for the corresponding period of 2017. The overall net decrease in the sales of connecting rods was mainly due to the discontinuation of production of N20 connecting rods after the first half of 2017, despite the fact that there was an increase in production of Bx8 connecting rods during the reporting period. The industrialization of connecting rods for prince engines was just started in June 2018, and this accounted for a small sales volume during the reporting period.

The unaudited cost of sales amounted to approximately RMB1,357.65 million for the first half of 2018, representing an increase of approximately 25.8% compared to approximately RMB1,078.88 million for the corresponding period of 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 maintained at approximately the same level as the corresponding period of 2017. It was approximately 12.9% for the first half of 2018 whilst it was approximately 12.8% for the first half of 2017.

The unaudited other income decreased from approximately RMB14.51 million for the first half of 2017 to approximately RMB4.56 million for the first half of 2018, representing a decrease of approximately 68.6%. The decrease was mainly due to the cessation of rental income under operating lease during the reporting period.

The unaudited other gains and losses decreased from approximately RMB21.24 million for the first half of 2017 to approximately RMB9.28 million for the first half of 2018, representing a decrease of approximately 56.3%. The decrease was mainly due to currency exchange loss.

The unaudited distribution and selling expenses increased by approximately 2.7%, from approximately RMB17.73 million for the first half of 2017 to approximately RMB18.20 million for the first half of 2018, representing approximately 1.4% and approximately 1.2% of the revenue for the first halves of 2017 and 2018 respectively. The increase in terms of value was mainly due to an increase in transportation and sales staff costs. The percentage of distribution and selling expenses to revenue remained stable between the periods under review.

The unaudited administrative expenses increased by approximately 12.9%, from approximately RMB65.89 million for the first half of 2017 to approximately RMB74.40 million for the first half of 2018, representing approximately 5.3% and approximately 4.8% of the revenue for the first halves of 2017 and 2018 respectively. The increase in value was mainly due to the general increase in other staff costs, depreciation and office expenses. The decrease in terms of percentage was mainly due to a larger extent of increase in unaudited revenue.

The unaudited finance costs increased by approximately 84.8%, from approximately RMB22.86 million for the first half of 2017 to approximately RMB42.26 million for the first half of 2018. The increase was mainly due to an increase in short term financing by discounting bills during the course of business.

The Group's unaudited profit before tax decreased by approximately 9.9%, from approximately RMB85.40 million for the first half of 2017 to approximately RMB76.97 million for the first half of 2018.

The unaudited income tax expenses increased by approximately 34.0%, from approximately RMB14.44 million for the first half of 2017 to approximately RMB19.35 million for the first half of 2018. The increase was mainly due to the provision of tax expenses in respect of prior periods.

In the first half of 2018, the Group achieved unaudited profit attributable to the owners of the Company of approximately RMB57.62 million, representing a decrease of approximately 18.8% compared to approximately RMB70.96 million for the corresponding period of 2017.

Liquidity and financial resources

As at 30 June 2018, the Group had approximately RMB404.63 million in bank balances and cash (31 December 2017: approximately RMB352.47 million), and approximately RMB649.99 million in pledged/restricted bank deposits (31 December 2017: approximately RMB282.87 million).

As at 30 June 2018, the Group had trade and other payables of approximately RMB2,096.07 million (31 December 2017: approximately RMB1,812.59 million), bank borrowings due within one year in the amount of approximately RMB443.34 million (31 December 2017: approximately RMB789.58 million), and bank borrowings due after one year in the amount of approximately RMB1,429.11 million (31 December 2017: approximately RMB1,029.87 million).

Pledge of assets

As at 30 June 2018, the Group pledged certain of its land use rights, buildings, plant and machinery with a total value of approximately RMB110.91 million (31 December 2017: approximately RMB118.67 million) to certain banks to secure certain credit facilities granted to the Group.

As at 30 June 2018, the Group also pledged bank deposits of approximately RMB334.84 million (31 December 2017: approximately RMB207.58 million) to certain banks to secure certain credit facilities granted to the Group.

Gearing ratio

As at 30 June 2018, the Debt-to-Equity ratio of the Group, computed by dividing total liabilities by total equity attributable to the owners of the Company, was approximately 1.48 (31 December 2017: approximately 1.36).

As at 30 June 2018, the gearing ratio, computed by dividing bank borrowings by total equity attributable to owners of the Company, was approximately 62% (31 December 2017: approximately 61%). Both Debt-to-Equity ratio and gearing ratio increased, which were mainly due to an increase in total bank borrowings for financing the acquisition of property, plant and equipment.

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 the 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 2018, the Group had capital commitments of approximately RMB1,058.95 million (31 December 2017: approximately RMB997.08 million), of which contracted capital commitments amounted to approximately RMB225.57 million (31 December 2017: approximately RMB261.30 million), which is primarily related to the capital expenditure in respect of acquisition of property, plant and equipment, and new engine development.

Foreign exchange risks

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

Employees and remuneration policy

As at 30 June 2018, the Group had approximately 2,042 employees (30 June 2017: approximately 2,033). Employee costs amounted to approximately RMB112.83 million for the six months ended 30 June 2018 (six months ended 30 June 2017: approximately RMB97.71 million). The Group will endeavor to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' remuneration is based on their performance.

Outlook

In the first half of 2018, the sales of the passenger vehicle segment of the automotive sector in the PRC maintained positive growth. According to the China Association of Automobile Manufacturers, the sales of passenger vehicle segment recorded a growth of 4.6% on a year-on-year basis whilst the sales of commercial vehicle segment recorded a growth of 10.6%. Passenger vehicles account for about 83.7% of the sales of the automotive sector. The growth of the passenger vehicle segment was mainly driven by a continuous increase in demand for SUVs and sedan cars.

During the reporting period, the Group recorded a growth in the sales of its XCE branded engines and also a significant growth in the sales of crankshafts due to the increased demand from customers.

Regarding the prince engine business, since the start of production in late 2017, the Group had been performing various trial production and coordinating with different automobile manufacturers in order to achieve the best production time with them after handing over the engines. This would help lower the risk of over-stocking the components that the Group needs to purchase and reduce the cashflow requirement. The Group expects that more contribution from the sales of prince engines will gradually be in place after the first half of 2018. Prince engine, which is considered to be a more competitive engine in the PRC regarding, among others, its size, technology and fuel consumption, will be the main driver of the growth of the Group's engine business in the coming years. The Group started the industrialization of prince engines with 1.6L and the industrialization of 1.8L is expected to commence in the first half of 2019.

Other than the 1.6L and 1.8L displacement volumes, the Group will also launch 1.2L displacement engine with its own technology. The Group has a designated team to work on the research and development of a three-cylinder 1.2L displacement engine in response to the more stringent requirement for fuel consumption and emission standard. The three-cylinder engine could be paired up with electric motors to cope with the increasing demand for hybrid electric vehicles.

Regarding the engine components business, the crankshaft production line for Bx8 engines showed a significant growth in sales in the first half of 2018 when compared to the corresponding period of 2017. As set out in Brilliance China's annual report for 2017, Brilliance China achieved sales of 386,549 BMW vehicles in 2017 and it is expected that the demand for finished crankshaft for Bx8 engines will increase as new models of BMW vehicles will be put up for sales in the coming few years. Apart from this, the Group has been exporting approximately 15,000 locally-produced crankshafts to BMW AG in Germany since 2018. The Group also upgraded one connecting rod production line from N20 to prince engine compatible and started its mass production in June 2018, and this will also strengthen the Group's core competence in component production in the future.

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

SHARE INCENTIVE SCHEME ESTABLISHED BY LEAD IN

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

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

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

All Shares under the Fixed Trust were awarded to the Beneficiaries. No Share had been awarded under the Discretionary Trust for the six months ended 30 June 2018. As at 30 June 2018, Lead In held 33,993,385 Shares under the Discretionary Trust.

SHARE OPTION SCHEME

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

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

No share options had been granted by the Company under the Share Option Scheme since its inception and for the six months ended 30 June 2018 and no expenses were recognised by the Group for the period under review (six months ended 30 June 2017: nil).

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

As at 30 June 2018, so far as known to the directors or chief executives 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 Holdings Limited	Beneficial owner	400,000,000	(L)	31.20%
Brilliance China[1]	Interest in a controlled corporation	400,000,000	(L)	31.20%
Huachen Automotive[2]	Interest in a controlled corporation	400,000,000	(L)	31.20%
Xinhua Investment Holdings Limited	Beneficial owner	400,000,000	(L)	31.20%
Xinhua Combustion Engine[3]	Interest in a controlled corporation	400,000,000	(L)	31.20%
Sichuan Yibin Pushi Group Co., Ltd.[4]	Interest in a controlled corporation	400,000,000	(L)	31.20%
Wuliangye[5]	Interest in a controlled corporation	400,000,000	(L)	31.20%
JPMorgan Chase & Co.	Beneficial owner	88,806,600	(L)	6.93%
		185,000	(S)	0.01%
	Custodian corporation/ approved lending agent	88,436,600	(P)	6.90%
Templeton Asset Management Ltd.	Investment Manager	89,704,800	(L)	7.00%

Notes:

(1) Brilliance Investment Holdings Limited ("**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 owned as to approximately 42.32% 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 Holdings Limited ("**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 2018.

(L) – Long Position, (S) – Short Position, (P) – Lending Pool

Save as disclosed herein, as at 30 June 2018, there was no other person so far as known to the directors or chief executives of the Company (other than a director or chief executive 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 2018, the interests and short positions of each director and chief executive of the Company and their respective associates in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange, are set out below:

Interest in the shares of the Company

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

Notes:

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

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

(3) These percentages are calculated on the basis of 1,282,211,794 Shares in issue as at 30 June 2018.

Save as disclosed above, as at 30 June 2018, none of the directors and chief executives of the Company or their respective associates 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 2018.

DISCLOSURE UNDER RULE 13.21 OF THE LISTING RULES

On 26 September 2016, Mianyang Xinchen (as borrower) and the Company (as guarantor) entered into a banking facility agreement with a financial institution (as lender) for a term loan facility of up to US$28,500,000 (the "**Facility Letter 2016**"). Under the Facility Letter 2016, it shall be an event of default, amongst others, if: (1) Brilliance China holds less than 25% (directly or indirectly) of the issued share capital of the Company; or (2) Wuliangye holds less than 25% (directly or indirectly) of the issued share capital of the Company. Details of the Facility Letter 2016 were set out in the announcement of the Company dated 26 September 2016.

On 19 October 2017, Mianyang Xinchen (as borrower) and the Company (as guarantor) entered into two banking facility agreements (the "**Facility Letters 2017**") with a financial institution (as lender) (i) a term loan facility of US$36,000,000; and (ii) a term loan facility of US$12,000,000, respectively. Under the Facility Letters 2017, it shall be an event of default, amongst others, if: (1) Brilliance China holds less than 25% (directly or indirectly) of the issued share capital of the Company; or (2) Wuliangye holds less than 25% (directly or indirectly) of the issued share capital of the Company. Details of the Facility Letters 2017 were set out in the announcement of the Company dated 19 October 2017.

On 14 February 2018, Mianyang Xinchen (as borrower) and the Company (as guarantor) entered into (i) a banking facility agreement (the "**Facility Letter A**") with a financial institution as lender ("**Lender A**") for a standby loan facility of up to RMB96,000,000, subject to annual review by Lender A; and (ii) a banking facility agreement (the "**Facility Letter B**", together with Facility Letter A, the "**Facility Letters 2018**") with a financial institution as lender for a term loan facility of US$60,000,000, with the final maturity date being three years from the date of drawdown. Under the Facility Letters 2018, it shall be an event of default, amongst others, if: (1) Brilliance China holds less than 25% (directly or indirectly) of the issued share capital of the Company; or (2) Wuliangye holds less than 25% (directly or indirectly) of the issued share capital of the Company. Details of the Facility Letters 2018 were set out in the announcement of the Company dated 14 February 2018.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to achieving and maintaining the highest standards of corporate governance, consistent with the needs and requirements of the business and its shareholders. The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules. The Company has complied with all code provisions of the CG Code throughout the six months ended 30 June 2018.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry of all directors of the Company, all directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2018.

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 auditing, internal control and financial reporting matters, including the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2018.

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

BOARD OF DIRECTORS

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

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

Hong Kong, 23 August 2018