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)**

## ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The board of directors (the "**Board**") of Xinchen China Power Holdings Limited (the "**Company**") announces the audited consolidated financial results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2019 as follows:

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*FOR THE YEAR ENDED 31 DECEMBER 2019*

| | *NOTES* | **2019** *RMB'000* | 2018 *RMB'000* |
|---|---|---|---|
| Revenue | *3* | **2,076,173** | 3,050,522 |
| Cost of sales | | **(1,847,389)** | (2,716,248) |
| Gross profit | | **228,784** | 334,274 |
| Other income | *4* | **59,583** | 53,223 |
| Impairment losses | | **(6,114)** | (17,530) |
| Other gains and losses | *5* | **(19,895)** | (80,636) |
| Selling and distribution expenses | | **(31,006)** | (46,969) |
| Administrative expenses | | **(129,054)** | (139,093) |
| Finance costs | *6* | **(81,374)** | (73,972) |
| Other expenses | | **(13,463)** | (18,247) |
| Share of result of a joint venture | | **–** | (276) |
| Profit before tax | | **7,461** | 10,774 |
| Income tax expense | *7* | **(613)** | (50) |
| Profit for the year | *8* | **6,848** | 10,724 |

| | NOTES | **2019** *RMB'000* | 2018 *RMB'000* |
|---|---|---|---|
| **Other comprehensive income:** | | | |
| ***Item that may be reclassified subsequently to profit or loss:*** | | | |
| Fair value (loss)/gain on: | | | |
| Receivables measured at fair value through other comprehensive income ("FVTOCI") | | **(631)** | 362 |
| Total comprehensive income for the year | | **6,217** | 11,086 |
| Earnings per share – Basic *(RMB)* | *10* | **0.005** | 0.008 |

The Group has initially applied Hong Kong Financial Reporting Standard ("HKFRS") 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
*AT 31 DECEMBER 2019*

| | *NOTES* | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **2,543,565** | 2,581,151 |
| Prepaid lease payments | | **130,164** | 130,408 |
| Intangible assets | | **669,384** | 623,455 |
| Deferred tax assets | | **18,182** | 19,198 |
| Loan to a shareholder | | **14,314** | 13,097 |
| | | **3,375,609** | 3,367,309 |
| **CURRENT ASSETS** | | | |
| Inventories | | **658,422** | 839,508 |
| Prepaid lease payments | | **–** | 3,378 |
| Trade and other receivables | *11* | **437,624** | 562,687 |
| Receivables measured at FVTOCI | | **34,348** | 217,396 |
| Amounts due from related companies | *12* | **1,145,866** | 1,285,192 |
| Tax recoverable | | **9,555** | 31,479 |
| Pledged/restricted bank deposits | | **266,068** | 595,782 |
| Bank balances and cash | | **98,188** | 223,950 |
| | | **2,650,071** | 3,759,372 |
| Assets classified as held for sale | | **–** | 49,193 |
| | | **2,650,071** | 3,808,565 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | *13* | **1,176,139** | 1,938,128 |
| Amounts due to related companies | | **215,304** | 241,374 |
| Lease liabilities | *14* | **8,407** | – |
| Financial liabilities at fair value through profit or loss ("FVTPL") | | **–** | 5,616 |
| Borrowings due within one year | *15* | **1,008,088** | 682,828 |
| | | **2,407,938** | 2,867,946 |

| | NOTES | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **NET CURRENT ASSETS** | | **242,133** | 940,619 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **3,617,742** | 4,307,928 |
| **NON-CURRENT LIABILITIES** | | | |
| Borrowings due after one year | *15* | **577,723** | 1,267,808 |
| Lease liabilities | *14* | **5,231** | – |
| Deferred income | | **42,868** | 54,417 |
| | | **625,822** | 1,322,225 |
| **NET ASSETS** | | **2,991,920** | 2,985,703 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | *16* | **10,457** | 10,457 |
| Reserves | | **2,981,463** | 2,975,246 |
| **TOTAL EQUITY** | | **2,991,920** | 2,985,703 |

The Group has initially applied HKFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies 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 People's Republic of China (the "PRC"), are able to exercise significant influence over the Company. In March 2013, the Company completed the listing of its shares on the Main Board of the Stock Exchange.

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

## 2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

**New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2019**

In the current year, the Group has applied for the first time the following new and amended HKFRSs issued by the Hong Kong Institute of Certified Public Accountants, which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2019:

| | |
|---|---|
| HKFRS 16 | Leases |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to Hong Kong Accounting Standard ("HKAS") 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015-2017 Cycle |
| Hong Kong (International Financial Reporting Interpretation Committee) – Interpretation 23 | Uncertainty over Income Tax Treatments |

Other than the application of HKFRS 16 *Leases*, the adoption of the new and amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

## 3. 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.

### 3.1 Segment revenue and segment results

The Board reviews operating results and financial information on a product by product basis. Each individual engine product constitutes an operating segment. For certain operating segments that exhibit similar long-term financial performance as they have similar economic characteristics, are produced by using similar production processes and are distributed and sold to similar classes of customers, their segment information is aggregated into a single reportable operating segment. The Group has three reportable operating segments as follows:

(1) Gasoline engines;

(2) Diesel engines; and

(3) Engine components.

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

**For the year ended 31 December 2019**

| | **Gasoline engines** *RMB'000* | **Diesel engines** *RMB'000* | **Engine components** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|---|
| Revenue from external customers, segment revenue *(Note)* | **1,040,724** | **396,439** | **639,010** | **2,076,173** |
| Segment results | **73,933** | **21,406** | **133,445** | **228,784** |
| Other income | | | | **59,583** |
| Impairment losses | | | | **(6,114)** |
| Other gains and losses | | | | **(19,895)** |
| Selling and distribution expenses | | | | **(31,006)** |
| Administrative expenses | | | | **(129,054)** |
| Finance costs | | | | **(81,374)** |
| Other expenses | | | | **(13,463)** |
| Profit before tax | | | | **7,461** |

**For the year ended 31 December 2018**

| | **Gasoline engines** *RMB'000* | **Diesel engines** *RMB'000* | **Engine components** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|---|
| Revenue from external customers, segment revenue *(Note)* | 1,852,848 | 557,857 | 639,817 | 3,050,522 |
| Segment results | 176,029 | 31,724 | 126,521 | 334,274 |
| Other income | | | | 53,223 |
| Impairment losses | | | | (17,530) |
| Other gains and losses | | | | (80,636) |
| Selling and distribution expenses | | | | (46,969) |
| Administrative expenses | | | | (139,093) |
| Finance costs | | | | (73,972) |
| Other expenses | | | | (18,247) |
| Share of result of a joint venture | | | | (276) |
| Profit before tax | | | | 10,774 |

*Note:* There is no inter-segment sales during the years of 2019 and 2018.

Other segment information included in the measurement of segment results:

| | Gasoline engines *RMB'000* | Diesel engines *RMB'000* | Engine components *RMB'000* | Unallocated *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| **For the year ended 31 December 2019** | | | | | |
| Depreciation and amortisation | **121,859** | **46,418** | **74,822** | **41,557** | **284,656** |
| Provision of inventories | **533** | **–** | **–** | **–** | **533** |
| **For the year ended 31 December 2018** | | | | | |
| Depreciation and amortisation | 179,395 | 30,770 | 87,705 | 38,867 | 336,737 |
| Provision of inventories | (1,505) | 441 | – | – | (1,064) |

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

**3.2 Performance obligations for contracts with customers**

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

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

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

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

### 3.3 Segment assets and liabilities

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

### 3.4 Geographical information

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

### 3.5 Information about major customers

Revenue from major customers which individually accounts for 10% or more of the Group's total revenue are sales of gasoline engines, diesel engines, engine components to the related parties as disclosed in Note 17.

## 4. OTHER INCOME

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Rental income under operating leases | **257** | 3,090 |
| Bank interest income | **8,173** | 8,320 |
| Compensation income *(Note)* | **32,476** | – |
| Government grants | **12,753** | 35,227 |
| Interest income arising on receivables measured at FVTOCI | **4,063** | 2,854 |
| Imputed interest income from loan to a shareholder | **890** | 830 |
| Waiver of long-outstanding trade payables | **971** | 2,902 |
| | **59,583** | 53,223 |

*Note:* Default compensation receivable from a customer.

## 5. OTHER GAINS AND LOSSES

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Net gain arising on financial assets at FVTPL, realised | **6,238** | – |
| Net gain arising on financial liabilities at FVTPL, realised | **5,616** | – |
| Net gain arising on financial liabilities at FVTPL, unrealised | **–** | 9,654 |
| Foreign exchange losses, net | **(20,208)** | (51,842) |
| Gain on disposal of assets classified as held for sale | **652** | – |
| Gain on disposal of miscellaneous materials | **1,841** | 1,859 |
| Net loss arising on receivables measured at FVTOCI | **(14,477)** | (40,514) |
| Loss on disposal of property, plant and equipment | **(184)** | (6) |
| Others | **627** | 213 |
| | **(19,895)** | (80,636) |

## 6. FINANCE COSTS

| | 2019 | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest on borrowings: | | |
| Finance charges on lease liabilities | **950** | – |
| Bank borrowings | **95,459** | 91,141 |
| | **96,409** | 91,141 |
| *Less*: amounts capitalised | **(15,035)** | (17,169) |
| | **81,374** | 73,972 |

Borrowing costs capitalised during the year arose from the specific borrowing pool (2018: general borrowing pool) and were calculated by applying a capitalisation rate of 5.88% (2018: 4.19%) per annum to expenditure on qualifying assets.

## 7. INCOME TAX EXPENSE

| | 2019 | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| PRC Enterprise Income Tax ("EIT") | **(403)** | 6,751 |
| Deferred tax | **1,016** | (6,701) |
| | **613** | 50 |

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

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

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

## 8. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging/(crediting):

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Directors' remuneration | **7,113** | 6,834 |
| Other staff costs | **111,489** | 164,830 |
| Contributions to retirement benefits scheme other than directors | **35,142** | 38,613 |
| Total staff costs | **153,744** | 210,277 |
| Depreciation of property, plant and equipment | **239,477** | 256,051 |
| Depreciation of right-of-use assets | **8,353** | – |
| Depreciation of investment properties | **–** | 1,215 |
| Amortisation of prepaid lease payments | **3,622** | 3,425 |
| Amortisation of intangible assets (included in cost of sales) | **33,204** | 76,046 |
| Total depreciation and amortisation | **284,656** | 336,737 |
| Lease charges – land and buildings held under operating leases | **–** | 6,834 |
| Auditors' remuneration | **1,200** | 1,402 |
| Research and development costs recognised as other expenses | **3,931** | 14,769 |
| Included in cost of sales: | | |
| Cost of inventories recognised as expense | **1,772,907** | 2,640,204 |
| Provision for/(reversal of) inventories, net | **533** | (1,064) |
| Warranty claims expenses | **14,192** | 18,591 |

## 9. DIVIDENDS

No dividend has been paid or declared by the Company during the years ended 31 December 2019 and 2018, nor has any dividend been proposed since the end of the reporting period.

## 10. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the profit of RMB6,848,000 (2018: RMB10,724,000), and weighted average number of shares of 1,282,211,794 (2018: 1,282,211,794), for the year ended 31 December 2019.

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

## 11. TRADE AND OTHER RECEIVABLES

| | 2019<br>*RMB'000* | 2018<br>*RMB'000* |
|---|---|---|
| Trade receivables | **261,957** | 352,034 |
| *Less*: Allowance for credit losses | **(8,677)** | (2,978) |
| Trade receivables, net | **253,280** | 349,056 |
| Bills receivable | **76,772** | 44,607 |
| *Less*: Allowance for credit losses | **(136)** | – |
| Total trade and bills receivables | **329,916** | 393,663 |
| Prepayments for purchase of raw materials and engine components | **14,190** | 80,371 |
| Other receivables *(Note)* | **93,797** | 88,653 |
| *Less*: Allowance for credit losses | **(279)** | – |
| | **437,624** | 562,687 |

*Note:* Included in the balance is value added tax recoverable of RMB49,352,000 (2018: RMB79,796,000) and compensation receivable of RMB32,476,000 (2018: nil).

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

| | 2019<br>*RMB'000* | 2018<br>*RMB'000* |
|---|---|---|
| Within 1 month | **82,535** | 294,719 |
| Over 1 month but within 2 months | **15,846** | 23,005 |
| Over 2 months but within 3 months | **3,945** | 12,266 |
| Over 3 months but within 6 months | **2,806** | 13,853 |
| Over 6 months but within 1 year | **82,387** | 3,647 |
| Over 1 year | **65,761** | 1,566 |
| | **253,280** | 349,056 |

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

| | 2019<br>*RMB'000* | 2018<br>*RMB'000* |
|---|---|---|
| Within 3 months | **49,764** | 44,607 |
| Over 3 months but within 6 months | **26,872** | – |
| | **76,636** | 44,607 |

## 12. AMOUNTS DUE FROM RELATED COMPANIES

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Non-trade related | **141** | 1,417 |
| Trade related | **1,145,725** | 1,283,775 |
| | **1,145,866** | 1,285,192 |

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

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **328,735** | 437,782 |
| Over 3 months but within 6 months | **92,265** | 121,066 |
| Over 6 months but within 1 year | **218,303** | 464,658 |
| Over 1 year | **506,237** | 260,081 |
| | **1,145,540** | 1,283,587 |

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

## 13. TRADE AND OTHER PAYABLES

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables | **572,322** | 817,473 |
| Bills payable | **361,981** | 704,028 |
| Total trade and bills payables | **934,303** | 1,521,501 |
| Accrued payable for purchase of raw materials | **164,405** | 281,490 |
| Construction payables | **4,400** | 12,105 |
| Payroll and welfare payables | **31,468** | 56,390 |
| Advance from customers *(Note a)* | **1,752** | 5,834 |
| Provision for warranty *(Note b)* | **4,006** | 4,006 |
| Retention money | **13,936** | 13,991 |
| Other tax payables | **230** | 268 |
| Accrued operating expenses | **10,012** | 24,096 |
| Other payables | **11,627** | 18,447 |
| | **1,176,139** | 1,938,128 |

*Notes:*

a. As at 31 December 2019 and 2018, the balances amounting to RMB1,752,000 and RMB5,834,000, respectively, represented the contract liabilities, i.e. the Group's obligation to transfer goods or services to customers for which the Group has received consideration from the customers. During the year ended 31 December 2019, the contract liabilities balance at the beginning of the year were fully recognised as revenue from sale of goods.

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

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

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **364,909** | 478,956 |
| Over 3 months but within 6 months | **81,309** | 156,403 |
| Over 6 months but within 1 year | **72,150** | 164,670 |
| Over 1 year but within 2 years | **53,954** | 17,444 |
| | **572,322** | 817,473 |

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

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **156,021** | 339,253 |
| Over 3 months but within 6 months | **205,960** | 364,775 |
| | **361,981** | 704,028 |

## 14. LEASE LIABILITIES

| | **2019** |
|---|---|
| | ***RMB'000*** |
| Total minimum lease payments: | |
| Due within one year | **8,962** |
| Due in the second to fifth years | **5,424** |
| | **14,386** |
| Future finance charges on leases liabilities | **(748)** |
| Present value of leases liabilities | **13,638** |

*Note:*

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17.

## 15. BORROWINGS

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Carrying amount repayable: | | |
| Within one year | **1,008,088** | 682,828 |
| More than one year, but not more than five years | **577,723** | 1,267,808 |
| | **1,585,811** | 1,950,636 |
| *Less*: amounts shown under current liabilities | **(1,008,088)** | (682,828) |
| Amounts shown under non-current liabilities | **577,723** | 1,267,808 |
| Secured *(Note a)* | **656,500** | 606,000 |
| Unsecured *(Note b)* | **929,311** | 1,344,636 |
| | **1,585,811** | 1,950,636 |

*Notes:*

a. As at 31 December 2019 and 2018, the balances were secured by property, plant and equipment, and prepaid lease payment.

b. At 31 December 2019, included in the unsecured borrowings is RMB602,744,000 (2018: RMB897,707,000) guaranteed by companies within the Group. Included in the balances was other borrowings amounting to RMB100,000,000 (2018: RMB100,000,000) from a non-related party which was unsecured, bearing interest at 1.2% per annum and repayable on 30 December 2025. The remaining balance of RMB226,567,000 (2018: RMB346,929,000) was unguaranteed and unsecured.

   At 31 December 2019, other than borrowings which are denominated in United States Dollar ("US$"), i.e. US$86,400,000, equivalent to approximately RMB602,744,000 (2018: US$130,800,000, equivalent to approximately RMB897,707,000) and denominated in Euro, i.e. Euro996,000, equivalent to approximately RMB7,783,000 (2018: Euro2,455,000, equivalent to approximately RMB19,388,000), the remaining loans are all denominated in RMB.

## 16. SHARE CAPITAL

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

| | **Number of shares** | **Amount** *HK$* |
|---|---|---|
| Ordinary shares of Hong Kong Dollar ("HK$") 0.01 each | | |
| *Authorised:* | | |
| At date of incorporation, 1 January 2018, 31 December 2018 and 2019 | 8,000,000,000 | 80,000,000 |
| *Issued and fully paid:* | | |
| At 1 January 2018, 31 December 2018 and 2019 | 1,282,211,794 | 12,822,118 |

| | **2019** ***RMB'000*** | 2018 *RMB'000* |
|---|---|---|
| Share capital presented in consolidated statement of financial position | **10,457** | 10,457 |

## 17. RELATED PARTY DISCLOSURES

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

| | **2019** *RMB'000* | 2018 *RMB'000* |
|---|---|---|
| **Sale of goods** | | |
| Brilliance China Group | **982,472** | 1,130,027 |
| Huachen Group[#] | **178,431** | 491,301 |
| Mianyang Huarui Automotive Company Limited*[##] 綿陽華瑞汽車有限公司 ("Mianyang Huarui") | **925** | – |
| Mianyang Huaxiang Machinery Manufacturing Co., Ltd.*[##] 綿陽華祥機械製造有限公司 ("Mianyang Huaxiang") | **6,192** | – |
| | **1,168,020** | 1,621,328 |
| **Purchase of goods** | | |
| Brilliance China Group | **81,152** | 217,568 |
| Huachen Group | **–** | 3 |
| Wuliangye Group | **156,735** | 145,932 |
| | **237,887** | 363,503 |
| **Lease payment and auxiliary services received** | | |
| Brilliance China Group | **3,636** | – |
| Huachen Group | **5,424** | 6,000 |
| | **9,060** | 6,000 |
| **Rental income** | | |
| Brilliance China Group | **–** | 3,540 |
| **Maintenance and construction cost charged** | | |
| Wuliangye Group | **–** | 1,351 |
| **Processing cost charged** | | |
| Wuliangye Group | **1,359** | – |

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Cleaning and greening services received** | | |
| Wuliangye Group | **1,552** | 840 |
| **Consulting service received** | | |
| Huachen Group | **170** | 8,406 |
| **Water and electricity costs charged** | | |
| Wuliangye Group | **1,441** | 817 |
| **Repairment fee** | | |
| Wuliangye Group | **175** | 114 |

\# *Huachen Automotive Group Holdings Company Limited* 華晨汽車集團控股有限公司 ("Huachen Automotive", Huachen Automotive and its subsidiaries collectively referred to as "Huachen Group") is a controlling shareholder of Brilliance China.*

\## *After Huachen Automotive disposed of its entire interests in Mianyang Huarui, Mianyang Huarui and Mianyang Huaxiang (a subsidiary of Mianyang Huarui) are no longer considered as members of the Huachen Group as at 31 December 2019. There are common directors who have influence over the Group and the entities and hence, Mianyang Huarui and Mianyang Huaxiang are considered as related parties of the Group in accordance with HKAS 24 Related Party Disclosures.*

## BUSINESS REVIEW AND PROSPECT

According to the statistics of China Association of Automobile Manufacturers, the automobile industry in China showed a decline of 8.2% year on year in vehicle sales totalling 25.77 million units in 2019, and this was the second negative year since 2018, after approximately two decades of continuous growth, in particular, a high-speed growth in the past few years. The decline was affected by such factors as China-United State economic and trade frictions, adoption of stricter emission standards and new energy vehicle ("**NEV**") subsidy cuts in the middle of 2019. The entire industry was in the process of transformation and upgrading. With the continued slowdown in the PRC economy, reluctance by consumers to make purchases in an uncertain environment was also one of the reasons to account for the fall in sales.

Passenger vehicles, including sedan car, sport-utility vehicle and multi-purpose vehicle, showed a downturn of 9.6% in sales year on year to 21.44 million units whereas the performance of commercial vehicles also recorded a 1.1% decline to 4.32 million units. Since the implementation of the NEV policy in 2018, this provided new potential growth for the NEV sector, however, the withdrawal of new energy subsidy policies in July 2019 caused the NEV market to have experienced negative growth. The sales of NEV in 2019 showed a year-on-year decline of 4.0% to 1.21 million units. It is expected that the NEV market will take longer to become a common type of vehicles as consumers generally have anxiety over the mileage range, lacking of charging power points and high cost of replacement of battery, etc.

As such, the demand for certain types of vehicles produced by the Group's customers decreased during the year, and this affected the sales of some of both the traditional and Prince Engines of the Group. In 2019, the Group recorded a total sales of approximately RMB2,076.17 million, representing a decrease of approximately 31.9% as compared to 2018. As disclosed in the interim report for the six months ended 30 June 2019, such decrease was mainly due to a decrease in the sales of engines owing to the unfavorable automobile market environment and the adjustment of emission standard resulting in reduction in inventory of downstream customers. Thus, there is a decrease in the net profit attributable to owners of the Company which was approximately RMB6.85 million, a decrease of approximately 36.1% as compared to approximately RMB10.72 million in 2018.

With more emphasis being placed on environmental protection, energy conservation and reduction of exhaust emission, the PRC government is updating more policies and regulations which increase the operating burden on the automobile industry. The "China VI" vehicle emission standards, which is believed to be one of the world's strictest rules on light automobile pollutants, was implemented in advance on 1 July 2019 in cities including Beijing, Shanghai, Guangdong and Shenzhen. The standard is further divided into China VI(a) and China VI(b) with implementation dates of 1 July 2020 and 1 July 2023 respectively in other regions. We have already upgraded our traditional and Prince Engines to be China IV compatible. During the year, the PRC government commenced to lift restrictions on trades of second-hand cars among provinces which promoted trading of second-hand automobiles and dampened the first-hand market. In addition, a new, nationwide pneumonia epidemic outbreak in the beginning of 2020 has brought more difficulty to the business environment of the automobile industry in China.

In view of the complexity of the business environment, we have taken measures to ally with the policies change and actively carry out technological innovation to ensure compliance with the latest regulations and meet the changes in the market brought about by consumers' demands. The research and development department is strengthening the research on fuel-saving technologies of Prince Engine products, and at the same time, technically fine-tuning Prince Engines which combines with the plug-in hybrid electric vehicles on the basis of traditional internal combustion engines with hybrid powertrains and extended range. This is aimed to adapt to the NEV requirement in the future.

The Prince Engines will continue to meet the performance requirements of various classes of passenger vehicles with plug-in hybrids or pure electric extended-range models, and cope with the requirements of future regulations with good technical scalability. The Prince Engine production is exclusively licensed to us by BMW AG. With its support, we are able to modify and upgrade the specification of Prince Engines to achieve higher torque and lower fuel consumption and to cope with the China VI(a) emission standard by July 2020. Its family will have different volume displacement models with advanced technology whilst maintaining at a reasonable production cost that meets the needs of our target market.

The Group has a working team to work continuously on the research and development of gasoline and diesel engines in response to the more stringent requirement for fuel consumption and emission standard in the near future. Other than Prince Engines, we have been developing three-cylinder 1200cc engines under our own brand Power Xinchen and it will be compatible with hybrid electric vehicles or will stand on its own so as to cope with the more stringent requirements on emission standards of vehicles and the increasing demand for clean-energy vehicles around the globe, in particular, the dual-credit system for passenger vehicle manufacturers in China. Some customers have been in collaboration with us for use of small displacement engines on their vehicles in the future. Customers have provided prototypes, and started vehicle matching and development work. We expect that the industrialization of 1200cc engines will be in 2021.

Apart from engines production, crankshaft and connecting rods production will continue to be one of the main business focuses in the development of core engine parts and components business of the Group for BMW Brilliance Automotives Ltd. ("**BBA**"). During the year, in view of the increasing demand from BBA for the supply of Bx8 crankshafts, we completed the production expansion of the existing crankshaft production lines which will enable the Group to further enhance its profitability potential in the engine component business segment. The expanded production line, which provides an additional annual crankshaft production of 200,000 units, has just commenced its operation in January 2020. At present, the maximum annual crankshaft production capacity is approximately 800,000 units.

The production of our automobile customers is likely to decline materially in the first quarter as car makers are forced to delay plant re-opening after the Lunar New Year, and this in turn will affect our sales accordingly. Sales could recover after the coronavirus epidemic stabilizes, but the positive effect is expected to be mild. It is possible, however, for car makers to speed up production in the second half of 2020 to achieve their yearly output target after the epidemic comes under control. Worries about use of public transport and the sense of security from using one's own vehicle may lead to sales recovery, in particular, in the second and third-tier local brands at an affordable price, once the health crisis stabilizes, as was the case following the SARS epidemic in 2003 when passenger vehicle sales grew much afterwards.

Despite the above, the Group will continue to explore cooperation opportunities with BMW AG, BBA and other business partners in the future to cope with the ever-changing automobile industry trend. In particular, the Group will continue to actively identify potential merger and acquisition opportunities and assess possibilities of forming joint ventures with other potential partners to expand its product portfolio and strengthen its core competitiveness. During the year, we have been assessing the possibility of remanufacturing business of engines and engine parts and after-sales logistics center for possible future business opportunities.

## MANAGEMENT'S DISCUSSION & ANALYSIS

In 2019, the Group achieved total consolidated sales of approximately RMB2,076.17 million, representing a decrease of approximately 31.9% compared to the corresponding period last year (approximately RMB3,050.52 million). The decrease was mainly due to the decrease in the sales of traditional and prince engines. The decrease in the sales of engines was due to lacklustre demand from various automobile manufacturers during the year because of the weak economic growth, trade war, and tougher emission standards introduced in last summer which delayed the purchase sentiment.

In respect of the engines business segment, the Group recorded approximately 40.4% decrease in segment revenue, from approximately RMB2,410.71 million in 2018 to approximately RMB1,437.16 million in 2019. Sales volume of engines decreased by approximately 38.9% from around 209,000 units in 2018 to around 127,500 units in 2019. The decrease was mainly due to the decrease in the sales of traditional gasoline engines, diesel engines and prince engines in 2019.

In respect of the engine components segment, the Group recorded approximately the same amount in segment revenue, from approximately RMB639.82 million in 2018 to approximately RMB639.01 million in 2019. The Group sold around 496,000 units of crankshafts in 2019, representing a decrease of approximately 2.0% from around 506,000 units in 2018. The Group sold around 514,000 units of connecting rods in 2019, down by approximately 32.6% from around 763,000 units in 2018.

The consolidated cost of sales in 2019 amounted to approximately RMB1,847.39 million, down by approximately 32.0% when compared to approximately RMB2,716.25 million recorded in 2018. The decrease in cost of sales was generally in line with the decrease in sales revenue.

The gross profit margin of the Group in 2019 was approximately 11.0% which was about the same level as in 2018.

Other gains and losses decreased from approximately RMB80.64 million in 2018 to approximately RMB19.90 million in 2019, representing a decrease of approximately 75.3%. The decrease was mainly due to lower unrealized foreign exchange translation loss and lower net loss arising on receivables measured at FVTOCI recognized in 2019.

Selling and distribution expenses decreased by approximately 34.0%, from approximately RMB46.97 million in 2018 to approximately RMB31.01 million in 2019, representing approximately 1.5% of the revenue in 2018 and 2019, respectively. The decrease in value was mainly due to the decrease in transportation costs as fewer engines were sold during 2019.

Administrative expenses decreased by approximately 7.2%, from approximately RMB139.09 million in 2018 to approximately RMB129.05 million in 2019, representing approximately 4.6% and approximately 6.2% of the revenue in 2018 and 2019, respectively. The increase in terms of percentage was mainly due to decrease in revenue whilst staff cost, depreciation and office expenses decreased to a lesser extent.

Finance costs increased by approximately 10.0%, from approximately RMB73.97 million in 2018 to approximately RMB81.37 million in 2019. The increase was mainly due to higher interest rate in the second half of 2019 and more short term borrowings taken out.

Other expenses decreased by approximately 26.2% from approximately RMB18.25 million in 2018 to approximately RMB13.46 million in 2019, which was mainly due to the decrease in research expenses incurred in 2019.

The Group's profit before tax decreased by approximately 30.7% from approximately RMB10.77 million in 2018 to approximately RMB7.46 million in 2019.

Income tax expenses increased from approximately RMB0.05 million in 2018 to approximately RMB0.61 million in 2019. The increase was mainly due to the movement of deferred tax assets.

For the year 2019, the net income attributable to owners of the Company was approximately RMB6.85 million, representing an approximately 36.1% decrease from approximately RMB10.72 million in 2018. Basic earnings per share in 2019 amounted to approximately RMB0.005, compared to approximately RMB0.008 in 2018.

**Liquidity and Financial Resources**

As at 31 December 2019, the Group had approximately RMB98.19 million in cash and cash equivalents (31 December 2018: RMB223.95 million), and approximately RMB261.30 million in pledged bank deposits (31 December 2018: RMB552.32 million). The Group had trade and other payables of approximately RMB1,176.14 million (31 December 2018: RMB1,938.13 million), bank borrowings due within one year in the amount of approximately RMB1,008.09 million (31 December 2018: RMB682.83 million), and bank borrowings due after one year in the amount of approximately RMB577.72 million (31 December 2018: RMB1,267.81 million).

**Capital Structure**

As at 31 December 2019, the Group's total assets was approximately RMB6,025.68 million (31 December 2018: RMB7,175.87 million), which was funded by the following: (1) share capital of approximately RMB10.46 million (31 December 2018: RMB10.46 million), (2) reserves of approximately RMB2,981.46 million (31 December 2018: RMB2,975.25 million) and (3) total liabilities of approximately RMB3,033.76 million (31 December 2018: RMB4,190.17 million).

**Contingent Liabilities**

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

**Pledge of Assets**

As at 31 December 2019, the Group pledged certain of its land use rights, buildings, plant and machinery with an aggregate carrying value of approximately RMB100.15 million (31 December 2018: RMB107.84 million) to certain banks to secure certain credit facilities granted to the Group.

As at 31 December 2019, the Group also pledged bank deposits in the amount of approximately RMB261.30 million (31 December 2018: RMB552.32 million) to certain banks to secure certain credit facilities granted to the Group.

**Gearing Ratio**

As at 31 December 2019, the debt-to-equity ratio, computed by dividing total liabilities by total equity attributable to owners of the Company, was approximately 1.01 (31 December 2018: 1.41). The decrease in the debt-to-equity ratio was mainly due to the decrease in bank borrowing in 2019.

As at 31 December 2019, the gearing ratio, computed by dividing bank borrowings by total equity attributable to owners of the Company, was approximately 53.0% (31 December 2018: 65.3%). The decrease in gearing ratio was mainly due to the decrease in total bank borrowing as a result of the fewer financed acquisitions of property, plant and equipment during the year with bank borrowings.

**Investment Property**

In 2019, no portion of the Group's premises was leased during the year ended 31 December 2019 (31 December 2018: RMB3.54 million).

**Foreign Exchange Risks**

The Group's functional currency is RMB. Since the Group has certain assets and liabilities, such as receivables, payables, bank borrowings and cash and cash equivalents, denominated in foreign currencies, such as US$ and HK$, the Group is exposed to foreign currency translation risk.

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

### Employees and Remuneration Policy

As at 31 December 2019, the Group employed approximately 1,445 employees (31 December 2018: approximately 1,862). Employee costs amounted to approximately RMB153.74 million for the year ended 31 December 2019 (31 December 2018: approximately RMB210.28 million). The Group will endeavor to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' remuneration is based on their performance.

### Significant Investments

On 10 May 2019, Mianyang Xinchen entered into an equity transfer agreement with Dongfeng Motor Co., Ltd.*（東風汽車有限公司）("**Dongfeng Motor**") in relation to the disposal by Mianyang Xinchen to Dongfeng Motor of 50% of the equity interest in Changzhou Dongfeng Xinchen Engine Co., Ltd.*（常州東風新晨動力機械有限公司）at the consideration of approximately RMB50.54 million. Further particulars of the above disposal are set out in the announcement of the Company dated 10 May 2019.

Save as disclosed above, there were no significant investments, material acquisitions or disposals of subsidiaries and associated companies by the Group during the year ended 31 December 2019.

### Capital Commitment

As at 31 December 2019, the Group had capital commitments of approximately RMB479.09 million (31 December 2018: RMB677.71 million), among which contracted capital commitments amounted to approximately RMB101.10 million (31 December 2018: RMB185.97 million), which is primarily related to the capital expenditure in respect of acquisition of property, plant and equipment, and new engine development.

## ENVIRONMENTAL AND SOCIAL

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

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

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

## DIVIDEND

The Board did not recommend the payment of any dividend in respect of the year ended 31 December 2019 (2018: Nil).

## CLOSURE OF REGISTER OF MEMBERS

The Company's forthcoming annual general meeting will be held at 9:00 a.m. on Friday, 26 June 2020.

The Hong Kong branch register of members of the Company will be closed from Friday, 19 June 2020 to Friday, 26 June 2020, both dates inclusive, during which period no transfer of shares will be registered. Only shareholders of the Company whose names appear on the register of members of the Company on Friday, 19 June 2020 or their proxies or duly authorised corporate representatives are entitled to attend the annual general meeting. In order to qualify for attending the annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 18 June 2020.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to achieving and maintaining the highest standards of corporate governance, consistent with the needs and requirements of the business and its shareholders. The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Company has complied with all code provisions of the CG Code throughout the year ended 31 December 2019.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry with all directors of the Company, all directors confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding securities transaction by directors during the year ended 31 December 2019.

## REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial report matters, including the consolidated financial statements of the Group for the year ended 31 December 2019.

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 of the Company. Mr. Chi Guohua is the chairman of the audit committee.

## PUBLICATION OF ANNUAL REPORT

The 2019 annual report of the Company containing the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.xinchenpower.com) respectively in due course.

## BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises two executive directors: Mr. Wu Xiao An (also known as Mr. Ng Siu On) *(Chairman)* and Mr. Wang Yunxian *(Chief Executive Officer)*; two non-executive directors: Mr. 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, 26 March 2020

* *for identification purposes only*