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 UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board of directors (the "**Board**") of Xinchen China Power Holdings Limited (the "**Company**") announces 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 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Six months ended	
	NOTES	**30.6.2019** *RMB'000* **(unaudited)**	30.6.2018 *RMB'000* (unaudited)
Revenue	*3*	**1,154,612**	1,559,485
Cost of sales		**(1,001,051)**	(1,357,647)
Gross profit		**153,561**	201,838
Other income	*4*	**4,735**	4,560
Other gains and losses		**5,879**	9,284
Distribution and selling expenses		**(18,422)**	(18,201)
Administrative expenses		**(62,226)**	(74,397)
Other expenses		**(2,384)**	(3,580)
Share of result of a joint venture		**–**	(276)
Finance costs		**(41,760)**	(42,256)
Profit before tax	*5*	**39,383**	76,972
Income tax expense	*6*	**(7,455)**	(19,352)
Profit for the period		**31,928**	57,620

	NOTES	Six months ended 30.6.2019 RMB'000 (unaudited)	30.6.2018 RMB'000 (unaudited)
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Fair value (loss)/gain on:			
Receivables measured at fair value through other comprehensive income		**(1,484)**	83
Other comprehensive (loss)/income for the period		**(1,484)**	83
Total comprehensive income for the period		**30,444**	57,703
Earnings per share – Basic *(RMB)*	*8*	**0.025**	0.045

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.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	NOTES	**30.6.2019** ***RMB'000*** **(unaudited)**	31.12.2018 *RMB'000* (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*9*	**2,625,420**	2,581,151
Prepaid lease payments		**132,132**	130,408
Intangible assets	*9*	**640,057**	623,455
Loan to a shareholder		**13,583**	13,097
Deferred tax assets		**19,198**	19,198
		3,430,390	3,367,309
CURRENT ASSETS			
Inventories		**776,781**	839,508
Trade and other receivables	*10a*	**516,975**	562,687
Receivables measured at fair value through other comprehensive income ("FVTOCI")	*10b*	**131,167**	217,396
Prepaid lease payments		**–**	3,378
Tax recoverable		**29,496**	31,479
Amounts due from related companies	*11*	**1,115,142**	1,285,192
Pledged/restricted bank deposits		**265,976**	595,782
Bank balances and cash		**157,626**	223,950
		2,993,163	3,759,372
Assets classified as held for sale	*12*	**–**	49,193
TOTAL CURRENT ASSETS		**2,993,163**	3,808,565
TOTAL ASSETS		**6,423,553**	7,175,874

	NOTES	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
CURRENT LIABILITIES			
Trade and other payables	*13*	**1,381,043**	1,938,128
Amounts due to related companies	*14*	**157,649**	241,374
Lease liabilities	*15*	**8,125**	–
Financial liabilities at fair value through profit or loss		**4,216**	5,616
Borrowings due within one year		**870,553**	682,828
		2,421,586	2,867,946
NET CURRENT ASSETS		**571,577**	940,619
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,001,967**	4,307,928
NON-CURRENT LIABILITIES			
Borrowings due after one year		**928,125**	1,267,808
Lease liabilities	*15*	**9,552**	–
Deferred income		**48,143**	54,417
		985,820	1,322,225
NET ASSETS		**3,016,147**	2,985,703
CAPITAL AND RESERVES			
Share capital	*16*	**10,457**	10,457
Reserves		**3,005,690**	2,975,246
TOTAL EQUITY		**3,016,147**	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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. 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 (the "Listing Rules").

2. 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 HKFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

Adoption of new and amendments to HKFRSs

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 2019 for the preparation of the Group's condensed consolidated financial statements:

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

Other than the impact of the adoption of HKFRS 16 as noted below, the adoption of the new and amended HKFRSs has had no material impact on how the results and financial position for the current and prior periods have been prepared and presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16 "Leases"

HKFRS 16 "Leases" replaces HKAS 17 "Leases" along with three Interpretations, HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease", Hong Kong (Standing Interpretations Committee) Interpretation ("HK(SIC) Int") – 15 "Operating Leases-Incentives" and HK(SIC) Int-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". HKFRS 16 has been applied using the modified retrospective approach, with the cumulative effect of adopting HKFRS 16 being recognised in equity as an adjustment to the opening balance of retained profits for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from HKAS 17 and HK(IFRIC)-Int 4 and has not applied HKFRS 16 to arrangements that were previously not identified as lease under HKAS 17 and HK(IFRIC)-Int 4. The Group has already recognised the prepaid lease payments for leasehold land where the Group is a lessee. The application of HKFRS 16 does not have impact on these assets except for the whole balance is now presented as "Prepaid lease payments" under non-current assets.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of HKFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of HKFRS 16.

On transition to HKFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognised under HKFRS 16 was 5.88%.

The Group has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

The following is a reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

	RMB'000 (unaudited)
Total operating lease commitments disclosed at 31 December 2018	24,680
Discounting using incremental borrowing rate as at 1 January 2019	(3,127)
Operating leases liabilities	21,553
Total lease liabilities recognised under HKFRS 16 at 1 January 2019	21,553
Classified as:	
Current lease liabilities	7,879
Non-current lease liabilities	13,674
	21,553

The following table summarises the impact of transition to HKFRS 16 on the Group's consolidated statement of financial position at 1 January 2019:

	RMB'000 (unaudited)
Increase in right-of-use assets presented in property, plant and equipment	21,553
Increase in lease liabilities	21,553

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 or services provided.

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

3.1 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.

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**	
	30.6.2019	30.6.2018	**30.6.2019**	30.6.2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Gasoline engines	**570,653**	959,332	**55,127**	114,848
Diesel engines	**234,064**	304,107	**39,440**	32,502
Engine components and service income	**349,895**	296,046	**58,994**	54,488
Total segment and consolidated	**1,154,612**	1,559,485	**153,561**	201,838
Unallocated other income			**4,735**	4,560
Unallocated other gains and losses			**5,879**	9,284
Unallocated other expenses				
Distribution and selling expenses			**(18,422)**	(18,201)
Administrative expenses			**(62,226)**	(74,397)
Finance costs			**(41,760)**	(42,256)
Other expenses			**(2,384)**	(3,580)
Share of result of a joint venture			**–**	(276)
Profit before tax			**39,383**	76,972

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 2019 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.

3.2 Segment assets and liabilities

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

3.3 Geographical information

The majority of the Group's operations and non-current assets are located in the People's Republic of China (the "PRC"); and almost all of the Group's revenue from external customers is generated in the PRC, which is the country of domicile of Mianyang Xinchen Engine Co., Ltd.*（綿陽新晨動力機械有限公司）("Mianyang Xinchen") and its subsidiary.

* *English name for reference only*

4. OTHER INCOME

	Six months ended	
	30.6.2019	30.6.2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Bank interest income	**4,609**	1,533
Rental income under operating lease, net of outgoing expenses	**126**	3,027
	4,735	4,560

5. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	Six months ended	
	30.6.2019	30.6.2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Employee benefits expenses (including directors):		
– Salaries and other benefits	**68,405**	90,343
– Retirement benefit scheme contributions	**16,732**	22,487
Total staff costs	**85,137**	112,830
Depreciation of right-of-use assets	**3,566**	–
Depreciation of property, plant and equipment	**144,403**	124,406
Depreciation of investment properties	**–**	1,207
Amortisation of prepaid lease payments	**1,654**	1,642
Amortisation of intangible assets (included in cost of sales)	**18,399**	22,377
Total depreciation and amortisation	**168,022**	149,632

6. INCOME TAX EXPENSE

	Six months ended	
	30.6.2019	30.6.2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
PRC Enterprise Income Tax ("EIT")		
– Current tax	**7,455**	15,014
– Under provision in prior year	–	4,338*
	7,455	19,352

Mianyang Xinchen was subject to 15% EIT rate for the period ended 30 June 2019 (six months ended 30 June 2018: 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.*

7. DIVIDENDS

No dividend has been paid or declared by the Company during both periods ended 30 June 2019 and 2018, nor has any dividend been proposed since the end of the reporting period.

8. 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	
	30.6.2019	30.6.2018
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share *(RMB'000)*	**31,928**	57,620
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.

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

During the current interim period, the Group has acquired property, plant and equipment, other than construction in progress, amounting to approximately RMB5,329,000 (six months ended 30 June 2018: approximately RMB380,000) for the purpose of upgrading its manufacturing capacity of the Group. During the current interim period, the Group has no disposal of plant and equipment. During the six months ended 30 June 2018, the Group disposed of certain plant and equipment with an aggregate carrying amount of approximately RMB8,823,000 and resulting in a gain on disposal of approximately RMB829,000.

In addition, during current interim period, the Group has had approximately RMB165,917,000 (six months ended 30 June 2018: approximately RMB119,620,000) addition to construction in progress, primarily for scaling up the Group's production facilities and capacity. Included in the total addition is approximately RMB5,075,000 (six months ended 30 June 2018: approximately RMB9,624,000) interests capitalised.

During the current interim period, the Group has capitalised development costs of technical know-how of new automotive engines amounting to approximately RMB32,894,000 (six months ended 30 June 2018: approximately RMB63,906,000) for the purposes of expanding its products range of gasoline and diesel engines.

The Group has entered into lease agreement in respect of office premises and production facilities for 2 years and 3 years respectively as at 1 January 2019. The Group makes fixed payments during the contract period. On lease commencement, the Group recognised right-of-use assets and lease liabilities amounting to approximately RMB21,553,000 and RMB21,553,000 respectively.

As at 30 June 2019, the carrying amounts of the Group's right-of-use assets in respect of office premises and production facilities amounted to approximately RMB17,987,000.

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

a. Trade and other receivables comprise the following:

	30.6.2019	31.12.2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables	**284,815**	352,034
Less: Allowance for credit losses	**(3,394)**	(2,978)
Trade receivables, net	**281,421**	349,056
Bills receivable	**121,838**	44,607
Total trade and bills receivables	**403,259**	393,663
Prepayments for purchase of raw materials and engine components	**25,691**	80,371
Other receivables *(Note)*	**88,025**	88,653
	516,975	562,687

Note: Included in the balance is value added tax recoverable of approximately RMB81,850,000 (at 31 December 2018: approximately RMB79,796,000).

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 as at the end of the reporting period:

	30.6.2019	31.12.2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 1 month	**117,581**	294,719
Over 1 month but within 2 months	**102,376**	23,005
Over 2 months but within 3 months	**47,567**	12,266
Over 3 months but within 6 months	**9,676**	13,853
Over 6 months but within 1 year	**2,705**	3,647
Over 1 year	**1,516**	1,566
	281,421	349,056

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

	30.6.2019 ***RMB'000*** **(unaudited)**	31.12.2018 *RMB'000* (audited)
Within 3 months	**–**	44,607
Over 3 months but within 6 months	**121,838**	–
	121,838	44,607

The table below provides information about the exposure to credit risk and expected credit losses ("ECL") model for trade receivables which are assessed based on provision matrix as at 30 June 2019:

	Gross carrying amount *RMB'000* (unaudited)	**Weighted average loss rate** *%*	**ECL** *RMB'000* (unaudited)
Not past due	189,179	–	–
Past due:			
Within 1 month	67,231	0.2	134
Over 1 month but within 3 months	18,735	4.0	748
Over 3 months but within 6 months	7,144	23.5	1,681
Over 6 months but within 1 year	1,162	28.8	335
Over 1 year	1,364	36.4	496
	284,815		3,394

Movement in the expected credit losses:

	30.6.2019 ***RMB'000*** **(unaudited)**
At beginning of period *(Note)*	**2,978**
Expected credit losses reversed	**416**
At end of the reporting period	**3,394**

Note: As at 30 June 2019, all the Group's bills receivable are neither past due nor impaired and no allowance for credit losses are provided for the balances as information indicates that the counterparties are highly likely to repay.

b. Receivables measured at fair value though other comprehensive income:

	30.6.2019	31.12.2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Receivables measured at FVTOCI from third parties	**92,698**	150,150
Receivables measured at FVTOCI from related companies	**38,469**	67,246
	131,167	217,396

Under HKFRS 9, certain bills which were held by the Group for the practice of discounting/endorsing to financial institutions/suppliers before the bills due for payment were classified as "receivables measured at FVTOCI". At 30 June 2019, all the bills are with a maturity period of less than one year. The Group considers the credit risk is limited because counterparties are banks with good credit standing and are highly likely to be paid, and the expected credit loss are considered as insignificant.

11. AMOUNTS DUE FROM RELATED COMPANIES

Analysed as:

	30.6.2019	31.12.2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade related	**1,113,856**	1,283,775
Non-trade related	**1,286**	1,417
	1,115,142	1,285,192

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

	30.6.2019	31.12.2018
	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	**380,689**	439,575
Mianyang Huarui Automotive Company Limited* ("Mianyang Huarui") 綿陽華瑞汽車有限公司	**131,338**	130,819
Mianyang Huaxiang Machinery Manufacturing Co., Ltd* 綿陽華祥機械製造有限公司	**109,067**	107,214
Huachen Automotive Group Holdings Company Limited* ("Huachen Automotive") 華晨汽車集團控股有限公司	**21,557**	19,738
	642,651	697,346
Brilliance China Group##		
Shenyang XingYuanDong Automobile Component Co., Ltd.* 瀋陽興遠東汽車零部件有限公司	**77,105**	153,029
BMW Brilliance Automotive Ltd.* ("BMW Brilliance Automotive") 華晨寶馬汽車有限公司	**112,460**	137,779
Renault Brilliance JinBei Automobile Co., Ltd.* 華晨雷諾金杯汽車有限公司	**3,033**	27,433
Shenyang ChenFa Automobile Component Co., Ltd.* ("Shenyang ChenFa") 瀋陽晨發汽車零部件有限公司	**273,549**	263,335
Shenyang Jinbei Vehicle Manufacturing Co., Ltd.* 瀋陽金杯車輛製造有限公司	**4,853**	4,853
	471,000	586,429
Wuliangye Group###		
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	**47**	–
Mianyang Xinhua Trading Co., Ltd.* 綿陽新華商貿有限公司	**158**	–
	205	–
	1,113,856	1,283,775

	30.6.2019	31.12.2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade related balances analysed as:		
Trade receivables	**1,113,651**	1,283,587
Prepayment	**205**	188
	1,113,856	1,283,775

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 as at the end of the reporting period:

	30.6.2019	31.12.2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**300,194**	437,782
Over 3 months but within 6 months	**161,351**	121,066
Over 6 months but within 1 year	**394,702**	464,658
Over 1 year	**257,404**	260,081
	1,113,651	1,283,587

	30.6.2019	31.12.2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Non-trade related:		
Huachen Group, Brilliance China Group and Wuliangye Group	**1,286**	1,417

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"

Brilliance China Automotive Holdings Limited ("Brilliance China", Brilliance China and its subsidiaries collectively referred to as "Brilliance China Group")

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")*

The Group applied simplified approach to provide the expected credit losses prescribed by HKFRS 9. To measure the ECL of amounts due from related companies, the balances are regarded as not credit-impaired and have been assessed based on individual assessment. As part of the Group's credit risk management, the Group applied internal credit rating for its customers and applying the expected loss rate ranging from 0.3% to 4.1% over the gross carrying amounts. As at 30 June 2019, loss allowance amounting to approximately RMB15,608,000 (31 December 2018: approximately RMB15,481,000) was recognised based on individual assessment by reference to the Group's historical credit loss experiences, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

Movement in the expected credit loss:

	30.06.2019 ***RMB'000*** **(unaudited)**
At beginning of period	**15,481**
Net remeasurement of loss allowance	**127**
At end of the reporting period	**15,608**

12. ASSETS CLASSIFIED AS HELD FOR SALE

During the current interim period, Mianyang Xinchen, an indirect wholly-owned subsidiary of the Company, disposed of its 50% interest in Changzhou Dongfeng Xinchen Engine Co., Ltd.*（常州東風新晨動力機械有限公司）("Dongfeng"), which has been classified as an asset held for sale as at 31 December 2018, with net carrying amount of approximately RMB49,193,000 to Dongfeng Motor Co., Ltd.*（東風汽車有限公司）. The Group completed the disposal on 10 May 2019 and recorded a gain on disposal of approximately RMB652,000, with proceeds (net of transaction cost and tax) of approximately RMB49,845,000. Following the disposal of the interest, Dongfeng ceased to be a joint venture of the Group.

* *English name for reference only*

13. TRADE AND OTHER PAYABLES

Trade and other payables comprise the following:

	30.6.2019	31.12.2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade payables	**713,412**	817,473
Bills payable	**379,908**	704,028
Total trade and bills payables	**1,093,320**	1,521,501
Accrued purchase of raw materials	**187,963**	281,490
Construction payables	**6,717**	12,105
Payroll and welfare payables	**31,195**	56,390
Advances from customers *(Note i)*	**4,072**	5,834
Provision for warranty *(Note ii)*	**4,006**	4,006
Retention money	**17,078**	13,991
Other tax payables	**903**	268
Accrued operating expenses	**23,670**	24,096
Other payables	**12,119**	18,447
	1,381,043	1,938,128

Notes:

i. As at 30 June 2019, 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. During the period ended 30 June 2019, the contract liabilities balance at the beginning of the period were fully recognised as revenue from sales of goods.

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

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:

	30.6.2019	31.12.2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**415,924**	478,956
Over 3 months but within 6 months	**219,021**	156,403
Over 6 months but within 1 year	**55,616**	164,670
Over 1 year but within 2 years	**22,851**	17,444
	713,412	817,473

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

	30.6.2019 *RMB'000* (unaudited)	31.12.2018 *RMB'000* (audited)
Within 3 months	**170,802**	339,253
Over 3 months but within 6 months	**209,106**	364,775
	379,908	704,028

14. AMOUNTS DUE TO RELATED COMPANIES

	30.6.2019 *RMB'000* (unaudited)	31.12.2018 *RMB'000* (audited)
Trade related:		
Huachen Group		
Huachen Automotive	**527**	1,105
Shenyang Brilliance	**219**	157
Mianyang Huarui	**2**	2
	748	1,264
Brilliance China Group		
BMW Brilliance Automotive	**15,367**	2,663
Mianyang Brilliance Ruian Automotive Components Co., Ltd.* 綿陽華晨瑞安汽車零部件有限公司	**16,823**	38,682
Shenyang ChenFa	**3,569**	3,306
Shenyang Jinbei Vehicle Dies Manufacturing Co., Ltd.* 瀋陽金杯汽車模具製造有限公司	**28**	109
	35,787	44,760
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	**12,790**	16,903
Xinhua Combustion Engine	**105,877**	175,774
Mianyang Xin Xinmao Trading Co., Ltd* 綿陽新鑫茂商貿有限公司	**827**	1,162
	119,494	193,839
	156,029	239,863

	30.6.2019	31.12.2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Non-trade related:		
Huachen Group		
Huachen Automotive	**341**	341
Brilliance China Group		
Brilliance China	**1,251**	1,142
Wuliangye Group		
Xinhua Combustion Engine	**28**	28
	1,620	1,511
	157,649	241,374

* *English name for reference only*

	30.6.2019	31.12.2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade related balances analysed as:		
Trade payables	**135,371**	107,744
Bills payable	**20,658**	132,119
	156,029	239,863

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:

	30.6.2019	31.12.2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**97,076**	51,743
Over 3 months but within 6 months	**32,888**	25,913
Over 6 months but within 1 year	**2,321**	26,868
Over 1 year	**3,086**	3,220
	135,371	107,744

The bills payable are guaranteed by banks in the PRC and have original maturities of 3 to 12 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:

	30.6.2019	31.12.2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**5,532**	23,519
Over 3 months but within 6 months	**15,126**	75,600
Over 6 months but within 1 year	**–**	33,000
	20,658	132,119

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

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

15. LEASE LIABILITIES

	30.06.2019
	RMB'000
	(unaudited)
Total minimum lease payments:	
Due within one year	**8,971**
Due in the second to fifth years	**9,991**
	18,962
Future finance charges on leases liabilities	**(1,285)**
Present value of leases liabilities	**17,677**

	30.06.2019
	RMB'000
	(unaudited)
Present value of minimum lease payments:	
Due within one year	**8,125**
Due in the second to fifth years	**9,552**
	17,677
Less:	
Portion due within one year included under current liabilities	**(8,125)**
Portion due after one year included under non-current liabilities	**9,552**

16. SHARE CAPITAL

	Number of shares	Amount *HK$*
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2018, 30 June 2018 and 30 June 2019	8,000,000,000	80,000,000
Issued and fully paid:		
At 31 December 2018 and 30 June 2019	1,282,211,794	12,822,118

	30.6.2019 ***RMB'000*** **(unaudited)**	31.12.2018 *RMB'000* (audited)
Share capital presented in the condensed consolidated statement of financial position	**10,457**	10,457

MANAGEMENT'S DISCUSSION & ANALYSIS

Business review

In the first half of 2019, the Group achieved total unaudited revenue of approximately RMB1,154.61 million, representing a decrease of approximately 26.0% compared to approximately RMB1,559.49 million for the corresponding period last year. The decrease in revenue was mainly due to a decrease in the sales of engines. The decrease in the sales of the engines was caused by the unfavorable automobile market environment and the adjustment of the emission standard resulting in a reduction in inventory of downstream customers in the PRC during the period.

Sales volume of engines decreased by approximately 38.7%, from approximately 118,500 units in the first half of 2018 to approximately 72,600 units in the first half of 2019, mainly due to the decrease in sales volume of small gasoline engines despite that there was increase in sales volume of the Group's prince engines.

With respect to the engines business segment, the Group recorded approximately 36.3% decrease in the segment revenue, from approximately RMB1,263.44 million in the first half of 2018 to approximately RMB804.72 million in the first half of 2019. The decrease was mainly due to a decrease in the sales of small gasoline engines.

With respect to the engine components and service income segment, the Group recorded approximately 18.2% increase in the segment revenue, from approximately RMB296.05 million in the first half of 2018 to approximately RMB349.90 million in the first half of 2019. The increase was mainly due to an increase in the sales of crankshafts in the first half of 2019. The Group sold approximately 258,200 units of crankshaft in the first half of 2019, representing approximately 14.1% increase compared to approximately 226,300 units for the corresponding period of 2018. The increase was mainly due to the increase in demand for Bx8 crankshafts as requested by the BMW Brilliance Automotive.

The Group sold approximately 306,000 units of connecting rods in the first half of 2019, representing approximately 12.0% increase compared to approximately 273,200 units for the corresponding period of 2018. The increase in the unit sales of connecting rods was mainly due to an increase in production of Bx8 connecting rods during the reporting period.

The unaudited cost of sales amounted to approximately RMB1,001.05 million in the first half of 2019, representing a decrease of approximately 26.3% compared to approximately RMB1,357.65 million for the corresponding period last year. The decrease was generally in line with the decrease in the Group's total unaudited revenue.

The gross profit margin of the Group maintained at approximately the same level as the corresponding period in 2018. It was approximately 13.3% in the first half of 2019 whilst it was approximately 12.9% in the first half of 2018.

The unaudited other income increased from approximately RMB4.56 million for the first half of 2018 to approximately RMB4.74 million for the first half of 2019, representing an increase of approximately 3.9%. The increase was mainly due to the increase in bank interest income.

The unaudited other gains and losses decreased from net gains of approximately RMB9.28 million for the first half of 2018 to net gains of approximately RMB5.88 million for the first half of 2019. The change was mainly due to the decrease in government grants.

The unaudited distribution and selling expenses increased by approximately 1.2%, from approximately RMB18.20 million in the first half of 2018 to approximately RMB18.42 million in the first half of 2019, representing approximately 1.2% and approximately 1.6% of the revenue in the first half of 2018 and 2019 respectively. The increase in terms of value was mainly due to an increase in transportation costs.

The unaudited administrative expenses decreased by approximately 16.4%, from approximately RMB74.40 million in the first half of 2018 to approximately RMB62.23 million in the first half of 2019, representing approximately 4.8% and approximately 5.4% of the revenue in the first half of 2018 and 2019 respectively. The decrease in value was mainly due to the general decrease in other staff costs, depreciation and office expenses. The increase in terms of percentage was mainly due to a larger extent of decrease in unaudited revenue.

The unaudited finance costs decreased by approximately 1.2%, from approximately RMB42.26 million in the first half of 2018 to approximately RMB41.76 million in the first half of 2019. The decrease was mainly due to a decrease in short term financing by discounting bills during the course of business.

The Group's unaudited profit before tax decreased by approximately 48.8%, from approximately RMB76.97 million in the first half of 2018 to approximately RMB39.38 million in the first half of 2019.

The unaudited income tax expenses decreased by approximately 61.5%, from approximately RMB19.35 million in the first half of 2018 to approximately RMB7.46 million in the first half of 2019. The decrease was due to the decrease in business transacted during the period.

In the first half of 2019, the Group achieved unaudited net income attributable to the owners of the Company of approximately RMB31.93 million, representing a decrease of approximately 44.6% compared to approximately RMB57.62 million for the corresponding period of 2018.

Liquidity and financial resources

As at 30 June 2019, the Group had approximately RMB157.63 million in bank balances and cash (31 December 2018: approximately RMB223.95 million), and approximately RMB265.98 million in pledged/restricted bank deposits (31 December 2018: approximately RMB595.78 million).

As at 30 June 2019, the Group had trade and other payables of approximately RMB1,381.04 million (31 December 2018: approximately RMB1,938.13 million), bank borrowings due within one year in the amount of approximately RMB870.55 million (31 December 2018: approximately RMB682.83 million), and bank borrowings due after one year in the amount of approximately RMB928.13 million (31 December 2018: approximately RMB1,267.81 million).

Pledge of assets

As at 30 June 2019, the Group pledged certain of its land use rights, buildings, plant and machinery with a total value of approximately RMB64.88 million (31 December 2018: approximately RMB69.49 million) to certain banks to secure certain credit facilities granted to the Group.

As at 30 June 2019, the Group also pledged bank deposits of approximately RMB232.60 million (31 December 2018: approximately RMB552.33 million) to certain banks to secure certain credit facilities granted to the Group.

Gearing ratio

As at 30 June 2019, the Debt-to-Equity ratio of the Group, computed by dividing total liabilities by total equity attributable to owners of the Company, was approximately 1.13 (31 December 2018: approximately 1.40).

As at 30 June 2019, the gearing ratio, computed by dividing bank borrowings by total equity attributable to owners of the Company, was approximately 59.6% (31 December 2018: approximately 65.3%). Both Debt-to-Equity ratio and gearing ratio decreased, which were mainly due to a decrease in total bank borrowings.

Contingent liabilities

During the period under review, the Group (i) endorsed certain bills receivable for the settlement of trade and other payables; and (ii) discounted certain bills receivable to banks for raising cash. The Group considered that the risk of 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 2019, the Group had capital commitments of approximately RMB480.66 million (31 December 2018: approximately RMB667.71 million), of which contracted capital commitments amounted to approximately RMB118.82 million (31 December 2018: approximately RMB185.97 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 Dollars and Hong Kong Dollars, 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 2019, the Group had approximately 1,603 employees (30 June 2018: approximately 2,042). Employee costs amounted to approximately RMB85.14 million for the six months ended 30 June 2019 (2018: approximately RMB112.83 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 2019, the sales of the passenger vehicles segment of the automotive sector in the PRC remained sluggish. According to the China Association of Automobile Manufacturers, the sales of passenger vehicles recorded a decline of 14.0% on a year-on-year basis whilst the sales of commercial vehicles segment recorded a decline of 4.1%. Passenger vehicles account for about 82.2% of sales of the automotive sector. The decline of the passenger vehicles segment was mainly driven by a decrease in demand for multi-purpose vehicles, followed by crossovers and sport-utility vehicles. The slowing domestic economic growth in the PRC, trade war with the United States, lack of confidence in consumption, change in emission policy, and the expectation of automobile purchase promotion policy all negatively affected the sales volume during the reporting period.

During the reporting period, the Group recorded a decline in the sales of its own branded engines due to decrease demand from its customers.

Regarding the prince engine business, the sales is slower than the original forecast. This is mainly affected by the unfavorable automobile market that dampens the customer desire to change for new cars. This trend is particularly obvious in the mid to lower-end market. The Group expects that more contribution from the sales of prince engines will be back on track from 2020 onwards. Prince engines, which is considered to be more competitive engine in the PRC regarding, among others, its size, technology and fuel consumption. The Group started the industrialization of prince engines with 1.6L and 1.8L displacement. The Group believes that prince engines will become the key driver for the Group's engine business going forward.

Other than the 1.6L and 1.8L displacement volume, 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 this 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 of hybrid electric vehicles.

Regarding engine components business, the crankshaft production line for Bx8 engines showed a continued growth in sales in the first half of 2019 when compared to the corresponding period in 2018. As set out in Brilliance China's annual report for 2018, BMW Brilliance Automotive achieved sales of 466,182 BMW vehicles in 2018 and it is expected that the demand of 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 exported some locally-produced crankshafts to BMW AG in Germany since 2018. The Group will continue to explore new business opportunities with BMW AG and BMW Brilliance Automotive in the future.

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

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 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 Listing Rules. The Company has complied with all code provisions of the CG Code throughout the six months ended 30 June 2019.

REVIEW OF FINANCIAL STATEMENTS

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

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, 22 August 2019