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# POWER XINCHEN

新 晨 動 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 2017

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 2017 as follows:

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

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTES	2017 RMB'000	2016 RMB'000
Revenue	3	2,956,662	3,462,460
Cost of sales		(2,616,472)	(3,009,444)
Gross profit		340,190	453,016
Other income	4	30,564	32,099
Other gains and losses	5	50,432	15,198
Selling and distribution expenses		(44,570)	(68,430)
Administrative expenses		(138,937)	(148,101)
Finance costs	6	(68,033)	(48,496)
Other expenses		(15,773)	(7,688)
Share of result of a joint venture		(304)	665
Profit before tax		153,569	228,263
Income tax expense	7	(25,476)	(42,367)
Profit and total comprehensive income for the year attributable to owners of the Company	8	128,093	185,896
Earnings per share – Basic (RMB)	10	0.100	0.145

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AT 31 DECEMBER 2017**

	<i>NOTES</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		2,451,686	1,982,893
Prepaid lease payments		133,858	91,614
Investment properties		211,508	218,799
Intangible assets		590,478	471,918
Interest in a joint venture		49,469	49,773
Deferred tax assets		12,497	8,179
Loan to a shareholder		27,396	28,460
		<u>3,476,892</u>	<u>2,851,636</u>
<b>CURRENT ASSETS</b>			
Inventories		608,111	478,039
Prepaid lease payments		3,353	2,295
Trade and other receivables	<i>11</i>	879,667	705,258
Amounts due from related companies	<i>12</i>	1,464,286	1,271,371
Pledged/restricted bank deposits		282,867	327,111
Bank balances and cash		352,473	306,014
		<u>3,590,757</u>	<u>3,090,088</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	<i>13</i>	1,812,592	1,380,663
Amounts due to related companies		348,797	261,446
Financial liabilities designated as at fair value through profit or loss		15,270	–
Income tax payables		14,178	4,364
Borrowings due within one year	<i>14</i>	789,577	781,354
		<u>2,980,414</u>	<u>2,427,827</u>
<b>NET CURRENT ASSETS</b>		<u>610,343</u>	<u>662,261</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>4,087,235</u>	<u>3,513,897</u>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings due after one year	<i>14</i>	1,029,866	610,801
Deferred income		64,966	38,786
		<u>1,094,832</u>	<u>649,587</u>
<b>NET ASSETS</b>		<u>2,992,403</u>	<u>2,864,310</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	<i>15</i>	10,457	10,457
Reserves		2,981,946	2,853,853
<b>TOTAL EQUITY</b>		<u>2,992,403</u>	<u>2,864,310</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. GENERAL

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 principal activities of the Company and its wholly owned subsidiary, Southern State Investment Limited, are investment holding. The principal activities of Mianyang Xinchun Engine Co., Limited\* (綿陽新晨動力機械有限公司) (“Mianyang Xinchun”) are development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles and manufacture of engine parts and components of the passenger vehicles in the PRC.

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 REVISED HONG KONG ACCOUNTING STANDARDS (“HKASs”) AND HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied, for the first time, the following amendments to HKFRSs and HKASs issued by the Hong Kong Institute of Certified Public Accountants:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle

The application of the above amendments to HKFRSs and HKASs in the current year has had no material impact on the Group’s financial performance and position for the current and prior years and/or the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised to HKFRSs and HKASs and the new interpretations to Hong Kong International Financial Reporting Interpretations Committee (“HK(IFRIC)”) that have been issued but are not yet effective:

HKFRS 9	Financial instruments <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers and the related Amendments <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
HKFRS 17	Insurance Contracts <sup>4</sup>
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments <sup>2</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>1</sup>
Amendments to HKFRS 9	Prepayment Features with Negative Compensation <sup>2</sup>
Amendments to HKAS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures <sup>2</sup>
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle <sup>1</sup>
Amendments to HKAS 40	Transfers of Investment Property <sup>1</sup>
Amendments to HKFRSs	Annual Improvement to HKFRSs 2015 – 2017 Cycle <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019.

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2021.

### 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.

#### 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 and service income.

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

**For the year ended 31 December 2017**

	<b>Gasoline engines RMB'000</b>	<b>Diesel engines RMB'000</b>	<b>Engine components and service income RMB'000</b>	<b>Total RMB'000</b>
Segment revenue – external <i>(Note)</i>	<u>1,890,994</u>	<u>538,003</u>	<u>527,665</u>	<u>2,956,662</u>
Segment results	<u>150,783</u>	<u>51,766</u>	<u>137,641</u>	340,190
Unallocated income and gain				82,080
Unallocated expenses				
Selling and distribution expenses				(44,570)
Administrative expenses				(138,937)
Finance costs				(68,033)
Other expenses				(16,857)
Share of result of a joint venture				(304)
Profit before tax				<u>153,569</u>

**For the year ended 31 December 2016**

	<b>Gasoline engines RMB'000</b>	<b>Diesel engines RMB'000</b>	<b>Engine components and service income RMB'000</b>	<b>Total RMB'000</b>
Segment revenue – external <i>(Note)</i>	<u>2,696,215</u>	<u>267,931</u>	<u>498,314</u>	<u>3,462,460</u>
Segment results	<u>298,360</u>	<u>30,579</u>	<u>124,077</u>	453,016
Unallocated income and gain				47,968
Unallocated expenses				
Selling and distribution expenses				(68,430)
Administrative expenses				(148,101)
Finance costs				(48,496)
Other expenses				(8,359)
Share of result of a joint venture				665
Profit before tax				<u>228,263</u>

*Note: There is no inter-segment sales during the years of 2017 and 2016.*

Other segment information included in the measurement of segment results:

	<b>Gasoline engines</b> <i>RMB'000</i>	<b>Diesel engines</b> <i>RMB'000</i>	<b>Engine components and service income</b> <i>RMB'000</i>	<b>Unallocated</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>For the year ended 31 December 2017</b>					
Depreciation and amortisation	75,133	16,307	88,086	33,207	212,733
Provision of inventories	8,578	(1,058)	–	–	7,520
<b>For the year ended 31 December 2016</b>					
Depreciation and amortisation	82,679	8,686	76,956	28,158	196,479
Provision of inventories	2,091	690	–	–	2,781

The accounting policies of the reportable 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, other gain 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.

#### **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 analyzed by reportable operating segment is not presented.

#### **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.

#### **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 and service income to the related parties as disclosed in Note 16.

#### **4. OTHER INCOME**

	<b>2017</b> <i>RMB'000</i>	2016 <i>RMB'000</i>
Rental income from investment properties	<b>21,574</b>	23,218
Bank interest income	<b>8,990</b>	8,881
	<b>30,564</b>	32,099

## 5. OTHER GAINS AND LOSSES

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Foreign exchange gains (loss), net unrealised	35,875	(31,364)
Government grants	30,169	38,597
Imputed interest income from loan to a shareholder	823	–
Net loss arising on financial liabilities designated as at fair value through profit or loss, unrealised	(15,270)	–
Loss on disposal of property, plant and equipment	(81)	(77)
Gain on expropriation of land use rights	–	7,608
Allowance for doubtful debts, net	(1,084)	(671)
Others	–	1,105
	<u>50,432</u>	<u>15,198</u>

## 6. FINANCE COSTS

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Interest on borrowings:		
Bank loans	71,408	47,100
Adjustment on loan to a shareholder	–	4,326
Discounted bills	19,942	3,304
	<u>91,350</u>	<u>54,730</u>
Less: amounts capitalised	(23,317)	(6,234)
	<u>68,033</u>	<u>48,496</u>

Borrowing costs capitalised during the year arose on the general borrowing pool and were calculated by applying a capitalisation rate of 4.29% (2016: 3.41%) per annum to expenditure on qualifying assets.

## 7. INCOME TAX EXPENSE

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
PRC Enterprise Income Tax		
– Current tax	29,432	42,466
– Under provision in prior year	362	2,002
	<u>29,794</u>	<u>44,468</u>
Deferred tax	(4,318)	(2,101)
	<u>25,476</u>	<u>42,367</u>

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 Xincheng was registered with the local tax authority to be eligible to the reduced enterprise income tax 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):

	<b>2017</b> <b>RMB'000</b>	2016 <i>RMB'000</i>
Directors' remuneration	<b>6,952</b>	13,783
Other staff costs	<b>171,014</b>	157,294
Contributions to retirement benefits scheme	<b>29,064</b>	29,656
	<hr/>	<hr/>
Total staff costs	<b>207,030</b>	200,733
	<hr/>	<hr/>
Depreciation of property, plant and equipment	<b>160,180</b>	150,770
Depreciation of investment properties	<b>7,291</b>	7,291
Amortisation of prepaid lease payments	<b>2,605</b>	2,313
Amortisation of intangible assets (included in cost of sales)	<b>42,657</b>	36,105
	<hr/>	<hr/>
Total depreciation and amortisation	<b>212,733</b>	196,479
	<hr/>	<hr/>
Auditors' remuneration	<b>1,396</b>	1,271
Allowance for doubtful debts, net	<b>1,084</b>	671
Included in cost of sales:		
Cost of inventories recognised as expense	<b>2,282,276</b>	2,700,513
Provision of inventories, net	<b>7,520</b>	2,781
Provision for warranty, net	<b>17,462</b>	26,181
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## 9. DIVIDENDS

No dividend has been paid or declared by the Company during the years ended 31 December 2017 and 2016, 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 is based on the profit for the year attributable to owners of the Company and weighted average number of shares of 1,282,211,794 (2016: 1,282,260,974), for the year ended 31 December 2017.

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.

## 11. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise the following:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Trade receivables	363,735	149,760
Less: allowance for doubtful debts	<u>(2,640)</u>	<u>(1,556)</u>
Trade receivables, net	361,095	148,204
Bills receivable	<u>331,131</u>	<u>356,209</u>
Total trade and bills receivables	692,226	504,413
Prepayments for purchase of raw materials and engine components	10,965	6,607
Other receivables <i>(Note a)</i>	176,476	169,238
Other receivable from government <i>(Note b)</i>	<u>–</u>	<u>25,000</u>
	<u><b>879,667</b></u>	<u><b>705,258</b></u>

Notes:

- a. *Included in the balance is value added tax recoverable of RMB167,236,000 (2016: RMB131,644,000).*
- b. *Included in the balance was grant receivable which was fully settled during the year ended 31 December 2017.*

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Within 1 month	260,939	77,463
Over 1 month but within 2 months	64,369	19,462
Over 2 months but within 3 months	21,251	23,084
Over 3 months but within 6 months	9,907	7,439
Over 6 months but within 1 year	3,549	6,475
Over 1 year	<u>1,080</u>	<u>14,281</u>
	<u><b>361,095</b></u>	<u><b>148,204</b></u>

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Within 3 months	153,046	240,044
Over 3 months but within 6 months	167,735	109,242
Over 6 months but within 1 year	<u>10,350</u>	<u>6,923</u>
	<u><b>331,131</b></u>	<u><b>356,209</b></u>

## 12. AMOUNTS DUE FROM RELATED COMPANIES

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Trade receivables	1,403,932	1,222,850
Bills receivable	58,800	47,193
Prepayment	263	–
	<u>1,462,995</u>	<u>1,270,043</u>

Amounts due from related companies of trade nature 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 ageing analysis of trade receivables presented based on the invoice date at the end of the reporting period:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Within 3 months	593,329	588,119
Over 3 months but within 6 months	263,144	222,972
Over 6 months but within 1 year	423,799	199,311
Over 1 year	123,660	212,448
	<u>1,403,932</u>	<u>1,222,850</u>

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Within 3 months	32,900	33,385
Over 3 months but within 6 months	24,100	12,274
Over 6 months but within 1 year	1,800	1,534
	<u>58,800</u>	<u>47,193</u>

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

### 13. TRADE AND OTHER PAYABLES

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Trade payables	798,899	523,254
Bills payable	420,538	395,759
	<hr/>	<hr/>
Total trade and bills payables	1,219,437	919,013
Accrued payable for purchase of raw materials	378,399	289,486
Construction payables	82,617	9,118
Payroll and welfare payables	59,979	52,322
Advances from customers	5,767	3,103
Provision for warranty <i>(Note a)</i>	4,006	4,006
Retention money	15,804	26,030
Interest bearing payables <i>(Note b)</i>	–	50,000
Other tax payables	9,619	6,495
Accrued operating expenses	22,406	17,692
Other payables	14,558	3,398
	<hr/>	<hr/>
	<b>1,812,592</b>	<b>1,380,663</b>
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*Notes:*

- a. *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 engines components, based on prior experience and industry averages for defective products at the end of each reporting period.*
- b. *The payable is from a non-related party, unsecured, bearing interest at 5.5% per annum and repayable on 27 June 2017. During the year ended 31 December 2017, the counterpart entered into an agreement with the Group and the local authority as to waive the accrued interest and the principal amount of the payable was assumed by the local authority as the settlement of government grant payable to the Group.*

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

	<b>2017</b> <b>RMB'000</b>	2016 <b>RMB'000</b>
Within 3 months	<b>569,447</b>	418,632
Over 3 months but within 6 months	<b>130,586</b>	78,722
Over 6 months but within 1 year	<b>82,094</b>	22,388
Over 1 year but within 2 years	<b>16,772</b>	3,512
	<b>798,899</b>	523,254

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

	<b>2017</b> <b>RMB'000</b>	2016 <b>RMB'000</b>
Within 3 months	<b>248,026</b>	228,326
Over 3 months but within 6 months	<b>172,512</b>	167,433
	<b>420,538</b>	395,759

#### 14. BORROWINGS

	<b>2017</b> <b>RMB'000</b>	2016 <b>RMB'000</b>
Carrying amount repayable:		
Within one year	<b>789,577</b>	781,354
More than two years, but not more than five years	<b>1,029,866</b>	610,801
	<b>1,819,443</b>	1,392,155
<i>Less: amounts shown under current liabilities</i>	<b>(789,577)</b>	(781,354)
Amounts shown under non-current liabilities	<b>1,029,866</b>	610,801
Secured	<b>612,000</b>	192,000
Unsecured	<b>1,207,443</b>	1,200,155
	<b>1,819,443</b>	1,392,155

In 2017, other than loans which are denominated in United States Dollar ("US\$"), i.e. US\$102,051,000, equivalent to approximately RMB691,443,000 (2016: US\$127,376,000, equivalent to approximately RMB902,155,000), the remaining loans are all denominated in RMB.

## 15. 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		
<i>Authorised:</i>		
At date of incorporation, 1 January 2016, 31 December 2016 and 2017	<u>8,000,000,000</u>	<u>80,000,000</u>
<i>Issued and fully paid:</i>		
At 1 January 2016	1,283,211,794	12,832,118
Repurchase of shares on 19 January 2016 <sup>(Note)</sup>	<u>(1,000,000)</u>	<u>(10,000)</u>
At 31 December 2016 and 2017	<u>1,282,211,794</u>	<u>12,822,118</u>
	<b>2017</b>	2016
	<b>RMB’000</b>	RMB’000
Share capital presented in consolidated statement of financial position	<u><b>10,457</b></u>	<u>10,457</u>

*Note:*

*In 2016, the Company repurchased a total of 1,000,000 shares of HK\$0.01 each of the Company from the Stock Exchange, at an aggregate consideration including associated expense of approximately HK\$1,197,000 (approximately RMB1,007,000), all the shares were cancelled in 2016. The share capital of the Company was diminished by the nominal value of the cancelled shares and the remaining consideration paid was debited from the share premium of the Company.*

## 16. RELATED PARTY DISCLOSURES

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
<b>Sale of goods</b>		
Brilliance China Group	786,329	1,660,230
Huachen Group <sup>(Note)</sup>	891,316	969,004
	<u>1,677,645</u>	<u>2,629,234</u>
<b>Purchase of goods</b>		
Brilliance China Group	179,845	948,239
Huachen Group	14,885	44
Wuliangye Group	105,077	101,412
	<u>299,807</u>	<u>1,049,695</u>
<b>Purchase of land, production lines and inventories</b>		
Brilliance China Group	352,415	424,378
Wuliangye Group	–	251,600
	<u>352,415</u>	<u>675,978</u>
<b>Rental charged and auxiliary services received</b>		
Brilliance China Group	2,800	2,800
Huachen Group	6,000	6,254
Wuliangye Group	–	860
	<u>8,800</u>	<u>9,914</u>

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
<b>Rental income</b>		
Brilliance China Group	<u>26,444</u>	<u>29,165</u>
<b>Maintenance and construction cost charged</b>		
Wuliangye Group	2,725	6,968
Brilliance China Group	<u>15,239</u>	–
	<u>17,964</u>	<u>6,968</u>
<b>Logistics services received</b>		
Wuliangye Group	<u>–</u>	<u>4,967</u>
<b>Cleaning and greening services received</b>		
Wuliangye Group	<u>2,240</u>	<u>2,263</u>
<b>Consulting service received</b>		
Brilliance China Group	23,682	75,927
Wuliangye Group	10,736	–
Huachen Group	<u>119</u>	–
	<u>34,537</u>	<u>75,927</u>
<b>Water and electricity costs charged</b>		
Brilliance China Group	4,003	8,812
Wuliangye Group	<u>465</u>	<u>219</u>
	<u>4,468</u>	<u>9,031</u>
<b>Repairment Fee</b>		
Brilliance China Group	659	–
Wuliangye Group	<u>229</u>	–
	<u>888</u>	–

*Note:*

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

## **BUSINESS REVIEW AND PROSPECT**

The automobile industry showed a moderate overall growth in 2017. Except for SUV which has showed continued growth, the performance of all other types of passenger vehicles recorded a decline. According to the China Association of Automobile Manufacturers (the “CAAM”), the reduction in purchase tax cut of small engine vehicles in 2017 led to more early bird purchases in 2016, resulting in a bigger production and sale base in 2016. In addition, the adjustment of new energy vehicle policy also delayed some potential purchases in 2017.

The demand for certain types of vehicles produced by the Group’s customers decreased during the year, and this in turn affected the sales of some of the traditional engines of the Group. In 2017, the Group recorded a total sales of approximately RMB 2,956.66 million, representing a decrease of approximately 14.6% as compared to 2016. As disclosed in the interim report, such decrease was mainly due to a decrease in the sales of N20 engines as N20 engines have been phased out in 2017 for BMW vehicles. This coupled with the impact brought by a decline in the profit margin of the Group’s traditional engine production business, leading to a decline in net profit. The net profit attributable to owners of the Company was approximately RMB128.09 million in 2017, a decrease of approximately 31.1% as compared to approximately RMB185.90 million in 2016.

According to the CAAM, the sales of Chinese brand passenger vehicles showed a positive trend in 2017. Since the competition is very keen among this level of market players, we remain cautious in the demand for our traditional XCE branded engines. As a supplement to our engine production, parts and components showed a bigger proportion of contribution to the Group’s revenue over the past few years. During the period under review, the Group acquired the third crankshaft production line and its affiliated facilities. The Group anticipates that there will be an increasing demand from BMW Brilliance Automotive Ltd. (“BBA”) and BMW AG. This is the third year for us to produce crankshaft exclusively for the use of automobiles produced by BBA, with the continual technical guidance of BBA and BMW AG. For the first time, the Group managed to produce crankshafts which were exported to BMW AG in Germany. The Group intends to scale up the export volume in the future, and in the meantime, to consider the expansion of capacity of the existing crankshaft production lines. As for the connecting rods business, the Group upgraded a N20 connecting rods production line in 2016 for Bx8 engines use. Another production line was modified in early 2017 to supply connecting rods for prince engines.

During the period under review, the Group finished the supply of N20 engines to BBA as this engine was no longer used by all newly-produced BMW vehicles. However, the Group continues to supply several thousand units of N20 engines for Huasong MPV. On the other hand, the construction work of the cylinder head processing line was completed during the year and the industrialization of cylinder head production for prince engines will be ready by the first half of 2018.

The Group had been investing in the industrialization of prince engine which was licensed by BMW AG to the Group since June 2015, and the Group launched the trial production of prince engine in October 2017 and expects that the mass production will be in operation in the second half of 2018.

The prince engine is equipped with advanced technology and well received in global market, and the Group believes that the prince engine is one of the most competitive engines in the PRC. Sale of new engines will broaden the Group's revenue base. The manufacturing capabilities of the Group will be enhanced by producing the high-tech prince engine, which demands more stringent requirement in the overall production process. With the support of BMW AG and BBA, the research and development capability of the Group has been moving to a higher level with subsequent modification and upgrading of the prince engines.

As mentioned last year, the Group formed a working team to work on the research and development of three-cylinder engine in response to the more stringent requirement for fuel consumption and emission standard in the near future. As such, the Group acquired an engine production line from BBA which will be modified and upgraded to enable it to produce three-cylinder 1.2L displacement engines. Such three-cylinder engine could be paired up with electric motors to cope with the increasing demand for hybrid electric vehicles – vehicles which are equipped with an engine system using a combination of batteries and internal combustion engines. Production is expected to be commenced in the second half of 2019.

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.

## **MANAGEMENT'S DISCUSSION & ANALYSIS**

In 2017, the Group achieved total consolidated sales of approximately RMB2,956.66 million, representing a decrease of approximately 14.6% compared to the corresponding period last year (approximately RMB3,462.46 million). The decrease was mainly due to the decrease in the sales of N20 gasoline engines. The decrease in the sales of N20 gasoline engines was caused by the discontinuation of using N20 engines for BMW vehicles in 2017.

In respect of the engines business segment, the Group recorded approximately 18.1% decrease in segment revenue, from approximately RMB2,964.15 million in 2016 to approximately RMB2,429.00 million in 2017. Sales volume of engines slightly decreased by approximately 2.4% from around 262,500 units in 2016 to around 256,200 units in 2017. The decrease was mainly due to the decrease in the sales of N20 engines from around 36,200 units in 2016 to around 3,000 units in 2017, but was complemented by the increase in sales volume of traditional engines which are less costly.

In respect of the engine components segment, the Group recorded approximately 5.9% increase in segment revenue, from approximately RMB498.31 million in 2016 to approximately RMB527.67 million in 2017. The increase was mainly due to more Bx8 crankshafts produced and supplied to BBA during the year. The Group sold around 329,000 units of crankshafts in 2017, representing an increase of approximately 27.0% from around 259,100 units in 2016. However, there was a decrease in the demand for connecting rods due to intense market competition. The Group sold around 744,000 units of connecting rods in 2017, down by approximately 4.2% from around 776,700 units in 2016.

The consolidated cost of sales in 2017 amounted to approximately RMB2,616.47 million, down by approximately 13.1% when compared to approximately RMB3,009.44 million recorded in 2016. The decrease in cost of sales was generally in line with the decrease in sales revenue.

The gross profit margin of the Group decreased from approximately 13.1% in 2016 to approximately 11.5% in 2017, which was mainly due to the discontinuation of producing N20 engines, increase in the sales of small engines, which has lower profit margin, and the decrease in the demand for connecting rods.

Other gains and losses increased from approximately RMB15.20 million in 2016 to approximately RMB50.43 million in 2017, representing an increase of approximately 231.8%. The increase was mainly due to unrealized foreign exchange translation gain recognized in 2017.

Selling and distribution expenses decreased by approximately 34.9%, from approximately RMB68.43 million in 2016 to approximately RMB44.57 million in 2017, representing approximately 2.0% and approximately 1.5% of the revenue in 2016 and 2017, respectively. The decrease was mainly due to the decrease in transportation costs as fewer N20 engines were produced during 2017.

Administrative expenses decreased by approximately 6.2%, from approximately RMB148.10 million in 2016 to approximately RMB138.94 million in 2017, representing approximately 4.3% and approximately 4.7% of the revenue in 2016 and 2017, respectively. The increase in terms of percentage was mainly due to a decrease in sales revenue whilst staff cost, depreciation and office expense remained at about the same level.

Finance costs increased by approximately 40.3%, from approximately RMB48.50 million in 2016 to approximately RMB68.03 million in 2017. The increase was mainly due to increase in bank borrowing to finance the acquisition of assets in 2017, including a crankshaft production line, an engine assembly line and more short term financing by discounting bills.

Other expenses increased by approximately 105.2% from approximately RMB7.69 million in 2016 to approximately RMB15.77 million in 2017, which was mainly due to the increase in research expenses incurred in 2017.

The Group's profit before tax decreased by approximately 32.7% from approximately RMB228.26 million in 2016 to approximately RMB153.57 million in 2017.

Income tax expenses decreased by approximately 39.9% from approximately RMB42.37 million in 2016 to approximately RMB25.48 million in 2017.

For the year 2017, the net income attributable to owners of the Company was approximately RMB128.09 million, representing an approximately 31.1% decrease from approximately RMB185.90 million in 2016. Basic earnings per share in 2017 amounted to approximately RMB0.100, compared to approximately RMB0.145 in 2016.

## **Liquidity and Financial Resources**

As at 31 December 2017, the Group had approximately RMB352.47 million in cash and cash equivalents (31 December 2016: RMB306.01 million), and approximately RMB207.58 million in pledged bank deposits (31 December 2016: RMB90.50 million). The Group had trade and other payables of approximately RMB1,812.59 million (31 December 2016: RMB1,380.66 million), bank borrowings due within one year in the amount of approximately RMB789.58 million (31 December 2016: RMB781.35 million), and bank borrowings due after one year in the amount of approximately RMB1,029.87 million (31 December 2016: RMB610.80 million).

## **Capital Structure**

As at 31 December 2017, the Group's total assets was approximately RMB7,067.65 million (31 December 2016: RMB5,941.72 million), which was funded by the following: (1) share capital of approximately RMB10.46 million (31 December 2016: RMB10.46 million), (2) reserves of approximately RMB2,981.95 million (31 December 2016: RMB2,853.85 million) and (3) total liabilities of approximately RMB4,075.25 million (31 December 2016: RMB3,077.41 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 the reputable banks in the PRC.

## **Pledge of Assets**

As at 31 December 2017, the Group pledged certain of its land use rights, buildings, plant and machinery with an aggregate carrying value of approximately RMB118.67 million (31 December 2016: RMB136.09 million) to certain banks to secure certain credit facilities granted to the Group.

As at 31 December 2017, the Group pledged amount due from related parties and commercial bills with carrying values of RMB34.02 million and RMB22.35 million (2016: nil and nil), to secure general banking facilities granted to the Group.

As at 31 December 2017, the Group also pledged bank deposits in the amount of approximately RMB207.58 million (31 December 2016: RMB90.50 million) to certain banks to secure certain credit facilities granted to the Group.

## **Gearing Ratio**

As at 31 December 2017, the debt-to-equity ratio, computed by dividing total liabilities by total equity attributable to owners of the Company, was approximately 1.36 (31 December 2016: 1.07). The increase in the debt-to-equity ratio was mainly due to the increase in bank borrowing in 2017.

As at 31 December 2017, the gearing ratio, computed by dividing bank borrowings by total equity attributable to owners of the Company, was approximately 61% (31 December 2016: 49%). The increase in gearing ratio was mainly due to the increase in total bank borrowing as a result of the finance of the acquisition of property, plant and equipment during the year with bank borrowings.

### **Investment Property**

In 2017, certain portion of the Group's premises located in Shenyang was leased to BBA, which generated rental income of approximately RMB26.44 million during the year ended 31 December 2017 (31 December 2016: RMB29.17 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 2017, the Group employed approximately 2,070 employees (31 December 2016: approximately 1,918). Employee costs amounted to approximately RMB207.03 million for the year ended 31 December 2017 (31 December 2016: approximately RMB200.73 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 11 April 2017, Mianyang Xincheng entered into an asset transfer agreement with BBA for the acquisition of a crankshaft production line and its affiliated facilities in Tiexi District of Shenyang City. The consideration was finalized at approximately RMB419.91 million. The transaction was completed in 2017. Details of the transaction are set out in the announcement and the circular of the Company dated 11 April 2017 and 26 May 2017, respectively.

On 3 October 2017, Mianyang Xincheng entered into an asset transfer agreement with BBA for the acquisition of the N20 engine assembly line, affiliated facilities and spare parts. The consideration was finalized at approximately RMB119.44 million. The transaction will be completed in late 2018. Details of the transaction are set out in the announcement and the circular of the Company dated 3 October 2017 and 2 November 2017, respectively.

Save as disclosed, there were no major acquisition and disposal of subsidiaries and associated companies undertaken by the Group during the year ended 31 December 2017.

## **Capital Commitment**

As at 31 December 2017, the Group had capital commitments of approximately RMB997.08 million (31 December 2016: RMB636.24 million), among which contracted capital commitments amounted to approximately RMB261.30 million (31 December 2016: RMB130.09 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 2017 (2016: Nil).

## **CLOSURE OF REGISTER OF MEMBERS**

The Company's forthcoming annual general meeting will be held at 9:00 a.m. on Thursday, 21 June 2018.

The Hong Kong branch register of members of the Company will be closed from Friday, 15 June 2018 to Thursday, 21 June 2018, 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, 15 June 2018 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, 14 June 2018.

## **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 2017.

## **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 2017.

## **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 2017.

## **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 2017.

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 2017 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](http://www.hkexnews.hk)) and the Company ([www.xinchenpower.com](http://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, 27 March 2018

\* *for identification purposes only*