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 2018

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 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		Six months ended	
	NOTES	**30.6.2018** *RMB'000* **(unaudited)**	30.6.2017 *RMB'000* (unaudited)
Revenue	*3*	**1,559,485**	1,237,942
Cost of sales		**(1,357,647)**	(1,078,877)
Gross profit		**201,838**	159,065
Other income	*4*	**4,560**	14,510
Other gains and losses		**9,284**	21,243
Distribution and selling expenses		**(18,201)**	(17,728)
Administrative expenses		**(74,397)**	(65,885)
Other expenses		**(3,580)**	(2,783)
Share of result of a joint venture		**(276)**	(159)
Finance costs		**(42,256)**	(22,860)
Profit before tax	*5*	**76,972**	85,403
Income tax expense	*6*	**(19,352)**	(14,441)
Profit for the period		**57,620**	70,962

	NOTES	Six months ended 30.6.2018 RMB'000 (unaudited)	30.6.2017 RMB'000 (unaudited)
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Fair value gain on:			
financial assets from amortised cost to fair value through other comprehensive income		**83**	–
Other comprehensive income for the period		**83**	–
Total comprehensive income for the period		**57,703**	70,962
Earnings per share – Basic *(RMB)*	*8*	**0.045**	0.055

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2018

	NOTES	30.6.2018 RMB'000 (unaudited)	31.12.2017 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	**2,614,780**	2,451,686
Prepaid lease payments		**186,539**	133,858
Investment properties		**–**	211,508
Intangible assets	9	**632,007**	590,478
Investment in a joint venture		**49,193**	49,469
Loan to a shareholder		**27,225**	27,396
Deferred tax assets		**12,497**	12,497
		3,522,241	3,476,892
CURRENT ASSETS			
Inventories		**673,980**	608,111
Trade and other receivables	10	**524,290**	879,667
Trade receivables measured at fair value through other comprehensive income ("FVTOCI")	10	**32,572**	–
Prepaid lease payments		**4,743**	3,353
Tax recoverable		**16,002**	–
Amounts due from related companies	11	**1,694,425**	1,464,286
Pledged/restricted bank deposits		**649,993**	282,867
Bank balances and cash		**404,632**	352,473
		4,000,637	3,590,757
TOTAL ASSETS		**7,522,878**	7,067,649

	NOTES	30.6.2018 RMB'000 (unaudited)	31.12.2017 RMB'000 (audited)
CURRENT LIABILITIES			
Trade and other payables	*12*	**2,096,069**	1,812,592
Amounts due to related companies	*13*	**448,489**	348,797
Borrowings due within one year		**443,344**	789,577
Income tax payables		**–**	14,178
Financial liabilities at fair value through profit or loss		**13,504**	15,270
		3,001,406	2,980,414
NET CURRENT ASSETS		**999,231**	610,343
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,521,472**	4,087,235
NON-CURRENT LIABILITIES			
Borrowings due after one year		**1,429,112**	1,029,866
Deferred income		**60,040**	64,966
		1,489,152	1,094,832
NET ASSETS		**3,032,320**	2,992,403
CAPITAL AND RESERVES			
Share capital	*14*	**10,457**	10,457
Reserves		**3,021,863**	2,981,946
TOTAL EQUITY		**3,032,320**	2,992,403

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 June 2018

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.

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

Application of new and amendments to HKFRSs and an interpretation

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

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

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. The nature and effect of initially applying HKFRS 15 on the Group's interim financial statements are disclosed in Note 2. Revenue for sales of gasoline engines, diesel engines and engine component is recognized at a point of time. All the contracts with customers are agreed at fixed price and in short-time.

Segment revenue and segment results

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

(1) Gasoline engines;

(2) Diesel engines; and

(3) Engine components and service income.

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

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

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

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

Segment assets and liabilities

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

Geographical information

The majority of the Group's operations and non-current assets are located in the People's Republic of China (the "PRC"); and all of the Group's revenue from external customers is generated in the PRC, which is the country of domicile of Mianyang Xinchen 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	
	30.6.2018	30.6.2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Bank interest income	**1,533**	4,080
Rental income under operating lease, net of outgoing expenses	**3,027**	10,430
	4,560	14,510

5. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

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

6. INCOME TAX EXPENSE

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

Mianyang Xinchen was subject to 15% EIT rate for the period ended 30 June 2018 (six months ended 30 June 2017: 15%), which is lower than the standard tax rate of 25%. According to the announcement of "the State Administration of Taxation on issues concerning Enterprise Income Tax Related with enhancing the Western Region Development Strategy"（國家税務總局關於深入實施西部大開發戰略有關税收政策問題的通知）, 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 2018 and 2017, 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	
	30.6.2018	30.6.2017
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share *(RMB'000)*	**57,620**	70,962
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,282,211,794**	1,282,211,794

No diluted earnings per share are presented as there was no dilutive potential ordinary share outstanding during the periods or as at the end of reporting periods.

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

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

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

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

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

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

Trade and other receivables comprise the following:

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

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

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

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

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

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

Starting from 1 January 2018, the Group applied simplified approach to provide the expected credit losses ("ECL") prescribed by HKFRS 9.

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

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

Movement in the allowance for doubtful debts:

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

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

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

11. AMOUNTS DUE FROM RELATED COMPANIES

Analysed as:

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

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

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

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

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

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

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

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

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

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

* *English name for reference only*

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

[##] *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")*

Starting from 1 January 2018, the Group applied simplified approach to provide the ECL prescribed by HKFRS 9.

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

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

Movement in the allowance for doubtful debts:

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

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

12. TRADE AND OTHER PAYABLES

Trade and other payables comprise the following:

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

Notes:

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

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

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

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

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

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

13. AMOUNTS DUE TO RELATED COMPANIES

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

* *English names for reference only*

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

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

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

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

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

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

14. SHARE CAPITAL

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

	30.6.2018 ***RMB'000*** **(unaudited)**	31.12.2017 *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 2018, the Group achieved total unaudited revenue of approximately RMB1,559.49 million, representing an increase of approximately 26.0% compared to approximately RMB1,237.94 million for the corresponding period of last year. The increase in revenue was mainly due to the new sales of prince engines and the increase in the sales of diesel engines and Bx8 crankshafts. The increase in the sales of engines was driven by the launch of new automobile models by the Group's customers. The increase in the sales of crankshafts was mainly due to the increase in the demand by BMW Brilliance Automotive for the Group's Bx8 crankshafts and also the full half-year contribution impact upon the acquisition of the third crankshaft production line in June 2017.

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

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

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

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

The unaudited cost of sales amounted to approximately RMB1,357.65 million for the first half of 2018, representing an increase of approximately 25.8% compared to approximately RMB1,078.88 million for the corresponding period of last year. The increase was generally in line with the increase in the Group's total unaudited revenue.

The gross profit margin of the Group maintained at approximately the same level as the corresponding period of 2017. It was approximately 12.9% for the first half of 2018 whilst it was approximately 12.8% for the first half of 2017.

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

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

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

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

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

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

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

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

Liquidity and financial resources

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

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

Pledge of assets

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

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

Gearing ratio

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

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

Contingent liabilities

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

Capital commitments

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

Foreign exchange risks

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

Employees and remuneration policy

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

Outlook

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

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

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

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

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

INTERIM DIVIDEND

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

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

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 of Hong Kong Limited. The Company has complied with all code provisions of the CG Code throughout the six months ended 30 June 2018.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed 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 2018.

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

BOARD OF DIRECTORS

As at the date of this 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, 23 August 2018