POWER XINCHEN
新 晨 动 力

XINCHEN CHINA POWER HOLDINGS LIMITED
新晨中國動力控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1148)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTES	**2018** ***RMB'000***	2017 *RMB'000*
Revenue	*3*	**3,050,522**	2,956,662
Cost of sales		**(2,716,248)**	(2,616,472)
Gross profit		**334,274**	340,190
Other income	*4*	**53,223**	61,556
Impairment losses, net		**(17,530)**	(1,084)
Other gains and losses	*5*	**(80,636)**	20,524
Selling and distribution expenses		**(46,969)**	(44,570)
Administrative expenses		**(139,093)**	(138,937)
Finance costs	*6*	**(73,972)**	(68,033)
Other expenses		**(18,247)**	(15,773)
Share of result of a joint venture		**(276)**	(304)
Profit before tax		**10,774**	153,569
Income tax expense	*7*	**(50)**	(25,476)
Profit for the year	*8*	**10,724**	128,093

	NOTES	2018 RMB'000	2017 RMB'000
Other comprehensive income:			
Item that may be reclassified subsequently to profit or loss:			
Fair value gain on:			
Receivables measured at fair value through other comprehensive income		**362**	–
Total comprehensive income for the year		**11,086**	128,093
Earnings per share – Basic *(RMB)*	*10*	**0.008**	0.100

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2018

	NOTES	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**2,581,151**	2,451,686
Prepaid lease payments		**130,408**	133,858
Investment properties		**–**	211,508
Intangible assets		**623,455**	590,478
Interest in a joint venture		**–**	49,469
Deferred tax assets		**19,198**	12,497
Loan to a shareholder		**13,097**	27,396
		3,367,309	3,476,892
CURRENT ASSETS			
Inventories		**839,508**	608,111
Prepaid lease payments		**3,378**	3,353
Trade and other receivables	11	**562,687**	879,667
Receivables measured at fair value through other comprehensive income ("FVTOCI")		**217,396**	–
Amounts due from related companies	12	**1,285,192**	1,464,286
Tax recoverable		**31,479**	–
Pledged/restricted bank deposits		**595,782**	282,867
Bank balances and cash		**223,950**	352,473
		3,759,372	3,590,757
Assets classified as held for sale		**49,193**	–
		3,808,565	3,590,757
CURRENT LIABILITIES			
Trade and other payables	13	**1,938,128**	1,812,592
Amounts due to related companies		**241,374**	348,797
Financial liabilities at fair value through profit or loss ("FVTPL")		**5,616**	15,270
Income tax payables		**–**	14,178
Borrowings due within one year	14	**682,828**	789,577
		2,867,946	2,980,414

	NOTES	2018 RMB'000	2017 RMB'000
NET CURRENT ASSETS		**940,619**	610,343
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,307,928**	4,087,235
NON-CURRENT LIABILITIES			
Borrowings due after one year	*14*	**1,267,808**	1,029,866
Deferred income		**54,417**	64,966
		1,322,225	1,094,832
NET ASSETS		**2,985,703**	2,992,403
CAPITAL AND RESERVES			
Share capital	*15*	**10,457**	10,457
Reserves		**2,975,246**	2,981,946
TOTAL EQUITY		**2,985,703**	2,992,403

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New, Amendments to HKFRSs and new interpretation that are mandatorily effective for the current year

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
Hong Kong (International Financial Reporting Interpretations 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 Hong Kong Accounting Standard ("HKAS") 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except for the application of HKFRS 9 *Financial Instruments* and HKFRS 15 *Revenue from Contracts with Customers*, the application of the above new, amendments to HKFRSs and new interpretation 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 impact of application of HKFRS 9 and HKFRS 15 is disclosed in the latest condensed consolidated financial statements.

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.

Segment revenue and segment results

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

(1) Gasoline engines;

(2) Diesel engines; and

(3) Engine components.

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

For the year ended 31 December 2018

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

For the year ended 31 December 2017

	Gasoline engines *RMB'000*	Diesel engines *RMB'000*	Engine components *RMB'000*	Total *RMB'000*
Revenue from external customers, segment revenue *(Note)*	1,890,994	538,003	527,665	2,956,662
Segment results	150,783	51,766	137,641	340,190
Other income				61,556
Impairment losses, net				(1,084)
Other gains and losses				20,524
Selling and distribution expenses				(44,570)
Administrative expenses				(138,937)
Finance costs				(68,033)
Other expenses				(15,773)
Share of result of a joint venture				(304)
Profit before tax				153,569

Note: There is no inter-segment sales during the years of 2018 and 2017.

Other segment information included in the measurement of segment results:

	Gasoline engines *RMB'000*	Diesel engines *RMB'000*	Engine components *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
For the year ended 31 December 2018					
Depreciation and amortisation	179,395	30,770	87,705	38,867	336,737
Provision of inventories	(1,505)	441	–	–	(1,064)
For the year ended 31 December 2017					
Depreciation and amortisation	75,133	16,307	88,086	33,207	212,733
Provision of inventories	8,578	(1,058)	–	–	7,520

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

Performance obligations for contracts with customers

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

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

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

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

Segment assets and liabilities

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

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 to the related parties as disclosed in Note 16.

4. OTHER INCOME

	2018	2017
	RMB'000	*RMB'000*
Rental income under operating lease	**3,090**	21,574
Bank interest income	**8,320**	8,990
Government grants	**35,227**	30,169
Interest income arising on receivables measured at FVTOCI	**2,854**	–
Imputed interest income from loan to a shareholder	**830**	823
Written-off of long-outstanding trade payables	**2,902**	–
	53,223	61,556

5. OTHER GAINS AND LOSSES

	2018	2017
	RMB'000	*RMB'000*
Net gain (loss) arising on financial liabilities at FVTPL, unrealised	**9,654**	(15,270)
Foreign exchange losses (gains), net	**(51,842)**	35,875
Gain on disposal of miscellaneous materials	**1,859**	–
Net loss arising on receivables measured at FVTOCI	**(40,514)**	–
Loss on disposal of property, plant and equipment	**(6)**	(81)
Others	**213**	–
	(80,636)	20,524

6. FINANCE COSTS

	2018	2017
	RMB'000	*RMB'000*
Interest on borrowings:		
Bank borrowings	**91,141**	71,408
Discounted bills	**–**	19,942
	91,141	91,350
Less: amounts capitalised	**(17,169)**	(23,317)
	73,972	68,033

Borrowing costs capitalised during the year arose from the general borrowing pool and were calculated by applying a capitalisation rate of 4.19% (2017: 4.29%) per annum to expenditure on qualifying assets.

7. INCOME TAX EXPENSE

	2018	2017
	RMB'000	*RMB'000*
PRC Enterprise Income Tax ("EIT")	**6,751**	29,794
Deferred tax	**(6,701)**	(4,318)
	50	25,476

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

	2018	2017
	RMB'000	*RMB'000*
Directors' remuneration	**6,834**	6,952
Other staff costs	**164,830**	164,633
Contributions to retirement benefits scheme other than directors	**38,613**	35,445
Total staff costs	**210,277**	207,030
Depreciation of property, plant and equipment	**256,051**	160,180
Depreciation of investment properties	**1,215**	7,291
Amortisation of prepaid lease payments	**3,425**	2,605
Amortisation of intangible assets (included in cost of sales)	**76,046**	42,657
Total depreciation and amortisation	**336,737**	212,733
Auditors' remuneration	**1,402**	1,396
Research and development costs recognised as other expenses	**14,769**	15,167
Included in cost of sales:		
Cost of inventories recognised as expense	**2,640,204**	2,581,120
(Reversal of) provision of inventories, net	**(1,064)**	7,520
Warranty claims expenses	**18,591**	17,462

9. DIVIDENDS

No dividend has been paid or declared by the Company during the years ended 31 December 2018 and 2017, nor has any dividend been proposed since the end of the reporting period.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the profit for the year of RMB10,724,000 (2017: RMB128,093,000), and weighted average number of shares of 1,282,211,794 (2017: 1,282,211,794), for the year ended 31 December 2018.

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:

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**352,034**	363,735
Less: allowance for credit losses/doubtful debts	**(2,978)**	(2,640)
Trade receivables, net	**349,056**	361,095
Bills receivables	**44,607**	331,131
Total trade and bills receivables	**393,663**	692,226
Prepayments for purchase of raw materials and engine components	**80,371**	10,965
Other receivables *(Note)*	**88,653**	176,476
	562,687	879,667

Note: Included in the balance is value added tax recoverable of RMB79,796,000 (2017: RMB167,236,000).

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/doubtful debts, presented based on the invoice date at the end of the reporting period:

	2018	2017
	RMB'000	*RMB'000*
Within 1 month	**294,719**	260,939
Over 1 month but within 2 months	**23,005**	64,369
Over 2 months but within 3 months	**12,266**	21,251
Over 3 months but within 6 months	**13,853**	9,907
Over 6 months but within 1 year	**3,647**	3,549
Over 1 year	**1,566**	1,080
	349,056	361,095

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

	2018 *RMB'000*	2017 *RMB'000*
Within 3 months	**44,607**	153,046
Over 3 months but within 6 months	**–**	167,735
Over 6 months but within 1 year	**–**	10,350
	44,607	331,131

12. AMOUNTS DUE FROM RELATED COMPANIES

	2018 *RMB'000*	2017 *RMB'000*
Non-trade related	**1,417**	1,291
Trade related	**1,283,775**	1,462,995
	1,285,192	1,464,286

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 aging analysis of trade receivables presented based on the invoice date at the end of the reporting period:

	2018 *RMB'000*	2017 *RMB'000*
Within 3 months	**437,782**	593,329
Over 3 months but within 6 months	**121,066**	263,144
Over 6 months but within 1 year	**464,658**	423,799
Over 1 year	**260,081**	123,660
	1,283,587	1,403,932

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

	2018 *RMB'000*	2017 *RMB'000*
Within 3 months	**–**	32,900
Over 3 months but within 6 months	**–**	24,100
Over 6 months but within 1 year	**–**	1,800
	–	58,800

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

13. TRADE AND OTHER PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**817,473**	798,899
Bills payable	**704,028**	420,538
Total trade and bills payables	**1,521,501**	1,219,437
Accrued payable for purchase of raw materials	**281,490**	378,399
Construction payables	**12,105**	82,617
Payroll and welfare payables	**56,390**	59,979
Advance from customers *(Note a)*	**5,834**	5,767
Provision for warranty *(Note b)*	**4,006**	4,006
Retention money	**13,991**	15,804
Other tax payables	**268**	9,619
Accrued operating expenses	**24,096**	22,406
Other payables	**18,447**	14,558
	1,938,128	1,812,592

Notes:

a. As at 31 December 2018 and 1 January 2018, the balances amounting to RMB5,834,000 and RMB5,767,000, respectively, represented the contract liabilities, i.e. the Group's obligation to transfer goods or services to customers for which the Group has received consideration from the customers. During the year ended 31 December 2018, RMB5,767,000 included in the contract liabilities balance at the beginning of the year were recognised as revenue arising from sales of goods. The balance at 31 December 2018 is expected to be recognised as revenue within the coming twelve months.

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

The credit 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 at the end of each reporting period:

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**478,956**	569,447
Over 3 months but within 6 months	**156,403**	130,586
Over 6 months but within 1 year	**164,670**	82,094
Over 1 year but within 2 years	**17,444**	16,772
	817,473	798,899

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

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**339,253**	248,026
Over 3 months but within 6 months	**364,775**	172,512
	704,028	420,538

14. BORROWINGS

	2018	2017
	RMB'000	*RMB'000*
Carrying amount repayable:		
Within one year	**682,828**	789,577
More than two years, but not more than five years	**1,267,808**	1,029,866
	1,950,636	1,819,443
Less: amounts shown under current liabilities	**(682,828)**	(789,577)
Amounts shown under non-current liabilities	**1,267,808**	1,029,866
Secured *(Note i)*	**606,000**	612,000
Unsecured *(Note ii)*	**1,344,636**	1,207,443
	1,950,636	1,819,443

Note:

i. As at 31 December 2018 and 2017, the balances were secured by property, plant and equipment, and prepaid lease payment.

ii. At 31 December 2018, included in the unsecured borrowings is RMB897,707,000 (2017: RMB791,443,000) which was guaranteed by companies within the Group. Included in the balances was other borrowings amounting to RMB100,000,000 (2017: RMB100,000,000) which was from a non-related party, unsecured, bearing interest at 1.2% per annum and repayable on 30 December 2025. The remaining balance of RMB346,929,000 (2017: RMB316,000,000) was unguaranteed and unsecured.

In 2018, other than borrowings which are denominated in United States Dollar ("US$"), i.e. US$130,800,000, equivalent to approximately RMB897,707,000 (2017: US$102,051,000, equivalent to approximately RMB691,443,000) and denominated in Euro, i.e. Euro2,455,000, equivalent to approximately RMB19,388,000 (2017: nil), 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 HK$0.01 each		
Authorised:		
At date of incorporation, 1 January 2017, 31 December 2017 and 2018	8,000,000,000	80,000,000
Issued and fully paid:		
At 1 January 2017, 31 December 2017 and 2018	1,282,211,794	12,822,118

	2018 ***RMB'000***	2017 *RMB'000*
Share capital presented in consolidated statement of financial position	**10,457**	10,457

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:

	2018	2017
	RMB'000	*RMB'000*
Sale of goods		
Brilliance China Group	**1,130,027**	786,329
Huachen Group *(Note)*	**491,301**	891,316
	1,621,328	1,677,645
Purchase of goods		
Brilliance China Group	**217,568**	179,845
Huachen Group	**3**	14,885
Wuliangye Group	**145,932**	105,077
	363,503	299,807
Purchase of land, production lines and inventories		
Brilliance China Group	**–**	352,415
Rental charged and auxiliary services received		
Brilliance China Group	**–**	2,800
Huachen Group	**6,000**	6,000
	6,000	8,800

	2018	2017
	RMB'000	*RMB'000*
Rental income		
Brilliance China Group	**3,540**	26,444
Maintenance and construction cost charged		
Wuliangye Group	**1,351**	2,725
Brilliance China Group	**–**	15,239
	1,351	17,964
Cleaning and greening services received		
Wuliangye Group	**840**	2,240
Consulting service received		
Brilliance China Group	**–**	23,682
Wuliangye Group	**–**	10,736
Huachen Group	**8,406**	119
	8,406	34,537
Water and electricity costs charged		
Brilliance China Group	**–**	4,003
Wuliangye Group	**817**	465
	817	4,468
Repairment fee		
Brilliance China Group	**–**	659
Wuliangye Group	**114**	229
	114	888

Note:

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

BUSINESS REVIEW AND PROSPECT

According to the statistics of the China Association of Automobile Manufacturers' (the "**CAAM**"), the automobile industry showed a slight decline of 2.76% year on year in vehicle sales which totaled 28.08 million units in 2018, and this is the first decline after a continuous growth in two decades, in particular, a high-speed growth in the past few years. The restoration of purchase tax rate from 5% to 10% at the beginning of 2018, which coupled with the slowdown in the PRC economy, accounted for the fall.

Passenger vehicles, including sedan car, sport-utility vehicle ("**SUV**") and multi-purpose vehicle ("**MPV**"), showed a downturn in sales year on year, whereas the performance of commercial vehicles recorded a 5.05% growth. The implementation of new energy vehicle ("**NEV**") policy provided new growth potential for the NEV sector in 2018. The sales of electric and plug-in hybrid electric vehicles ("**PHEV**") recorded a 61.7% growth and totaled 1.26 million units in 2018. After considering the trade war uncertainty and the slowing economic growth in 2019, it is expected that the sales volume of Chinese automotive sector will be at approximately the same level as 2018. However, the NEV sector will gain more market share since the development of new alternative fuel vehicles is the future direction in China.

Pure electric vehicles have been the main direction of the development of clean-energy vehicles in China for the past few years. But the lack of charging facilities, short life mileage for car batteries and the adverse impact on battery durability due to poor weather conditions have restricted the promotion and development of the use of pure electric vehicles. As such, hybrid electric vehicles are therefore considered as one of the most feasible alternative for clean-energy vehicle. As mentioned last year, we have been developing three-cylinder 1200cc engine under our own brand and it will be compatible with PHEV or stand on its own so as to cope with the more stringent requirements on emission standards of vehicles and the increasing demand for clean-energy vehicles around the globe, in particular, the dual-credit system for passenger vehicle manufacturers in China. We have been collaborating with Renault Brilliance, Huachen Automotive, Qoros and some other customers for the use of small displacement engines on their vehicles in the future.

During the year, we commenced the industrialization of 1600cc prince engine production and managed to supply these engines to a number of customers, including Huachen Automotive for its Zhonghua V7 SUV model, DongFeng Liuqi for its T5 SUV model, and ChangFeng Liebao Mattu SUV model. Currently, we are preparing the industrialization of 1800cc prince engines for some customers, including Qoros vehicles. We are exploring cooperation with other automobile makers, including Qingling Motors and Southeast Motors, in order to widen our customer base and maximize the use of the existing prince engine production capacity. Prince engine is licensed to us by BMW AG. With its support, we are able to modify and upgrade the specification of prince engines to achieve higher torque and lower oil consumption and to cope with the China 6a emission standard which will be implemented nationwide by July 2020.

The demand for certain types of vehicles produced by the Group's customers decreased during the year, which in turn affected the sales of some of the traditional engines of the Group. However, the sales of prince engines commenced to contribute revenue to the Group during the year, and this helped to set-off the decrease in sales of traditional engines. In 2018, the Group recorded a total sales of approximately RMB3,050.52 million, representing an increase of approximately 3.2% as compared to 2017. The increase in sales revenue was also derived from the increase in sales of diesel engines and Bx8 crankshafts. The increase in the sales of crankshafts by approximately 42.3%, amounting to approximately RMB561.1 million, was mainly due to the increase in the demand by BMW Brilliance Automotive Ltd. ("**BMW Brilliance Automotive**") for the Group's Bx8 crankshafts. However, the increase in finance cost, the net exchange loss recognized as the RMB currency depreciation together with impairment on intangible assets in relation to certain traditional engines business attributed to the decline in net profit. The net profit attributable to owners of the Company was approximately RMB10.72 million in 2018, a decrease of approximately 91.6% as compared to approximately RMB128.09 million in 2017. Both the net exchange loss and the impairment loss on the intangible assets are non-cash items and have no effect on the Group's daily operations and cash flow.

In view of the more stringent requirement in fuel consumption and emission standard in China in the years ahead, in particular, the implementation of the China 6 emission standard, we have also been modifying and upgrading some traditional engines so that our old customers will continue the business relationship with us. We are also exploring new business relationship with other customers so as to increase our market share and maintain our profitability. Our research and development team has been contributing a lot in this aspect to help adjust our product mix and develop new products to meet with the ever-changing regulatory requirement and market demand. The Group will continue to allocate more resources on the research and development area.

As for the parts and components business, the revenue of crankshaft business has been contributing higher proportion over the past few years. We secured the crankshaft business from BMW Brilliance Automotive since 2015 and we have been advised by the technicians from BMW AG and BMW Brilliance Automotive and have acquired the technical knowhow to produce high quality core Bx8 engine parts with improved operation efficiency. After considering the demand from BMW Brilliance Automotive over the coming few years, we have decided to expand our crankshaft production line and it is expected to be in operation at the beginning of 2020. The Group will continue to explore cooperation opportunities with BMW AG, BMW Brilliance Automotive and other new business partners in the future to cope with the ever-changing automobile industry development. In particular, the Group will continue to actively identify potential merger and acquisition opportunities and assess possibilities of forming joint ventures with potential partners to expand its product portfolio and strengthen its core competitiveness.

To align with the Group's corporate image, we have just unified the corporate identity between the operating subsidiaries and the listed company by using the same trademark "Power Xinchen" and the same website for customers and shareholders access at http://www.xinchenpower.com.

MANAGEMENT'S DISCUSSION & ANALYSIS

In 2018, the Group achieved total consolidated sales of approximately RMB3,050.52 million, representing an increase of approximately 3.2% compared to last year (approximately RMB2,956.66 million). The increase was mainly due to the increase in the new sales of 1600cc prince engines and the increase in the sales of Bx8 crankshafts. The increase in the sales of prince engines was due to the commencement of industrialization of the prince engines for various automobile manufacturers during the year whilst 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 first full-year contribution of the third crankshaft production line acquired in June 2017.

In respect of the engines business segment, the Group recorded approximately 0.8% slight decrease in segment revenue, from approximately RMB2,429.00 million in 2017 to approximately RMB2,410.71 million in 2018. Sales volume of engines decreased by approximately 18.6% from around 256,200 units in 2017 to around 209,000 units in 2018. The decrease was mainly due to the decrease in the sales of traditional small gasoline engines in 2018, which was partially offset by an increase in the sales of prince engines and traditional diesel engines which are of higher selling price per unit. The decrease in sales volume of traditional 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.

In respect of the engine components segment, the Group recorded approximately 21.3% increase in segment revenue, from approximately RMB527.67 million in 2017 to approximately RMB639.82 million in 2018. The increase was mainly due to more Bx8 crankshafts produced and supplied to BMW Brilliance Automotive during the year. The Group sold around 506,000 units of crankshafts in 2018, representing an increase of approximately 53.8% from around 329,000 units in 2017. There was a slight increase in the demand for connecting rods where the Group sold around 763,000 units of connecting rods in 2018, up by approximately 2.6% from around 744,000 units in 2017.

The consolidated cost of sales in 2018 amounted to approximately RMB2,716.25 million, up by approximately 3.8% when compared to approximately RMB2,616.47 million recorded in 2017. The increase in cost of sales was generally in line with the increase in sales revenue.

The gross profit margin of the Group slightly decreased from approximately 11.5% in 2017 to approximately 11.0% in 2018. Although there was an increase in profit margin for gasoline engines, the fall in margin of diesel engines and engine components dragged down the overall profit margin.

Other income decreased from approximately RMB61.56 million in 2017 to approximately RMB53.22 million in 2018, representing a decrease of approximately 13.5%. The decrease was mainly due to a decrease in rental income under operating lease.

Impairment losses increased from approximately RMB1.08 million in 2017 to approximately RMB17.53 million in 2018. The increase was mainly due to an impairment of loan receivable from a shareholder.

Other gains and losses decreased from gains of approximately RMB20.52 million in 2017 to approximately losses of RMB80.64 million in 2018. The decrease was mainly due to unrealized foreign exchange translation loss recognized and fair value adjustment on receivables measured at FVTOCI in 2018.

Selling and distribution expenses increased by approximately 5.4%, from approximately RMB44.57 million in 2017 to approximately RMB46.97 million in 2018, representing approximately 1.5% of the revenue for both 2017 and 2018. The increase was mainly due to the increase in transportation costs as more prince engines were produced during 2018.

Administrative expenses increased slightly by approximately 0.1%, from approximately RMB138.94 million in 2017 to approximately RMB139.09 million in 2018, representing approximately 4.7% and approximately 4.6% of the revenue for 2017 and 2018, respectively. The slight decrease in terms of percentage was mainly due to an increase in revenue whilst staff cost, depreciation and office expense remained at about the same level.

Finance costs increased by approximately 8.7%, from approximately RMB68.03 million in 2017 to approximately RMB73.97 million in 2018. The increase was mainly due to increase in bank borrowing to finance the acquisition of assets in 2018, including an expansion of crankshaft production lines, engine assembly lines and more short term financing by discounting bills.

Other expenses increased by approximately 15.7% from approximately RMB15.77 million in 2017 to approximately RMB18.24 million in 2018, which was mainly due to the increase in research expenses incurred in 2018.

The Group's profit before tax decreased by approximately 93.0% from approximately RMB153.57 million in 2017 to approximately RMB10.77 million in 2018.

Income tax expenses decreased by approximately 99.8% from approximately RMB25.48 million in 2017 to approximately RMB0.05 million in 2018. The decrease was mainly due to decrease in operating profit and the movement of deferred tax assets.

For the year 2018, the profit attributable to owners of the Company was approximately RMB10.72 million, representing an approximately 91.6% decrease from approximately RMB128.09 million in 2017. Basic earnings per share in 2018 amounted to approximately RMB0.008, compared to approximately RMB0.100 in 2017.

Liquidity and Financial Resources

As at 31 December 2018, the Group had approximately RMB223.95 million in cash and cash equivalents (31 December 2017: RMB352.47 million), and approximately RMB552.33 million in pledged bank deposits (31 December 2017: RMB207.58 million). The Group had trade and other payables of approximately RMB1,938.13 million (31 December 2017: RMB1,812.59 million), bank borrowings due within one year in the amount of approximately RMB682.83 million (31 December 2017: RMB789.58 million), and bank borrowings due after one year in the amount of approximately RMB1,267.81 million (31 December 2017: RMB1,029.87 million).

Capital Structure

As at 31 December 2018, the Group's total assets was approximately RMB7,175.87 million (31 December 2017: RMB7,067.65 million), which was funded by the following: (i) share capital of approximately RMB10.46 million (31 December 2017: RMB10.46 million), (ii) reserves of approximately RMB2,975.25 million (31 December 2017: RMB2,981.95 million); and (iii) total liabilities of approximately RMB4,190.16 million (31 December 2017: RMB4,075.25 million).

Contingent Liabilities

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

Pledge of Assets

As of 31 December 2018, the Group pledged certain of its land use rights, buildings, plant and machinery with an aggregate carrying value of approximately RMB69.49 million (31 December 2017: RMB118.67 million) to certain banks to secure certain credit facilities granted to the Group.

As of 31 December 2018, the Group pledged amount due from related parties and commercial bills with carrying values of RMB0 million and RMB0 million (2017: RMB34.02 million and RMB22.35 million), to secure general banking facilities granted to the Group.

As of 31 December 2018, the Group also pledged bank deposits in the amount of approximately RMB552.3 million (31 December 2017: RMB207.58 million) to certain banks to secure certain credit facilities granted to the Group.

Gearing Ratio

As of 31 December 2018, the debt-to-equity ratio, computed by dividing total liabilities by total equity attributable to owners of the Company, was approximately 1.41 (31 December 2017: 1.36). The increase in the debt-to-equity ratio was mainly due to the increase in bank borrowing in 2018.

As of 31 December 2018, the gearing ratio, computed by dividing bank borrowings by total equity attributable to owners of the Company, was approximately 65.3% (31 December 2017: 60.8%). 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 2018, certain portion of the Group's premises located in Shenyang was leased to BMW Brilliance Automotive, which generated rental income of approximately RMB3.54 million during the year ended 31 December 2018 (31 December 2017: RMB26.44 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 Hong Kong Dollars ("**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 2018, the Group employed approximately 1,862 employees (31 December 2017: approximately 2,070). Employee costs amounted to approximately RMB210.28 million for the year ended 31 December 2018 (31 December 2017: approximately RMB207.03 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

There were no significant investments, material acquisitions or disposals of subsidiaries and associated companies by the Group during the year ended 31 December 2018.

Capital Commitment

As at 31 December 2018, the Group had capital commitments of approximately RMB677.71 million (31 December 2017: RMB997.08 million), among which contracted capital commitments amounted to approximately RMB185.97 million (31 December 2017: RMB261.30 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 2018 (2017: Nil).

CLOSURE OF REGISTER OF MEMBERS

The Company's forthcoming annual general meeting will be held at 9:00 a.m. on Monday, 3 June 2019.

The Hong Kong branch register of members of the Company will be closed from Tuesday, 28 May 2019 to Monday, 3 June 2019, 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 Tuesday, 28 May 2019 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 Monday, 27 May 2019.

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 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 (the "**Listing Rules**"). The Company has complied with all code provisions of the CG Code throughout the year ended 31 December 2018.

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 2018.

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

PUBLICATION OF ANNUAL REPORT

The 2018 annual report of the Company containing the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.xinchenpower.com) respectively in due course.

BOARD OF DIRECTORS

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

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

Hong Kong, 25 March 2019

* *for identification purposes only*