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

2019
Annual Report

Contents

Corporate Information

BOARD OF DIRECTORS

Mr. Wu Xiao An
(also known as Mr. Ng Siu On) *(Chairman)*
Mr. Wang Yunxian *(Chief Executive Officer)*
Mr. Liu Tongfu#
Mr. Yang Ming#
Mr. Chi Guohua*
Mr. Wang Jun*
Mr. Huang Haibo*
Mr. Wang Songlin*

\# *non-executive director*
* *independent non-executive director*

AUTHORISED REPRESENTATIVES

Mr. Wu Xiao An
Mr. Wang Yunxian

CHIEF FINANCIAL OFFICER

Mr. Ng Yiu Fai (FCPA)

COMPANY SECRETARY

Ms. Ngai Ka Yan

REGISTERED OFFICE

Clifton House
75 Fort Street
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suites 1602-05
Chater House
8 Connaught Road Central
Hong Kong

AUDITORS

Grant Thornton Hong Kong Limited
Level 12
28 Hennessy Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Everbright Bank Company Limited
Hang Seng Bank Limited
Mianyang City Commercial Bank Co., Ltd.
Shanghai Pudong Development Bank Co., Ltd.
United Overseas Bank (China) Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-16
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

LEGAL ADVISORS TO THE COMPANY

Appleby
Lau, Horton & Wise LLP

INVESTOR RELATIONS

Wonderful Sky Financial Group Holdings Limited
9th Floor, The Center
99 Queen's Road Central
Central
Hong Kong

STOCK CODE

The Main Board of The Stock Exchange of Hong Kong Limited: 1148

Financial Highlights

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF XINCHEN CHINA POWER HOLDINGS LIMITED (THE "COMPANY") AND ITS SUBSIDIARIES (ALL TOGETHER THE "GROUP")

(Amounts in thousands of Renminbi ("**RMB**") except earnings per share)

	Year ended and as at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Income Statement Data:					
Revenue	**2,076,173**	3,050,522	2,956,662	3,462,460	3,269,331
Profit before Income Tax Expense	**7,461**	10,774	153,569	228,263	270,759
Income Tax Expense	**(613)**	(50)	(25,476)	(42,367)	(46,094)
Other Comprehensive (Expense) Income	**(631)**	362	–	–	–
Profit and Total Comprehensive Income for the Year Attributable to Owners of the Company	**6,217**	11,086	128,093	185,896	224,665
Basic Earnings per Share	**RMB0.005**	RMB0.008	RMB0.100	RMB0.145	RMB0.175
Diluted Earnings per Share	**RMB0.005**	RMB0.008	RMB0.100	RMB0.145	RMB0.175
Statement of Financial Position Data:					
Non-current Assets	**3,375,609**	3,367,309	3,476,892	2,851,636	2,155,545
Current Assets	**2,650,071**	3,808,565	3,590,757	3,090,088	2,998,976
Current Liabilities	**(2,407,938)**	(2,867,946)	(2,980,414)	(2,427,827)	(1,691,593)
Non-current Liabilities	**(625,822)**	(1,322,225)	(1,094,832)	(649,587)	(783,507)
Shareholders' Equity	**2,991,920**	2,985,703	2,992,403	2,864,310	2,679,421

Note:

The shares of the Company (the "**Shares**") were listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 13 March 2013.

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors, I hereby present the annual results of Xinchen China Power Holdings Limited for the year ended 31 December 2019.

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

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

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

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

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

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

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

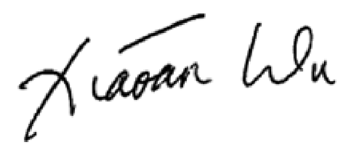
Apart from engines production, crankshaft and connecting rods production will continue to be one of the main business focuses in the development of core engine parts and components business of the Group for BMW Brilliance Automotives Ltd. ("**BMW Brilliance Automotive**"). During the year, in view of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

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

Chairman's Statement (Cont'd)

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

On behalf of the board of directors, I would like to take this opportunity to express my sincere appreciation to our shareholders, business partners, management team and all other employees for their continued support and dedication to the Group.



Wu Xiao An
(also known as Ng Siu On)
Chairman
26 March 2020

Management's Discussion & Analysis

BUSINESS REVIEW

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

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

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

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

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

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

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

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

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

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

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

CAPITAL STRUCTURE

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

CONTINGENT LIABILITIES

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

PLEDGE OF ASSETS

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

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

GEARING RATIO

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

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

INVESTMENT PROPERTY

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

FOREIGN EXCHANGE RISKS

The Group's functional currency is RMB. Since the Group has certain assets and liabilities, such as receivables, payables, bank borrowings and cash and cash equivalents, denominated in foreign currencies, such as United States Dollars ("**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 2019, the Group employed approximately 1,445 employees (31 December 2018: approximately 1,862). Employee costs amounted to approximately RMB153.74 million for the year ended 31 December 2019 (31 December 2018: approximately RMB210.28 million). The Group will endeavor to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' remuneration is based on their performance.

SIGNIFICANT INVESTMENTS

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

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

CAPITAL COMMITMENT

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

Directors, Senior Management and Company Secretary

EXECUTIVE DIRECTORS

Mr. Wu Xiao An (also known as Mr. Ng Siu On)（吳小安）, aged 58, is the chairman of the Company. He was appointed as a director of the Company on 10 March 2011 and designated as an executive director of the Company on 24 April 2012. He has over 25 years of experience in the automotive industry and is primarily responsible for the overall strategic planning and business development of the Group. From April 1998 to September 2016, Mr. Wu was a director of Southern State Investment Limited. From April 1998 to September 2005 and from July 2011 to November 2016, he was a director of Mianyang Xinchen. Since February 2011, he has been a director of Brilliance Investment Holdings Limited ("**Brilliance Investment**"). Since 2002, Mr. Wu has served various positions in Brilliance China Automotive Holdings Limited ("**Brilliance China**", a company listed on the Main Board of the Stock Exchange (stock code: 1114)), including the chairman of Brilliance China since June 2002, an executive director since January 1994 and the vice chairman and chief financial officer from January 1994 to June 2002. He has also been a director of Huachen Automotive Group Holdings Company Limited ("**Huachen**") since October 2002 and the chairman of BMW Brilliance Automotive since May 2003. From January 1994 to August 2016, he was a director of Shenyang Brilliance JinBei Automobile Co., Ltd.. From 1988 to 1993, he was the deputy manager of the Bank of China, New York Branch. Mr. Wu obtained a bachelor's degree of arts from Beijing Foreign Languages Institute（北京外國語學院）(now known as Beijing Foreign Studies University（北京外國語大學）) in 1985 and a master of business administration degree from Fordham University in New York in 1992.

Mr. Wang Yunxian（王運先）, aged 65, is the chief executive officer of the Company. He was appointed as a director of the Company on 10 March 2011 and designated as an executive director of the Company on 24 April 2012. He has over 43 years of experience in the PRC automotive industry and is primarily responsible for the business operation of the Group. Since May 2011, he has been a director of Xinhua Investment Holdings Limited ("**Xinhua Investment**"). Since 1998, Mr. Wang held various positions in Mianyang Xinchen, including a director and vice general manager from April 1998 to March 2000, a director and general manager since March 2000 and the supervisor of the national enterprise technology center of Mianyang Xinchen since March 2004. Since 1976, Mr. Wang held various positions in Mianyang Xinhua Internal Combustion Engine Joint Stock Company Limited ("**Xinhua Combustion Engine**"), including director, party secretary, general manager, vice general manager, head of sales department, production supervisor and technician, and he resigned from his positions of director and general manager of Xinhua Combustion Engine on 22 March 2012 and 23 March 2012, respectively. From January 2005 to October 2017, Mr. Wang was a director and general manager of Mianyang Huarui Automotive Company Limited. In October 2004, Mr. Wang received the special government expert allowances (engineering class)（政府專家特殊津貼（工程類））from the State Council（國務院）. In 2005, Mr. Wang received the National Model Worker Award（全國勞動模範）issued by the State Council, as well as the title of Ten Outstanding Innovative Talents of Sichuan Province（四川省十大傑出創新人才）in December 2005. He graduated from Sichuan University of Science and Technology（四川工業學院）(now merged into Xihua University（西華大學）) in July 1986, and graduated from a postgraduate course in finance from the Chinese Academy of Social Sciences（中國社會科學院）in July 1998.

NON-EXECUTIVE DIRECTORS

Mr. Liu Tongfu（劉同富）, aged 55, was appointed as a non-executive director of the Company on 12 September 2016. Mr. Liu has been serving as a director, executive vice president and member of the standing committee of the Communist Party of China of Huachen since May 2019. From November 2018 to May 2019, he was a director, executive vice president and member of the standing committee of the Communist Party of China as well as the general manager of the Zhonghua business unit of Huachen. From July to November 2018, he was a director, executive vice president and member of the standing committee of the Communist Party of China of Huachen. From March 2016 to July 2018, he was a director, executive vice president, member of the standing committee of the Communist Party of China and vice general manager of the auto business unit of Huachen. From February to March 2016, he was a director, executive vice president and member of the standing committee of the Communist Party of China of Huachen. From December 2015 to February 2016, he was the vice president and member of the standing committee of the Communist Party of China of Huachen. From June 2011 to December 2015, he served as the vice president and member of the leading party group of Huachen. From February 2008 to June 2011, he acted as a president assistant of Huachen. From December 2006 to February 2008, he acted as the vice general manager of Dahua Group Co., Ltd（大化集團有限責任公司）. From August 1990 to December 2006, he held various positions in Dalian Heavy Industries Co., Ltd（大連重工集團有限公司）, including assistant to the general manager, head of development and planning department, and director of party office. On 28 May 2019, Mr. Liu was appointed as chairman of Shenyang Jinbei Automotive Company Limited（金杯汽車股份有限公司）, a company listed on the Shanghai Stock Exchange. Mr. Liu graduated from the Department of Materials Engineering of Jilin College of Engineering（吉林工學院）with a major in metallic material in July 1986 and obtained a master of engineering degree in metal material and heat treatment from the Department of Materials of Dalian University of Technology（大連理工大學）in August 1990. In July 1998, he was certified as a senior engineer by the Personnel Department of Liaoning Province（遼寧省人事廳）.

Mr. Yang Ming (楊明), aged 51, was appointed as a non-executive director of the Company on 7 November 2016. Mr. Yang has been serving as a director of Mianyang Xinchen since December 2016. He has also been serving as a committee member of the Communist Party of China and vice president of Sichuan Yibin Pushi Group Co., Ltd. (四川省宜賓普什集團有限公司) ("**Pushi Group**"), the chairman of Sichuan Yibin Pushi Dies Co., Ltd. (四川省宜賓普什模具有限公司) ("**Pushi Dies**") and the chairman of Chengdu Pushi Vehicle Dies Co., Ltd. (成都普什汽車模具有限公司) ("**Pushi Vehicle Dies**") since May 2016. From May 2016 to July 2017, he was also the general manager of Pushi Vehicle Dies. From May 2014 to May 2016, Mr. Yang was a committee member of the Communist Party of China and vice president of Pushi Group and the general manager and branch secretary of the Communist Party of China of Pushi Dies. From December 2007 to May 2014, he was a committee member of the Communist Party of China of Pushi Group and the general manager and branch secretary of the Communist Party of China of Pushi Dies. From June 2006 to December 2007, he was a committee member of the Communist Party of China of Pushi Group and the deputy general manager, chairman of the labour union and branch secretary of the Communist Party of China of Pushi Dies. From July 2003 to December 2007, he was the deputy general manager, chairman of the labour union and branch secretary of the Communist Party of China of Pushi Dies. From August 2002 to July 2003, Mr. Yang was the supervisor at the vehicle dies workshop of Pushi Dies. From July 1988 to August 2002, he worked at the tools factory of Chongqing Changan Machinery Factory (重慶長安機械製造廠工具分廠) and the dies centre of Chongqing Changan Automobile Co., Ltd. (重慶長安汽車股份責任公司模具中心). Mr. Yang graduated from the department of mechanical engineering of Beijing Institute of Technology (北京理工大學), majoring in mechanical manufacturing process and automation in July 1988.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chi Guohua (池國華), aged 45, was appointed as an independent non-executive director of the Company on 22 November 2012. He is a certified public accountant (non-practicing member) in the PRC. From March 2000 to October 2017, Mr. Chi was a teaching assistant, lecturer, associate professor and professor of the School of Accounting of Dongbei University of Finance and Economics (東北財經大學). He has been appointed as the doctoral supervisor of Financial Management Department by Dongbei University of Finance and Economics since 1 January 2013. Mr. Chi has been the associate dean of the Audit Science Graduate School of Nanjing Audit University since November 2017 and the dean of the School of Internal Audit of Nanjing Audit University and China Institute of Internal Audit since November 2018. Furthermore, Mr. Chi has also been serving as an independent director of Zhejiang XinNong Chemical Co., Ltd. (浙江新農化工股份有限公司) since May 2016 and an external director of Jiangsu Huilong Assets Management Co., Ltd. (江蘇省惠隆資產管理有限公司) since September 2017. From April 2012 to March 2017, he was an independent director of Dalian Tianbao Green Foods Co., Ltd. (大連天寶綠色食品股份有限公司), a company listed on the Shenzhen Stock Exchange. From February 2005 to February 2006, Mr. Chi was the head of the strategic investment department of Shenyang Machine Tool (Group) Co., Ltd. (瀋陽機床(集團)有限公司); and from March 2006 to March 2007, he was the financial adviser of Shenyang Machine Tool (Group) Co., Ltd. (瀋陽機床(集團)有限公司). Since February 2017, he has been a consultant in the Committee on Internal Control Standards for the Ministry of Finance of the PRC (中國財政部內部控制標準委員會). Mr. Chi currently also holds positions in certain academic and professional organisations, including serving as a member of the Internal Control Committee of Accounting Society of China (中國會計學會內部控制專業委員會) since 2014 and a councillor of the Audit Education Branch of China Audit Society (中國審計學會審計教育分會) since March 2018. Mr. Chi was awarded the leading accounting representative of the Ministry of Finance of the PRC (中國財政部全國會計學術領軍人才) in November 2014. Mr. Chi obtained a post doctorate degree in business administration from the Xiamen University (廈門大學) in January 2008 and a doctorate degree in management (accounting studies) from Dongbei University of Finance and Economics in April 2005.

Mr. Wang Jun (王雋), aged 58, was appointed as an independent non-executive director of the Company on 24 April 2012. He has over 29 years of experience in the legal field, especially in corporate compliance operation, risk control, corporate law, litigation and arbitration. Since February 2009, Mr. Wang has been practising law at the Beijing Office of Dacheng Law Offices (北京大成律師事務所). From April 2000 to February 2009, he practised law at the Beijing Jian Yuan Law Offices (北京市建元律師事務所). From September 1987 to March 2000, he was employed by China University of Petroleum (中國石油大學) as a teacher. From September 1983 to September 1985, he served as the cadre of the Railway Transport High Court (鐵路運輸高級法院). Mr. Wang obtained a postgraduate degree in economic law in July 1987 and a bachelor's degree in law from the department of law in July 1983, both from the China University of Political Science and Law (中國政法大學).

Mr. Huang Haibo (黃海波), aged 65, was appointed as a director of the Company on 30 November 2011, and designated as an independent non-executive director of the Company on 24 April 2012. He has spent over 35 years researching and applying his expertise in automotive technology. Since September 1983, Mr. Huang has been serving as a teaching assistant, lecturer, associate professor and professor in the Department of Automotive Engineering of Sichuan University of Science and Technology (四川工業學院) (renamed as the Transport and Automotives Engineering School in Xihua University (西華大學) in 2003). From 2003 to 2012, he served as the dean of the Transport and Automotive Engineering School in Xihua University. From July 2008 to August 2013, Mr. Huang served as an independent non-executive director of Hunan Jiangnan Red Arrow Co. Ltd. (湖南江南紅箭股份有限公司), a company listed on the Shenzhen Stock Exchange. He was the chairman of the Sichuan Xihua Vehicle Authentication Institution (四川西華機動車司法鑒定所) from August 2005 to November 2018 and a member of National Technical Committee on Operating Safe Technology and Testing Equipment of Motor Vehicles and of Standardization Administration of China (全國機動車運行安全技術檢測設備標準化技術委員會) from 2008 to 2018. Since December 2018, Mr. Huang is the supervisor of Sichuan Xihua Jiaotong Forensics Center (四川西華交通司法鑒定中心). He received a master's degree in engineering from Beijing Institute of Agricultural Mechanization (北京農業機械化學院) in December 1983 and a doctorate degree in engineering from Sichuan University (四川大學) in December 2004.

Mr. Wang Songlin (王松林), aged 68, was appointed as an independent non-executive director of the Company on 24 April 2012. He has over 40 years of experience in the PRC automotive industry. From 2000 to 2011, May 2005 to March 2011, August 2007 to March 2012, and July 2009 to September 2010, Mr. Wang served as the chairman of each of Beijing Zhongqi Jingtian Auto Trading Co., Ltd. (北京中汽京田汽車貿易有限公司), Beijing Guoji Longsheng Automobile Co., Ltd. (北京國機隆盛汽車有限公司), Beijing Guoji Fengsheng Automobile Co., Ltd. (北京國機豐盛汽車有限公司) and Changsha Qidian Automotive Products Co., Ltd. (長沙汽電汽車零部件有限公司), respectively. He served as the vice president of China National Automotive Industry Corporation (中國汽車工業總公司) and the vice president of China National Machinery Industry Corporation (中國機械工業集團有限公司). Mr. Wang has been an independent director of Zhejiang Meili High Technology Co., Ltd. (浙江美力科技股份有限公司), a company listed on the Shenzhen Stock Exchange, since November 2016. From December 2016 to January 2020, he was a director of China Automotive Engineering Research Institute Co., Ltd. (中國汽車工程研究院股份有限公司), a company listed on the Shanghai Stock Exchange. From October 2011 to February 2014, he served as a director of Sinomach Automobile Co., Ltd. (國機汽車股份有限公司), a company listed on the Shanghai Stock Exchange. From June 2005 to April 2012, he served as a non-executive director of Guangzhou Automobile Group Co., Ltd. (廣州汽車集團股份有限公司), a company listed on the Stock Exchange. From June 2004 to December 2011, Mr. Wang served as the deputy general manager of China National Machinery Industry Corporation (中國機械工業集團有限公司). From August 1998 to June 2000, he was the party secretary and deputy general manager of China National Automotive Industry Import and Export Corporation (中國汽車工業進出口總公司). He was the vice president of China Association of Automobile Manufacturers (中國汽車工業協會), and the vice chairman of each of the Seventh Standing Council of the Society of Automotive Engineers of China (中國汽車工程學會第七屆常務理事會) and the Council of China Auto Talents Society (中國汽車人才研究會理事會). Mr. Wang obtained a professional graduation certificate in casting technology and equipment from Harbin Institute of Technology (哈爾濱工業大學) in September 1978 and a postgraduate diploma of a master's course in technology and economics from Harbin Institute of Technology in April 1995.

SENIOR MANAGEMENT

Mr. He Xuzong (何旭宗), aged 53, is the vice general manager of Mianyang Xinchen. Mr. He has over 29 years of experience in the automotive industry and is primarily responsible for the product development of the Group. From November 2008 to January 2012, he served as the vice general manager of Xinhua Combustion Engine, and since January 2008, he has also been the vice general manager of Mianyang Xinchen. From February 2004 to January 2008, he had been an assistant to the general manager and director of technology and quality of Mianyang Xinchen. From July 1989 to February 2004, he held various positions in Xinhua Combustion Engine, including technical engineer, managing deputy head of technology department, head of the technical center, and head of the product development department. Mr. He obtained a bachelor's degree in automotive engineering from Sichuan University of Science and Technology (四川工業學院) (now merged into Xihua University (西華大學)) in July 1989. Mr. He was certified by Sichuan Province Title Reform Leading Group Office (四川省職稱改革工作領導小組辦公室) as a senior engineer in January 2002.

Mr. Song Ning（宋寧）, aged 56, is the vice general manager of Mianyang Xinchen. Mr. Song has over 33 years of experience in the automotive industry and is primarily responsible for production and safety management of the Group. From October 2001 to January 2012, he served as the vice general manager of Xinhua Combustion Engine, and since March 2000, he has also been the vice general manager of Mianyang Xinchen. From April 1998 to October 2006, he was a director, and from May 1998 to March 2000, he was the head of the production support department of Mianyang Xinchen. From September 1985 to May 1998, he held various positions in Xinhua Combustion Engine, including technician, vice chief engineer, deputy head of workshop, head of the technology and quality control department, head of workshop, head of chief engineer's office, head of technology development center, vice chief engineer and head of quality control. From March 2003 to August 2006, he served as a director of Xinhua Combustion Engine. Mr. Song was an engineering graduate from Sichuan University of Science and Technology（四川工業學院）(now merged into Xihua University（西華大學）) in 1985. Mr. Song was certified by Sichuan Province Title Reform Leading Group Office（四川省職稱改革工作領導小組辦公室）as a senior engineer in February 2001.

Mr. Le Ji Xiang（樂吉祥）, aged 42, is the executive vice general manager of Mianyang Xinchen. Mr. Le has over 19 years of experience in the automotive industry and is primarily responsible for the product research and development, production and operation of the Group. He has been serving as the executive vice general manager of Mianyang Xinchen since July 2018. From June 2015 to June 2018, he served as a vice general manager of Mianyang Xinchen. From March 2012 to May 2015, he was an assistant to the general manager of Mianyang Xinchen as well as the project director of N20 engine. From October 2006 to March 2012, he held various positions in Mianyang Xinchen, including the head of product development of the technology centre, the head of technical planning and the head of quality assurance. Mr. Le graduated from the department of automotive engine in Sichuan University of Science and Technology（四川工業學院）(now merged into Xihua University（西華大學）) in 2001 and received a master of engineering degree in software engineering from the University of Electronic Science and Technology of China（電子科技大學）in 2010. He was certified as a senior engineer by Sichuan Provincial Department of Human Resources and Social Security（四川省人力資源和社會保障廳）in December 2018.

Mr. Zhao An（趙安）, aged 52, is the vice general manager of Mianyang Xinchen. Mr. Zhao has over 30 years of experience in the automotive industry and is primarily responsible for the management of the sales activities of the Group. He has been serving as the vice general manager of Mianyang Xinchen since June 2011. From February 2008 to June 2011, he was an assistant to the general manager of Mianyang Xinchen and the manager of the second engine factory. From July 1992 to August 2008, he held various positions in Xinhua Combustion Engine and Mianyang Xinchen, including a technical engineer, the deputy head, executive deputy head and head of the sales department, the manager of the quality assurance department, as well as the project manager of the preparation for small displacement automotive engines. Mr. Zhao obtained a bachelor of engineering degree from Jilin University of Technology（吉林工業大學）(now merged into Jilin University（吉林大學）) in 1990 and was certified as an engineer in 1995.

Mr. Ng Yiu Fai（吳耀輝）, aged 45, is the senior vice president and the chief financial officer of the Company. Mr. Ng joined the Company as the senior vice president in May 2017 and was appointed as the chief financial officer on 22 February 2020. He is primarily responsible for the Group's financial management, investor relations, capital markets and financial reporting matters. Mr. Ng holds a bachelor's degree of business administration majoring in accounting from the Hong Kong University of Science and Technology. Mr. Ng has more than 22 years of experience in financial management and corporate finance. Prior to joining the Company, he worked at KPMG and several Hong Kong-listed companies serving in several positions from 1997 to 2017, culminating in the position of chief financial officer, including being the Chief Financial Officer and Company Secretary of CNQC International Holdings Limited (a company listed on the Main Board of the Stock Exchange (stock code: 1240)) between May 2014 and May 2017. Mr. Ng is a qualified accountant and a fellow member of the Hong Kong Institute of Certified Public Accountants.

COMPANY SECRETARY

Ms. Ngai Ka Yan（魏嘉茵）, aged 37, is the company secretary of the Company. Ms. Ngai joined the Company in March 2015. Ms. Ngai obtained a Bachelor of Business degree from Queensland University of Technology in Australia and a Master of Corporate Governance degree from the Hong Kong Polytechnic University. Ms. Ngai is an associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. Ngai has extensive experience in company secretarial and compliance matters and has worked for various listed companies in Hong Kong.

Report of Directors

The directors of the Company present this report together with the audited financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company is a holding company. The principal activities of the Group are the development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles and manufacture of engine parts and components of passenger vehicles in the PRC. The principal activities of the Company's subsidiaries are set out in note 43 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2019 is set out on pages 8 to 9 and in the following paragraphs.

1. Principal risks and uncertainties

We have identified in 2019 the following principal risks and uncertainties that may be faced by the Group:

Financial risk

The Group has certain US$-denominated loans which expose the Group to exchange rate risk resulting from appreciation of US$ against RMB. The Group will continue to monitor its foreign exchange risks and may consider hedging its foreign currency exposure, if and when necessary. Certain portion of the US$-denominated bank borrowings were hedged with forward contract during the year under review in order to mitigate the exposure to foreign exchange risk.

Market risk

(i) Recent slowdown in the growth of the PRC automobile market

The performance of the PRC engine and engine part and component manufacturing industry is closely related to the development of the PRC automobile market. According to the data released by the CAAM, the automobile market in the PRC shrank by approximately 8.1% in 2019 and is expected to shrink further by approximately 1.2% in 2020. In view of the current government measures to adjust the macroeconomic situations by focusing on limiting growth and improving quality, the PRC automobile market is expected to shrink further or maintain low-level growth. Therefore, automobile manufacturers will continue to see a slowdown in the demand for engines and engine parts and components in the future which may adversely affect the performance of the Group. We will strive to strengthen and enlarge its market share by improving product technologies and widening our product mix. Although we cannot guarantee any significant increase in the market share of our products in the future, we will continue to tackle the risk by establishing an extended product line for our existing customers, such as developing new high-performance engines that meet the requirements of the existing customers as well as pursuing potential customers without their own engine production capability.

(ii) Fierce industry competition

Competition amongst manufacturers in the PRC engine and engine part and component industry will intensify due to new emission and fuel-consumption regulations implemented by the State. The application of new technologies in the industry will be accelerated while technologies that do not meet regulatory and market requirements will be abandoned. Thus, the market expansion of independent engine manufacturers might be hindered by the fact that some automobile manufacturers that have reached a certain scale but have not manufactured engines on their own are now building engines on their own, as well as the government's support to new energy automobiles. Although the Group's performance may be adversely affected in light of the fierce competition, the Group will continue to dedicate itself to strengthening product research and development capability, improving technical standards of its products, expanding product line-up to keep up with and exceed technical progress in the automobile market and securing exclusive sales of certain product lines to existing customers with better cost control and customer satisfaction.

(iii) Regulatory risk

As the PRC automobile industry is highly regulated by the state, government and industry policies have a huge impact on the industry's development and performance. The Group, therefore, is subject to increasingly stringent regulatory requirements. For example, the Ministry of Environmental Protection and the General Administration of Quality Supervision, Inspection and Quarantine of the PRC jointly released the Limits and Measurement Methods for Emissions from Light-Duty Vehicles (《輕型汽車污染物排放限值及測量方法》), which requires the implementation of China 6 limits for emissions from the second half of 2020. Some regions have implemented China 6 limits for emissions in 2019 ahead of the planned schedule. The Group has already upgraded and developed its products in accordance with the regulations in collaboration with its customers.

2. Environment and laws and regulations

Environmental policies and performance

The Group is concerned about preservation of natural resources and environmental protection, abides by national laws and regulations on environmental protection, pays attention to legal disposal of environmentally hazardous substances, establishes necessary environmental protection facilities, such as sewage treatment plants, ventilation and dust collection systems and solid waste collection stations that comply with environmental standards, and disposes of various wastes according to law to mitigate the environmental impact of its business operations in full measure. The Group also requires its suppliers to abide by relevant national laws and rules on environmental protection and obtain necessary approvals and permits from the PRC environment regulation authority. In 2019, the national, provincial and municipal environmental monitoring centers have conducted environmental inspections of the relevant production areas and found that all results met the required standards.

Compliance with laws and regulations

The Group operates in accordance with relevant laws and regulations in the PRC and Hong Kong. During the year ended 31 December 2019 and as at the date of this report, we have complied with all relevant laws and regulations in the PRC and Hong Kong.

3. Key relationships

Employees

To realize sustainable development, the Group has established a sound system that categorize its employees into four groups, namely management, technical, professional and skill, set up career development schemes that cater to each of these groups, tailored individual development plans for staff members at all professions and all levels by refining its qualification frameworks and appraisal system, and focused on strengthening product research and development, skill, quality as well as the professional competence and creativity, according to its strategies and business development plans. The Group ensures its sustainable growth and also secures human resources with high potentials that are in line with its future development directions and strategic plans through continuously improving its training system and campus recruitment programs, and establishing talent pools and reserves to identify candidate of the right calibre.

On top of the current comprehensive remuneration and benefit scheme, the Group has engaged professional and experienced external consultant to analyze and adjust the existing remuneration structure based on positions and levels, and to establish an all-round performance-oriented compensation system, so as to ensure that the remuneration aligns with the value of each position and supports the business situation.

The Group respects employees' opinions, and collects them through a number of channels. It also praises and rewards employees who have given reasonable suggestions that can promote its sustainable development. The Group conducts an employee satisfaction survey each year and considers all valuable feedback on improving working efficiency and creating a harmonious working atmosphere.

Customers

We are devoted to providing our customers with marketable products that are in compliance with regulations and feature reliable quality, advanced technology, outstanding performance, and great value for money. We maintain close communication and cooperation with our customers to improve and develop our products based on customers' needs and the development trend of engines in the future so as to ensure the marketability of our products and strive for market leadership. We fortify our market by establishing strategic partners through, amongst other things, joint planning and product development with key clients. Through company website, industrial exhibitions, public relations activities, marketing materials and social media, we promote our products and maintain dialogue with and understand the needs from potential customers. We attach importance to the interests of end users and provide them with convenient and speedy aftersales service. To this end, we have set up a nationwide network of specialized maintenance shops and regularly carried out regional training in rotation in order to offer quality services to our end users. We control the risk of losing business from our major customers by developing high-performance new products, expanding market presence, improving service quality, securing new customers and enlarging the existing market share.

Suppliers

We seek cooperation with world-class suppliers, and have established long-term partnership with a number of world-class suppliers. We identify qualified suppliers based on the standard supplier selection and assessment criteria of renowned European car manufacturers and perform regular evaluations on the suppliers' performance based on their technical capability, corporate vision, production capacity, brand reputation, industry experience, and market feedback. We ensure that the cooperation complies with laws and regulations through contracts, agreements and orders. Apart from ethical requirements on the staff, all suppliers are also required to comply with our anti-bribery policy.

FINANCIAL RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated financial statements of the Group on page 65.

CASH FLOW POSITION

The cash flow position of the Group for the year ended 31 December 2019 is set out and analysed in the consolidated statement of cash flows on pages 69 to 70.

DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

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

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

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 3.

DISTRIBUTABLE RESERVES

There is no distributable reserves of the Company as at 31 December 2019.

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 68.

PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment of the Group during the year ended 31 December 2019 are set out in note 16 to the consolidated financial statements.

CONTRACTS OF SIGNIFICANCE

Save as disclosed under the section headed "Continuing Connected Transactions" in this Report of Directors:

(i) no contracts of significance in relation to the business of the Group, to which the Company or any of its subsidiaries was a party and in which a controlling shareholder of the Company or any of its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time throughout the year ended 31 December 2019; and

(ii) no contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries subsisted at the end of the year or at any time throughout the year ended 31 December 2019.

SHARE CAPITAL

Details of the Company's share capital as at 31 December 2019 are set out in note 32 to the consolidated financial statements.

SHARE INCENTIVE SCHEME ESTABLISHED BY LEAD IN

The share incentive scheme (the "**Incentive Scheme**") was established in 2011 to serve as a retention tool, and to align the interests of certain directors, management, employees and relevant personnel of the Group (the "**Beneficiaries**") with that of the Company. Lead In Management Limited ("**Lead In**") was incorporated for the purpose of holding the Shares on trust for the Beneficiaries pursuant to the Incentive Scheme.

Lead In was incorporated in the British Virgin Islands on 18 May 2011 and is currently owned as to 50% by Mr. Wu Xiao An and 50% by Mr. Wang Yunxian, both of whom are executive directors of the Company. On 31 October 2011, Lead In subscribed for 93,999,794 Shares, at a consideration of HK$101,681,967.73, which was determined based on a valuation report of Mianyang Xinchen carried out by an independent valuer. Lead In holds such Shares on trust for the Beneficiaries under two separate trust arrangements, namely the "Fixed Trust" and the "Discretionary Trust".

The terms of the Incentive Scheme and the trust arrangements are not subject to the provisions of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as these arrangements do not involve the grant of options by the Company to subscribe for Shares after the listing of the Shares on the Stock Exchange.

All Shares under the Fixed Trust were awarded to the Beneficiaries. No Share had been awarded under the Discretionary Trust during the year ended 31 December 2019. As at 31 December 2019, Lead In held 33,993,385 Shares under the Discretionary Trust.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 25 April 2012, which was amended and restated on 8 February 2013 (the "**Share Option Scheme**"). Pursuant to the Share Option Scheme, the directors of the Company may, at their absolute discretion, invite the following persons to take up options to subscribe for ordinary shares with a par value of HK$0.01 each of the Company: (a) any eligible employee as defined in the Share Option Scheme; (b) any director (including executive, non-executive and independent non-executive directors) of the Company, any of its subsidiaries or any entity in which the Group holds any equity interest (the "**Invested Entity**"); (c) any supplier of goods or services to any member of the Group or any Invested Entity; (d) any customer of the Group or any Invested Entity; (e) any person or entity acting in their capacities as advisers or consultants that provides research, development or other technological support to the Group or any Invested Entity; (f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; (g) any other group or classes of participants from time to time determined by the directors of the Company as having contributed or may contribute to the development and growth of the Group and any Invested Entity; and (h) any company wholly-owned by one or more persons belonging to any of the above classes of participants or any discretionary object of a participant which is a discretionary trust.

A consideration of HK$1.00 is payable on acceptance of the offer of grant of an option.

The maximum number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Company) to be granted under the Share Option Scheme and any other share option scheme of the Company must not in aggregate exceed 125,359,979 Shares, being 10% of the Shares in issue upon the listing of the Shares on the Stock Exchange (before the exercise of over-allotment option).

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Company (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of options in excess of the 1% limit shall be subject to shareholders' approval in general meeting with such participant and his close associates (or his associates if such participant is a connected person) abstaining from voting.

The subscription price per Share under the Share Option Scheme shall be a price determined by the directors of the Company, but shall not be lower than the highest of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a trading day; (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (c) the nominal value of a Share.

The Share Option Scheme will remain in force for a period of 10 years from 13 March 2013. The period during which an option may be exercised will be determined by the directors of the Company in their absolute discretion, save that no option shall be exercised later than 10 years from the date of grant.

No share options had been granted by the Company under the Share Option Scheme during the year ended 31 December 2019 and no expenses were recognized by the Group for 2019 (2018: nil).

DIRECTORS

The directors of the Company who held office during the year ended 31 December 2019 and up to the date of this annual report were:

Executive directors:

Mr. Wu Xiao An *(Chairman)*
Mr. Wang Yunxian *(Chief Executive Officer)*

Non-executive directors:

Mr. Liu Tongfu
Mr. Yang Ming

Independent non-executive directors:

Mr. Chi Guohua
Mr. Wang Jun
Mr. Huang Haibo
Mr. Wang Songlin

Pursuant to Article 108 of the Articles of Association of the Company and code provision A.4.2 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules, Mr. Wu Xiao An, Mr. Yang Ming and Mr. Wang Songlin will retire by rotation at the forthcoming annual general meeting of the Company to be held on 26 June 2020.

Each of Mr. Wu Xiao An, Mr. Yang Ming and Mr. Wang Songlin, being eligible, will offer himself for re-election and the Board has recommended them for re-election at the forthcoming annual general meeting of the Company.

Details of the directors of the Company standing for re-election at the forthcoming annual general meeting are set out in the circular sent to the shareholders of the Company together with this annual report.

CHANGE IN DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the change in information of the directors of the Company subsequent to the date of 2019 interim report of the Company is set out below:

– Mr. Wang Songlin resigned as a director of China Automotive Engineering Research Institute Co., Ltd. (中國汽車工程研究院股份有限公司), a company listed on the Shanghai Stock Exchange, on 9 January 2020.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, so far as known to the directors or chief executives of the Company, each of the following persons (other than a director or chief executive of the Company) had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (the "**SFO**"):

Name of Shareholder	Capacity	Number of Shares	Approximate percentage of shareholding [6]
Brilliance Investment	Beneficial owner	400,000,000	31.20%
Brilliance China [1]	Interest in a controlled corporation	400,000,000	31.20%
Huachen [2]	Interest in a controlled corporation	400,000,000	31.20%
Xinhua Investment	Beneficial owner	400,000,000	31.20%
Xinhua Combustion Engine [3]	Interest in a controlled corporation	400,000,000	31.20%
Pushi Group [4]	Interest in a controlled corporation	400,000,000	31.20%
Sichuan Province Yibin Wuliangye Group Co., Ltd. [5]	Interest in a controlled corporation	400,000,000	31.20%

Notes:

(1) Brilliance Investment is wholly-owned by Brilliance China and Brilliance China is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Brilliance Investment is interested.

(2) Brilliance China is owned as to approximately 42.32% by Huachen and Huachen is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Brilliance Investment is interested.

(3) Xinhua Investment is a direct wholly-owned subsidiary of Xinhua Combustion Engine and Xinhua Combustion Engine is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Xinhua Investment is interested.

(4) Xinhua Combustion Engine is a direct non wholly-owned subsidiary of Pushi Group and Pushi Group is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Xinhua Investment is interested.

(5) Pushi Group is a direct wholly-owned subsidiary of Sichuan Province Yibin Wuliangye Group Co., Ltd. ("**Wuliangye**") and Wuliangye is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Xinhua Investment is interested.

(6) These percentages are calculated on the basis of 1,282,211,794 Shares in issue as at 31 December 2019.

Save as disclosed herein, as at 31 December 2019, there was no other person (other than a director or chief executive of the Company) so far as known to the directors or chief executives of the Company, as having an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange, are set out below:

Interest in the shares of the Company

Name of Director	Nature of interest	Number and class of Shares	Approximate percentage of shareholding [3]
Mr. Wu Xiao An (also known as Ng Siu On) [1]	Beneficial owner	8,320,041 ordinary	0.65%
	Trustee and interest in a controlled corporation	33,993,385 ordinary	2.65%
Mr. Wang Yunxian [2]	Beneficial owner	6,471,143 ordinary	0.50%
	Trustee and interest in a controlled corporation	33,993,385 ordinary	2.65%

Notes:

(1) Mr. Wu Xiao An is a trustee of the Discretionary Trust (which holds 33,993,385 Shares for the Beneficiaries) under the Incentive Scheme and holds 50% interests in Lead In. Accordingly, Mr. Wu is deemed or taken to be interested in approximately 2.65% of the issued share capital of the Company.

(2) Mr. Wang Yunxian is a trustee of the Discretionary Trust (which holds 33,993,385 Shares for the Beneficiaries) under the Incentive Scheme and holds 50% interests in Lead In. Accordingly, Mr. Wang is deemed or taken to be interested in approximately 2.65% of the issued share capital of the Company.

(3) These percentages are calculated on the basis of 1,282,211,794 Shares in issue as at 31 December 2019.

Save as disclosed above, as at 31 December 2019, none of the directors and chief executives of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year ended 31 December 2019 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate; and none of the directors of the Company, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries or associates was a party and in which any director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

Mr. Wu Xiao An, executive director of the Company, has entered into a service agreement with the Company for a term of three years commencing from 13 March 2019, and such service agreement shall be terminated in accordance with the terms of the service agreement. Mr. Yang Ming, non-executive director of the Company, has entered into a service agreement with the Company for a term of three years commencing from 7 November 2019, and such service agreement shall be terminated in accordance with the terms of the service agreement. Mr. Wang Songlin, independent non-executive director of the Company, has entered into a letter of appointment with the Company for a term of three years commencing from 13 March 2019, and such letter of appointment shall be terminated in accordance with the terms of the letter of appointment.

Saved as disclosed herein, no director of the Company proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with members of the Group that is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year ended 31 December 2019, none of the directors of the Company was considered to have interests in business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

PERMITTED INDEMNITY

Pursuant to the Articles of Association of the Company, the directors of the Company shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against the directors of the Company.

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

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

DISCLOSURE UNDER RULE 13.21 OF THE LISTING RULES

On 19 October 2017, Mianyang Xinchen (as borrower) and the Company (as guarantor) entered into two banking facility agreements (the "**Facility Letters 2017**") with a financial institution (as lender) (i) a term loan facility of US$36,000,000; and (ii) a term loan facility of US$12,000,000, respectively. Under the Facility Letters 2017, it shall be an event of default, amongst others, if: (1) Brilliance China holds less than 25% (directly or indirectly) of the issued share capital of the Company; or (2) Wuliangye holds less than 25% (directly or indirectly) of the issued share capital of the Company. Details of the Facility Letters 2017 were set out in the announcement of the Company dated 19 October 2017.

On 14 February 2018, Mianyang Xinchen (as borrower) and the Company (as guarantor) entered into (i) a banking facility agreement (the "**Facility Letter A**") with a financial institution as lender ("**Lender A**") for a standby loan facility of up to RMB96,000,000, subject to annual review by Lender A; and (ii) a banking facility agreement (the "**Facility Letter B**", together with Facility Letter A, the "**Facility Letters 2018**") with a financial institution as lender for a term loan facility of US$60,000,000, with the final maturity date being three years from the date of drawdown. Under the Facility Letters 2018, it shall be an event of default, amongst others, if: (1) Brilliance China holds less than 25% (directly or indirectly) of the issued share capital of the Company; or (2) Wuliangye holds less than 25% (directly or indirectly) of the issued share capital of the Company. Details of the Facility Letters 2018 were set out in the announcement of the Company dated 14 February 2018.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which oblige the Company to offer new Shares on a pro-rata basis to existing shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

In 2019, the aggregate sales attributable to the Group's five largest customers represented approximately 75.1% of the Group's total revenue while the sales attributable to the Group's largest customer was approximately 28.7% of the Group's total revenue. The Company's substantial shareholders are interested in three customers among the Group's five largest customers. The aggregate purchases attributable to the Group's five largest suppliers during the year represented approximately 41.9% of the Group's total purchases and the purchases attributable to the Group's largest supplier represented approximately 12.5% of the Group's total purchases. The Company's substantial shareholder is interested in two suppliers (including the largest supplier) among the Group's five largest suppliers.

Save as disclosed above, none of the directors of the Company, their close associates or any shareholders of the Company, which to the knowledge of the directors of the Company, owns more than 5% of the Company's issued share capital, has any interests in the share capital of any of the above five largest customers or suppliers of the Group.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the date of this annual report, the Company maintains the prescribed percentage of public float under the Listing Rules.

UNDERTAKING FROM HUACHEN AND BRILLIANCE CHINA AND DEED OF NON-COMPETITION

Each of Huachen and Brilliance China entered into a deed of undertaking in favour of the Company (the "**First Huachen and Brilliance China Undertaking**") on 25 February 2013 pursuant to which each of Huachen and Brilliance China has unconditionally and irrevocably undertaken to the Company (for itself and for the benefit of each other member of the Group) that it will procure its respective subsidiaries (i) to first purchase products from the Group if the products offered by the Group and Shenyang Xinguang Brilliance Automobile Engine Co., Ltd. are of similar quality, specifications and price; and (ii) to maintain or increase the purchases of the products mentioned in (i) above from the Group going forward.

Each of Huachen and Brilliance China entered into a deed of undertaking in favour of the Company (the "**Second Huachen and Brilliance China Undertaking**") on 25 February 2013 pursuant to which each of Huachen and Brilliance China has unconditionally and irrevocably undertaken to the Company (for itself and for the benefit of each other member of the Group) that it shall abstain from voting in the event that there are discussions on matters that involve both Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd. ("**Aerospace Mitsubishi**") and the Group during Aerospace Mitsubishi's board meetings and that it will procure its respective subsidiaries (i) to first purchase products from the Group if the products offered by the Group and Aerospace Mitsubishi are of similar quality, specifications and price; and (ii) to maintain or increase the purchases of the products mentioned in (i) above from the Group going forward.

On 25 February 2013, Brilliance Investment, Brilliance China, Xinhua Investment, Xinhua Combustion Engine, Pushi Group and Wuliangye (collectively the "**Controlling Shareholders**") and Huachen entered into a deed of non-competition (the "**Deed of Non-competition**") in favour of the Company, pursuant to which each of the Controlling Shareholders and Huachen has unconditionally and irrevocably agreed, undertaken and covenanted with the Company (for itself and for the benefits of each other member of the Group) that it would not, and would procure that its associates (other than any members of the Group) would not, directly or indirectly, either on its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, director, partner, agent, employee or otherwise, and whether for profit, reward or otherwise) any activity or business which competes or is likely to compete, directly or indirectly, with the business referred to in the prospectus of the Company dated 28 February 2013 and any other business from time to time conducted, carried on or contemplated to be carried on by any member of the Group or in which any member of the Group is engaged or has invested or which any member of the Group has otherwise publicly announced its intention to enter into, engage in or invest in (whether as principal or agent and whether undertaken directly or through any body corporate, partnership, joint venture, or other contractual or other arrangement) (the "**Restricted Business**").

Each of the Controlling Shareholders and Huachen has further unconditionally and irrevocably agreed, undertaken to and covenanted with the Company the following:

(i) to provide all information requested by the Company which is necessary for an annual review by the independent non-executive directors of the Company of its compliance with the Deed of Non-competition and the enforcement of the Deed of Non-competition;

(ii) to procure the Company to disclose decisions on matters reviewed by the independent non-executive directors of the Company relating to the compliance and enforcement of the Deed of Non-competition either through the annual report, or by way of announcements to the public; and

(iii) to make an annual declaration on compliance with its undertaking under the Deed of Non-competition in the annual reports of the Company as the independent non-executive directors of the Company think fit and/or as required by the relevant requirements under the Listing Rules.

The Controlling Shareholders and Huachen have further unconditionally and irrevocably agreed, undertaken to and covenanted with the Company to procure that any business investment or other commercial opportunity which directly or indirectly competes, or may lead to competition with the Restricted Business (the "**New Opportunities**") given, identified or offered to it and/or any of its associates (other than any members of the Group) (the "**Offeror**") is first referred to the Company in the following manner:

(i) each of the Controlling Shareholders and Huachen is required to, and shall procure its associates (other than members of the Group) to, refer, or to procure the referral of, the New Opportunities to the Company, and shall give written notice to the Company of any New Opportunities containing all information reasonably necessary for the Company to consider whether (a) such New Opportunities would constitute competition with the Company's core business; and (b) it is in the interest of the Group to pursue such New Opportunities, including but not limited to the nature of the New Opportunities and the details of the investment or acquisition costs (the "**Offer Notice**"); and

(ii) the Offeror will be entitled to pursue the New Opportunities only if (a) the Offeror has received a notice from the Company declining the New Opportunities and confirming that such New Opportunities would not constitute competition with the Company's core business; or (b) the Offeror has not received such notice from the Company within 10 business days from the receipt of the Offer Notice. If there is a material change in the terms and conditions of the New Opportunities pursued by the Offeror, the Offeror will refer the New Opportunities as so revised to the Company in the manner as set out above.

An annual declaration in respect of the First Huachen and Brilliance China Undertaking and the Second Huachen and Brilliance China Undertaking from Huachen and Brilliance China, and the Deed of Non-competition from the Controlling Shareholders and Huachen respectively have been received by the Company in compliance with their respective undertakings thereof.

The directors of the Company (including the independent non-executive directors) have reviewed the compliance with the Deed of Non-competition by the Controlling Shareholders and Huachen, the First Huachen and Brilliance China Undertaking and the Second Huachen and Brilliance China Undertaking by Huachen and Brilliance China and confirmed that the respective undertakings have been fully complied with and duly enforced during the year ended 31 December 2019.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2019, the Group conducted various transactions which constituted continuing connected transactions under Chapter 14A of the Listing Rules. All the continuing connected transactions conducted during the year ended 31 December 2019 that need to be disclosed herein are in compliance with the Listing Rules. The actual monetary value of the continuing connected transactions of the Group for the financial year ended 31 December 2019 is set out below:

	Connected Person	Nature of Transaction	Actual monetary value for the financial year ended 31 December 2019 RMB'000
Continuing connected transactions exempt from the independent shareholders' approval requirements			
1.	Wuliangye and its subsidiaries (including Mianyang Xin Xinmao)	Procurement of construction and building maintenance services from Wuliangye and its subsidiaries	–
2.	Shenyang Brilliance Power	Rental of factory premises from Shenyang Brilliance Power	5,424
3.	Huachen	Procurement of materials and purchase of engine components from Huachen and its subsidiaries	–
4.	Sichuan Anji	Provision of logistics services from Sichuan Anji	–
5.	Xinhua Combustion Engine	Procurement of cleaning and greening services from Xinhua Combustion Engine	1,552
6.	Brilliance China	License from Brilliance China for use of office premises, ancillary utilities and office supplies	3,636
Non-exempt continuing connected transactions			
7.	Brilliance China and its subsidiaries	Purchase of engine components from Brilliance China and its subsidiaries	22,128
8.	Brilliance China and its subsidiaries	Sale of engines and engine components to Brilliance China and its subsidiaries	386,773
9.	Wuliangye and its subsidiaries (including Sichuan Pushi and Xinhua Combustion Engine)	Purchase of engine components from Wuliangye and its subsidiaries	156,735
10.	Huachen and its subsidiaries	Sale of engines and engine components to Huachen and its subsidiaries	178,431
11.	BMW Brilliance Automotive	Procurement of engine parts and components and raw materials for manufacturing engines and engine parts and components and the provision of the related services from BMW Brilliance Automotive or its subsidiaries	59,024
12.	BMW Brilliance Automotive	Sale of engine parts and components and raw materials for manufacturing engines and engine parts and components to BMW Brilliance Automotive or its subsidiaries	595,699

Further information on transactions 1 to 12 are provided as follows:

Transaction 1: Mianyang Xin Xinmao Trading Co., Ltd. (previous known as Mianyang Jianmen Real Estate Development and Construction Co., Ltd.) ("**Mianyang Xin Xinmao**") is a wholly-owned subsidiary of Xinhua Combustion Engine, an indirect non wholly-owned subsidiary of Wuliangye, which is a controlling shareholder of the Company. Accordingly, Mianyang Xin Xinmao is an associate of Wuliangye and therefore is a connected person of the Company under Chapter 14A of the Listing Rules. The Group procured construction services for the properties at its production site, including roads and walls, as well as the maintenance of the same from Mianyang Xin Xinmao.

On 18 October 2018, Mianyang Xinchen entered into a procurement framework agreement with Mianyang Xin Xinmao (the "**Wuliangye Procurement Agreement**"), pursuant to which Mianyang Xinchen will procure construction and building maintenance services from Mianyang Xin Xinmao for a term of three years commencing from 1 January 2019 and ending on 31 December 2021. Unless the Wuliangye Procurement Agreement is terminated prior to its expiry date, the agreement is renewable for additional terms of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.

The annual caps of the continuing connected transactions contemplated under the Wuliangye Procurement Agreement for the three financial years ending 31 December 2021 are RMB3,000,000, RMB2,000,000 and RMB1,000,000, respectively. The continuing connected transactions contemplated under the Wuliangye Procurement Agreement for the year ended 31 December 2019 did not exceed the annual cap of RMB3,000,000.

Details of the Wuliangye Procurement Agreement are set out in the announcement of the Company dated 18 October 2018.

Transaction 2: Shenyang Brilliance Power Train Machinery Co., Ltd. ("**Shenyang Brilliance Power**") is a company owned as to 51% by Huachen and 49% by Brilliance China. Accordingly, Shenyang Brilliance Power is an associate of Brilliance China and therefore is a connected person of the Company under Chapter 14A of the Listing Rules.

On 18 October 2018, Shenyang Brilliance Power and Mianyang Xinchen entered into a lease agreement (the "**Lease Agreement**") pursuant to which Shenyang Brilliance Power will lease to Mianyang Xinchen part of the E2 Factory and the related land use right and ancillary assets at a rental of RMB5,999,904 per year for a term of three years commencing on 1 January 2019 and expiring on 31 December 2021.

The annual caps of the continuing connected transactions contemplated under the Lease Agreement for the three financial years ending 31 December 2021 are RMB6,000,000, RMB6,000,000 and RMB6,000,000, respectively. The continuing connected transactions under the Lease Agreement for the year ended 31 December 2019 did not exceed the annual cap of RMB6,000,000.

Details of the Lease Agreement are set out in the announcement of the Company dated 18 October 2018.

Transaction 3: Huachen, a controlling shareholder of Brilliance China, is deemed as a connected person of the Company under the Listing Rules.

On 18 October 2018, the Company and Huachen entered into a purchase framework agreement (the "**Huachen Purchase Agreement**") pursuant to which the Group will purchase various engine components from Huachen and its subsidiaries for a term commencing from 18 October 2018 and ending on 31 December 2020. Unless the Huachen Purchase Agreement is terminated prior to its expiry date, the agreement is renewable for additional terms of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.

The annual caps of the continuing connected transactions contemplated under the Huachen Purchase Agreement for the two financial years ending 31 December 2020 are RMB12,100,000 and RMB9,210,000, respectively. The continuing connected transactions under the Huachen Purchase Agreement for the year ended 31 December 2019 did not exceed the annual cap of RMB12,100,000.

Details of the Huachen Purchase Agreement are set out in the announcement of the Company dated 18 October 2018.

Transaction 4: Sichuan Province Yibin Wuliangye Group Anji Logistic Co. ("**Sichuan Anji**") is a wholly-owned subsidiary of Wuliangye. Accordingly, Sichuan Anji is an associate of Wuliangye and therefore is a connected person of the Company under Chapter 14A of the Listing Rules.

On 3 October 2017, Mianyang Xinchen entered into a framework agreement with Sichuan Anji (the "**Sichuan Anji Logistics Services Agreement**"), pursuant to which Sichuan Anji will provide logistics services to Mianyang Xinchen for a term commencing from 1 January 2018 and ending on 31 December 2020. Unless the Sichuan Anji Logistics Services Agreement is terminated prior to its expiry date, the agreement is renewable for additional terms of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.

The annual caps of the continuing connected transactions contemplated under the Sichuan Anji Logistics Services Agreement for the two financial years ending 31 December 2020 are RMB26,700,000 and RMB35,600,000, respectively. The continuing connected transactions under the Sichuan Anji Logistics Services Agreement for the year ended 31 December 2019 did not exceed the annual cap of RMB26,700,000.

Details of the Sichuan Anji Logistics Services Agreement are set out in the announcement of the Company dated 3 October 2017.

Transaction 5: Xinhua Combustion Engine is an indirect non wholly-owned subsidiary of Wuliangye. Accordingly, Xinhua Combustion Engine is an associate of Wuliangye and therefore is a connected person of the Company under Chapter 14A of the Listing Rules.

On 3 October 2017, Mianyang Xinchen entered into a framework agreement with Xinhua Combustion Engine (the "**Wuliangye Cleaning and Greening Services Agreement**"), pursuant to which Mianyang Xinchen will procure cleaning and greening services from Xinhua Combustion Engine for a term commencing from 1 January 2018 and ending on 31 December 2020. Unless the Wuliangye Cleaning and Greening Services Agreement is terminated prior to its expiry date, the agreement is renewable for additional terms of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.

The annual caps of the continuing connected transactions contemplated under the Wuliangye Cleaning and Greening Services Agreement for the two financial years ending 31 December 2020 are RMB4,000,000 and RMB4,000,000, respectively. The continuing connected transactions under the Wuliangye Cleaning and Greening Services Agreement for the year ended 31 December 2019 did not exceed the annual cap of RMB4,000,000.

Details of the Wuliangye Cleaning and Greening Services Agreement are set out in the announcement of the Company dated 3 October 2017.

Transaction 6: Brilliance China is a controlling shareholder of the Company and therefore is a connected person of the Company under Chapter 14A of the Listing Rules.

On 18 October 2018, the Company and Brilliance China entered into a framework agreement together with a licence (the "**Brilliance China Licence Agreements**") pursuant to which Brilliance China has licensed the exclusive use of a part of the office premises which is one-third in floor area to the Company for use as office premises, together with the use of ancillary utilities and office supplies, for a term commencing from 1 September 2018 to 31 December 2020.

The annual caps of the continuing connected transactions contemplated under the Brilliance China Licence Agreements for the two financial years ending 31 December 2020 are HK$4,300,000 and HK$4,300,000, respectively. The continuing connected transactions under the Brilliance China Licence Agreements for the year ended 31 December 2019 did not exceed the annual cap of HK$4,300,000.

Details of the Brilliance China Licence Agreements are set out in the announcement of the Company dated 18 October 2018.

Transaction 7: Brilliance China is a connected person of the Company as described in Transaction 6 above.

On 18 October 2018, the Company entered into a purchase framework agreement with Brilliance China (the "**Brilliance China Purchase Agreement**"), pursuant to which the Company will purchase various types of engine components from Brilliance China and its subsidiaries for a term of three years commencing from 1 January 2019 and ending on 31 December 2021. Unless the Brilliance China Purchase Agreement is terminated prior to its expiry date, the agreement is renewable for additional terms of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.

The annual caps of the continuing connected transactions contemplated under the Brilliance China Purchase Agreement for the three financial years ending 31 December 2021 are RMB46,400,000, RMB39,100,000 and RMB74,600,000, respectively. The continuing connected transactions contemplated under the Brilliance China Purchase Agreement for the year ended 31 December 2019 did not exceed the annual cap of RMB46,400,000.

Details of the Brilliance China Purchase Agreement are set out in the announcement of the Company dated 18 October 2018 and the circular of the Company dated 23 November 2018.

Transaction 8: Brilliance China is a connected person of the Company as described in Transaction 6 above.

On 18 October 2018, the Company entered into a sale framework agreement with Brilliance China (the "**Brilliance China Sale Agreement**"), pursuant to which the Company will sell engines and engine components to Brilliance China and its subsidiaries for a term of three years commencing from 1 January 2019 and ending on 31 December 2021. Unless the Brilliance China Sale Agreement is terminated prior to its expiry date, the agreement is renewable for additional terms of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.

The annual caps of the continuing connected transactions contemplated under the Brilliance China Sale Agreement for the three financial years ending 31 December 2021 are RMB1,754,500,000, RMB1,775,000,000 and RMB2,600,000,000, respectively. The continuing connected transactions under the Brilliance China Sale Agreement for the year ended 31 December 2019 did not exceed the annual cap of RMB1,754,500,000.

Details of the Brilliance China Sale Agreement are set out in the announcement of the Company dated 18 October 2018 and the circular of the Company dated 23 November 2018.

Transaction 9: Sichuan Yibin Pushi Automotive Components Co., Ltd. ("**Sichuan Pushi**") is a direct wholly-owned subsidiary of Pushi Group which owns approximately 94.78% of Xinhua Combustion Engine, an indirect non wholly-owned subsidiary of Wuliangye. Accordingly, Sichuan Pushi is an associate of Wuliangye and therefore is a connected person of the Company under Chapter 14A of the Listing Rules. The Company has been purchasing crankshafts from Sichuan Pushi and various gasoline and diesel engine components such as crankshafts, exhaust manifolds, cylinder chambers and cylinder heads from Xinhua Combustion Engine.

On 18 October 2018, Mianyang Xinchen entered into a purchase framework agreement with Sichuan Pushi (the "**Sichuan Pushi Purchase Agreement**"), pursuant to which Mianyang Xinchen will purchase various gasoline and diesel engine components from Sichuan Pushi for a term of three years commencing from 1 January 2019 and ending on 31 December 2021. Unless the Sichuan Pushi Purchase Agreement is terminated prior to its expiry date, the agreement is renewable for additional terms of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.

The annual caps of the continuing connected transactions contemplated under the Sichuan Pushi Purchase Agreement for the three financial years ending 31 December 2021 are RMB18,800,000, RMB17,200,000 and RMB17,200,000, respectively. The continuing connected transactions under the Sichuan Pushi Purchase Agreement for the year ended 31 December 2019 did not exceed the annual cap of RMB18,800,000.

On 18 October 2018, Mianyang Xinchen entered into a purchase framework agreement with Xinhua Combustion Engine (the "**Xinhua Combustion Engine Purchase Agreement**"), pursuant to which Mianyang Xinchen will purchase various gasoline and diesel engine components from Xinhua Combustion Engine for a term of three years commencing from 1 January 2019 and ending on 31 December 2021. Unless the Xinhua Combustion Engine Purchase Agreement is terminated prior to its expiry date, the agreement is renewable for additional terms of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.

The annual caps of the continuing connected transactions contemplated under the Xinhua Combustion Engine Purchase Agreement for the three financial years ending 31 December 2021 are RMB194,900,000, RMB179,500,000 and RMB174,200,000, respectively. The continuing connected transactions under the Xinhua Combustion Engine Purchase Agreement for the year ended 31 December 2019 did not exceed the annual cap of RMB194,900,000.

Details of the Sichuan Pushi Purchase Agreement and the Xinhua Combustion Engine Purchase Agreement are set out in the announcement of the Company dated 18 October 2018 and the circular of the Company dated 23 November 2018.

Transaction 10: Huachen is deemed as a connected person of the Company as described in Transaction 3 above.

On 18 October 2018, the Company entered into a sale framework agreement with Huachen (the "**Huachen Sale Agreement**"), pursuant to which the Company will sell engines and engine components to Huachen and its subsidiaries for a term of three years commencing from 1 January 2019 and ending on 31 December 2021. Unless the Huachen Sale Agreement is terminated prior to its expiry date, the agreement is renewable for additional terms of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.

The annual caps of the continuing connected transactions contemplated under the Huachen Sale Agreement for the three financial years ending 31 December 2021 are RMB772,800,000, RMB517,700,000 and RMB510,200,000, respectively. The continuing connected transactions under the Huachen Sale Agreement for the year ended 31 December 2019 did not exceed the annual cap of RMB772,800,000.

Details of the Huachen Sale Agreement are set out in the announcement of the Company dated 18 October 2018 and the circular of the Company dated 23 November 2018.

Transactions 11 & 12: BMW Brilliance Automotive is a sino-foreign equity joint venture company incorporated in the PRC and is owned as to 50% by Shenyang Jinbei Automotive Industry Holdings Co., Ltd., an indirect wholly-owned subsidiary of Brilliance China, and 50% by BMW Holding B.V. Accordingly, BMW Brilliance Automotive is an associate of Brilliance China and therefore is a connected person of the Company under Chapter 14A of the Listing Rules.

On 23 May 2014, the Company, Mianyang Xinchen (including its branches) and BMW Brilliance Automotive entered into the compliance agreement (the "**BBA Compliance Agreement**") in relation to the sale and purchase of engines, engine parts and components and raw materials for manufacturing engines and engines parts and components and the provision of related services.

On 21 January 2015, further to the BBA Compliance Agreement, Mianyang Xinchen (including its branches) and BMW Brilliance Automotive entered into three operational agreements, namely, a consulting service and technical support agreement in connection with consultancy service and technical support for the production of crankshafts from BMW Brilliance Automotive, a raw materials supply agreement in connection with procurement of raw materials from BMW Brilliance Automotive and a purchase agreement for finished crankshafts in connection with supply of finished crankshaft to BMW Brilliance Automotive. Given the Group expected the original annual caps in relation to the transactions contemplated under the BBA Compliance Agreement for the two financial years ending 31 December 2015 and 2016 would be exceeded, the Group proposed to revise the original annual caps under the BBA Compliance Agreement, which was then approved by the independent shareholders of the Company at the extraordinary general meeting held on 25 March 2015.

The Group obtained approval from the independent shareholders of the Company at the extraordinary general meeting held on 1 November 2016 on (i) the second term of the BBA Compliance Agreement for another three-year period upon expiry of the first term of the BBA Compliance Agreement on 17 June 2017 and (ii) the proposed annual caps in respect of the transactions contemplated under the BBA Compliance Agreement for each of the three years ending 31 December 2019.

The Group further obtained approval from the independent shareholders of the Company at the extraordinary general meeting held on 11 December 2019 on (i) the third term of the BBA Compliance Agreement for another three-year period upon expiry of the second term of the BBA Compliance Agreement on 17 June 2020 and (ii) the proposed annual caps in respect of the transactions contemplated under the BBA Compliance Agreement for each of the three years ending 31 December 2021.

The annual caps of the procurement of engine parts and components, raw materials for manufacturing engines and engine parts and components and related services by the Group contemplated under the BBA Compliance Agreement for the four years ending 31 December 2022 are approximately RMB556,362,000, RMB117,000,000, RMB123,000,000 and RMB127,000,000, respectively. The continuing connected transactions in relation to the procurement of engine parts, components, raw materials for manufacturing engines and engine parts and components and related services by the Group contemplated under the BBA Compliance Agreement for the year ended 31 December 2019 did not exceed the annual cap of approximately RMB556,362,000.

The annual caps of the sale of engines and engine parts and components, raw materials for manufacturing engines and engine parts and components by the Group contemplated under the BBA Compliance Agreement for the four years ending 31 December 2022 are approximately RMB602,244,000, RMB917,000,000, RMB963,000,000 and RMB992,000,000, respectively. The continuing connected transactions in relation to the sale of engines and engine parts and components and raw materials for manufacturing engines and engine parts and components by the Group contemplated under the BBA Compliance Agreement for the year ended 31 December 2019 did not exceed the annual cap of approximately RMB602,244,000.

Details of the BBA Compliance Agreement and the annual caps are set out in the announcements of the Company dated 23 May 2014, 28 May 2014, 21 January 2015, 13 September 2016 and 18 September 2019 respectively and the circulars of the Company dated 28 May 2014, 18 February 2015, 12 October 2016 and 1 November 2019 respectively.

The independent non-executive directors of the Company confirmed that the internal control procedures put in place by the Company are adequate and effective and the above continuing connected transactions 1 to 12 have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better, and in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole. The independent non-executive directors of the Company further confirmed that the annual caps in respect of the above continuing connected transactions 1 to 12 are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The Company's external auditors, Grant Thornton Hong Kong Limited, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions 1 to 12 disclosed above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

The above continuing connected transactions 1 to 12 are also regarded as "related party transactions" under the applicable accounting standards. Details of these transactions are further disclosed in note 39 to the consolidated financial statements of this annual report, except the sale of goods to a jointly controlled entity which did not constitute a connected transaction to the Group.

Save as disclosed above, in the opinion of the directors of the Company, there are no other related party transactions in note 39 to the consolidated financial statements which constituted connected transactions or continuing connected transactions of the Group that were required to be disclosed pursuant to Chapter 14A of the Listing Rules.

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 33 to 49 of this annual report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Details of the Company's environmental, social and governance practices are set out in the Environmental, Social and Governance Report on pages 50 to 60 of this annual report.

OTHER INFORMATION

An amount bearing interest at 3% per annum is due from Xinhua Investment to Brilliance China. The amount is due in August 2020 and secured by all assets of Xinhua Investment.

AUDITORS

Grant Thornton Hong Kong Limited were appointed as the auditors of the Company with effect from 19 July 2019 to fill the casual vacancy following the resignation of Deloitte Touche Tohmatsu. Particulars of the change in auditors of the Company are set out in the Company's announcement dated 19 July 2019.

Grant Thornton Hong Kong Limited, the auditors of the Company, will retire at the conclusion of the forthcoming annual general meeting of the Company and be eligible to offer themselves for re-appointment. A resolution will be submitted to the annual general meeting to be held on 26 June 2020 to seek shareholders' approval for the re-appointment of Grant Thornton Hong Kong Limited as the Company's auditors until the conclusion of the next annual general meeting and to authorise the Board to fix their remuneration.

By order of the Board

Wu Xiao An
(also known as Ng Siu On)
Chairman

Hong Kong,
26 March 2020

Corporate Governance Report

CORPORATE GOVERNANCE

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, and in compliance with the "Corporate Governance Code" (the "**CG Code**") set out in Appendix 14 to the Listing Rules. The Group has considered the CG Code and has put in place corporate governance practices to meet the code provisions. The corporate governance principles of the Company emphasize a quality Board, sound internal controls, and transparency and accountability to all shareholders.

Throughout the accounting year ended 31 December 2019, the Group has complied with all the code provisions as set out in the CG Code.

A. DIRECTORS

A.1 The Board

We are governed by the Board which assumes the responsibility for leadership and control of the Company. Our directors are collectively responsible for promoting the success of the Company by developing the strategic direction of the Group and directing and supervising the affairs of the Company.

The Board has fiduciary duties and statutory responsibilities towards the Group and is directly accountable to the shareholders.

The Board is responsible for the management of the business and affairs of the Group with the objective of enhancing shareholder value and presenting a balanced, clear and understandable assessment of the Company's performance, position and prospects in its annual and interim reports, other inside information announcements, other financial disclosures as required under the Listing Rules, reports to regulators, and information required to be disclosed pursuant to statutory requirements. The Board is also required to approve acquisitions or disposals that require shareholders' notification or approval under the Listing Rules.

Daily management and administration functions are delegated to the management. The responsibilities and matters reserved to the Board are set out in paragraph D "Delegation by the Board" below.

The Board meets regularly, normally four times each year with a meeting scheduled at approximately three-month intervals and additional meetings will be arranged if and when necessary. Special Board meetings will be held when necessary. Matters on transactions where directors are considered having a conflict of interest which the Board has determined to be material would not be dealt with by way of written resolutions and a separate Board meeting shall be held where independent non-executive directors who have no material interests should be present at the meeting. Directors having a conflict of interest or material interests in a transaction before the meeting of the Board will declare his interest therein in accordance with the Articles of Association of the Company, shall abstain from voting on the resolution approving such transaction and shall not be counted in the quorum present at such Board meeting. Such declaration of interests will be duly noted in the minutes of the relevant Board meeting.

Notices are given to all the directors for attending regular Board meetings fourteen (14) days before such meetings generally. For other Board meetings, reasonable notices are given.

Board meetings involve active participation, either in person or through other electronic means of communication, by all of the directors present. The company secretary assists the Chairman in preparing the meeting agenda, and each director may request the inclusion of items in the agenda. Directors are also consulted to suggest matters to be included in the agenda for all regular Board meetings.

Minutes of the Board meetings are recorded in detail and draft minutes are circulated within a reasonable time after the relevant meeting to all directors for their review and comments before being approved by the Board. All the minutes of the meetings are properly kept by the company secretary and are available for inspection by the directors during normal office hours.

Participation of individual directors at the Board meetings in 2019 is as follows:

	Attendance by directors/ Number of meetings	**Attendance Rate**
Executive directors:		
Mr. Wu Xiao An *(Chairman)*	4/4	100%
Mr. Wang Yunxian *(Chief Executive Officer)*	4/4	100%
Non-executive directors:		
Mr. Liu Tongfu	4/4	100%
Mr. Yang Ming	4/4	100%
Independent non-executive directors:		
Mr. Chi Guohua	4/4	100%
Mr. Wang Jun	4/4	100%
Mr. Huang Haibo	4/4	100%
Mr. Wang Songlin	4/4	100%
Average attendance rate		100%

Apart from the four (4) Board meetings, consent/approval from the Board had also been obtained by written resolutions on a number of matters.

Participation of individual directors at the general meeting in 2019, including the annual general meeting held on 3 June 2019 and the extraordinary general meeting held on 11 December 2019, is as follows:

	Attendance by directors/ Number of meetings	**Attendance Rate**
Executive directors:		
Mr. Wu Xiao An *(Chairman)*	2/2	100%
Mr. Wang Yunxian *(Chief Executive Officer)*	2/2	100%
Non-executive directors:		
Mr. Liu Tongfu	2/2	100%
Mr. Yang Ming	2/2	100%
Independent non-executive directors:		
Mr. Chi Guohua	2/2	100%
Mr. Wang Jun	2/2	100%
Mr. Huang Haibo	2/2	100%
Mr. Wang Songlin	2/2	100%
Average attendance rate		100%

The Company considers that it has taken out appropriate insurance cover for its directors and officers in respect of legal actions that may be taken against directors and officers. The Company reviews the extent of the insurance coverage every year and was satisfied with the insurance coverage for year 2019.

A.2 Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Company has segregated the roles of the Chairman of the Board and the Chief Executive Officer of the Company. Mr. Wu Xiao An is the Chairman of the Board and Mr. Wang Yunxian is the Chief Executive Officer of the Company. On 25 April 2012, the Board adopted a set of guidelines (which were amended and restated on 25 March 2019) regarding the power and duties of each of the Chairman and the Chief Executive Officer.

One meeting was held by the Chairman of the Board with the independent non-executive directors of the Company without other directors present in 2019 in compliance with code provision A.2.7 of the CG Code. This provides an additional platform for direct communication of the independent non-executive directors of the Company with the Chairman of the Board without the presence of other directors.

A.3 Board composition

Currently, the Board comprises eight directors: two executive directors, two non-executive directors and four independent non-executive directors. The current composition of the Board is as follows:

	Membership of Board Committee(s)
Executive directors:	
Mr. Wu Xiao An *(Chairman)*	Member of Remuneration Committee Member of Nomination Committee
Mr. Wang Yunxian *(Chief Executive Officer)*	–
Non-executive directors:	
Mr. Liu Tongfu	–
Mr. Yang Ming	–
Independent non-executive directors:	
Mr. Chi Guohua	Chairman of Audit Committee
Mr. Wang Jun	Chairman of Nomination Committee Member of Audit Committee Member of Remuneration Committee
Mr. Huang Haibo	Chairman of Remuneration Committee Member of Audit Committee Member of Nomination Committee
Mr. Wang Songlin	Member of Audit Committee Member of Remuneration Committee Member of Nomination Committee

Pursuant to the Listing Rules, every listed issuer is required to have such number of independent non-executive directors representing at least one-third of the board, and at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. Throughout the year 2019, the number of independent non-executive directors of the Company has met the minimum requirement under the Listing Rules. Mr. Chi Guohua is a certified public accountant (non-practicing member) in the PRC. Mr. Chi has over 17 years of experience in finance, internal control and strategic investment in the PRC. He currently also holds positions in certain academic and professional organizations in the PRC.

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board has assessed the independence of all the independent non-executive directors and considered that all the independent non-executive directors have met the independence criteria as set out in Rule 3.13 of the Listing Rules.

The Board members do not have any family, financial or business relations with each other. The biographies of our directors are set out on pages 11 to 14 of this annual report.

The list of directors has been published on the website of the Company and the website of the Stock Exchange, and is disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

A.4 Appointment, re-election and removal of directors

Code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Code provision A.4.2 of the CG Code stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Pursuant to Article 112 of the Articles of Association of the Company, a director appointed by the Board to fill a casual vacancy shall hold office until the next following general meeting while a director appointed by the Board as an addition to the Board shall hold office until the next following annual general meeting.

Each of the executive directors was appointed to the Board pursuant to their respective service agreements and each of the non-executive directors and independent non-executive directors was appointed to the Board pursuant to their respective letters of appointment for a term of three (3) years commencing from their respective appointment date and their appointments are subject to the retirement by rotation provisions in the Articles of Association of the Company and the Listing Rules. At every annual general meeting, one-third of the directors for the time being, or if their number is not three or a multiple of three, the number nearest to but not greater than one-third, shall retire from office by rotation according to Article 108(a) of the Articles of Association of the Company. All directors of the Company are subject to the retirement by rotation provision in the Articles of Association of the Company and are subject to the retirement by rotation at least once every three years pursuant to code provision A.4.2 of the CG Code.

To comply with code provision A.4.2 of the CG Code and in accordance with Article 108 of the Articles of Association of the Company, Mr. Wu Xiao An, Mr. Yang Ming and Mr. Wang Songlin will retire by rotation at the forthcoming annual general meeting of the Company to be held on 26 June 2020 and have offered themselves for re-election at that annual general meeting.

A.5 Responsibilities of directors

Each newly appointed director of the Company is provided with a package of orientation materials setting out the required duties and responsibilities of directors under the Listing Rules and other relevant statutory requirements of Hong Kong. An orientation as to a director's duties and obligations under the Listing Rules and relevant legislations will be arranged for all newly appointed directors of the Company. Our directors are kept informed from time to time on the latest development of any changes to the regulatory requirements and the progress of compliance of applicable rules and regulations by the Company. Our directors will also be updated from time to time on the business development and operation plans of the Company.

In compliance with code provision A.6.5 of the CG Code, the Company has arranged for, and provided fund for, all directors of the Company to participate in continuous professional development organised in the form of in-house training, seminars or other appropriate courses to keep them refreshed of their knowledge, skill and understanding of the Group and its business or to update their skills and knowledge on the latest development or changes in the relevant statutes, the Listing Rules and corporate governance practices. As part of the continuous professional development program, the Company has also updated the directors of the Company on any material changes in the Listing Rules and corporate governance practices from time to time. Directors of the Company are provided with reading materials summarizing the duties and responsibilities in acting as directors from time to time to keep the directors of the Company abreast of such duties and responsibilities.

In addition to directors' attendance at meetings and review of papers and circulars sent by management during 2019, each director of the Company has participated in the continuing professional development training arranged and funded by the Company as follows:

Name of Directors	**Type of training** *(Notes)*
Mr. Wu Xiao An	1 and 2
Mr. Wang Yunxian	1 and 2
Mr. Liu Tongfu	1 and 2
Mr. Yang Ming	1 and 2
Mr. Chi Guohua	1 and 2
Mr. Wang Jun	1 and 2
Mr. Huang Haibo	1 and 2
Mr. Wang Songlin	1 and 2

Notes:

1. Reading seminar materials and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements.

2. Attending a briefing session conducted by legal professional relating to updates on the Listing Rules and corporate governance practices.

The functions of non-executive directors of the Company include the functions as specified in code provisions A.6.2(a) to (d) of the CG Code. Every director of the Company is aware that he should give sufficient time and attention to the affairs of the Company.

All independent non-executive directors of the Company and the non-executive director of the Company have attended the general meetings held in 2019 in person or by way of telephone conference as required by code provision A.6.7 of the CG Code.

The Company has adopted the standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules, in relation to the dealings in securities of the Company by the directors.

Having made specific enquiry of all directors, each director of the Company has confirmed that he has complied with the standards set out in the Model Code during the year ended 31 December 2019.

The Company also established on 25 April 2012 written guidelines on no less exacting terms than the Model Code (the "**Code for Securities Transactions by Employees**") for securities transactions by the employees of the Company and also the directors and employees of its subsidiaries and its holding company who, because of such office or employment, are likely to be in possession of unpublished inside information of the Group or the securities of the Company.

No incident of non-compliance of the Code for Securities Transactions by Employees by the employees of the Company and the directors and employees of its subsidiaries and its holding company during the year ended 31 December 2019 was noted by the Company.

A.6 Supply of and access to information

With respect to regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying board papers are sent in full to all directors in a timely manner as permitted under the circumstances. Notices are given to all the directors for attending regular Board meetings fourteen (14) days before such meetings generally. For other Board meetings, reasonable notices are given. It has been the practice of the Board and accepted by all members of the Board that relevant information of Board meetings will be sent to all directors three (3) days in advance of the relevant meetings or any reasonable time before such meetings where it is not practicable to send out the information three (3) days in advance.

Members of the management have been reminded that they have an obligation to supply the Board and the Board committees with adequate information on a timely basis to enable each of them to make informed decisions. The Board and each director have separate and independent access to the Group's senior management.

All directors of the Company are entitled to have access to board papers, minutes and related materials.

A.7 Non-executive directors

Pursuant to code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term and subject to re-election. Each of the non-executive directors of the Company has entered into a letter of appointment with the Company for a term of three years commencing from their respective appointment date.

B. BOARD COMMITTEES

B.1 Nomination Committee

The Board adopts a formal, considered and transparent procedure for appointment of new directors to the Board. The appointment of a new director has been a collective decision of the Board, taking into consideration the candidate's qualification, expertise, experience, integrity and commitment to his/her responsibilities within the Group. In addition, all candidates to be selected and appointed as a director must be able to meet the standards set out in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an independent non-executive director must also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

The Nomination Committee of the Company was established on 25 April 2012 with specific written terms of reference (which was amended and restated on 25 March 2019) which include the duties set out in code provisions A.5.2(a) to (d) of the CG Code. The existing members of the Nomination Committee comprise Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin, all of whom are independent non-executive directors, and Mr. Wu Xiao An, an executive director. Mr. Wang Jun is the chairman of the Nomination Committee.

In 2019, the Nomination Committee held one (1) meeting and discharged its responsibilities. Attendance of individual members at the Nomination Committee meeting is as follows:

	Attendance by directors/ Number of meetings	**Attendance Rate**
Mr. Wang Jun *(chairman of the Nomination Committee)*	1/1	100%
Mr. Huang Haibo	1/1	100%
Mr. Wang Songlin	1/1	100%
Mr. Wu Xiao An	1/1	100%
Average attendance rate		100%

The Nomination Committee is responsible for reviewing the Board's composition and diversity, developing the relevant procedures for nomination and appointment of directors and assessing the independence of the independent non-executive directors to ensure that the Board has a balance of expertise, skills and experience and formulating succession plans for executive directors and senior executives. The Nomination Committee is also authorised to obtain outside professional advice and to seek information from employees, and the Company will provide sufficient resources to the Nomination Committee for performance of its duties.

The work performed by the Nomination Committee in 2019 included:

– reassessed the independence of the independent non-executive directors; and

– made recommendation to the Board for re-election of retiring directors at the annual general meeting of the Company held on 3 June 2019.

Full minutes of the Nomination Committee meetings are kept by the company secretary. Draft and final versions of the minutes of the Nomination Committee meetings are sent to all members of the Nomination Committee for comments and approval and all decisions of the Nomination Committee are reported to the Board.

The terms of reference of the Nomination Committee are available on the website of the Company and the website of the Stock Exchange.

The Company has adopted a board diversity policy on 17 December 2013. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Board's composition, including gender, ethnicity, age, length of service, is set out below:

	Gender	Ethnicity	Age	Length of Service
Mr. Wu Xiao An	Male	Chinese	58	9 years
Mr. Wang Yunxian	Male	Chinese	65	9 years
Mr. Liu Tongfu	Male	Chinese	55	4 years
Mr. Yang Ming	Male	Chinese	51	4 years
Mr. Chi Guohua	Male	Chinese	45	7 years
Mr. Wang Jun	Male	Chinese	58	8 years
Mr. Huang Haibo	Male	Chinese	65	8 years
Mr. Wang Songlin	Male	Chinese	68	8 years

The members of the Nomination Committee are of the opinion that the Board's composition meets with the board diversity policy of the Company.

B.2 Remuneration Committee

The Remuneration Committee of the Company was established on 25 April 2012 with specific written terms of reference. The existing members of the Remuneration Committee comprise Mr. Huang Haibo, Mr. Wang Jun and Mr. Wang Songlin, all of whom are independent non-executive directors, and Mr. Wu Xiao An, an executive director. Mr. Huang Haibo is the chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee are adopted with reference to the CG Code, including the specific duties set out in code provisions B.1.2(a) to (h) of the CG Code.

In 2019, the Remuneration Committee held one (1) meeting and discharged its responsibilities. Attendance of individual members at the Remuneration Committee meeting is as follows:

	Attendance by directors/ Number of meetings	Attendance Rate
Mr. Huang Haibo *(chairman of the Remuneration Committee)*	1/1	100%
Mr. Wang Jun	1/1	100%
Mr. Wang Songlin	1/1	100%
Mr. Wu Xiao An	1/1	100%
Average attendance rate		100%

The Remuneration Committee is responsible for making recommendations to the Board regarding the Group's policy and structure for all remuneration of directors and senior management and approving the remuneration package of the individual executive directors. The Remuneration Committee is authorised to seek any information it requires from any employee of the Group and has the power to request the executive directors and other persons to attend its meetings. The Remuneration Committee is also authorised to obtain outside professional advice and to secure the attendance of other persons with relevant experience and expertise if it considers as necessary, and the Company will provide sufficient resources to the Remuneration Committee for performance of its duties.

The work performed by the Remuneration Committee in 2019 included:

- reviewed the directors' service agreements of two executive directors and letters of appointment of four independent non-executive directors for a term of three years commencing from 13 March 2019; and the directors' service agreements of two non-executive directors for a term of three years commencing from 12 September 2019 and 7 November 2019 respectively;
- approved the remuneration of directors (including the independent non-executive directors);
- approved the bonus payment to the staff of the Group; and
- considered the grant of share options when necessary as a means to provide incentives or rewards to the directors and/or employees of the Group.

The remuneration of directors is determined with reference to their respective qualifications, experience, duties and responsibilities in the Group. When approving the remuneration of directors, no individual directors will be involved in decisions relating to his own remuneration.

Full minutes of the Remuneration Committee meeting are kept by the company secretary. Draft and final versions of the minutes of the Remuneration Committee meetings are sent to all members of the Remuneration Committee for comments and approval and all decisions of the Remuneration Committee are reported to the Board subject to applicable restriction.

The terms of reference of the Remuneration Committee are available on the website of the Company and the website of the Stock Exchange.

B.3 Audit Committee

The Audit Committee of the Company was established on 25 April 2012 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants. The terms of reference of the Audit Committee (which was amended and restated on 25 March 2019) include the duties set out in code provisions C.3.3(a) to (n) of the CG Code. The existing members of the Audit Committee comprise 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. The Audit Committee does not have any former partner of the Group's existing audit firm as a member. The Company has adopted policy for hiring of employees and former employees of its external auditors on 25 April 2012 (which was amended and restated on 25 March 2019) to ensure judgment and independence of the audit of the Group will not be impaired.

In 2019, the Audit Committee held two (2) meetings and discharged its responsibilities. Attendance of individual members at the Audit Committee meetings is as follows:

	Attendance by directors/ Number of meetings	**Attendance Rate**
Mr. Chi Guohua *(chairman of the Audit Committee)*	2/2	100%
Mr. Wang Jun	2/2	100%
Mr. Huang Haibo	2/2	100%
Mr. Wang Songlin	2/2	100%
Average attendance rate		100%

The principal duties of the Audit Committee include reviewing the Company's financial controls, internal controls and risk management system, annual reports, accounts and half-yearly reports. The Audit Committee is also authorised to obtain outside professional advice and to seek information from employees, and the Company will provide sufficient resources to the Audit Committee for performance of its duties.

The following is a summary of the work performed by the Audit Committee in 2019:

- reviewed the auditors' management letter and the management's response;
- reviewed and considered the recently issued accounting standards, the adoption of new accounting standards and the change in significant accounting policies;
- reviewed the audited financial statements, the annual report and the final results announcement for the year ended 31 December 2018;
- reviewed the interim report and the interim results announcement for the six months ended 30 June 2019;
- met with the auditors to go through any significant audit issues or key findings noted during the audit of the Group's 2018 final results;
- met with the auditors to go through any significant key findings on the internal control and financial reporting matters based on the agreed-upon procedures performed for the Group's 2019 unaudited interim results;
- reviewed risk management and internal control systems and the effectiveness of the Company's internal audit function;
- reviewed the continuing connected transactions; and
- made recommendations to the Board regarding the appointment of external auditors and auditors remuneration.

In 2019, all issues raised by the Audit Committee were addressed by the management. The work and findings of the Audit Committee were reported to the Board. In 2019, no issues brought to the attention of the management and the Board were of sufficient importance to require disclosure in this annual report.

The Audit Committee reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2019 in conjunction with the Company's external auditors. Based on the review and discussions with management, the Audit Committee was satisfied that the audited consolidated financial statements of the Group were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended 31 December 2019. The Audit Committee therefore recommended the audited consolidated financial statements of the Group for the year ended 31 December 2019 be approved by the Board.

Full minutes of the Audit Committee meetings are kept by the company secretary. Draft and final versions of the minutes of the Audit Committee meetings are sent to all members of the Audit Committee for comments and approval and all decisions of the Audit Committee are reported to the Board.

The terms of reference of the Audit Committee are available on the website of the Company and the website of the Stock Exchange. This annual report has been reviewed by the Audit Committee.

B.4 Corporate governance function

The Company has adopted the terms of reference for the corporate governance function on 25 April 2012 (which were amended and restated on 8 February 2013) in compliance with code provision D.3 of the CG Code. Pursuant to the terms of reference of the corporate governance function, the Board shall be responsible for developing, reviewing and/or monitoring the policies and practices on corporate governance of the Company; training and continuous professional development of directors and senior management; and compliance with legal and regulatory requirements of the Company. This corporate governance report has been reviewed by the Board in discharge of its corporate governance function.

C. ACCOUNTABILITY AND AUDIT

C.1 Financial reporting

The management shall provide such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other matters put before the Board for approval.

The directors are responsible for overseeing all financial aspects of the Company and for keeping proper accounting records and preparing financial statements for each financial period, that give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2019, the directors of the Company have:

- approved the adoption of all applicable Hong Kong Financial Reporting Standards which are issued by the Hong Kong Institute of Certified Public Accountants;

- selected and applied consistently appropriate accounting policies;

- made judgments and estimates that are prudent and reasonable; and

- prepared the accounts on a going concern basis.

The Board is accountable to shareholders for a clear and balanced assessment of the Company's financial position and prospects. In this regard, the directors' responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other inside information announcements and other financial disclosures required under the Listing Rules, reports to regulators, and information required to be disclosed pursuant to statutory requirements.

Financial results of the Group are announced in a timely manner in accordance with all statutory requirements, particularly the timeframe stipulated in Rules 13.49(1) and (6) of the Listing Rules.

All directors of the Company acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2019. Currently, the Company's external auditors are Grant Thornton Hong Kong Limited (the "**Auditors**").

In 2019, the audit and non-audit service fees paid or payable by the Company amounted to approximately HK$1,013,000 and RMB1,162,000, respectively. The non-audit services mainly included interim review of condensed consolidated financial statements and advisory service.

The statement of the Auditors about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 61 to 64 of this annual report.

C.2 Risk management and internal control

The Company has an internal audit function to review the adequacy and effectiveness of the Group's risk management and internal control systems. The Board is entrusted with an overall responsibility of devising the Company's systems of risk management and internal control and conducting an annual review of its effectiveness. This ensures that the Board oversees and monitors the Group's overall financial position so that the interests of the shareholders are well protected and covered.

The risk management and internal control function set up by the Group is responsible for coordinating, monitoring and commenting on the risk management and internal control activities of all departments and subsidiaries. The risk management and internal control function holds regular meetings with the heads of departments and subsidiaries to discuss matters in relation to risk management and internal control and the corresponding policies. It also submits annual reports on risk management and internal control to the Board and the Audit Committee. The Board and the Audit Committee are responsible for the final assessment of the work of risk management and internal control as well as the effectiveness of the systems, discussing specific major risks and material failure of internal control; and providing support and comprehensive action plans to the management so as to ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions.

The Group's risk management and internal control systems focuses on identifying and analysing risks faced by the Group and reviewing the Group's strategies, finance, markets, operations and compliance. It also establishes appropriate risk appetite and risk management, and controls risks in a timely and reliable manner, so as to contain the risks within the established risk appetite. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. We review the major risks of the Group from five perspectives, namely causes, management strategies, responsible entities, solutions and progress. In case of any material risk, we analyse and deliberate to identify the cause(s) of the risk, formulate risk management strategies for each cause and identify the departments who will be the responsible entities to take charge of the implementation of the strategies. We also adopt effective solutions for controlling and mitigating risks and follow up the implementation progress to ensure effective risk control.

The Board and the Audit Committee have conducted a review of the effectiveness of the risk management and internal control systems on all major operations of the Group and noted that recommendations on certain areas of improvement identified in previous years have been properly followed up and implemented. The Board and the Audit Committee will continue to improve the effectiveness of the risk management and internal control systems of the Group and to monitor the systems and the progress of improvements. The Board and the Audit Committee considered that the key areas of the Group's risk management and internal control systems are effective and adequate and the Group has fully complied with the relevant code provisions set out in the CG Code regarding risk management and internal control systems generally.

In addition, the Company complies with the requirements of the Listing Rules and the SFO to handle and disclose inside information. The Company and its directors maintain strict confidentiality of the inside information until disclosure. Employees are reminded regularly that they must not make any unauthorized disclosure of inside information or make any use of such information for the advantage of himself or herself or others.

D. DELEGATION BY THE BOARD

Management functions

In general, the Board oversees the Company's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group's strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management. The Board is entrusted with the following reserved powers:

1. *Business strategy*

   - approval of strategic objectives, annual plans and performance targets for the Group;
   - approval of proposals for expansion or closures other than those which have been specifically approved in the strategic objectives and/or annual plans of the Group;
   - approval of budgets; and
   - approval of performance indicators.

2. *Appointment*

   - appointment of any person as director to fill a casual vacancy or as an additional director;
   - appointment of the chairman and the chief executive officer;
   - appointment of senior executives;
   - fixing of auditors' remuneration;
   - selection, appointment and dismissal of company secretary; and
   - formation of board committees and approval of the membership and terms of reference of the board committees.

3. *Board and senior management*

   - delegation of authority to the chairman, chief executive officer, management and board committee(s);
   - approval of remuneration and incentive policies;
   - approval of Group benefit policies;
   - approval of remuneration of directors and senior management; and
   - assessment of the performance of the Company and the Board.

4. *Relations with the shareholders*

   - arrangements for annual general meetings and any other shareholders' meetings;
   - matters relating to disclosure as required by the applicable law and regulations; and
   - formation of shareholders' communication policy.

5. *Financial matters*

    - approval of annual accounts and directors' reports;
    - approval of accounting policies;
    - approval of any substantial change in the policies of the Company for statements of financial position management including but without limitation capital adequacy, credit, liquidity, debt maturity profile, interest rate and exchange rate risks and asset concentration both geographically and by sector;
    - approval of internal audit plan;
    - approval of internal control policy and procedures;
    - acceptance of auditors' reports including management letters; and
    - declaration of interim dividends and making recommendations on final dividends.

6. *Capital expenditures*

    - approval of the capital expenditure budget;
    - approval of capital commitment, whether or not the same has been provided for in the capital expenditure budget and/or annual budget; and
    - approval of priorities.

7. Any transaction that constitutes notifiable transaction or connected transaction for the Company under the Listing Rules (as amended from time to time).

8. To assess the likely impact of unexpected and significant events and other events which can affect price and market activity of the shares of the Company and to decide whether the relevant information would be price-sensitive and need to be disclosed.

9. *Risk management*

    - risk assessment and insurance; and
    - risk management policies.

10. *Internal controls and reporting system*

    - approval and establishment of any effective procedures for monitoring and control of operations including internal procedures for audit and compliance.

11. Use of the company seal(s).

12. Donations and sponsorships (if any) above approved limits.

E. COMPANY SECRETARY

Ms. Ngai Ka Yan, the company secretary appointed by the Board and an employee of the Company, in the opinion of the Board, possesses the necessary qualification and experience, capable of performance of the functions of the company secretary and the Company will provide fund for Ms. Ngai to take not less than 15 hours of appropriate professional training in each financial year as required under Rule 3.29 of the Listing Rules. During 2019, Ms. Ngai has attended training programs and seminars arranged by The Hong Kong Institute of Chartered Secretaries, the Stock Exchange and other institutions and has satisfied the 15 hours professional training requirement of the Listing Rules.

F. COMMUNICATION WITH SHAREHOLDERS

F.1 Effective communication

The Company attaches great importance to communications with its shareholders. Information on the Group's activities, business, strategies and developments is provided in the Company's annual reports and interim reports. Shareholders of the Company are encouraged to attend the annual general meetings of the Company which offer a valuable forum for dialogue and interaction with management.

In line with the practice of the Company, in respect of each matter to be considered at the annual general meetings and extraordinary general meetings, including the re-election of directors, a separate resolution will be proposed by the Chairman.

An annual general meeting of the Company was held on 3 June 2019 at which Mr. Wu Xiao An, the Chairman of the Board, and the chairman of each of the Audit Committee, Remuneration Committee and Nomination Committee attended the meeting either in person or by way of telephone conference to answer questions raised by the shareholders at the meeting in accordance with code provision E.1.2 set out in the CG Code.

At the extraordinary general meeting of the Company held on 11 December 2019, all directors of the Company attended either in person or by way of telephone conference to answer questions raised by the shareholders at the meeting. All members of the independent board committee also attended the meeting.

The Chairman of the Board, the chairman of each the Audit Committee, Remuneration Committee and Nomination Committee, or in their absence, another member of the relevant committee or an appointed representative, will attend the forthcoming annual general meeting of the Company to answer questions of shareholders.

Pursuant to code provision E.1.2 set out in the CG Code, the Company will invite representatives of the external auditors to attend the forthcoming annual general meeting of the Company to answer shareholders' questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditors independence.

The Company adopted a shareholders' communication policy on 25 April 2012 (as revised with effect on 23 May 2013) which is available on the website of the Company.

F.2 Dividend policy

Pursuant to code provision E.1.5 set out in the CG Code, the Company should have a policy on payment of dividends and should disclose it in its annual report.

On 25 March 2019, the Board approved and adopted a dividend policy (the "**Dividend Policy**").

According to the Dividend Policy, the declaration, payment and amount of dividends will be subject to the discretion of the Board with reference to the following factors:

(a) the operating and financial results of the Group;

(b) the Group's cash flow position;

(c) the Group's liquidity position;

(d) the Group's business conditions and strategies;

(e) the retained earnings and distributable reserves of the Company;

(f) the capital requirements and expenditure plans;

(g) the future prospects, operations and earnings of the Group;

(h) the interests of the shareholders of the Company; and

(i) other factors that the Board deems relevant and appropriate.

Any declaration and payment of the dividend by the Company is also subject to any restrictions under the Companies Laws of the Cayman Islands, any applicable laws, rule and regulations and the Articles of Association of the Company.

Any declaration and payment of future dividends under the Dividend Policy are subject to the Board's determination that it is in best interests of the Group and the shareholders of the Company as a whole. The Board will review the Dividend Policy from time to time and may exercise at its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time as it deems fit and necessary. There is no assurance that dividends will be paid in any particular amount for any given period.

F.3 Voting by poll

At each of the annual general meeting held on 3 June 2019 and the extraordinary general meeting held on 11 December 2019, the Chairman provided an explanation of the procedures for conducting a poll at the commencement of the meetings. Poll results were posted on the website of the Stock Exchange and the website of the Company on the day of the holding of each of the shareholders' meetings.

G. SHAREHOLDERS' RIGHT

G.1 Shareholders' right to convene extraordinary general meetings

Pursuant to Article 64 of the Articles of Association of the Company, extraordinary general meetings of the Company shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

G.2 Procedures for putting forward proposals at shareholders' meetings

To put forward proposals at a general meeting of the Company, a shareholder should lodge a written notice of his/her/its proposal with his/her/its detailed contact information to the principal place of business of the Company in Hong Kong. The identity of the shareholder and his/her/its request will be verified with the Company's branch share registrar in Hong Kong and upon confirmation by the branch share registrar that the request is proper and in order and made by a shareholder, the Board will determine in its sole discretion whether the proposal may be included in the agenda for the general meeting.

The Company also adopted a set of guidelines on procedures for shareholders to propose a person for election as a director of the Company on 25 April 2012 which is available on the website of the Company.

G.3 Shareholders' enquiries

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available and the Company has an investor relationship personnel to attend to enquiries from the shareholders. Details of the contact person are set out below:

Name	:	The Company Secretary
Telephone	:	2516 6918
Email	:	xce@xinchenpower.com

Shareholders may also make enquiries with the Board at the general meetings of the Company and/or by sending them to the Company's principal place of business in Hong Kong and addressing to the Board.

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's branch share registrar.

H. INVESTOR RELATIONS

Constitutional documents

Pursuant to a special resolution of the shareholders of the Company passed on 25 April 2012, the amended and restated memorandum and articles of association of the Company were adopted with effect from 13 March 2013. During the year ended 31 December 2019, there was no change in the memorandum and articles of association of the Company.

The amended and restated memorandum and articles of association of the Company are available on the website of the Stock Exchange and the website of the Company.

Environmental, Social and Governance Report

The Group is one of the leading automotive engine manufacturers in the indigenous branded passenger vehicle and light duty commercial vehicle engine market in the PRC. It develops, manufactures and sells light duty gasoline and diesel engines that are used by many domestic and international passenger vehicle and light duty commercial vehicle manufacturers. The Group is also engaged in the manufacture and sale of core engine parts and components for both international and domestic passenger vehicles. It fosters sustainable growth by fulfilling its corporate governance, environmental and social responsibilities. For information on corporate governance, please refer to the Corporate Governance Report in this annual report.

A. ENVIRONMENTAL

A1 Emissions

Being a mechanical manufacturing corporation, the Group closely manages its emissions and minimises the impacts of its operations on the environment in strict compliance with the relevant environmental protection laws and regulations, such as the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Air Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國大氣污染防治法》), the Water Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國水污染防治法》) and the Law of the People's Republic of China on the Prevention and Control of Solid Waste (《中華人民共和國固體廢物防治法》). In 2019, the types of discharges of the Group were as follows:

- Atmospheric: industrial emissions and cooking emissions, comprising mainly nitrogen oxide (NOx), sulphur dioxide (SO_2) and non-methane hydrocarbons (C_2-C_8) and other pollutants.

- Water: effluents from production activities and domestic sewage, comprising mainly chemical oxygen demand by dichromate (CODcr), suspended solids (SS), grease, ammoniacal nitrogen (NH_3-N) and other pollutants.

- Solid waste: solid waste (non-hazardous) including non-metal scrap, used packaging materials and domestic waste; and dangerous waste (hazardous) including oil-stained cloth, oil sludge, used mineral oil and used containers.

(I) Mitigate air emissions, greenhouse gases (GHG) and effluents

Measures to mitigate air emissions, GHG and effluents implemented by the Group in 2019 were as follows:

- Atmospheric emissions are dispersed at higher altitudes using chimney after being treated by mechanical ventilators, dust collectors and fume filters so as to comply with the requirements of environmental protection standards.

- A sewage treatment station has been constructed to ensure that the effluents from production activities are treated by the station and meet the required environmental protection standards in terms of CODcr, SS and other key pollutant treatment indicators before being discharged to the municipal sewer systems.

- Domestic sewage is treated in the sewage treatment facilities of the plants before being discharged into the municipal sewer systems so as to meet level-3 standards under the Integrated Wastewater Discharge Standard (《污水綜合排放標準》) (GB 8978-1996).

(II) Waste treatment

The Group implemented the following measures to further strengthen waste treatment management in 2019:

- Solid waste (non-hazardous) was separated and collected throughout the production processes before being disposed of by local environmental and hygiene bureaus.

- Dangerous waste (hazardous) was disposed of by qualified professional waste disposal companies in strict compliance with the requirements of the environmental protection regulations after reporting to local environmental protection bureaus.

A2 Use of Resources

The Group attaches great importance to the use of resources and encourages its staff to use resources efficiently in order to avoid wastage.

(I) Energy use efficiency

In 2019, the Group's energy use efficiency in production activities was enhanced through the following initiatives:

- Capitalizing on Sichuan's preferential electricity use policies to reduce electricity cost by reasonably arranging production during rainy seasons.

- Energy-saving transformers were used to minimize their wear and tear and ensure safe operation.

- LED energy-saving lighting was widely used in office buildings.

- Heating and cooling systems will only be turned on when it is below 18℃ during winter and over 25℃ during summer, respectively, and will be turned off 5 minutes before the closure of the relevant offices or workshops.

- Extended idling of office equipment was prohibited.

(II) Water use efficiency

The Group stresses water recycling in its production activities. Recycled water was used in the cooling systems of laboratories and testing workshops to reduce fresh water consumption and save water. Collected rain water and river water is used instead of fresh water to water greenery.

A3 The Environment and Natural Resources

The Group advocates environmental protection and energy-saving amongst its staff. Actions taken to minimize any substantial impacts on the environment and natural resources are as follows:

- Email, intranet and centralized printing systems are used to reduce the use of paper.
- Paperless quality inspection reports and electronic filing systems are adopted, and all documents of which the hard copy is required must be printed on both sides in order to reduce the use of paper.
- Corporate shuttle buses take the staff members to and from work collectively to minimize vehicle exhaust fumes.
- Office lighting is minimized by using natural light and turning off lights when the last person leaves the offices.

B. SOCIAL

Employment and Labor Practices

B1 Employment

(I) Working environment

The Group creates a harmonious and comfortable working environment with 5S (i.e. sort (SEIRI), set in order (SEITON), shine (SEISO), standardize (SETKETSU) and sustain (SHIT-SUK)) and visual management methods. It also provides dormitories, canteens, gym halls, basketball courts and reading rooms to the staff so as to promote work-life balance and mental and physical well-being.

Team-building is fostered to boost collaboration amongst the staff. Performance-based appraisals and open communication channels are maintained for the staff to express their career expectations as well as their opinions on and suggestions for the Group. Through a fair working environment, it aims to motivate its staff to work and contribute proactively so as to facilitate the Group's development.

(II) Employment system

The Group has an open, fair and equitable staff recruitment system in place to maximize its human resources by matching employees with positions according to their capability for them to realize their full potential.

Newly-recruited employees must participate in safety, environmental protection and other legal training in strict compliance with national, provincial and municipal regulations such as the Labor Contract Law of the People's Republic of China(《中華人民共和國勞動合同法》)and the Environmental Protection Law of the People's Republic of China(《中華人民共和國環境保護法》).

The Group has prepared a Guiding Handbook for Human Resources Management (《人力資源管理指導手冊》) and a Staff Handbook (《員工手冊》) that incorporate several rules and systems, such as the Labor Contract Management Methods (《勞動合同管理辦法》), the Termination of Employment Management Methods (《員工離職管理辦法》), the Staff Training Management Methods (《員工培訓管理辦法》), the Performance Management Methods (《績效管理辦法》) and the Recruitment Management Methods (《招聘管理辦法》), which cover various aspects of employment that are closely related to the interests of the employees, including, amongst other matters, compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare, to ensure the stringent implementation of the relevant regulations.

The Group conducts annual staff satisfaction survey with the view to constantly boosting staff's satisfaction in terms of the working environment, remuneration and benefits.

B2 Health and safety

The Group strives to reduce health and safety risks by persistently improving the working environment in strict compliance with health and safety laws and regulations, such as the Production Safety Law of the People's Republic of China (《中華人民共和國安全生產法》) and the Prevention and Control of Occupational Diseases Law of the People's Republic of China (《中華人民共和國職業病防治法》).

The Group adopted a people-oriented approach in respect of occupational health and safety in accordance with the safety-first, prevention-focused, comprehensive management and prevention-and-management-integrated national occupational health and safety guidelines.

After a year of sustained effort, the Group successfully achieved its annual occupational health and safety goals of zero critical workplace injury and zero occupational disease in 2019.

The Group believes that the number of work accidents and occupational diseases can be reduced effectively by constantly perfecting the relevant occupational health and safety management rules as well as offering a relatively safe and comfortable working environment and relevant training to the staff.

In 2019, the Group conducted occupational health checkup for staff members that are exposed to occupational hazards. Staff members showing certain contraindications according to the checkup were re-examined and re-designated to other positions in a timely manner in order to prevent occupational diseases. It has also organized health checkups for all employees with the aims of mitigating corporate occupational health risk, safeguarding the well-being of the entire staff, and promoting their career development.

B3 Development and training

In 2019, the Group further strengthened its training system, organized group training for different departments, refined its staff orientation procedures and renewed the contents of the programs.

The Group enhanced the performance of its staff by focusing on core operational training such as research and development, quality control, production, manufacturing and cost control according to its development directions and strategic goals. During the year, all staff members attended some sort of training and a total of 130 training sessions were conducted with 7,265 participants. Regular staff training topics included but not limited to induction, quality systems, aftersales technical services, procurement cost bargaining and negotiation skills, five major quality control tools, corporate investment and financing and cash flow management, and operation.

B4 Labor standards

To establish a customer-friendly, open, transparent, responsible and innovative corporation, the Group makes concerted efforts to prohibit the use of child and forced labor and create a harmonious, safe and healthy working environment with its staff based on the principles of fairness, equity and mutual respect in accordance with the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and other relevant laws and regulations.

Operating Practices

B5 Supply chain management

The Group has devised and implemented the Procurement Management Procedures (《採購管理程序》) for the procurement department to draw up procurement plans according to sales forecasts, production plans and inventory position, and the Supplier Management Procedures (《供方管理程序》) for it to select suppliers according to the assessment of their technical development capacity, technique, equipment and process designs, quality, and commercial terms. To ensure the product quality, safety, environmental management and other capacities of the suppliers, the Group designs its annual third-party audit plan to conduct on-site audit on the suppliers in accordance with the Supplier APQP Management Procedures (《供貨商APQP管理流程》), the Supplier Quality Issue Resolution Management Procedures (《供貨商質量問題解決管理流程》), the Supplier PPAP Audit and Production Capacity Assessment Management Methods (《供貨商PPAP審核及產能評估管理辦法》) and On-site Supplier Audit Management Procedures (《供貨商現場審核管理流程》).

B6 Product responsibility

The Group lays stress on product quality and production responsibility. It has established a quality assurance management system that covers the whole operation (including raw material procurement, product design, manufacturing, advertising, labelling, privacy, aftersales services and quality control), an assessment management system and laboratory management standards, and strengthened its testing systems, and persistently studies and minimizes its environmental impacts, in order to always provide its customers with products that are in strict compliance with national and industrial standards, government policies and regulations such as the Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》), the Law of the People's Republic of China on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》), the Provisions on Repairing, Replacing & Returning Liabilities of Family Car Products (《家用汽車產品修理、更換、退貨責任規定》) and the Regulations on the Administration of Recall of Defective Auto Products (《缺陷汽車產品召回管理條例》), as well as prohibited substances, emission and fuel consumption standards such as Requirements for Prohibited Substances on Automobiles (GB/T 30512-2014), Limits and Measurement Methods for Emissions from Light-duty Vehicles (CHINA 5) (GB 18352.5-2013), Fuel Consumption Limits for Heavy-duty Commercial Vehicles (GB 30510– 2014), Fuel Consumption Evaluation Methods and Targets for Passenger Cars (GB 27999-2014), and Limits and Measurement Methods for Emissions from Light-duty Vehicles (CHINA 6) (GB 18352.6-2016).

To reach higher standards, the Group has extended its product service coverage across the nation and even overseas so that timely and effective measures can be taken when its product is out of order. The Group collects and analyzes customers' feedbacks on the experience and quality of the products in a timely manner so as to take preventive measures and constantly increase the reliability and satisfaction, while lowering the failure rates, of its products.

B7 Anti-corruption

The Group's disciplinary and supervision department regularly conducts self-evaluations and implements improvements over its key aspects and activities such as construction work management, project investment, procurement of supplies, invitation and provision of tenders, utilization of substantial funds together with the audit, financial and compliance departments. They identify risk factors, evaluate risk level, formulate prevention and control measures, establish databases, and refine the systems and procedures against corruption. To promote the Chinese Communist Party's rules and anti-corruption culture as well as define relevant liabilities across the Group, it has implemented dual responsibilities for each position, defined the substance of the responsibilities, established assessment systems for such responsibilities and laid out the liabilities of breaches. Risk management over key corporate decision-making processes, key projects, appointment and dismissal of key management personnel, substantial funds (collectively the "Three Key and One Substantial（三重一大）" matters) and other major activities and other major appointments and dismissals was strengthened. Meetings for the promotion of Chinese Communist Party's rules and anti-corruption culture, comprehensive party committee standing order, leader management system and the trial version of management systems for the "Three Key and One Substantial" matters were established and refined. Whistleblowing procedures were clarified and disciplinary review systems were reinforced to monitor the conducts and actions of the staff during daily operations and prevent bribery, extortion, fraud and money-laundering. As at the date of this report, the Group was not aware of any legal cases regarding corrupt practices brought against the Group or its employees.

Community

B8 Community care

The Group values good social relationships with local communities and is therefore committed to its social responsibilities. It employs and offers a good working environment to local workers.

In 2019, the "Veit Fund（懷特基金）" set up by the Group and Dr. Veit Kohnhause, the Consultant of General Manager, continued to subsidize 5 local underprivileged students with excellent academic results. The Group also partnered with Yunxi Village, Yunxi Township, Yanting County and Yunfeng Village, Maming Township, Zitong County to support the poor and people in need. It has also set up a "One Village One Child" education support campaign with Liangshan Prefecture, Xichang City. Meanwhile, individual employees and departments of the Group have raised funds for the "Love Foundation（愛心基金）" to support staff members in need. The labor union and senior staff union of the Group have established close support systems that document supports provided across the nation and in each province in order to offer regular support to employees in need according to their respective difficulties.

SUMMARY OF KEY PERFORMANCE INDICATORS UNDER "SUBJECT AREA A. ENVIRONMENTAL" FOR THE 2019 FINANCIAL YEAR

Key Performance Indicators	Description	What to Report
A1: Emissions		
A1.1	The types of emissions and respective emissions data	The Group's equipment is mainly powered by electricity and does not consume gaseous fuel. The Group owns 15 business vehicles producing the following emissions (in kilogrammes) in 2019: • Nitrogen oxides (NOx): 26,152.84 • Sulphur oxides (SOx): 551.86 • Particulate matters: 3,025.57
A1.2	GHG emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Scope 1 – Direct GHG emissions and removals A. GHG emissions from stationary sources: 1.31 tonnes of carbon dioxide (CO_2) equivalent Breakdown of GHG emissions (in tonnes): • Carbon dioxide (CO_2): 1.31 • Methane (CH_4): 0.0002 • Nitrous oxide (N_2O): 0.0011 B. GHG emissions from mobile combustion sources (road, air and water transport): 98.55 tonnes of carbon dioxide (CO_2) equivalent Breakdown of GHG emissions (in tonnes): • Carbon dioxide (CO_2): 86.15 • Methane (CH_4): 0.19 • Nitrous oxide (N_2O): 12.21 C. Hydrofluorocarbons (HFC) and perfluorocarbons (PFC) emissions from refrigeration/air conditioning equipment (commonly known as refrigerants): Not applicable as the Group does not keep refrigerants. D. GHG removals from newly planted trees: • Carbon dioxide (CO_2) removed: 17.36 tonnes Scope 2 – Energy indirect GHG emissions (Principle source of the Group was purchased electricity as no gas was purchased) 25,085.91 tonnes of carbon dioxide (CO_2) equivalent

Key Performance Indicators	Description	What to Report
		Scope 3 – Other indirect GHG emissions A. Paper waste disposed of at landfills: 2.50 tonnes of carbon dioxide (CO_2) equivalent B. GHG emissions due to electricity used for fresh water and sewage processing by government departments: • Fresh water processing: 2,659.59 tonnes of carbon dioxide (CO_2) equivalent • Sewage processing: 8,843.83 tonnes of carbon dioxide (CO_2) equivalent C. Business air travel by employees: 63.57 tonnes of carbon dioxide (CO_2) equivalent Total GHG emissions: 36,755.26 tonnes of carbon dioxide (CO_2) equivalent Intensity of GHG emissions (tonne(s) of carbon dioxide equivalent per unit of production volume): 0.3064 Intensity of GHG emissions covers GHG emissions from scopes 1, 2 and 3.
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Total hazardous waste produced: 675.59 tonnes Per unit data: 0.0056 tonne per unit of production volume
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Total non-hazardous waste produced: 936.85 tonnes Per unit data: 0.0078 tonne per unit of production volume

Key Performance Indicators	Description	What to Report
A1.5	Description of measures to mitigate emissions and results achieved	Key measures employed in 2019 for the reduction of emissions: • Atmospheric emissions are dispersed at higher altitudes using chimney after being treated by mechanical ventilators, dust collectors and fume filters. After the treatment, 95% of pollutants such as dust and non-methane total hydrocarbon are removed, bringing the emissions up to the required environmental protection standards. • A sewage treatment station has been constructed to ensure that the effluents from production activities are treated by its station and meet the required environmental protection standards in terms of CODcr, SS and other key pollutant treatment indicators (concentration after the treatment was approximately 200/100mg/L, which was far below 500/400mg/L as required by the Integrated Wastewater Discharge Standard（《污水綜合排放標準》）(GB 8978-1996)) before being discharged to the municipal sewer systems. • Domestic sewage is treated in the sewage treatment facilities of the plants (CODcr concentration after the treatment was lower than 200mg/L) before being discharged into the municipal sewer systems so as to meet level-3 standards under the Integrated Wastewater Discharge Standard（《污水綜合排放標準》）(GB 8978-1996).
A1.6	Description of how hazardous and nonhazardous wastes are handled, reduction initiatives and results achieved	The Group's hazardous and non-hazardous wastes were handled in 2019 as below: • 100% of hazardous waste was disposed of by qualified handling companies approved by environmental protection departments. • Non-hazardous waste was reused to the extent that direct internal reuse is possible, and then collected, recycled and disposed of by environmental and hygiene departments when reuse is not possible. The recycling rate based on the volume generated was 100%. In 2019, there was no misplacement, leakage, dispersal or any other accident in relation to hazardous waste. Treatment rate was 100%. As to valuable non-hazardous waste, the recycling rate based on the volume generated was 100%.

Key Performance Indicators	Description	What to Report
A2: Use of Resources		
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility)	Electricity consumption in total: 46,508,674.73 kW Diesel consumption in total: 28,571.43 kW Energy consumption intensity: 403.49 kW per unit of production volume
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility)	Water consumption in total: 100,837 tonnes Water consumption intensity: 0.84 tonne per unit of production volume
A2.3	Description of energy use efficiency initiatives and results achieved	• Capitalizing on Sichuan's preferential electricity use policies to reduce electricity cost by reasonably arranging production during rainy seasons. Despite of a decrease of about 42% and 3% in the output of engines and crankshafts, respectively, electricity consumption remained at similar level as compared to the pervious year due to an addition of certain processing equipment by the crankshaft production line. • Energy-saving transformers were used to minimize their wear and tear and ensure safe operation. • LED energy-saving lighting was widely used in office buildings. • Heating and cooling systems will only be turned on when it is below 18℃ during winter and over 25℃ during summer, respectively, and will be turned off 5 minutes before the closure of the relevant offices or workshops. • Extended idling of office equipment was prohibited.
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	• There was no issue in sourcing water as all water comes from fresh water supply systems of industrial parks. • Water consumption was effectively reduced by reusing water from cooling towers in engine testing and casting workshops. • Water consumption was reduced by using collected rain water and river water, instead of fresh water, to water greenery.
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	The three major packaging materials used by the Group are steel, paper and wood, and plastic. If customers do not have special requests, we deliver our products by steel frames, which are recovered and reused after delivery. In other cases, we deliver our products in wooden boxes, cartons and plastic wrapping film. Total packaging material used for finished products: 364.57 tonnes Material used per unit produced: 0.0030 tonne

Key Performance Indicators	Description	What to Report
A3: The Environment and Natural Resources		
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	The Group endeavors to minimize its impact on the environment in its production, manufacturing and technical modification processes. As the manufacturing operation requires the use of natural resources, public facilities and materials, we advocate sustainable improvement of the environment in its product design and production. We persistently improve our products in order to reduce their impact on the environment. Products produced and sold by us comply with national emissions and fuel consumption regulations for vehicles. Key actions taken in 2019: • Replacing paper packaging and wooden pallets with reusable metal frames and conserving and recycling more paper to minimize the direct/indirect use of wood and thus indirectly reducing carbon emissions. • Engaging the suppliers to decontaminate and dispose of oilstained sodium salt of carboxymethyl ether of cellulose after grease removal treatment, and reusing the removed grease in the equipment after filtration to produce less hazardous waste, conserve more energy consumed by the suppliers during the disposal process, and directly/indirectly reduce total emissions to the environment and energy consumed during the disposal process. • Using natural ventilation instead of air-conditioning at offices during summer to reduce energy consumption. • Adopting paperless quality inspection reports and electronic filing systems, and printing all documents of which the hard copy is required on both sides in order to reduce the use of paper. • Using less corporate cars and more public transport. • Using collected rain water and river water instead of fresh water to water greenery. • Turning on heating and cooling systems only when it is below 18℃ during winter and over 25℃ during summer, respectively, and turning them off 5 minutes before the closure of the relevant offices or workshops. Turning off lights before leaving the offices.

Independent Auditor's Report

Grant Thornton
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TO THE MEMBERS OF
XINCHEN CHINA POWER HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Xinchen China Power Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 65 to 134, which comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance ("CO").

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
Impairment of intangible assets	
At 31 December 2019, the Group had significant intangible assets amounting to Renminbi ("RMB") 669,384,000 which arose from capitalisation of development costs of technical know-how of new automotive engines and are amortised based on unit of production by reference to the expected saleable units of respective automotive engines. Recoverability of these intangible assets is based on the forecasting saleable units, which are inherently highly judgmental. The key estimate made by management includes the expected saleable units of respective automotive engines. Management's disclosures with regard to the estimation are set out in Note 4 to the consolidated financial statements whilst the disclosures in respect of the carrying values of intangible assets are set out in Note 18 to the consolidated financial statements.	Our procedures in relation to assessment of the carrying values of intangible assets with impairment indicator included: • Discussing with management and understanding management's basis of estimation of saleable units; • Understanding management process over the regular assessment of saleable units; • Assessing the accuracy of management's estimate of the likelihood of saleable units based on historical sales records and, where applicable indicative units confirmed by customers; and • Testing the subsequent sales units after the year-end, on a sample basis, to source documents, including goods delivery notes and invoices.

KEY AUDIT MATTERS (Cont'd)

Key audit matter	How the matter was addressed in our audit
Impairment assessment on trade receivables and trade related amounts due from related companies (collectively referred to as "Trade-related-receivables")	
We identified impairment assessment on Trade-related-receivables as a key audit matter due to the significance of the balances to the consolidated financial statements as a whole and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("ECL") of Trade-related-receivables at the end of the reporting period. At 31 December 2019, the carrying amounts of trade receivables and trade related amounts due from related companies are RMB253,280,000 and RMB1,145,725,000, respectively, which represented approximately 4.2% and 19.0% of total assets of the Group. As disclosed in Note 4 to the consolidated financial statements, the Group estimates the amount of lifetime ECL of Trade-related-receivables based on the valuations performed by an independent qualified professional valuer (the "Valuer") for the year ended 31 December 2019. The valuations of trade receivables and trade related amounts due from related companies are based on provision matrix and individual assessment, respectively. For the ECL assessment of trade receivables based on provision matrix which is through grouping of various debtors that have similar loss patterns, after considering credit ratings of trade debtors, ageing, repayment history and/or past due status of respective trade receivables, whereas the ECL assessment of trade related amounts due from related companies based on individual assessment is by reference to the credit rating, including the Group's historical credit loss experiences, adjusted for factors that are specific to the debtors. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. The assessment of ECL involves a high degree of uncertainties. As disclosed in Notes 23 and 24 to the consolidated financial statements, the Group recognises an additional impairment amount of RMB5,699,000 charged to profit or loss for trade receivables and no additional impairment loss are recognised in trade related amounts due from related companies for the year ended 31 December 2019 and the Group's lifetime ECL on trade receivables and trade related amounts due from related companies as at 31 December 2019 amounted to RMB8,677,000 and RMB15,481,000, respectively.	Our procedures to address the impairment assessment on Trade-related-receivables included: • Evaluating the competence, capabilities and objectivity of the Valuer and obtaining an understanding of their scope of work and their terms of engagement; • Understanding key controls of the Group over the estimation of ECL of Trade-related-receivables; • Testing the integrity of information provided by management to the Valuer to develop the provision matrix and individual assessment, including Trade-related-receivables ageing analysis as at 31 December 2019, on a sample basis, by comparing individual items in the analysis with the relevant sales orders, sales invoices and other supporting documents; • Assessing the accuracy of management and the Valuer's basis and judgement in determining the ECL based on historical credit loss records and with reference to other factors that have been taken into consideration by management and the Valuer; • Assessing the reasonableness of Valuer's grouping of the Trade-related-receivables in the provision matrix, and the basis of estimated loss rate applied in each category in the provision matrix with reference to historical default rates and forward-looking information; and • Evaluating the disclosures regarding the impairment assessment of Trade-related-receivables in Notes 23 and 24 to the consolidated financial statements.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the 2019 annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the CO, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors assisted by the Audit Committee are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong

26 March 2020

Ng Ka Kong
Practising Certificate No.: P06919

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
Revenue	5	**2,076,173**	3,050,522
Cost of sales		**(1,847,389)**	(2,716,248)
Gross profit		**228,784**	334,274
Other income	6	**59,583**	53,223
Impairment losses	7	**(6,114)**	(17,530)
Other gains and losses	8	**(19,895)**	(80,636)
Selling and distribution expenses		**(31,006)**	(46,969)
Administrative expenses		**(129,054)**	(139,093)
Finance costs	9	**(81,374)**	(73,972)
Other expenses		**(13,463)**	(18,247)
Share of result of a joint venture	19	**–**	(276)
Profit before tax		**7,461**	10,774
Income tax expense	10	**(613)**	(50)
Profit for the year	11	**6,848**	10,724
Other comprehensive income:			
Item that may be reclassified subsequently to profit or loss:			
Fair value (loss)/gain on:			
Receivables measured at fair value through other comprehensive income ("FVTOCI")	12	**(631)**	362
Total comprehensive income for the year		**6,217**	11,086
Earnings per share – Basic (RMB)	15	**0.005**	0.008

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

The notes on pages 71 to 134 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2019

	NOTES	**2019** **RMB'000**	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**2,543,565**	2,581,151
Prepaid lease payments	17	**130,164**	130,408
Intangible assets	18	**669,384**	623,455
Deferred tax assets	20	**18,182**	19,198
Loan to a shareholder	21	**14,314**	13,097
		3,375,609	3,367,309
CURRENT ASSETS			
Inventories	22	**658,422**	839,508
Prepaid lease payments	17	**–**	3,378
Trade and other receivables	23a	**437,624**	562,687
Receivables measured at FVTOCI	23b	**34,348**	217,396
Amounts due from related companies	24	**1,145,866**	1,285,192
Tax recoverable		**9,555**	31,479
Pledged/restricted bank deposits	25	**266,068**	595,782
Bank balances and cash	25	**98,188**	223,950
		2,650,071	3,759,372
Assets classified as held for sale	19	**–**	49,193
		2,650,071	3,808,565
CURRENT LIABILITIES			
Trade and other payables	26	**1,176,139**	1,938,128
Amounts due to related companies	27	**215,304**	241,374
Lease liabilities	28	**8,407**	–
Financial liabilities at fair value through profit or loss ("FVTPL")	29	**–**	5,616
Borrowings due within one year	30	**1,008,088**	682,828
		2,407,938	2,867,946
NET CURRENT ASSETS		**242,133**	940,619
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,617,742**	4,307,928

Consolidated Statement of Financial Position (Cont'd)

As at 31 December 2019

	NOTES	**2019** **RMB'000**	2018 RMB'000
NON-CURRENT LIABILITIES			
Borrowings due after one year	30	**577,723**	1,267,808
Lease liabilities	28	**5,231**	–
Deferred income	31	**42,868**	54,417
		625,822	1,322,225
NET ASSETS		**2,991,920**	2,985,703
CAPITAL AND RESERVES			
Share capital	32	**10,457**	10,457
Reserves		**2,981,463**	2,975,246
TOTAL EQUITY		**2,991,920**	2,985,703

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

The notes on pages 71 to 134 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 65 to 134 were approved and authorised for issue by the board of directors of the Company (the "Board") on 26 March 2020 and are signed on its behalf by:

Wu Xiao An (also known as Ng Siu On)
Director

Wang Yunxian
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 *(Note a)*	Surplus reserves RMB'000 *(Note b)*	Deemed distribution to a shareholder RMB'000 *(Note c)*	Contribution from a shareholder RMB'000 *(Note d)*	FVTOCI reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2018 (restated)	10,457	700,258	193,457	382,987	(11,285)	8,319	–	1,690,424	2,974,617
Profit for the year	–	–	–	–	–	–	–	10,724	10,724
Other comprehensive income for the year	–	–	–	–	–	–	362	–	362
Total comprehensive income for the year	–	–	–	–	–	–	362	10,724	11,086
Transfer	–	–	–	8,731	–	–	–	(8,731)	–
At 31 December 2018	10,457	700,258	193,457	391,718	(11,285)	8,319	362	1,692,417	2,985,703
At 1 January 2019	10,457	700,258	193,457	391,718	(11,285)	8,319	362	1,692,417	2,985,703
Profit for the year	–	–	–	–	–	–	–	6,848	6,848
Other comprehensive loss for the year	–	–	–	–	–	–	(631)	–	(631)
Total comprehensive income for the year	–	–	–	–	–	–	(631)	6,848	6,217
Transfer	–	–	–	2,722	–	–	–	(2,722)	–
At 31 December 2019	**10,457**	**700,258**	**193,457**	**394,440**	**(11,285)**	**8,319**	**(269)**	**1,696,543**	**2,991,920**

Notes:

(a) Special reserve represents the difference between paid-in capital of Mianyang Xinchen Engine Co., Limited* (綿陽新晨動力機械有限公司) ("Mianyang Xinchen") and issued share capital of the Company arising from group reorganization.

(b) Surplus reserves comprise statutory surplus reserve and discretionary surplus reserve of Mianyang Xinchen, a major operating subsidiary of the Group and a sino-foreign equity joint venture enterprise, which are non-distributable and the transfer to these reserves is determined according to the relevant laws in the People's Republic of China (the "PRC") and by the board of directors of Mianyang Xinchen in accordance with its Articles of Association. Statutory surplus reserve amounting to approximately RMB264,696,000 as at 31 December 2019 (2018: RMB262,187,000), can be used to make up for previous year's losses or convert into additional capital of Mianyang Xinchen. Discretionary surplus reserve amounting to approximately RMB129,744,000 as at 31 December 2019 (2018: RMB129,531,000) can be used to expand the existing operations of Mianyang Xinchen.

(c) Deemed distribution to a shareholder represents the fair value adjustments on interest-free loan to a subsidiary of a joint controlling shareholder of Mianyang Xinchen in prior years.

(d) Contribution from a shareholder represents the fair value adjustments on shares awarded by Lead In Management Limited ("Lead In") to a third party in prior years.

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

* *English name for reference only.*

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**7,461**	10,774
Adjustments for:		
Interest expenses	**81,374**	73,972
Interest income	**(12,236)**	(8,320)
Depreciation and amortisation	**284,656**	336,737
Amortisation of government grants	**(11,549)**	(10,549)
Provision for warranty, net of reversal	**14,192**	18,591
Provision for/(reversal of) inventories, net	**533**	(1,064)
Share of result of a joint venture	**–**	276
Impairment loss on trade receivables and amounts due from related companies	**6,114**	1,001
Unrealised exchange loss/(gain)	**12,562**	(4,157)
Net gain arising on financial liabilities at FVTPL, unrealised	**–**	(9,654)
Imputed interest income from loan to a shareholder	**(890)**	(830)
Loss on disposal of property, plant and equipment	**184**	6
Impairment loss of loan to a shareholder	**–**	16,529
Gain on disposal of assets classified as held for sale	**(652)**	–
Operating cash flows before movements in working capital	**381,749**	423,312
Decrease/(Increase) in inventories	**180,553**	(230,333)
Decrease in trade and other receivables	**118,949**	313,674
Decrease/(Increase) in receivables measured at FVTOCI	**186,480**	(217,396)
(Decrease)/Increase in trade and other payables	**(776,064)**	177,457
Decrease in financial liabilities at FVTPL	**(5,616)**	–
Decrease in amounts due from related companies	**138,049**	163,739
Decrease in amounts due to related companies	**(26,204)**	(107,668)
Cash generated from operations	**197,896**	522,785
Income tax recoverable/(paid)	**22,327**	(52,407)
NET CASH FROM OPERATING ACTIVITIES	**220,223**	470,378
INVESTING ACTIVITIES		
Advance to related companies	**(10)**	(127)
Repayment from related companies	**1,287**	1
Interest received	**8,173**	8,320
Purchase of property, plant and equipment	**(178,278)**	(231,808)
Proceeds for disposal of property, plant and equipment	**317**	1
Proceed from disposal of assets held for sale	**49,845**	–
Development costs paid	**(74,918)**	(102,670)
Withdrawal of pledged bank deposits	**843,064**	1,030,461
Placement of pledged bank deposits	**(513,350)**	(1,343,376)
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES	**136,130**	(639,198)

Consolidated Statement of Cash Flows (Cont'd)

For the year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
FINANCING ACTIVITIES		
Interest paid	**(96,409)**	(91,141)
New borrowings raised	**654,711**	1,211,170
Repayment of borrowings	**(1,032,542)**	(1,079,977)
Payment of lease liabilities	**(8,009)**	–
Advance from related companies	**134**	282
Repayment to related companies	**–**	(37)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES	**(482,115)**	40,297
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(125,762)**	(128,523)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**223,950**	352,473
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**98,188**	223,950

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

1. GENERAL INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (2010 Revision) of the Cayman Islands on 10 March 2011. Brilliance China Automotive Holdings Limited ("Brilliance China", Brilliance China and its subsidiaries collectively referred to as "Brilliance China Group"), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and Sichuan Province Yibin Wuliangye Group Co., Ltd.*（四川省宜賓五糧液集團有限公司）("Wuliangye", Wuliangye and its subsidiaries collectively referred to as "Wuliangye Group"), a state owned enterprise registered in the 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 addresses of the registered office and the principal place of business of the Company are disclosed in corporate information section of the annual report.

The principal activities of the Group are the development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles and manufacture of engine parts and components of passenger vehicles in the PRC. The principal activities of the Company's subsidiaries are set out in note 43 to the consolidated financial statements.

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

* *English name for reference only.*

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

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

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

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

Other than as noted below, the adoption of the new and amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

HKFRS 16 Leases

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

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from HKAS 17 and HK(IFRIC)-Int 4 and has not applied HKFRS 16 to arrangements that were previously not identified as lease under HKAS 17 and HK(IFRIC)-Int 4.

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

New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2019 (Cont'd)

HKFRS 16 Leases (Cont'd)

As a Lessee

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of HKFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition. The Group has already recognised the prepaid lease payments for leasehold land where the Group is a lessee. The application of HKFRS 16 does not have impact on these assets except for the whole balance is now presented as "Prepaid lease payments" under non-current assets.

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

On transition to HKFRS 16, the Group has applied discount rates 5.86% and 3.50%, determined by the incremental borrowing rate, to the lease of production facility and office premise respectively.

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

	RMB'000
Total operating lease commitments disclosed at 31 December 2018	24,680
Discounting using incremental borrowing rate as at 1 January 2019	(3,033)
Total lease liabilities recognised under HKFRS 16 at 1 January 2019	21,647
Classified as:	
Current lease liabilities	8,009
Non-current lease liabilities	13,638
	21,647

As a Lessor

Upon initial application of HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16. Comparative information is not restated.

Total impact arising from transition to HKFRS 16

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

	RMB'000
Increase in right-of-use assets presented in property plant and equipment	21,647
Increase in lease liabilities	21,647

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

New, amendments to HKFRSs and new interpretation in issue but not yet effective

At the date of authorisation of these consolidated financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]

[1] Effective for annual periods beginning on or after 1 January 2020
[2] Effective for annual periods beginning on or after 1 January 2021
[3] Effective date not yet determined
[4] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning on or after the effective date of the pronouncement. The application of all new, amendments to HKFRSs and new interpretation will have no material impact on the consolidated financial statements in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

These annual consolidated financial statements have been prepared in accordance with HKFRSs which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the HKICPA and the accounting principles generally accepted in Hong Kong.

The financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance ("CO") and include the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The consolidated financial statements have been prepared on the historical cost basis, except for financial liabilities designated as at FVTPL and receivables measured at FVTOCI that are measured at fair values at the end of each reporting period. Non-current assets and disposal group held for sale are stated the lower of carrying amount and fair value less costs to sell. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss. Cost also includes direct attributable costs of investment.

3.3 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. When the Group is committed to a sale plan involving disposal of an investment in a joint venture, the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the investment that is classified as held for sale from the time when the investment is classified as held for sale.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell which continue to be measured in accordance with the accounting policies as set out in respective sections.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.4 Revenue recognition

Revenue arises mainly from the sales of engines and engine components.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Further details of the Group's revenue and other income recognition policies are as follows:

Sales of engines and engine components

Revenue from the sale of engines and engine components for a fixed fee is recognised when or as the Group transfers control of the assets to the customer. Invoices for goods or services transferred are due upon receipt by the customer.

Sales-related warranties associated with engines and engine components cannot be purchased separately and are served as an assurance that the products sold comply with agreed-upon specifications (i.e. assurance-type warranties). Accordingly, the Group accounts for warranties in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Interest income

Interest income is recognised on a time proportion basis using the effective interest method. For financial assets measured at amortised cost or FVTOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of ECL allowance) of the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.5 Leases

(a) *Definition of a lease and the Group as a lessee*

Policy applicable from 1 January 2019

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;

- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and

- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

For contracts that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which the Group is a lessee, the Group elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term unless the Group is reasonably certain to obtain ownership at the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicator exists.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.5 Leases (Cont'd)

(a) Definition of a lease and the Group as a lessee (Cont'd)

Policy applicable from 1 January 2019 (Cont'd)

Measurement and recognition of leases as a lessee (Cont'd)

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable payments based on an index or rate, and amounts expected to be payable under a residual value guarantee. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payment of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

When the lease is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

On the consolidated statement of financial position, right-of-use assets have been included in "property, plant and equipment", the same line as it presents the underlying assets of the same nature that it owns. The prepaid lease payments for leasehold land are presented as "Prepaid lease payments" under non-current assets.

Policy applicable before 1 January 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as a lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.5 Leases (Cont'd)

(b) The Group as a lessor

As a lessor, the Group classifies its leases as operating leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a liability and as a reduction of rental expense over the lease term on a straight line basis.

3.6 Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated (i.e. only translated using the exchange rates at the transaction date).

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

3.7 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.8 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government grants relating to income is presented in gross under "Other income" in the consolidated statement of profit or loss and other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.9 Employee benefits

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

3.10 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.10 Taxation (Cont'd)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3.11 Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below and cost of right-of-use assets as described in Note 3.5) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Upon the application of HKFRS 16, accounting policy for depreciation of right-of-use assets is set out in Note 3.5.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment property is transferred at its carrying amount to property, plant and equipment upon commencement of the owner-occupation.

3.12 Prepaid lease payments

Prepaid lease payments (which meet the definition of right-of-use assets upon initial application of HKFRS 16) represent the upfront payment for long-term land lease in which the payment can be reliably measured. It is stated at cost less accumulated amortisation (before the application of HKFRS 16)/depreciation (upon the application of HKFRS 16) and any accumulated impairment losses. Amortisation/depreciation is calculated on a straight line basis over the term of the lease except where an alternative basis is more representative of the time pattern of benefits to be derived by the Group from use of the land.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.13 Intangible assets

Internally-generated intangible assets—research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses (if any).

Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their unit of production by reference to the expected saleable units of respective automotive engines. The expected saleable units are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

3.14 Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of tangible and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.14 Impairment of tangible and intangible assets (Cont'd)

Recoverable amount is the higher of fair values less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss. In allocation the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rate basis based on the carrying amount of each asset in the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

3.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3.16 Provision for warranty

Provision for warranty is recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provision for warranty is measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision for warranty is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

3.17 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of its risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.17 Financial instruments (Cont'd)

Financial assets

Classification and initial measurement of financial assets

Except for those receivables that do not contain a significant financing component and are measured at the transaction price in accordance with HKFRS 15, all financial assets are initially measured at fair value, in case of a financial asset not at FVTPL, plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the consolidated statement of profit or loss and other comprehensive income.

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

– amortised cost;

– FVTPL; or

– FVTOCI.

The classification is determined by both:

– the entity's business model for managing the financial asset; and

– the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, other income, other gains and losses or other financial items.

Subsequent measurement of financial assets

<u>Debt investments</u>

<u>Financial assets at amortised cost</u>

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

– they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and

– the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in other income in profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Group's bank balances and cash, trade and other receivables, loan to a shareholder and amounts due from related parties fall into this category of financial instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.17 Financial instruments (Cont'd)

Financial assets (Cont'd)

Subsequent measurement of financial assets (Cont'd)

Debt investments (Cont'd)

Financial assets at FVTOCI – recycling

If the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale, changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of ECL, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss. The Group's receivables classified as at FVTOCI fall into this category of financial instruments.

Subsequent changes in the carrying amounts for receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these receivables are recognised in OCI and accumulated under the heading of FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these receivables, if any. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these receivables had been measured at amortised cost. When these receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Financial liabilities

Classification and measurement of financial liabilities

The Group's financial liabilities include borrowings, lease liabilities, trade and other payables, amounts due to related parties and financial liabilities at FVTPL.

Financial liabilities other than lease liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated as financial liabilities at FVTPL.

Subsequently, financial liabilities other than lease liabilities are measured at amortised cost using the effective interest method except for derivatives which are not designated and effective as hedging instruments and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs.

Accounting policies of lease liabilities are set out in Note 3.5.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.17 Financial instruments (Cont'd)

Financial liabilities (Cont'd)

Classification and measurement of financial liabilities (Cont'd)

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Other financial liabilities

They are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

3.18 Impairment of financial assets

HKFRS 9's impairment requirements use more forward-looking information to recognise ECL－the "ECL model". Instruments within the scope included loans and other debt-type financial assets measured at amortised cost and FVTOCI and trade receivables.

The Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

– financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1") and

– financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month ECL" are recognised for the Stage 1 category while "lifetime ECL" are recognised for the Stage 2 category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.18 Impairment of financial assets (Cont'd)

Trade and bills receivables

For trade receivables and bills receivables, the Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at each reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment.

To measure the ECL, trade and bills receivables have been grouped based on shared credit risk characteristics and the days past due.

Other financial assets measured at amortised cost and receivables measured at FVTOCI

The Group measures the loss allowance for other receivables, amounts due from related companies and receivables measured at FVTOCI equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood of risk of default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial assets at the reporting date with the risk of default occurring on the financial assets at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of each reporting period. A debt instrument is determined to have low credit risk if it has a low risk of default, the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.18 Impairment of financial assets (Cont'd)

Other financial assets measured at amortised cost and receivables measured at FVTOCI (Cont'd)

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Detailed analysis of the ECL assessment of trade and bills receivables and other financial assets measured at amortised cost and receivables measured at FVTOCI are set out in Note 34.2.

3.19 Share capital

Ordinary shares are classified as equity. Share capital is recognised at the amount of consideration of shares issued, after deducting any transaction costs associated with the issuing of shares (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

3.20 Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 3.4). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 3.17).

3.21 Related parties

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group.

(b) the party is an entity and if any of the following conditions applies:

- (i) the entity and the Group are members of the same group.
- (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) the entity and the Group are joint ventures of the same third party.
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.21 Related parties (Cont'd)

(b) the party is an entity and if any of the following conditions applies: (Cont'd)

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group and the sponsoring employers are also related to the Group.

(vi) the entity is controlled or jointly controlled by a person identified in (a).

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the Group's accounting policies, which are described in Note 3, management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year.

4.1 Amortisation and impairment of intangible assets

The Group's management determines the estimated useful lives and related amortisation charges for its intangible assets. This estimate is based on the historical experience of the actual saleable units of intangible assets of similar nature and functions. The management will increase the amortisation charge where saleable units are expected to be less than previously estimated, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned or sold.

The Group tests whether intangible assets have suffered any impairment in accordance with its accounting policy. The directors consider that the recoverable amount exceeded the carrying amount of the intangible assets and, therefore, no impairment was recognised during the year. The Group would revisit the total estimated saleable units at the end of each reporting period.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2019

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Cont'd)

4.1 Amortisation and impairment of intangible assets (Cont'd)

At 31 December 2019, the carrying amount of intangible assets was RMB669,384,000 (2018: RMB623,455,000).

During the year ended 31 December 2019, management revisited the expected saleable units of respective intangible assets and adjusted the total estimated saleable units based on the market condition and circumstances, no addition in amortisation expenses of intangible assets except for the annual amortisation expenses amounting to RMB33,204,000 (2018: an addition in amortisation expenses of intangible assets amounting to RMB33,939,000 along with the annual amortisation expenses amounting to RMB42,107,000) is recognised in the profit or loss during the year.

4.2 Estimated impairment of trade and other receivables and trade related amounts due from related companies

The Group estimates the amount of lifetime ECL of trade and other receivables and trade related amounts due from related companies based on valuations performed by an independent qualified professional valuer (the "Valuer") for year ended 31 December 2019. The valuations of trade and other receivables and trade related amounts due from related companies are based on provision matrix and individual assessment, respectively. For the ECL assessment of trade receivables based on provision matrix which is through grouping of various debtors that have similar loss patterns, after considering internal credit ratings of trade debtors, ageing, repayment history and/or past due status of respective trade receivables, whereas the ECL assessment of other receivables and trade related amounts due from related companies based on individual assessment is by reference to the credit rating, including the Group's historical credit loss experiences, adjusted for factors that are specific to the debtors. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

As at 31 December 2019 and 2018, the carrying amounts of trade and other receivables and trade related amounts due from related companies are set out in Notes 23 and 24 respectively.

During the year ended 31 December 2019, impairment loss of RMB6,114,000 (2018: RMB338,000) are recognised on trade and other receivables and no additional impairment loss (2018: RMB663,000) are recognised in trade related amounts due from related companies, respectively.

4.3 Depreciation and impairment of property, plant and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are expected to be shorter than previously estimated, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned or sold. Changes in these estimations may have a material impact on the results of the Group.

The Group tests whether property, plant and equipment has suffered any impairment in accordance with its accounting policy whenever there is any indication that the assets may have been impaired. The recoverable amounts of property, plant and equipment have been determined based on the discounted cash flow method. No impairment was recognised during the year.

The carrying amount of property, plant and equipment is set out in Note 16.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Cont'd)

4.4 Provision of inventories

The Group records inventories at the lower of cost and net realisable value. Net realisable value is the estimated selling price for inventories, less all the estimated costs of completion and costs necessary to make the sales. Operational procedures have been in place to monitor this risk as a significant proportion of the Group's working capital which is devoted to inventories. Management reviews the inventory aging listing on a periodic basis for those aged inventories. This involves a comparison of carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made in the financial statements for any obsolete and slow moving items. Although the Group carries out periodic review on the net realisable value of inventory, the actual realisable value of inventory is not known until the sale is concluded.

The carrying amount of inventories and the provision on inventories are set out in Note 22.

4.5 Provision for warranty

Provision for warranty is made based on the possible claims on the products by customers with reference to the warranty coverage period and the percentage of warranty expenses incurred over total sales amounts during the year. Where the actual claims are greater than expected, a material increase in warranty expenses may arise, which would be recognised in profit or loss for the period in which such a claim takes place. The carrying amount of provision for warranty is set out in Note 26.

5. 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.

The Group's operations and main revenue streams are those described as below. The Group's revenue is derived from contracts of customers. Revenue from sales of gasoline engines, diesel engines and engine components is recognised at a point of time. All the contracts with customers are agreed at fixed price and the expected duration of the contracts is one year or less.

5.1 Segment revenue and segment results

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

(1) Gasoline engines;

(2) Diesel engines; and

(3) Engine components.

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

5.1 Segment revenue and segment results (Cont'd)

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

For the year ended 31 December 2019

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

For the year ended 31 December 2018

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

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

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

5.1 Segment revenue and segment results (Cont'd)

Other segment information included in the measurement of segment results:

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

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

5.2 Performance obligations for contracts with customers

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

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

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

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

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

5.3 Segment assets and liabilities

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

5.4 Geographical information

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

5.5 Information about major customers

Revenue from major customers which individually accounts for 10% or more of the Group's total revenue are sales of gasoline engines, diesel engines, engine components to the related parties as disclosed in Note 39.

6. OTHER INCOME

	2019 **RMB'000**	2018 RMB'000
Rental income under operating leases	**257**	3,090
Bank interest income	**8,173**	8,320
Compensation income *(Note)*	**32,476**	–
Government grants *(Note 31)*	**12,753**	35,227
Interest income arising on receivables measured at FVTOCI	**4,063**	2,854
Imputed interest income from loan to a shareholder *(Note 21)*	**890**	830
Waiver of long-outstanding trade payables	**971**	2,902
	59,583	53,223

Note: Default compensation receivable from a customer.

7. IMPAIRMENT LOSSES

	2019 RMB'000	2018 RMB'000
Impairment losses recognised on:		
– loan to a shareholder *(Note 21)*	–	16,529
– trade and other receivables *(Note 23)*	6,114	338
– amounts due from related companies *(Note 24)*	–	663
	6,114	17,530

8. OTHER GAINS AND LOSSES

	2019 RMB'000	2018 RMB'000
Net gain arising on financial assets at FVTPL, realised	6,238	–
Net gain arising on financial liabilities at FVTPL, realised *(Note 29)*	5,616	–
Net gain arising on financial liabilities at FVTPL, unrealised *(Note 29)*	–	9,654
Foreign exchange losses, net	(20,208)	(51,842)
Gain on disposal of assets classified as held for sale	652	–
Gain on disposal of miscellaneous materials	1,841	1,859
Net loss arising on receivables measured at FVTOCI	(14,477)	(40,514)
Loss on disposal of property, plant and equipment	(184)	(6)
Others	627	213
	(19,895)	(80,636)

9. FINANCE COSTS

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

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

10. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
PRC Enterprise Income Tax ("EIT")		
– provision for the year	**1,421**	8,739
– over provision in prior year	**(1,824)**	(1,988)
	(403)	6,751
Deferred tax *(Note 20)*	**1,016**	(6,701)
	613	50

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

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

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

Under the EIT laws of PRC, withholding tax is imposed on dividends in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB204,680,000 (2018: RMB202,150,000) as the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future. The directors of PRC subsidiaries plan to set aside such undistributed profits of PRC subsidiaries for investment purpose.

The tax expense for the year can be reconciled to the profit before tax per consolidated statement of profit or loss and other comprehensive income as follows:

	2019 RMB'000	2018 RMB'000
Profit before tax	**7,461**	10,774
Tax at the PRC tax rate of 15% (2018: 15%)	**1,119**	1,616
Tax effect of expenses not deductible for tax purpose	**7,205**	9,356
Effect of different tax rate on a group entity operate in the PRC	**300**	532
Tax effect of income not taxable for tax purpose	**(2,517)**	(2,563)
Over provision in prior year	**(1,824)**	(1,988)
Tax incentives on eligible expenditures *(Note)*	**(3,670)**	(6,903)
Income tax expense	**613**	50

Note: The eligible expenditures represent research and development costs charged to profit or loss for the year, which is subject to an additional 75% tax deduction in the calculation of income tax expense.

11. PROFIT FOR THE YEAR

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

	2019 RMB'000	2018 RMB'000
Directors' remuneration *(Note 13)*	7,113	6,834
Other staff costs	111,489	164,830
Contributions to retirement benefits scheme other than directors	35,142	38,613
Total staff costs	153,744	210,277
Depreciation of property, plant and equipment *(Note 16)*	239,477	256,051
Depreciation of right-of-use assets *(Note 16)*	8,353	–
Depreciation of investment properties	–	1,215
Depreciation/Amortisation of prepaid lease payments *(Note 17)*	3,622	3,425
Amortisation of intangible assets (included in cost of sales) *(Note 18)*	33,204	76,046
Total depreciation and amortisation	284,656	336,737
Lease charges – land and buildings held under operating leases	–	8,816
Auditors' remuneration	1,200	1,402
Research and development costs recognised as other expenses	3,931	14,769
Included in cost of sales:		
Cost of inventories recognised as expense	1,772,907	2,640,204
Provision for/(reversal of) inventories, net *(Note 22)*	533	(1,064)
Warranty claims expenses *(Note 26)*	14,192	18,591

12. OTHER COMPREHENSIVE INCOME

The amount of reclassification adjustments relating to other comprehensive income can be summarised as follows:

	2019 RMB'000	2018 RMB'000
Receivables measured at FVTOCI		
Changes in fair value recognised during the year	(269)	2,968
Amount reclassified to profit or loss on disposal	(362)	(2,606)
Net (decrease)/increase in FVTOCI reserve during the year	(631)	362

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATION

13.1 Directors' and chief executive's emoluments

Details of the emoluments paid to the directors and chief executive of the Company during the year, disclosed pursuant to the applicable Listing Rules and CO, are as follows:

	2019	2018
	RMB'000	RMB'000
Fees	**528**	508
Salaries and allowances	**6,217**	5,971
Discretionary bonus	**352**	340
Contributions to retirement benefits scheme	**16**	15
	7,113	6,834

Details of the emoluments paid to each of the directors and chief executive of the Company are as follows:

Year ended 31 December 2019

	Fees	**Salaries and allowances**	**Discretionary bonus**	**Contributions to retirement benefits scheme**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Executive directors					
Wu Xiao An 吳小安	**–**	**3,454**	**–**	**16**	**3,470**
Wang Yunxian 王運先*	**–**	**2,763**	**–**	**–**	**2,763**
Non-executive directors					
Liu Tongfu 劉同富	**–**	**–**	**–**	**–**	**–**
Yang Ming 楊明	**–**	**–**	**–**	**–**	**–**
Independent non-executive directors					
Chi Guohua 池國華	**132**	**–**	**88**	**–**	**220**
Wang Jun 王雋	**132**	**–**	**88**	**–**	**220**
Huang Haibo 黃海波	**132**	**–**	**88**	**–**	**220**
Wang Songlin 王松林	**132**	**–**	**88**	**–**	**220**
	528	**6,217**	**352**	**16**	**7,113**

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATION (Cont'd)

13.1 Directors' and chief executive's emoluments (Cont'd)

Year ended 31 December 2018

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonus RMB'000	Contributions to retirement benefits scheme RMB'000	Total RMB'000
Executive directors					
Wu Xiao An 吳小安	–	3,317	–	15	3,332
Wang Yunxian 王運先*	–	2,654	–	–	2,654
Non-executive directors					
Liu Tongfu 劉同富	–	–	–	–	–
Yang Ming 楊明	–	–	–	–	–
Independent non-executive directors					
Chi Guohua 池國華	127	–	85	–	212
Wang Jun 王雋	127	–	85	–	212
Huang Haibo 黃海波	127	–	85	–	212
Wang Songlin 王松林	127	–	85	–	212
	508	5,971	340	15	6,834

* *Mr. Wang Yunxian is also the Chief Executive Officer of the Company and his emoluments disclosed above included those for services rendered by him as the Chief Executive Officer.*

The emoluments of executive directors and non-executives directors shown above were paid for their services in connection with the management of the affairs of the Company and the Group and for serving as directors of the Company or its subsidiaries. The emoluments of independent non-executive directors were paid for serving as directors of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATION (Cont'd)

13.2 Employees' remunerations

Of the five highest paid individuals of the Group, two (2018: two) are directors of the Company whose emoluments are disclosed above during the year ended 31 December 2019. The remunerations of the remaining three (2018: three) individuals are as follows:

	2019	2018
	RMB'000	RMB'000
Salaries and allowances	**3,770**	3,668
Discretionary bonus	**511**	491
Contributions to retirement benefits scheme	**32**	30
	4,313	4,189

The discretionary bonus is determined by reference to the individual performance of the directors and employees and approved by the Board annually.

The directors and certain senior management have also been employed by Brilliance China Group and Wuliangye Group and the payment of their contributions to retirement benefits scheme was centralised and made by Brilliance China Group and Wuliangye Group for both years, in which the amounts are considered as insignificant.

The five highest paid individuals were within the following bands:

	Number of Employee	
	2019	2018
Hong Kong Dollars ("HK$")		
1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**1**	1
HK$3,000,001 to HK$3,500,000	**1**	1
HK$3,500,001 to HK$4,000,000	**1**	1

During the years ended 31 December 2019 and 2018, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

14. DIVIDENDS

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

15. EARNINGS PER SHARE

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

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

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Electronic equipment and others RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2018	459,314	1,783,203	108,871	17,361	775,136	3,143,885
Additions	742	13,064	2,670	–	158,754	175,230
Transfer (Note a)	219,657	432,352	45,049	11,777	(708,835)	–
Transfer from investment properties (Note b)	247,317	–	–	–	–	247,317
Transfer to construction in progress (Note c)	–	(62,499)	–	–	54,313	(8,186)
Disposals	–	–	(63)	–	–	(63)
At 31 December 2018	927,030	2,166,120	156,527	29,138	279,368	3,558,183
Additions	866	4,478	1,283	18	182,453	189,098
Transfer (Note a)	24,278	155,749	537	539	(181,103)	–
Transfer to construction in progress (Note c)	–	(124,248)	–	–	85,591	(38,657)
Adjustment from the adoption of HKFRS 16 (Note d)	21,647	–	–	–	–	21,647
Disposals	–	(202)	(146)	(1,709)	–	(2,057)
At 31 December 2019	**973,821**	**2,201,897**	**158,201**	**27,986**	**366,309**	**3,728,214**
DEPRECIATION						
At 1 January 2018	102,263	537,537	43,546	8,853	–	692,199
Provided for the year	32,377	197,244	25,689	741	–	256,051
Transfer from investment properties (Note b)	37,024	–	–	–	–	37,024
Transfer to construction in progress (Note c)	–	(8,186)	–	–	–	(8,186)
Eliminated on disposals	–	–	(56)	–	–	(56)
At 31 December 2018	171,664	726,595	69,179	9,594	–	977,032
Provided for the year	46,274	187,694	10,884	2,978	–	247,830
Transfer to construction in progress (Note c)	–	(38,657)	–	–	–	(38,657)
Eliminated on disposals	–	(182)	(131)	(1,243)	–	(1,556)
At 31 December 2019	**217,938**	**875,450**	**79,932**	**11,329**	**–**	**1,184,649**
CARRYING VALUES						
At 31 December 2019	**755,883**	**1,326,447**	**78,269**	**16,657**	**366,309**	**2,543,565**
At 31 December 2018	755,366	1,439,525	87,348	19,544	279,368	2,581,151

16. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Notes:

a. In January 2018, the Group commenced a project to upgrade certain plant, machineries and electronic equipment and others in coping with production of new connection rods, the upgrade has been completed during the year 2019.

b. During the year ended 31 December 2018, the properties previously classified as investment properties with carrying amount of RMB210,293,000 at the date of transfer were transferred to the property, plant and equipment upon commencement of the owner-occupation.

c. In December 2019, the Group commenced a project to upgrade certain plant and machineries in coping with production of new crankshaft.

d. As at 31 December 2019, included in the net carrying amount of property, plant and equipment are right-of-use assets as follows:

	RMB'000
Building carried at cost	
As at 1 January 2019	21,647
Depreciation for the year	(8,353)
At 31 December 2019	**13,294**

The above items of property, plant and equipment (other than construction in progress) are depreciated on a straight-line basis at the following useful lives after taking into account the residual values:

Buildings for factory premises	26-30 years
Buildings for staff quarter	50 years
Plant and machinery	10 years
Electronic equipment and others	5 years
Motor vehicles	6 years

The Group's buildings are located in the PRC and the carrying amounts of the buildings amounting to RMB114,303,000 as at 31 December 2019 (2018: RMB117,719,000), is in the process of obtaining the property ownership certificate.

The Group has pledged certain property, plant and equipment with the following carrying values to secure general banking facilities granted to the Group.

	2019	2018
	RMB'000	RMB'000
Buildings	**4,023**	4,023
Plant and machinery	**44,243**	50,814
	48,266	54,837

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise leasehold lands in the PRC under medium-term leases. Land use rights are released to profit or loss over the lease terms ranging from 41 to 50 years. Upon initial application of HKFRS 16, the prepaid lease payments fall into the scope of HKFRS 16 as it meet the definition of right-of-use assets.

The movements in their net carrying amounts are analysed as follows:

	RMB'000
CARRYING VALUES	
At 1 January 2018	137,211
Released to profit or loss	(3,425)
At 31 December 2018	133,786
Released to profit or loss	(3,622)
At 31 December 2019	**130,164**

	2019 **RMB'000**	2018 RMB'000
Analysed for reporting purpose:		
Current assets	**–**	3,378
Non-current assets	**130,164**	130,408
	130,164	133,786

The Group has pledged land use rights with carrying values of RMB51,880,000 as at 31 December 2019 (2018: RMB53,000,000), to secure general banking facilities granted to the Group.

18. INTANGIBLE ASSETS

	Completed development costs RMB'000	**Development costs in progress** RMB'000	**Total** RMB'000
COST			
At 1 January 2018	359,190	368,656	727,846
Additions	–	109,023	109,023
Transfer	166,283	(166,283)	–
At 31 December 2018	525,473	311,396	836,869
Additions	–	79,133	79,133
Transfer	–	–	–
At 31 December 2019	**525,473**	**390,529**	**916,002**
AMORTISATION			
At 1 January 2018	137,368	–	137,368
Charge for the year	76,046	–	76,046
At 31 December 2018	213,414	–	213,414
Charge for the year *(Note)*	33,204	–	33,204
At 31 December 2019	**246,618**	**–**	**246,618**
CARRYING VALUES			
At 31 December 2019	**278,855**	**390,529**	**669,384**
At 31 December 2018	312,059	311,396	623,455

Note: During the year ended 31 December 2019, management revisited the expected saleable units of respective intangible assets and adjusted the total estimated saleable units based on the market condition and circumstances, no addition in amortisation expenses of intangible assets except for the annual amortisation expenses amounting to RMB33,204,000 (2018: an addition in amortisation expenses of intangible assets amounting to RMB33,939,000 along with the annual amortisation expenses amounting to RMB42,107,000) is recognised in the profit or loss during the year.

Development costs of technical know-how of new automotive engines are costs incurred internally and have finite useful lives and are amortised based on unit of production by reference to the expected saleable units of respective automotive engines.

19. ASSETS CLASSIFIED AS HELD FOR SALE

During the year ended 31 December 2019, Mianyang Xinchen, an indirect wholly-owned subsidiary of the Company, disposed of its 50% interest in Changzhou Dongfeng Xinchen Engine Co., Ltd.*（常州東風新晨動力機械有限公司）("Dongfeng"), which has been classified as an asset held for sale as at 31 December 2018, with net carrying amount of approximately RMB49,193,000 to Dongfeng Motor Co., Ltd.*（東風汽車有限公司）. The Group recorded a gain on disposal of approximately RMB652,000 (Note 8), with proceeds (net of transaction cost and tax) of approximately RMB49,845,000. Following the disposal of shares, Dongfeng ceased to be a joint venture company of the Group.

* *English name for reference only*

20. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised and movements thereon during the current and prior years:

	Temporary difference on			
	Development costs	**Provisions**	**Deferred income**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	7,870	2,046	2,581	12,497
Credit/(Charge) to profit or loss	2,323	(160)	4,538	6,701
At 31 December 2018	10,193	1,886	7,119	19,198
(Charge)/Credit to profit or loss	(1,709)	1,382	(689)	(1,016)
At 31 December 2019	**8,484**	**3,268**	**6,430**	**18,182**

At 31 December 2019 and 2018, the Group had no other material unrecognised deductible temporary differences.

21. LOAN TO A SHAREHOLDER

As detailed in Note 41, the Company has two trust arrangements which entitle the Group's employees to subscribe for shares of the Company through Lead In for their services to the Group. Under the loan agreements dated 18 October 2011, each of the two shareholders of the Company, namely Brilliance Investment Holdings Limited and Xinhua Investment Holdings Limited, advanced loans in equal amounts of HK$20,000,000 to the Company (collectively, the "Loans from Shareholders"). In return, (i) the Company lent an aggregate amount of HK$40,000,000, equal to the Loans from Shareholders, to Lead In (the "Loan to a Shareholder"), with an original repayment term of one year from the date of loan agreements entered by the Company and Lead In, and (ii) Lead In used the funding obtained from the Company to subscribe for 36,977,960 shares of the Company under the Discretionary Trust (Note 41). All the loans are non-trade related, unsecured and interest free.

The Company had repaid the Loans from Shareholders in October 2013, whilst the Loan to a Shareholder was renewed annually and further extended to October 2020 in 2019.

At 31 December 2019, management of the Company expected the Loan to a Shareholder was unlikely to be recovered within one year and the outstanding balance is classified as non-current assets. Management of the Company conducted the 12-month ECL assessment on the receivable after taking into account factors that are specific to the debtor, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The details of assessment on ECL are set out in Note 34.

22. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	**476,729**	523,465
Work-in-progress	**19,464**	40,005
Finished goods	**162,229**	276,038
	658,422	839,508

At 31 December 2019, the carrying amount of inventories included provision of RMB13,114,000 (2018: RMB12,581,000), which is determined with reference to the net realisable value of the inventory items. Additional provision of RMB533,000 (2018: RMB1,768,000) and no reversal (2018: RMB2,832,000) upon realisation of sales was made during the year ended 31 December 2019.

23. TRADE AND OTHER RECEIVABLES, RECEIVABLES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

a. Trade and other receivables:

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

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

23. TRADE AND OTHER RECEIVABLES, RECEIVABLES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Cont'd)

a. Trade and other receivables: (Cont'd)

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

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

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

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

At 31 December 2019, the Group engaged the Valuer to assess the impairment of its customers based on provision matrix. The table below provides information about the exposure to credit risk and ECL for trade receivables which are assessed based on provision matrix as at 31 December 2019 and 2018:

31 December 2019

	Gross carrying amount RMB'000	**Loss rate range (%)**	**ECL (not credit-impaired) RMB'000**
Not past due	**67,399**	**0.74-1.21**	**509**
Past due:			
Within 1 month	**31,804**	**0.74-1.21**	**375**
Over 1 month but within 3 months	**4,346**	**0.74-4.75**	**70**
Over 3 months but within 6 months	**11,922**	**0.74-4.75**	**434**
Over 6 months but within 1 year	**92,997**	**1.21-4.75**	**4,272**
Over 1 year	**53,489**	**4.75-32.14**	**3,017**
	261,957		**8,677**

23. TRADE AND OTHER RECEIVABLES, RECEIVABLES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Cont'd)

a. Trade and other receivables: (Cont'd)

31 December 2018

	Gross carrying amount RMB'000	Loss rate range (%)	ECL (not credit-impaired) RMB'000
Not past due	305,040	–	–
Past due:			
Within 1 month	13,024	1.11-1.41	180
Over 1 month but within 3 months	12,294	1.20-2.91	188
Over 3 months but within 6 months	14,522	3.59-5.28	669
Over 6 months but within 1 year	4,695	21.69-25.42	1,048
Over 1 year	2,459	33.33-41.94	893
	352,034		2,978

Movement in the expected credit losses of trade receivables:

	2019 RMB'000	2018 RMB'000
At beginning of year	**2,978**	2,640
Expected credit losses recognised during the year	**5,699**	338
At end of year	**8,677**	2,978

Before accepting any new customers, the Group assesses the potential customer's credit quality and defines its credit limit based on the reputation of the customers in the industry. Limits attributed to customers are reviewed regularly.

In determining the recoverability of trade and bills receivables, the Group considers any changes in the credit quality of the trade and bills receivables from the date credit was initially granted up to the end of the reporting period. In the opinion of directors of the Company, the trade and bills receivables not past due or not impaired at the end of each reporting period are of good credit quality.

23. TRADE AND OTHER RECEIVABLES, RECEIVABLES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Cont'd)

a. Trade and other receivables: (Cont'd)

Movement in the expected credit losses of bills receivables:

	2019 RMB'000	2018 RMB'000
At beginning of year	**–**	–
Expected credit losses recognised during the year	**136**	–
At end of year	**136**	–

At 31 December 2019, all the Group's bills receivable are neither past due nor impaired. Provision for loss allowance of RMB136,000 was made during the year ended 31 December 2019 based on the valuations performed by the Valuer.

Movement in the expected credit losses of other receivables:

	2019 RMB'000	2018 RMB'000
At beginning of year	**–**	–
Expected credit losses recognised during the year	**279**	–
At end of year	**279**	–

At 31 December 2019, the carrying amount of other receivables included compensation receivables of RMB32,476,000. Provision for loss allowance of RMB279,000 was made during the year ended 31 December 2019.

b. Receivables measured at fair value though other comprehensive income

	2019 RMB'000	2018 RMB'000
Receivables measured at FVTOCI from third parties	**24,640**	150,150
Receivables measured at FVTOCI from related companies	**9,708**	67,246
	34,348	217,396

Under HKFRS 9, certain bills which were held by the Group for the practice of discounting/endorsing to financial institutions/suppliers before the bills due for payment were classified as "receivables measured at FVTOCI". At 31 December 2019, all the bills are with a maturity period of less than 6 months (2018: less than one year). The Group considers the credit risk is limited because counterparties are banks with good credit standing and are highly likely to be paid, and the expected credit loss are considered as insignificant.

24. AMOUNTS DUE FROM RELATED COMPANIES

	2019 RMB'000	2018 RMB'000
Non-trade related (Note a)	**141**	1,417
Trade related (Note b)	**1,145,725**	1,283,775
	1,145,866	1,285,192

Notes:

a. The balance is unsecured, interest free and repayable on demand. The maximum amount outstanding as at 31 December 2019 amounted to RMB1,417,000 (2018: RMB1,417,000).

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

	2019 RMB'000	2018 RMB'000
Huachen Group#		
Shenyang Brilliance Power Train Machinery Co., Ltd.* 瀋陽華晨動力機械有限公司 ("Shenyang Brilliance")	**320,399**	439,575
Huachen Automotive Group Holdings Company Limited* 華晨汽車集團控股有限公司 ("Huachen Automotive")	**22,419**	19,738
Mianyang Huarui Automotive Company Limited*## 綿陽華瑞汽車有限公司 ("Mianyang Huarui")	**–**	130,819
Mianyang Huaxiang Machinery Manufacturing Co., Ltd.*## 綿陽華祥機械製造有限公司 ("Mianyang Huaxiang")	**–**	107,214
	342,818	697,346
Brilliance China Group		
Shenyang XingYuanDong Automobile Component Co., Ltd.* 瀋陽興遠東汽車零部件有限公司	**141,658**	153,029
Renault Brilliance JinBei Automobile Co., Ltd.* 華晨雷諾金杯汽車有限公司 ("Renault Brilliance")	**4,771**	27,433
Shenyang ChenFa Automobile Component Co., Ltd.* 瀋陽晨發汽車零部件有限公司 ("Shenyang ChenFa")	**276,377**	263,335
BMW Brilliance Automotive Ltd. 華晨寶馬汽車有限公司 ("BMW Brilliance Automotive")	**133,374**	137,779
Shenyang Jinbei Vehicle Manufacturing Co., Ltd*### 瀋陽金杯車輛製造有限公司 ("Jinbei Vehicle Manufacturing")	**–**	4,853
	556,180	586,429
Wuliangye Group		
Mianyang Xinhua Trading Co., Ltd* 綿陽新華商貿有限公司	**102**	–
Other related companies		
Mianyang Huarui##	**132,520**	–
Mianyang Huaxiang##	**109,274**	–
Jinbei Vehicle Manufacturing###	**4,831**	–
	246,625	–
	1,145,725	1,283,775

24. AMOUNTS DUE FROM RELATED COMPANIES (Cont'd)

Notes: (Cont'd)

b. (Cont'd)

* *English name for reference only.*

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

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

After 瀋陽市汽車工業資產經營有限公司 (a member of Brilliance China Group) disposed of its entire interests in Jinbei Vehicle Manufacturing, Jinbei Vehicle Manufacturing is no longer considered as a member of the Brilliance China Group as at 31 December 2019. There are common directors who have influence over the Group and the entity and hence, Jinbei Vehicle Manufacturing is considered as a related party of the Group in accordance with HKAS 24 Related Party Disclosures.

Analysed as:

	2019 RMB'000	2018 RMB'000
Trade receivables	**1,145,540**	1,283,587
Prepayment	**185**	188
	1,145,725	1,283,775

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

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

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

The Group applied simplified approach to provide the expected credit losses prescribed by HKFRS 9.

To measure the ECL of amounts due from related companies, the balances are regarded as not credit-impaired and have been assessed based on individual assessment. At 31 December 2019, the Group engaged the Valuer to assess the credit rating for its customers and applying the expected loss rate ranging from 0.1% to 6.3% over the gross carrying amounts. As at 31 December 2019 and 2018, loss allowance amounting to RMB15,481,000 was recognised based on individual assessment by reference to the Group's historical credit loss experiences, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

24. AMOUNTS DUE FROM RELATED COMPANIES (Cont'd)

Movement in the expected credit loss:

	2019	2018
	RMB'000	RMB'000
At beginning of year	**15,481**	14,818
Expected credit losses recognised	**–**	663
At end of year	**15,481**	15,481

25. PLEDGED/RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances and pledged/restricted bank deposits carry interest at variable market rates as follows:

	Bank balances	**Pledged/ restricted bank deposits**
At 31 December 2019	**0.01%–0.35% per annum**	**1.30%–1.95% per annum**
At 31 December 2018	0.01%–0.35% per annum	1.69%–1.95% per annum

An amount of RMB261,297,000 (2018: RMB552,323,000) represents bank deposits pledged to banks to secure bills payable issued to suppliers of the Group for the purchase of raw materials.

An amount of RMB4,771,000 (2018: RMB43,459,000) represents restricted bank deposits for issuance of letters of credit with maturity of 3 to 6 months.

Balances denominated in foreign currencies:

	2019	2018
	RMB'000	RMB'000
HK$	**12,606**	29,989
United States Dollars ("US$")	**2,612**	2,295
European Dollars ("Euro")	**–**	50

Other than bank balances shown above, all other remaining bank balances are denominated in RMB which is not a freely convertible currency. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

26. TRADE AND OTHER PAYABLES

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

Notes:

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

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

26. TRADE AND OTHER PAYABLES (Cont'd)

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

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

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

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

The movement of provision for warranty are as follows:

	2019 **RMB'000**	2018 RMB'000
At beginning of year	**4,006**	4,006
Provision for the year	**14,192**	18,591
Utilised for the year	**(14,192)**	(18,591)
At end of year	**4,006**	4,006

All amounts are short term and hence the carrying values of the Group's trade payables, bills payable and other payables are considered to be a reasonable approximation of fair values.

27. AMOUNTS DUE TO RELATED COMPANIES

Details of amounts due to related companies are as follows:

	2019 RMB'000	2018 RMB'000
Trade related:		
Huachen Group		
Huachen Automotive	**610**	1,105
Shenyang Brilliance	**127**	157
Mianyang Huarui#	**–**	2
Brilliance China Group		
Mianyang Brilliance Ruian Automotive Components Co., Ltd.* 綿陽華晨瑞安汽車零部件有限公司	**19,580**	38,682
Shenyang ChenFa	**3,574**	3,306
BMW Brilliance Automotive	**14,060**	2,663
Shenyang Jinbei Vehicle Dies Manufacturing Co., Ltd.* 瀋陽金杯汽車模具製造有限公司	**11**	109
Renault Brilliance	**5,519**	–
Wuliangye Group		
Mianyang Xinhua Internal Combustion Engine Joint Stock Company Limited* 綿陽新華內燃機股份有限公司("Xinhua Combustion Engine")	**159,328**	175,774
Sichuan Yi Bin Pushi Automotive Components Co., Ltd.* 四川省宜賓普什汽車零部件有限公司	**10,154**	16,903
Mianyang Xin Xinmao Trading Co., Ltd.* 綿陽新鑫茂商貿有限公司	**696**	1,162
	213,659	239,863
Non-trade related:		
Huachen Group		
Huachen Automotive	**341**	341
Brilliance China Group		
Brilliance China	**1,276**	1,142
Wuliangye Group		
Xinhua Combustion Engine	**28**	28
	1,645	1,511
	215,304	241,374

* *English name for reference only.*

Mianyang Huarui is not the member of Huachen Group as at 31 December 2019.

27. AMOUNTS DUE TO RELATED COMPANIES (Cont'd)

The trade related amounts are analysed as:

	2019 RMB'000	2018 RMB'000
Trade payables	**127,238**	107,744
Bills payable	**86,421**	132,119
	213,659	239,863

The aging of trade related amounts due to related companies presented based on the invoice date at the end of the reporting period is as follows:

	2019 RMB'000	2018 RMB'000
Within 3 months	**86,457**	51,743
Over 3 months but within 6 months	**15,114**	25,913
Over 6 months but within 1 year	**16,310**	26,868
Over 1 year	**9,357**	3,220
	127,238	107,744

The bills payable are guaranteed by the banks in the PRC and have maturities of 3 to 12 months. The following is an aging analysis of bills payable (trade related) presented based on the issuance date of bills at the end of the reporting period:

	2019 RMB'000	2018 RMB'000
Within 3 months	**44,490**	23,519
Over 3 months but within 6 months	**41,931**	75,600
Over 6 months but within 1 year	**–**	33,000
	86,421	132,119

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

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

28. LEASE LIABILITIES

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

	2019 RMB'000
Present value of minimum lease payments:	
Due within one year	8,407
Due in the second to fifth years	5,231
	13,638
Less:	
Portion due within one year included under current liabilities	(8,407)
Portion due after one year included under non-current liabilities	5,231

Note:

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated. Details for transitions to HKFRS 16 are set out in Note 2.

As at 31 December 2019, lease liabilities amounting to RMB13,638,000 are effectively secured by the related underlying assets as the rights to the leased asset would be reverted to the lessor in the event of default by repayment by the Group.

During the year ended 31 December 2019, the total cash outflows for the leases are RMB8,959,000.

28. LEASE LIABILITIES (Cont'd)

Types of right-of-use assets	Financial statements items of right-of-use assets included in	Number of leases	Range of remaining lease term	Particulars
Office premises	Buildings in "property, plant and equipment"	1	1 year	Contains an option to renew the lease after the end of the contract by giving a one-month notice to landlord before the end of the contract
Production facilities	Buildings in "property, plant and equipment"	1	2 years	Contains an option to renew the lease after the end of the contract by giving a three-month notice to landlord before the end of the contract

The Group considered that no extention option or termination option would be exercised at the lease commencement date.

29. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 **RMB'000**	2018 RMB'000
Foreign currency forward contract	–	5,616

Note:

As at 31 December 2018, the major terms of the foreign currency forward contract is as follows:

Notional amount	Maturity	Exchange rates
US$22,800,000	Settlement on specific date from 21 February 2019 to 23 September 2019	From RMB7.1248:US$1 to RMB7.1952:US$1

The fair value of derivative financial instruments was obtained from the contractual bank as at the end of the reporting period. As at 31 December 2019, the foreign currency forward contract was settled by delivering cash.

30. BORROWINGS

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

Notes:

a. As at 31 December 2019 and 2018, the balances were secured by property, plant and equipment, and prepaid lease payment as set out in Notes 16 and 17.

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

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

The ranges of effective interest rates (which are also equal to contractual interest rates) on the Group's borrowings are as follows:

	2019 **% per annum**	2018 % per annum
Fixed-rate borrowings－RMB	**1.200% to 5.880%**	1.200% to 5.880%
Fixed-rate borrowings－Euro	**2.500%**	2.500%
Variable-rate borrowings－RMB	**4.750%#**	4.750%#
Variable-rate borrowings－US$	**2.371%##+2.500%**	2.759%##+2.600%

People's Bank of China one-year RMB Lending Rate

London Inter-Bank Offer Rate

31. DEFERRED INCOME

	2019 RMB'000	2018 RMB'000
Amounts recognised in profit or loss during the year:		
Subsidies related to incurred costs (Note a)	**1,204**	24,678
Subsidies related to property, plant and equipment (Note b)	**11,549**	10,549
	12,753	35,227

The movement of deferred income is as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	**54,417**	64,966
Amount credited to profit or loss during the year	**(11,549)**	(10,549)
At end of year	**42,868**	54,417

Notes:

a. The Group received government subsidies for reimbursement of logistics costs and research and development activities to enhance the competitiveness in the industry and to promote new products. The subsidies are recognised in profit or loss as the relevant expenses were incurred.

b. The Group received government subsidies for the compensation of capital expenditures incurred for the plant and machinery. The amounts are deferred and amortised over the estimated useful lives of the respective assets.

32. 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 2018, 31 December 2018 and 2019	**8,000,000,000**	80,000,000
Issued and fully paid:		
At 1 January 2018, 31 December 2018 and 2019	**1,282,211,794**	12,822,118

32. SHARE CAPITAL (Cont'd)

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

33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts (which include borrowings and non-trade related amounts due to related companies), net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, retained profits and other reserves.

Management of the Group reviews the capital structure periodically. As part of this review, management considers the cost of capital and the risks associated with the capital. Based on recommendations of management, the Group will balance its overall capital structure through the payment of dividends and raising of new capital as well as the issue of new debt or the redemption of existing debt.

34. FINANCIAL INSTRUMENTS

34.1 Categories of financial instruments

	2019 RMB'000	2018 RMB'000
Financial assets		
Financial assets at amortised cost*	**1,871,783**	2,514,888
Receivables measured at FVTOCI	**34,348**	217,396
Financial liabilities		
Financial liabilities at amortised cost**	**2,829,642**	3,758,054
Lease liabilities	**13,638**	–
Financial liabilities designated as at FVTPL	**–**	5,616

* *Prepayment, deposits and value added tax recoverable are excluded*

** *Accruals, advance from customers, provision for warranty, payroll and welfare payables and other tax payables are excluded*

34.2 Financial risk management objectives and policies

The Group's financial instruments include trade and other receivables, receivables measured at FVTOCI, amounts due from/to related companies, loan to a shareholder, bank balances and cash, pledged/restricted bank deposits, trade and other payables, lease liabilities and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no material change to the Group's exposure to market risks or the manner in which it manages and measures the risk from prior year.

34. FINANCIAL INSTRUMENTS (Cont'd)

34.2 Financial risk management objectives and policies (Cont'd)

Currency Risk

The carrying amounts of the Group's significant monetary assets/(liabilities) denominated in foreign currency, i.e. currency other than the functional currency of the respective group entities at the end of the reporting period are as follows:

	2019	2018
	RMB'000	RMB'000
US$		
– Cash and cash equivalents	**2,612**	2,295
– Borrowings	**(602,744)**	(897,707)
	(600,132)	(895,412)
HK$		
– Cash and cash equivalents	**12,606**	29,989
– Loan to a shareholder	**14,314**	13,097

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2018: 10%) increase and decrease in RMB, the functional currency of the respective group entities operating in the PRC, against US$ and HK$. 5% is the sensitivity rate used which represents management's assessment of the possible changes in foreign currency rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for 5% change in foreign currency rates. A positive/(negative) number below indicates an increase/(decrease) in profit for the year where RMB strengthens 5% against US$ and HK$. For a 5% weakening of RMB against US$ and HK$, there would be an equal but opposite impact on the profit for the year.

	2019	2018
	RMB'000	RMB'000
Profit for the year		
US$	**30,007**	76,110
HK$	**(630)**	(2,549)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

34. FINANCIAL INSTRUMENTS (Cont'd)

34.2 Financial risk management objectives and policies (Cont'd)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to cash flow interest rate risk on the variable rate of interest earned on the restricted/pledged bank deposits and bank balances, and variable rate of interest incurred on borrowings. The Group is also exposed to fair value interest rate risk in relation to fixed-rate borrowings. It is the Group's policy to maintain an appropriate level between its fixed-rate and variable-rate borrowings so as to minimise the fair value and cash flow interest rate risk. The Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

At 31 December 2019, the interest income amounting to RMB8,173,000 and RMB4,063,000 (2018: RMB8,320,000 and RMB2,854,000) are from financial assets that are measured at amortised cost and at FVTOCI respectively.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. The following sensitivity analysis represents management's assessment of the reasonably possible change in interest rates.

Variable-rate borrowings

If interest rates of the variable-rate borrowings had been 50 basis points higher/lower than the lending benchmark interest rate stipulated by the People's Bank of China or LIBOR and all other variables were held constant, the Group's profit for the year ended 31 December 2019 would have decreased/increased by approximately RMB2,263,000 (2018: RMB4,353,000).

Variable-rate bank balances

If interest rate of variable-rate bank balances had been 10 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2019 would have increased/decreased by approximately RMB269,000 (2018: RMB697,000).

In the director's opinion, the sensitivity analysis above is unrepresentative for the interest rate risk as the exposure at the end of reporting period does not reflect the exposure during the year.

Credit risk

At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position and outstanding endorsed and discounted bills receivable as disclosed in Note 38.

34. FINANCIAL INSTRUMENTS (Cont'd)

34.2 Financial risk management objectives and policies (Cont'd)

Credit risk (Cont'd)

Before accepting any new customers, the Group assesses the potential customer's credit quality and defines its credit limit based on the reputation of the customers in the industry. Limits attributed to customers are reviewed regularly. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 on trade balances individually or based on provision matrix, as appropriate.

Trade receivables are written off (i.e. derecognised) when there is no reasonable expectation of recovery. Failure to make payments within 360 days from the invoice date and failure to engage with the Group on alternative payment arrangement amongst other is considered indicators of no reasonable expectation of recovery.

As at 31 December 2019, the Group has concentration of credit risk, 22% and 69% (2018: 26% and 72%) of the Group's total trade receivables, receivables measured at FVTOCI and trade related amounts due from related companies was due from the Group's largest customer and five largest customers respectively. Those five largest customers are with good creditworthiness based on historical settlement record. In order to minimise the concentration of credit risk, the management has delegated staff responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure follow-up action is taken to recover overdue debts. The management also performs periodic evaluations and customer visits to ensure the Group's exposure to bad debts is not significant and adequate impairment losses are made for irrecoverable amount. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group had concentration of credit risk by geographical location as trade and bills receivables and trade related amounts due from related companies comprise various debtors which are all located in PRC during the years ended 31 December 2019 and 2018.

The Group reassess the lifetime ECL for Trade-related-receivables, bills receivable and receivables measured at FVTOCI at the end of each reporting period to ensure that adequate impairment losses are made for significant increases in the likelihood or risk of a default occurring since initial recognition. In this regard, management of the Group considers that the Group's credit risk is significantly reduced.

The Group applied ECL model upon adoption of HKFRS 9. The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis.

To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition, it considers available reasonable the supportive forwarding looking information, including the below indicators:

- internal credit rating based on historical information
- actual or expected significant changes in the operating results of the debtors
- significant changes in the expected performance and behaviour of the debtors, including changes in the debtors' ability to meet its debt obligations.

34. FINANCIAL INSTRUMENTS (Cont'd)

34.2 Financial risk management objectives and policies (Cont'd)

Credit risk (Cont'd)

Other than collective assessment of ECL (i.e. provision matrix) on trade receivables, the Group applies individual assessment of ECL on other receivables, trade related amounts due from related companies and receivables measured at FVTOCI prescribed by HKFRS 9. The expected credit loss rates applied in the both collective assessment and individual assessment are derived according to internal and external credit rating, including the Group's historical credit loss experiences, adjusted for factors that are specific to the debtors. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. The assessment of ECL involves a high degree of uncertainties.

Relevant information with regard to the exposure of credit risk and expected credit losses for Trade-related-receivables as at 31 December 2019 and 2018 are set out in Notes 23 and 24.

For other receivables and non-trade related amounts due from related companies, the Group makes periodic individual assessment on the recoverability, and concluded that the expected credit loss rate for these receivables is immaterial under 12 month ECL method based on the Group's assessment on the risk of the default of that counterparty. Thus, no loss allowance for credit losses for the amounts is recognised during the years ended 31 December 2019 and 2018.

For loan to a shareholder, the Group provided loss allowance amounting to RMB16,529,000 as at 31 December 2019 and 2018 based on periodic individual assessment on the recoverability.

Management considered the credit risk on pledged/restricted bank deposits and bank balances are limited because the counterparties are banks with good credit standing. There have been no history of default in relation to these banks and thus the risk of default was regarded as low. No loss allowance provision for pledged/restricted bank deposits and bank balances is recognised upon application of HKFRS 9.

Liquidity risk

In the management of the liquidity risk, the Group closely monitors its cash position resulting from its operations and maintains a level of cash and cash equivalents deemed adequate by management to meet in full its financial obligations as they fall due for the foreseeable future. Management also monitors the utilisation of bank and other borrowings.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms as at 31 December 2019 and 2018. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are carried at floating rate, the undiscounted amount is derived from the interest rate at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis for outstanding endorsed and discounted bills receivable. The tables have been drawn up based on the undiscounted contractual net cash outflows on endorsed and discounted bills receivable that could be required to be paid if the relevant bank defaults on payment. The liquidity analysis for the Group's endorsed and discounted bills receivable are prepared based on the contractual maturities as management considers that the contractual maturities are essential for an understanding of the timing of the cash flows of endorsed and discounted bills receivable.

34. FINANCIAL INSTRUMENTS (Cont'd)

34.2 Financial risk management objectives and policies (Cont'd)

Liquidity risk (Cont'd)

Liquidity tables

	Weighted average interest rate %	Repayable on demand or within 3 months RMB'000	3 – 6 months RMB'000	6 months to 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2019							
Non-interest bearing							
Trade and other payables	**N/A**	**1,025,261**	**–**	**–**	**–**	**1,025,261**	**1,025,261**
Amounts due to related companies	**N/A**	**217,504**	**–**	**–**	**–**	**217,504**	**217,504**
Outstanding endorsed and discounted bills receivable *(Note)*	**N/A**	**244,845**	**163,066**	**31,736**	**–**	**439,647**	**–**
Interest bearing							
Other borrowing	**1.20**	**300**	**300**	**10,600**	**93,920**	**105,120**	**100,000**
Borrowings							
– Fixed rate	**2.50-5.88**	**19,921**	**184,425**	**288,078**	**495,267**	**987,691**	**883,067**
– Variable rate	**4.61-4.81**	**81,973**	**81,084**	**333,926**	**127,006**	**623,989**	**602,744**
Lease liabilities	**3.50-5.86**	**2,064**	**2,089**	**4,254**	**5,231**	**13,638**	**13,638**
		1,591,868	**430,964**	**668,594**	**721,424**	**3,412,850**	**2,842,214**
At 31 December 2018							
Non-interest bearing							
Trade and other payables	N/A	1,566,044	–	–	–	1,566,044	1,566,044
Amounts due to related companies	N/A	241,374	–	–	–	241,374	241,374
Outstanding endorsed and discounted bills receivable *(Note)*	N/A	771,966	625,791	28,131	–	1,425,888	–
Interest bearing							
Other borrowing	1.20	300	300	600	107,200	108,400	100,000
Borrowings							
– Fixed rate	2.60-5.88	110,188	159,533	212,420	413,190	895,331	826,346
– Variable rate	3.53-5.88	9,785	9,785	183,492	952,779	1,155,841	1,024,290
		2,699,657	795,409	424,643	1,473,169	5,392,878	3,758,054

Note: The amounts included above for outstanding endorsed and discounted bills receivable are the maximum amounts the Group could be required to settle under the arrangement for the bills for the full guaranteed amount if that amount is defaulted by the counterparties to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, the estimate is subject to change depending on the probability of the default of the counterparties under the arrangement which is a function of the likelihood that the financial receivables held by the counterparties suffer credit losses.

34. FINANCIAL INSTRUMENTS (Cont'd)

34.3 Fair value

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on recurring basis

Other than receivables measured at FVTOCI and financial liabilities at FVTPL, the fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities other than receivables measured at FVTOCI and financial liabilities at FVTPL recognised in the consolidated financial statements approximate their fair values.

Fair value of the Group's financial assets and financial liabilities

Financial assets/ financial liabilities	Fair value as at 31 December 2019	2018	Fair value hierarchy	Valuation technique and key inputs
Receivables measured at FVTOCI in the consolidated statement of financial position	**RMB34,348,000**	RMB217,396,000	Level 2	Discounted cash flows Future cash flows are estimated based on discount rates which are based on the yield-to-maturity of commercial bank bond, with matched terms, and credit risk of various counterparties.
Foreign currency forward contracts classified as financial liabilities at FVTPL in the consolidated statement of financial position	–	RMB5,616,000	Level 2	Discounted cash flows Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.

There were no transfer between the different levels of the fair value hierarchy during the year ended 31 December 2019 (2018: Nil).

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes.

	Borrowings	Amounts due to related companies	Leases liabilities	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	1,819,443	1,266	–	1,820,709
Financing cash flows	40,052	245	–	40,297
Finance cost recognised *(Note 9)*	91,141	–	–	91,141
At 31 December 2018	1,950,636	1,511	–	1,952,147
Impact on initial application on HKFRS 16 *(Note 2)*	–	–	21,647	21,647
1 January 2019	1,950,636	1,511	21,647	1,973,794
Financing cash flows	(473,290)	134	(950)	(474,106)
Finance cost recognised *(Note 9)*	95,459	–	950	96,409
Capital element of lease rentals paid	–	–	(8,009)	(8,009)
Exchange adjustment	13,006	–	–	13,006
At 31 December 2019	1,585,811	1,645	13,638	1,601,094

36. OPERATING LEASES

36.1 The Group as a lessee

The Group had commitments for future lease payments under non-cancellable operating leases which fall due as follows:

	2019	2018
	RMB'000	RMB'000
Within one year	–	9,340
Between the second and fifth year inclusive	–	15,340
	–	24,680

The Group is the lessee in respect of office premises and production facilities held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see Note 2). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position and the details regarding the Group's future lease payments are disclosed in Note 28.

36. OPERATING LEASE (Cont'd)

36.2 The Group as a lessor

Property rental income earned from the buildings previously transferred from investment properties amounted to RMB257,000 (2018: RMB3,090,000) for the year ended 31 December 2019.

At the end of the reporting period, the Group had contracted with tenant for the following future minimum lease payments:

	2019	2018
	RMB'000	RMB'000
Within one year	**284**	–

37. CAPITAL COMMITMENTS

	2019	2018
	RMB'000	RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment, prepaid lease payments and development costs		
– contracted for but not provided in the consolidated financial statements	**101,093**	110,965
Capital contribution in respect of investment in a joint venture		
– contracted for but not provided in the consolidated financial statements	**–**	75,000

38. 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 of cash. In the opinion of the directors, the Group has transferred the significant risks and rewards relating to these bills receivable, and the Group's obligations to the corresponding counterparties were discharged in accordance with the commercial practice in the PRC and the risk of the 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 PRC banks. As a result, the relevant assets and liabilities were not recognised in the consolidated financial statements. The maximum exposure to the Group that may result from the default of these endorsed and discounted bills receivable at the end of each reporting period are as follows:

	2019	2018
	RMB'000	RMB'000
Settlement of trade and other payables	**195,705**	791,849
Discounted bills for raising of cash	**243,942**	634,039
Outstanding endorsed and discounted bills receivable with recourse	**439,647**	1,425,888

Maturity analysis of the outstanding endorsed and discounted bills receivable:

	2019	2018
	RMB'000	RMB'000
Within 3 months	**244,845**	771,966
Over 3 months but within 6 months	**163,066**	625,791
Over 6 months but within 12 months	**31,736**	28,131
	439,647	1,425,888

39. RELATED PARTY DISCLOSURES

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

	2019 RMB'000	2018 RMB'000
Sale of goods		
Brilliance China Group	982,472	1,130,027
Huachen Group	178,431	491,301
Mianyang Huarui	925	–
Mianyang Huaxiang	6,192	–
	1,168,020	1,621,328
Purchase of goods		
Brilliance China Group	81,152	217,568
Huachen Group	–	3
Wuliangye Group	156,735	145,932
	237,887	363,503
Lease payment and auxiliary services received		
Brilliance China Group	3,636	–
Huachen Group	5,424	6,000
	9,060	6,000
Rental income		
Brilliance China Group	–	3,540
Maintenance and construction cost charged		
Wuliangye Group	–	1,351
Processing cost charged		
Wuliangye Group	1,359	–

39. RELATED PARTY DISCLOSURES (Cont'd)

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

The above transactions were carried out in the ordinary course of business and conducted in accordance with the terms and conditions mutually agreed by both parties.

Brilliance China Group, Huachen Group and Wuliangye Group are also the connected persons of the Company under Chapter 14A of the Listing Rules.

Balances with Brilliance China Group, Huachen Group and Wuliangye Group are disclosed elsewhere in the consolidated financial statements.

39.1 Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government (the "State-controlled Entities"). The Group has entered into various transactions in the ordinary course of business, including deposits placements, borrowings and other general banking facilities, with banks which are PRC governments related entities. In addition, the Group itself is jointly controlled by a subsidiary of Brilliance China and a subsidiary of Wuliangye, each of which are ultimately controlled by the PRC government. Apart from the transactions with Brilliance China Group, Huachen Group and Wuliangye Group disclosed above, the Group also conducts business with other State-controlled Entities. The directors of the Company consider those State-controlled Entities as independent third parties so far as the Group's business transactions with them are concerned.

39.2 Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	2019 RMB'000	2018 RMB'000
Short-term benefits	**11,227**	11,313
Post-employment benefits	**32**	30
	11,259	11,343

39. RELATED PARTY DISCLOSURES (Cont'd)

39.2 Compensation of key management personnel (Cont'd)

The directors and certain senior management have also been employed by the Brilliance China Group and Wuliangye Group and the payment of their post-employment benefits representing contributions to retirement benefits scheme was centralised and made by the Brilliance China Group and Wuliangye Group for the years ended 31 December 2019 and 2018, and such amounts are considered as insignificant.

40. RETIREMENT BENEFIT PLAN

The employees of the Group are members of the state-managed retirement benefit scheme operated by the PRC government and of Mandatory Provident Fund Scheme. The Group is required to contribute a certain percentage of basic payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme. During the year ended 31 December 2019, RMB35,354,000 (2018: RMB38,628,000) expenses were incurred and recognised in profit or loss.

41. SHARE-BASED PAYMENT TRANSACTIONS

41.1 Share Incentive Scheme

During the year ended 31 December 2011, the Company established a share incentive scheme to provide an incentive to directors, management, employees and relevant personnel of the Group who have contributed or will make contributions to the development and growth of the Group (the "Beneficiaries") (the "Incentive Scheme") which contains two trust arrangements, namely a fixed trust (the "Fixed Trust") and a discretionary trust (the "Discretionary Trust"). On 31 October 2011, the Company issued 93,999,794 shares of the Company (the "Shares"), representing approximately 9.998% of then enlarged issued share capital of the Company, to Lead In, which held on trust for the relevant Beneficiaries under the two trust arrangements at subscription price of HK$1.0817 per Share. The subscription price of HK$1.0817 per Share is considered as fair value since it was determined based on the Mianyang Xinchen Valuation Report, which was issued by an independent valuer for the purpose of group reorganisation and it was also used to determine the consideration for the shares issued to Dongfeng Motors Engineering (i.e. HK$1.0817 per Share), which is an independent third party prior to its investment.

Prior to 1 January 2017, all Shares under the Fixed Trust were awarded to the Beneficiaries. No Share had been awarded under the Discretionary Trust for the year ended 31 December 2019 (2018: nil). As at 31 December 2019, Lead In held 33,993,385 (2018: 33,993,385) Shares under the Discretionary Trust.

No Shares were granted, exercised, lapsed or forfeited under the Discretionary Trust during the years ended 31 December 2019 and 2018.

41.2 Share Option Scheme

The Company has adopted a share option scheme (the "Share Option Scheme") on 25 April 2012 (amended and restated on 8 February 2013) to provide incentives or rewards to participants for their contribution to the Group and/or to enable the management of the Group to recruit and retain employees that are valuable to the Group.

During the years ended 31 December 2019 and 2018, no share options were granted under the Share Option Scheme by the Company. In addition, as at 31 December 2019 and 2018, no share options under the Share Option Scheme were outstanding.

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	**826,377**	826,377
Property, plant and equipment	**3,438**	313
Loan to a shareholder	**14,162**	13,097
	843,977	839,787
CURRENT ASSETS		
Prepayments and other receivables	**618**	633
Amounts due from related companies/a subsidiary	**25**	24
Bank balances and cash	**14,677**	33,374
	15,320	34,031
CURRENT LIABILITIES		
Other payables	**1,371**	912
Amounts due to related companies	**1,962**	1,858
Lease liabilities	**3,471**	–
	6,804	2,770
NET CURRENT ASSETS	**8,516**	31,261
NET ASSETS	**852,493**	871,048
CAPITAL AND RESERVES		
Share capital	**10,457**	10,457
Reserves *(Note)*	**842,036**	860,591
TOTAL EQUITY	**852,493**	871,048

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Cont'd)

Note: Below table sets out the details of the reserves of the Company:

	Share premium RMB'000	Special reserve RMB'000 *(Note)*	Contribution from a shareholder RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2018	700,258	348,103	8,319	(164,310)	892,370
Loss and total comprehensive expense for the year	–	–	–	(31,779)	(31,779)
At 31 December 2018	700,258	348,103	8,319	(196,089)	860,591
Loss and total comprehensive expense for the year	–	–	–	(18,555)	(18,555)
At 31 December 2019	**700,258**	**348,103**	**8,319**	**(214,644)**	**842,036**

Note: The special reserve represents the difference between total equity of Southern State Investment Limited ("Southern State") at the date the Company obtained entire issued share capital of Southern State from the shareholders of the Company and the paid consideration of US$1 upon group reorganisation underwent in 2011.

43. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Form of business structure	Place of incorporation or establishment/ operation	Issued and fully paid share/ registered capital	Proportion of issued share/ registered capital held by the Company Directly	Indirectly	Principal activities
Southern State	Private limited company	British Virgin Islands/ Hong Kong	US$1 Ordinary share	100%	–	Investment holding
Mianyang Xinchen	Sino-foreign equity joint venture enterprise	PRC	US$100,000,000 Registered capital	–	100%	Development, manufacture and sale of engine parts and components for passenger vehicles and the passenger vehicles
Xinchen Engine (Shenyang) Co., Limited* 新晨動力機械（瀋陽）有限公司	Private limited company	PRC	RMB253,000,000 Registered capital	–	100%	Development, manufacture and sale of engine parts and components for passenger vehicles and the passenger vehicles.

There is no loan capital issued by the Company's subsidiaries at the end of the year.

* *English name for reference only.*

44. EVENTS AFTER THE REPORTING DATE

After the COVID-19 Outbreak in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country and region. As required by the local government, certain provinces in the PRC in which the Group's production facilities are located have extended holidays and resumed operation up to the date of this report. The Group will pay close attention to the development of the COVID-19 Outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date of this report, the Group was not aware of any material adverse effects on the consolidated financial statements as a result of the COVID-19 Outbreak.