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

2018
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. Wan Xing

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

Deloitte Touche Tohmatsu
35th Floor, One Pacific Place
88 Queensway
Hong Kong

PRINCIPAL BANKERS

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

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				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Income Statement Data:					
Revenue	**3,050,522**	2,956,662	3,462,460	3,269,331	2,652,446
Profit before Income Tax Expense	**10,774**	153,569	228,263	270,759	317,016
Income Tax Expense	**(50)**	(25,476)	(42,367)	(46,094)	(45,470)
Profit and Total Comprehensive Income for the Year Attributable to Owners of the Company	**11,086**	128,093	185,896	224,665	271,546
Basic Earnings per Share	**RMB0.008**	RMB0.100	RMB0.145	RMB0.175	RMB0.211
Diluted Earnings per Share	**RMB0.008**	RMB0.100	RMB0.145	RMB0.175	RMB0.211
Statement of Financial Position Data:					
Non-current Assets	**3,367,309**	3,476,892	2,851,636	2,155,545	1,623,130
Current Assets	**3,808,565**	3,590,757	3,090,088	2,998,976	3,119,672
Current Liabilities	**(2,867,946)**	(2,980,414)	(2,427,827)	(1,691,593)	(1,872,480)
Non-current Liabilities	**(1,322,225)**	(1,094,832)	(649,587)	(783,507)	(410,029)
Shareholders' Equity	**2,985,703**	2,992,403	2,864,310	2,679,421	2,460,293

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 2018.

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

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

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

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

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

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

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

Chairman Statement (Cont'd)

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

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
25 March 2019

Management's Discussion & Analysis

BUSINESS REVIEW

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

In respect of the engines business segment, the Group recorded approximately 0.8% slight decrease in segment revenue, from approximately RMB2,429.00 million in 2017 to approximately RMB2,410.71 million in 2018. Sales volume of engines decreased by approximately 18.6% from around 256,200 units in 2017 to around 209,000 units in 2018. The decrease was mainly due to the decrease in the sales of traditional small gasoline engines in 2018, which was partially offset by an increase in the sales of prince engines and traditional diesel engines which are of higher selling price per unit. The decrease in sales volume of traditional small gasoline engines was due to the cancellation of the purchase tax reduction scheme, following which the purchase tax rate was restored to 10% since 2018.

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

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

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

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

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

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

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

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

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

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

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

CAPITAL STRUCTURE

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

CONTINGENT LIABILITIES

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

PLEDGE OF ASSETS

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

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

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

GEARING RATIO

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

As of 31 December 2018, the gearing ratio, computed by dividing bank borrowings by total equity attributable to owners of the Company, was approximately 65.3% (31 December 2017: 60.8%). The increase in gearing ratio was mainly due to the increase in total bank borrowing as a result of the finance of the acquisition of property, plant and equipment during the year with bank borrowings.

INVESTMENT PROPERTY

In 2018, certain portion of the Group's premises located in Shenyang was leased to BMW Brilliance Automotive, which generated rental income of approximately RMB3.54 million during the year ended 31 December 2018 (31 December 2017: RMB26.44 million).

FOREIGN EXCHANGE RISKS

The Group's functional currency is RMB. Since the Group has certain assets and liabilities, such as receivables, payables, bank borrowings and cash and cash equivalents, denominated in foreign currencies, such as 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 2018, the Group employed approximately 1,862 employees (31 December 2017: approximately 2,070). Employee costs amounted to approximately RMB210.28 million for the year ended 31 December 2018 (31 December 2017: approximately RMB207.03 million). The Group will endeavor to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' remuneration is based on their performance.

SIGNIFICANT INVESTMENTS

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

CAPITAL COMMITMENT

As at 31 December 2018, the Group had capital commitments of approximately RMB677.71 million (31 December 2017: RMB997.08 million), among which contracted capital commitments amounted to approximately RMB185.97 million (31 December 2017: RMB261.30 million), which is primarily related to the capital expenditure in respect of acquisition of property, plant and equipment, and new engine development.

Directors, Senior Management and Company Secretary

EXECUTIVE DIRECTORS

Mr. Wu Xiao An (also known as Mr. Ng Siu On) (吳小安), aged 57, 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 24 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 Engine Co., Ltd. ("**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 vice chairman and the 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 64, 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 42 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 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 has resigned from his positions of director and general manager in Xinhua Combustion Engine on 22 March 2012 and 23 March 2012, respectively. Since January 2005, Mr. Wang has been a director and general manager of Mianyang Huarui Automotive Company Limited ("**Mianyang Huarui**"). 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 54, was appointed as a non-executive director of the Company on 12 September 2016. Mr. Liu has been serving as director, executive vice president, member of the standing committee of the Communist Party of China and general manager of Zhonghua business unit of Huachen since November 2018. From July to November 2018, he was the 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 the director, executive vice president, member of the standing committee of the Communist Party of China and vice general manager of auto business unit of Huachen. From February to March 2016, he was the 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 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 general manager, head of development and planning department, and director of party office. Mr. Liu graduated from Department of Materials Engineering in Jilin College of Engineering (吉林工學院) with a major in metallic material in July 1986 and obtained a master's degree in Metal Material and Heat Treatment from Department of Materials in Dalian University of Technology (大連理工大學) in August 1990. In July 1998, he was qualified as a senior engineer by the Personnel Department of Liaoning Province (遼寧省人事廳).

Mr. Yang Ming（楊明）, aged 50, 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 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 the general manager of Pushi Vehicle Dies. From May 2014 to May 2016, Mr. Yang was a committee member of Communist Party of China and vice president of Pushi Group and the general manager and branch secretary of Communist Party of China of Pushi Dies. From December 2007 to May 2014, he was a committee member of Communist Party of China of Pushi Group and the general manager and branch secretary of Communist Party of China of Pushi Dies. From June 2006 to December 2007, he was a committee member of Communist Party of China of Pushi Group and the deputy general manager, chairman of the labour union and branch secretary of 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 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 in Beijing Institute of Technology, with a major in mechanical manufacturing process and automation, in July 1988.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chi Guohua（池國華）, aged 44, 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 the teaching assistant, lecturer, associate professor and professor in 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 in the Audit Science Graduate School of Nanjing Audit University since November 2017 and the dean in the School of Internal Audit of Nanjing Audit University and China Institute of Internal Audit since November 2018. Furthermore, Mr. Chi has 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 organizations, 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（中國財政部全國會計學術領軍人才）in November 2014. Mr. Chi obtained a post doctorate in Business Administration from the Xiamen University（廈門大學）in January 2008 and a doctorate in management (accounting studies) from Dongbei University of Finance and Economics in April 2005.

Mr. Wang Jun（王雋）, aged 57, was appointed as an independent non-executive director of the Company on 24 April 2012. He has over 28 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 64, 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 34 years researching and applying his expertise in automotives technology. Since September 1983, Mr. Huang has been serving as the 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 in 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（西川西華交通司法鑒定中心）. He received a master's degree in Beijing Institute of Agricultural Mechanization（北京農業機械化學院）in December 1983 and a doctorate degree in Engineering in Sichuan University（四川大學）in December 2004.

Mr. Wang Songlin（王松林）, aged 67, was appointed as an independent non-executive director of the Company on 24 April 2012. He has over 39 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 had been serving 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 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, since December 2016 and 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 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 in a master's course of technology and economics from Harbin Institute of Technology in April 1995.

SENIOR MANAGEMENT

Mr. He Xuzong（何旭宗）, aged 52, is the vice general manager of Mianyang Xinchen. Mr. He has over 28 years of experience in the automotive industry and is primarily responsible for product development of our Group. From November 2008 to January 2012, he served as the vice general manager of Xinhua Combustion Engine, and since January 2008, he has been the vice general manager of Mianyang Xinchen. From February 2004 to January 2008, he had been the 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 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 qualified 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 55, is the vice general manager of Mianyang Xinchen. Mr. Song has over 32 years of experience in the automotive industry and is primarily responsible for production and safety management of our Group. From October 2001 to January 2012, he served as the vice general manager of Xinhua Combustion Engine, and since March 2000, he has 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 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 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 the 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 qualified 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. Ma Li（馬力）, aged 59, is the vice general manager of Mianyang Xinchen. Mr. Ma has over 35 years of experience in the automotive industry and is primarily responsible for marketing and spare parts business of our Group. Since March 2000, he has been the vice general manager of Mianyang Xinchen, and during the period from October 2001 to January 2012, he served as the vice general manager of Xinhua Combustion Engine concurrently. From January 2005 to March 2009, he also served as an executive director of Mianyang Huarui. From August 1982 to May 1998, he held various positions in Xinhua Combustion Engine, including technician, deputy head of supply office, managing deputy head of sales department and the head of sales department. Mr. Ma obtained a bachelor's degree in internal combustion engines in Chengdu Institute of Agriculture and Machinery（成都農業機械學院）(now merged into Xihua University（西華大學）) in July 1982, and received a postgraduate diploma in business management from Sichuan University（四川大學）in 1999. Mr. Ma was qualified as a senior engineer in May 1996.

Mr. Wan Xing (萬幸), aged 44, was appointed as the chief financial officer of the Company in June 2018. Mr. Wan started his career in the internal audit of a domestic well-known home appliance enterprise group, and has over 18 years of experience in automotive industry and 12 years of experience in overseeing financial management in several multinational corporations. Mr. Wan participated in a number of new plant establishments, mergers and acquisitions, and led the restructuring of enterprises. He is primarily responsible for the financial management of the Group. Since June 2018, he has served as the chief financial officer of Mianyang Xinchen. Before joining Mianyang Xinchen, he was the chief financial officer and financial controller of several multinational companies and was an internal auditor of a large state-owned listed group. Mr. Wan obtained a Master degree in Business Administration from the Chongqing University of China（中國重慶大學）in 2009.

Mr. Ng Yiu Fai（吳耀輝）, aged 44, is the senior vice president of the Company. Mr. Ng joined the Company in May 2017. He is primarily responsible for the Group's investor relations, capital markets and financial reporting matters. Mr. Ng holds a Bachelor's degree of business administration with a major in accounting from the Hong Kong University of Science and Technology. Mr. Ng has more than 21 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 during 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 36, 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 2018.

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 the passenger vehicles in the PRC. The principal activities of the Company's subsidiaries are set out in note 42 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 is set out on pages 7 to 8 and in the following paragraphs.

1. Principal risks and uncertainties

We have identified in 2018 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.

As the PRC automobile market has slowed down lately, the Group is exposed to the impairment risk in respect of its research and development expenditure that are not yet amortized. In addition to actively pursuing new customers, the Group will regularly assess the market and evaluate the future net cash inflows from the relevant projects with the aim of minimizing impairment 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 3% in 2018. Total sales volume of automobile in December 2018 dropped by a whopping 13% year-on-year, which exceeded expectation and represented the weakest performance since the start of this century. In view of the current government measures to adjust the macroeconomic situations, the future growth of the PRC automobile market is expected to remain at a low level. 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

The PRC engine and engine part and component manufacturers are facing fierce competition within the industry. Traditional engine manufacturers are affected 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. Thus market expansion of independent engine manufacturers might be hindered. 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 lineup 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. This imposes challenges to the environmental friendliness of traditional engines of light-duty vehicles. Furthermore, Hainan, Guangdong, Zhejiang, Jiangsu, Shanghai, Chengdu and other provinces and cities have implemented China 6 limits for emissions in 2019 ahead of the planned schedule. New cars sold after such implementation will have to meet the new regulations. To meet such challenges, the Group will upgrade its existing products and develop new products that comply with 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 2018, 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 2018 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 secure its sustainable development, the Group has established a sound system taking into account management, skills, expertise and competency, refined its qualification frameworks, and evaluated its human resource requirements according to its strategies and business development plans, resulting in individually tailored development plans for staff members at all professions and all levels that focus on strengthening research and development as well as the professional skills and creativity of the professional staff. 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. 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 2018 are set out in the consolidated financial statements of the Group on page 67.

CASH FLOW POSITION

The cash flow position of the Group for the year ended 31 December 2018 is set out and analysed in the consolidated statement of cash flows on pages 71 to 72.

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 2018 (2017: Nil).

CLOSURE OF REGISTER OF MEMBERS

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

The Hong Kong branch register of members of the Company will be closed from Tuesday, 28 May 2019 to Monday, 3 June 2019, both dates inclusive, during which period no transfer of Shares will be registered. Only shareholders of the Company whose names appear on the register of members of the Company on Tuesday, 28 May 2019 or their proxies or duly authorised corporate representatives are entitled to attend the annual general meeting. In order to qualify for attending the annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 27 May 2019.

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 2018.

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 70.

PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment of the Group during the year ended 31 December 2018 are set out in note 15 to the consolidated financial statements.

INVESTMENT PROPERTIES

The details of investment properties of the Group are set out in note 17 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 2018; 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 2018.

SHARE CAPITAL

Details of the Company's share capital as at 31 December 2018 are set out in note 31 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 2018. As at 31 December 2018, 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 associates 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 2018 and no expenses were recognized by the Group for 2018 (2017: nil).

DIRECTORS

The directors of the Company who held office during the year ended 31 December 2018 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. Liu Tongfu, Mr. Wang Jun and Mr. Huang Haibo will retire by rotation at the forthcoming annual general meeting of the Company to be held on 3 June 2019.

Each of Mr. Liu Tongfu, Mr. Wang Jun and Mr. Huang Haibo, being eligible, will offer themselves 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

There is no change in information of the directors of the Company as required to be disclosed under Rule 13.51B(1) of the Listing Rules since the date of the 2018 interim report up to the date of this annual report.

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

As at 31 December 2018, 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 (L)	31.20%
Brilliance China[1]	Interest in a controlled corporation	400,000,000 (L)	31.20%
Huachen[2]	Interest in a controlled corporation	400,000,000 (L)	31.20%
Xinhua Investment	Beneficial owner	400,000,000 (L)	31.20%
Xinhua Combustion Engine[3]	Interest in a controlled corporation	400,000,000 (L)	31.20%
Pushi Group[4]	Interest in a controlled corporation	400,000,000 (L)	31.20%
Sichuan Province Yibin Wuliangye Group Co., Ltd.[5]	Interest in a controlled corporation	400,000,000 (L)	31.20%
JPMorgan Chase & Co.	Beneficial owner	88,806,600 (L) 185,000 (S)	6.93% 0.01%
	Custodian corporation/ approved lending agent	88,436,600 (P)	6.90%
Templeton Asset Management Ltd.	Investment manager	89,350,800 (L)	6.97%

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 2018.

(L) – Long Position, (S) – Short Position, (P) – Lending Pool

Save as disclosed herein, as at 31 December 2018, 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 2018, 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 2018.

Save as disclosed above, as at 31 December 2018, 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 2018 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

Each of Mr. Wang Jun and Mr. Huang Haibo, both of whom are 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 appointments 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 2018, 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 2018.

DISCLOSURE UNDER RULE 13.21 OF THE LISTING RULES

On 26 September 2016, Mianyang Xinchen (as borrower) and the Company (as guarantor) entered into a banking facility agreement with a financial institution (as lender) for a term loan facility of up to US$28,500,000 (the "**Facility Letter 2016**"). Under the Facility Letter 2016, 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 Letter 2016 were set out in the announcement of the Company dated 26 September 2016.

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 2018, the aggregate sales attributable to the Group's five largest customers represented approximately 72.5% of the Group's total revenue while the sales attributable to the Group's largest customer was approximately 19.0% 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 25.7% of the Group's total purchases and the purchases attributable to the Group's largest supplier represented approximately 7.2% of the Group's total purchases. The Company's substantial shareholder is interested in two supplier (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 2018.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2018 , 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 2018 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 2018 is set out below:

	Connected Person	Nature of Transaction	Actual monetary value for the financial year ended 31 December 2018 RMB'000
	Continuing connected transactions exempt from the independent shareholders' approval requirements		
1.	Brilliance China and its subsidiaries	Purchase of engine components from Brilliance China and its subsidiaries	37,846
2.	Wuliangye and its subsidiaries (including Mianyang Xin Xinmao)	Procurement of construction and building maintenance services from Wuliangye and its subsidiaries	1,351
3.	Shenyang Brilliance Power	Rental of factory premises from Shenyang Brilliance Power	6,000
4.	Huachen	Procurement of materials and purchase of engine components from Huachen and its subsidiaries	3
5.	BMW Brilliance Automotive	Lease of certain portion of land and properties to BMW Brilliance Automotive	3,540
6.	Sichuan Anji	Provision of logistics services from Sichuan Anji	–
7.	Xinhua Combustion Engine	Procurement of cleaning and greening services from Xinhua Combustion Engine	840
8.	Brilliance China	License from Brilliance China for use of office premises, ancillary utilities and office supplies	–
	Non-exempt continuing connected transactions		
9.	Brilliance China and its subsidiaries	Sale of engines and engine components to Brilliance China and its subsidiaries	552,097
10.	Wuliangye and its subsidiaries (including Sichuan Pushi and Xinhua Combustion Engine)	Purchase of engine components from Wuliangye and its subsidiaries	145,932
11.	Huachen and its subsidiaries	Sale of engines and engine components to Huachen and its subsidiaries	491,301
12.	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	179,722
13.	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	577,930

Further information on transactions 1 to 13 are provided as follows:

Transaction 1: 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 13 October 2015, the Company entered into a purchase framework agreement with Brilliance China (the "**Brilliance China Purchase Agreement**"), pursuant to which the Company agreed to purchase various types of engine components from Brilliance China and its subsidiaries for a term of three years commencing from 1 January 2016 and ending on 31 December 2018. On 18 October 2018, the Company entered into a purchase framework agreement with Brilliance China (the "**New Brilliance China Purchase Agreement**"), pursuant to which the Company will continue to 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 New 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 and the New Brilliance China Purchase Agreement for the four financial years ending 31 December 2021 are RMB61,650,000, 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 2018 did not exceed the annual cap of RMB61,650,000.

Details of the Brilliance China Purchase Agreement are set out in the announcement of the Company dated 13 October 2015; and details of the New 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 2: 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 13 October 2015, Mianyang Xinchen entered into a procurement framework agreement with Mianyang Xin Xinmao (the "**Wuliangye Procurement Agreement**"), pursuant to which Mianyang Xinchen agreed to procure construction and building maintenance services from Mianyang Xin Xinmao for a term of three years commencing from 1 January 2016 and ending on 31 December 2018. On 18 October 2018, Mianyang Xinchen entered into a procurement framework agreement with Mianyang Xin Xinmao (the "**New Wuliangye Procurement Agreement**"), pursuant to which Mianyang Xinchen will continue to 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 New 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 and the New Wuliangye Procurement Agreement for the four financial years ending 31 December 2021 are RMB11,495,000, 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 2018 did not exceed the annual cap of RMB11,495,000.

Details of the Wuliangye Procurement Agreement are set out in the announcement of the Company dated 13 October 2015; and details of the New Wuliangye Procurement Agreement are set out in the announcement of the Company dated 18 October 2018.

Transaction 3: 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 13 October 2015, Shenyang Brilliance Power and Mianyang Xinchen entered into a lease agreement (the "**Existing Lease Agreement**") pursuant to which Shenyang Brilliance Power agreed to 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 2016 and expiring on 31 December 2018. On 18 October 2018, Shenyang Brilliance Power and Mianyang Xinchen entered into a new lease agreement (the "**New Lease Agreement**") pursuant to which Shenyang Brilliance Power will continue to 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 Existing Lease Agreement and the New Lease Agreement for the four financial years ending 31 December 2021 are RMB6,000,000, RMB6,000,000, RMB6,000,000 and RMB6,000,000, respectively. The continuing connected transactions under the Existing Lease Agreement for the year ended 31 December 2018 did not exceed the annual cap of RMB6,000,000.

Details of the Existing Lease Agreement are set out in the announcement of the Company dated 13 October 2015; and details of the New Lease Agreement are set out in the announcement of the Company dated 18 October 2018.

Transaction 4: Huachen, a controlling shareholder of Brilliance China, is deemed as a connected person of the Company under the Listing Rules.

On 13 October 2015, the Company and Huachen entered into a procurement framework agreement (the "**Procurement Agreement**") pursuant to which the Group agreed to purchase the remaining portion of the materials, tools, equipments and repair parts and products for the production of E3 engines (the "**Remaining Materials**") from Huachen and its subsidiaries for a term of three years commencing from 1 January 2016 and ending on 31 December 2018. 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 (which do not include those (including the Remaining Materials) purchased under the Procurement Agreement) 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 Procurement Agreement and the Huachen Purchase Agreement for the three financial years ending 31 December 2020 are RMB7,790,000, RMB12,100,000 and RMB9,210,000, respectively. The continuing connected transactions under the Procurement Agreement and the Huachen Purchase Agreement for the year ended 31 December 2018 did not exceed the annual cap of RMB7,790,000.

Details of the Procurement Agreement are set out in the announcement of the Company dated 13 October 2015; and details of the Huachen Purchase Agreement are set out in the announcement of the Company dated 18 October 2018.

Transaction 5: 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.

According to the existing lease agreement dated 28 August 2012 (the "**BBA Lease Agreement**") (amended by the supplemental agreement dated 22 July 2013) entered into between Xinchen Engine (Shenyang) Co., Ltd. ("**Shenyang Xinchen**"), an indirectly wholly owned subsidiary of the Company, and BMW Brilliance Automotive, certain portion of land and properties located at No. 19, Road 13, Shenyang Econ-Tech Development Zone, Tiexi New District, Shenyang City, Liaoning Province, the PRC, were leased to BMW Brilliance Automotive for a term commencing from 28 August 2012 and expired on 27 February 2018 for production and ancillary purposes.

On 21 January 2015, Mianyang Xinchen (including its branches), Shenyang Xinchen and BMW Brilliance Automotive entered into an agreement on operation site (the "**Agreement on Operation Site**"). Pursuant to the Agreement on Operation Site, Mianyang Xinchen (including its branches) agreed to lease from Shenyang Xinchen the operation site for the operation, future expansion and upgrading of the crankshaft production line (the "**Operation Site**") acquired by Mianyang Xinchen (including its branches) from BMW Brilliance Automotive. BMW Brilliance Automotive and Shenyang Xinchen agreed to terminate the BBA Lease Agreement to the extent in relation to the Operation Site. BMW Brilliance Automotive shall continue to lease from Shenyang Xinchen the reduced lease area and shall continue to pay monthly rental to Shenyang Xinchen pursuant to the terms of the BBA Lease Agreement, based on the reduced leased area.

The annual caps of the continuing connected transactions contemplated under the BBA Lease Agreement for the financial year ended 31 December 2018 shall not exceed RMB5,523,838. The continuing connected transactions under the BBA Lease Agreement for the year ended 31 December 2018 did not exceed the annual cap of RMB5,523,838.

Details of the BBA Lease Agreement are set out in the announcements of the Company dated 15 August 2014 and 21 January 2015 respectively.

Transaction 6: 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 three financial years ending 31 December 2020 are RMB17,800,000, 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 2018 did not exceed the annual cap of RMB17,800,000.

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

Transaction 7: 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 three financial years ending 31 December 2020 are RMB4,000,000, 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 2018 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 8: Brilliance China is a connected person of the Company as described in Transaction 1 above.

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 three financial years ending 31 December 2020 are HK$3,800,000, 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 2018 did not exceed the annual cap of HK$3,800,000.

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

Transaction 9: Brilliance China is a connected person of the Company as described in Transaction 1 above.

On 13 October 2015, the Company entered into a sale framework agreement with Brilliance China (the "**Brilliance China Sale Agreement**"), pursuant to which the Company agreed to sell engines and engine components Brilliance China and its subsidiaries for a term of three years commencing from 1 January 2016 and ending on 31 December 2018. On 18 October 2018, the Company entered into a sale framework agreement with Brilliance China (the "**New Brilliance China Sale Agreement**"), pursuant to which the Company will continue to 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 New 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 and the New Brilliance China Sale Agreement for the four financial years ending 31 December 2021 are RMB848,781,000, RMB1,754,500, RMB1,775,000 and RMB2,600,000, respectively. The continuing connected transactions under the Brilliance China Sale Agreement for the year ended 31 December 2018 did not exceed the annual cap of RMB848,781,000.

Details of the Brilliance China Sale Agreement are set out in the announcement of the Company dated 13 October 2015 and the circular of the Company dated 16 November 2015; and details of the New 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 10: 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 13 October 2015, Mianyang Xinchen entered into a purchase framework agreement with Sichuan Pushi (the "**Sichuan Pushi Purchase Agreement**"), pursuant to which Mianyang Xinchen agreed to purchase various gasoline and diesel engine components from Sichuan Pushi for a term of three years commencing from 1 January 2016 and ending on 31 December 2018. On 18 October 2018, Mianyang Xinchen entered into a purchase framework agreement with Sichuan Pushi (the "**New Sichuan Pushi Purchase Agreement**"), pursuant to which Mianyang Xinchen will continue to 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 New 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 and the New Sichuan Pushi Purchase Agreement for the four financial years ending 31 December 2021 are RMB31,500,000, 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 2018 did not exceed the annual cap of RMB31,500,000.

On 13 October 2015, Mianyang Xinchen entered into a purchase framework agreement with Xinhua Combustion Engine (the "**Xinhua Combustion Engine Purchase Agreement**"), pursuant to which Mianyang Xinchen agreed to purchase various gasoline and diesel engine components from Xinhua Combustion Engine for a term of three years commencing from 1 January 2016 and ending on 31 December 2018. On 18 October 2018, Mianyang Xinchen entered into a purchase framework agreement with Xinhua Combustion Engine (the "**New Xinhua Combustion Engine Purchase Agreement**"), pursuant to which Mianyang Xinchen will continue to 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 New 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 and the New Xinhua Combustion Engine Purchase Agreement for the four financial years ending 31 December 2021 are RMB193,180,000, 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 2018 did not exceed the annual cap of RMB193,180,000.

Details of the Sichuan Pushi Purchase Agreement and the Xinhua Combustion Engine Purchase Agreement are set out in the announcement of the Company dated 13 October 2015 and the circular of the Company dated 16 November 2015; and details of the New Sichuan Pushi Purchase Agreement and the New 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 11: Huachen is deemed as a connected person of the Company as described in Transaction 4 above.

On 13 October 2015, the Company entered into a sale framework agreement with Huachen (the "**Huachen Sale Agreement**"), pursuant to which the Company agreed to sell engines and engine components to Huachen and its subsidiaries for a term of three years commencing from 1 January 2016 and ending on 31 December 2018. On 18 October 2018, the Company entered into a sale framework agreement with Huachen (the "**New Huachen Sale Agreement**"), pursuant to which the Company will continue to 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 New 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 and the New Huachen Sale Agreement for the four financial years ending 31 December 2021 are RMB2,118,086,000, 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 2018 did not exceed the annual cap of RMB2,118,086,000.

Details of the Huachen Sale Agreement are set out in the announcement of the Company dated 13 October 2015 and the circular of the Company dated 16 November 2015; and details of the New 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 12 & 13: BMW Brilliance Automotive is a connected person of the Company as described in Transaction 5 above.

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 further 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 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 two years ending 31 December 2019 are approximately RMB588,051,000 and RMB556,362,000, 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 2018 did not exceed the annual cap of approximately RMB588,051,000.

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 two years ending 31 December 2019 are approximately RMB578,975,000 and RMB602,244,000, 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 2018 did not exceed the annual cap of approximately RMB578,975,000.

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 and 13 September 2016 respectively and the circulars of the Company dated 28 May 2014, 18 February 2015 and 12 October 2016 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 13 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 13 are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The Company's external auditors, Deloitte Touche Tohmatsu, 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 13 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 13 are also regarded as "related party transactions" under the applicable accounting standards. Details of these transactions are further disclosed in note 38 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 38 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 35 to 51 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 52 to 62 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 2019 and secured by all assets of Xinhua Investment.

AUDITORS

Deloitte Touche Tohmatsu, 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 3 June 2019 to seek shareholders' approval on the appointment of Deloitte Touche Tohmatsu 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,
25 March 2019

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 2018, 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 2018 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 2018, including the annual general meeting held on 21 June 2018 and the extraordinary general meeting held on 13 December 2018, 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 2018.

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 non-executive directors of the Company (including the independent non-executive directors) without the executive directors present in 2018 in compliance with code provision A.2.7 of the CG Code. This provides an additional platform for direct communication of the non-executive directors of the Company (including the independent non-executive directors) with the Chairman of the Board without the presence of the executive 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 2018, 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 16 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 10 to 13 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. Liu Tongfu, Mr. Wang Jun and Mr. Huang Haibo will retire by rotation at the forthcoming annual general meeting of the Company to be held on 3 June 2019 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 2018, 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 2018 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 2018.

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 2018 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 2018, 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 2018 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 21 June 2018.

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	57	8 years
Mr. Wang Yunxian	Male	Chinese	64	8 years
Mr. Liu Tongfu	Male	Chinese	54	3 years
Mr. Yang Ming	Male	Chinese	50	3 years
Mr. Chi Guohua	Male	Chinese	44	6 years
Mr. Wang Jun	Male	Chinese	57	7 years
Mr. Huang Haibo	Male	Chinese	64	7 years
Mr. Wang Songlin	Male	Chinese	67	7 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 2018, 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 2018 included:

– 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 2018, 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 2018:

– 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 2017;

– reviewed the interim report and the interim results announcement for the six months ended 30 June 2018;

– met with the auditors to go through any significant audit issues or key findings noted during the audit of the Group's 2017 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 2018 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 2018, 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 2018, 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 2018 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 2018. The Audit Committee therefore recommended the audited consolidated financial statements of the Group for the year ended 31 December 2018 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 2018, 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 2018. Currently, the Company's external auditors are Deloitte Touche Tohmatsu (the "**Auditors**").

In 2018, the audit and non-audit service fees paid or payable by the Company amounted to approximately HK$1,280,000 and RMB5,470,000, 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 63 to 66 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 2018, 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 21 June 2018 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 13 December 2018, 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 has 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 21 June 2018 and the extraordinary general meeting held on 13 December 2018, 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 has 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 2018, 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 2018, 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 and used mineral oil.

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

Measures to mitigate air emissions, GHG and effluents implemented by the Group in 2018 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 2018:

- 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 2018, 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 and gym halls 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 allow, inspire and motivate capable candidates to maximize their contributions in the right positions.

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 2018.

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 2018, 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 2018, 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 management, production and manufacturing according to its development directions and strategic goals. During the year, all staff members attended some sort of training and a total of 139 training sessions were conducted with 7,850 participants. Regular staff training topics included but not limited to proficiency in English, quality systems, aftersales technical services, procurement cost bargaining and negotiation skills, five major quality management tools, corporate investment and financing and cash flow management, communication and negotiation, 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》) 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 and assessment management system that covers the whole operation (including raw material procurement, product design, manufacturing, advertising, labelling, privacy, aftersales services and quality control) 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, Statements of Responsibility for the Promotion of Chinese Communist Party's Rules and Anti-Corruption Culture for 2018(《2018年黨風廉政建設目標責任書》), or the Responsibility Statements, were entered into between the Group and staff members of each level to implement dual responsibilities for each position, define the substance of the responsibilities, establish assessment systems for such responsibilities and lay 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. 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 2018, the "Veit Fund(懷特基金)" set up by the Group and Dr. Veit Kohnhause, the Consultant of General Manager, subsidized 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 Company have raised funds for the "Love Foundation(愛心基金)" to support staff members in need.

SUMMARY OF KEY PERFORMANCE INDICATORS UNDER "SUBJECT AREA A. ENVIRONMENTAL" FOR THE 2018 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 21 business vehicles producing the following emissions (in kilogrammes) in 2018: • Nitrogen oxides (NOx): 33,551.88 • Sulphur oxides (SOx): 1,242.11 • Particulate matters: 2,469.90
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: 29.64 tonnes of carbon dioxide (CO_2) equivalent Breakdown of GHG emissions (in tonnes): • Carbon dioxide (CO_2): 15.58 • Methane (CH_4): 0.30 • Nitrous oxide (N_2O): 13.76 B. GHG emissions from mobile combustion sources (road, air and water transport): 220.16 tonnes of carbon dioxide (CO_2) equivalent Breakdown of GHG emissions (in tonnes): • Carbon dioxide (CO_2): 196.95 • Methane (CH_4): 0.34 • Nitrous oxide (N_2O): 22.87 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: 18.83 tonnes Scope 2 – Energy indirect GHG emissions (Principle source of the Group was purchased electricity as no gas was purchased) 25,641.63 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: 3.49 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: 2,542.96 tonnes of carbon dioxide (CO_2) equivalent • Sewage processing: 8,456 tonnes of carbon dioxide (CO_2) equivalent C. Business air travel by employees: 79.99 tonnes of carbon dioxide (CO_2) equivalent Total GHG emissions: 36,973.87 tonnes of carbon dioxide (CO_2) equivalent Intensity of GHG emissions (tonne(s) of carbon dioxide equivalent per unit of production volume): 0.1777 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: 676.16 tonnes Per unit data: 0.00325 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: 937.19 tonnes Per unit data: 0.0045 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 2018 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 non-hazardous wastes are handled, reduction initiatives and results achieved	The Group's hazardous and non-hazardous wastes were handled in 2018 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 2018, 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 kWh Diesel consumption in total: 28,571.43 kWh Energy consumption intensity: 185.00 kWh 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: 96,415 tonnes Water consumption intensity: 0.557 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 an increase of about 21% in output of crankshafts, electricity cost went up by merely about 13.6% due to the mass production of a new product, the 1,600cc prince engine, with an annual output of about 32,500 units. • 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: 1,218.50 tonnes Material used per unit produced: 0.0058 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 2018: • 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 oil-stained 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

Deloitte. 德勤

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

OPINION

We have audited the accompanying consolidated financial statements of Xinchen China Power Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 67 to 148, which comprise the consolidated statement of financial position as at 31 December 2018 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 2018, 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 our audit addressed the key audit matter
Impairment of intangible assets	
At 31 December 2018, the Group had significant intangible assets amounted to Renminbi ("RMB") 623,455,000 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 the management included 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 value of intangible assets are set out in Note 18 to the consolidated financial statements.	Our procedures in relation to assessment of the carrying value of intangible assets with impairment indicator included: • Discussing with the management and understanding the management's basis of estimation of saleable units; • Understanding the management process over the regular assessment of saleable units; • Assessing the accuracy of the 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

Impairment assessment on trade receivables and trade related amounts due from related companies ("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 2018, the carrying amounts of trade receivables and trade related amounts due from related companies of trade nature are RMB349,056,000 and RMB1,283,775,000, respectively, which represented approximately 4.9% and 17.9% of total assets of the Group. As explained in Note 2 to the consolidated financial statements, in the current year, the Group adopts HKFRS 9 *Financial Instruments* ("HKFRS 9") and recognised an additional impairment of nil and RMB14,818,000 for trade receivables and trade related amounts due from related companies, respectively as at 1 January 2018 in accordance with the transitional provisions of HKFRS 9.

As disclosed in Note 4 to the consolidated financial statements, the Group estimates the amount of lifetime ECL of trade receivables and trade related amounts due from related companies 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 trade related amounts due from related companies based on individual assessment is by reference to the internal 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 recognised an additional amount of RMB338,000 and RMB663,000 of impairment charged to profit or loss for trade receivables and trade related amounts due from related companies for the year ended 31 December 2018 and the Group's lifetime ECL on trade receivables and trade related amounts due from related companies as at 31 December 2018 amounted to RMB2,978,000 and RMB15,481,000, respectively.

How our audit addressed the key audit matter

Our procedures to address the impairment assessment on Trade-related-receivables included:

- Understanding key controls of the Group over the estimation of ECL of Trade-related-receivables;
- Testing the accuracy the ECL adjustment made by the Group as at 1 January 2018 on initial adoption of HKFRS 9;
- Testing the integrity of information used by management to develop the provision matrix and individual assessment, including Trade-related-receivables ageing analysis as at 1 January 2018 and 31 December 2018, on a sample basis, by comparing individual items in the analysis with the relevant sales orders, sales invoices and other supporting document;
- Assessing the accuracy of the management'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 the management;
- Assessing the reasonableness of Group's grouping of the trade debtors 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 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 AND THOSE CHARGED WITH GOVERNANCE 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.

Those charged with governance 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.

The engagement partner on the audit resulting in the independent auditor's report is Zhu Chen.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	NOTES	**2018** **RMB'000**	2017 RMB'000
Revenue	5	**3,050,522**	2,956,662
Cost of sales		**(2,716,248)**	(2,616,472)
Gross profit		**334,274**	340,190
Other income	6	**53,223**	61,556
Impairment losses, net	7	**(17,530)**	(1,084)
Other gains and losses	8	**(80,636)**	20,524
Selling and distribution expenses		**(46,969)**	(44,570)
Administrative expenses		**(139,093)**	(138,937)
Finance costs	9	**(73,972)**	(68,033)
Other expenses		**(18,247)**	(15,773)
Share of result of a joint venture	19	**(276)**	(304)
Profit before tax		**10,774**	153,569
Income tax expense	10	**(50)**	(25,476)
Profit for the year	11	**10,724**	128,093
Other comprehensive income:			
Item that may be reclassified subsequently to profit or loss:			
Fair value gain on:			
Receivables measured at fair value through other comprehensive income		**362**	–
Total comprehensive income for the year		**11,086**	128,093
Earnings per share – Basic (RMB)	14	**0.008**	0.100

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**2,581,151**	2,451,686
Prepaid lease payments	16	**130,408**	133,858
Investment properties	17	**–**	211,508
Intangible assets	18	**623,455**	590,478
Interest in a joint venture	19	**–**	49,469
Deferred tax assets	20	**19,198**	12,497
Loan to a shareholder	21	**13,097**	27,396
		3,367,309	3,476,892
CURRENT ASSETS			
Inventories	22	**839,508**	608,111
Prepaid lease payments	16	**3,378**	3,353
Trade and other receivables	23a	**562,687**	879,667
Receivables measured at fair value through other comprehensive income ("FVTOCI")	23b	**217,396**	–
Amounts due from related companies	24	**1,285,192**	1,464,286
Tax recoverable		**31,479**	–
Pledged/restricted bank deposits	25	**595,782**	282,867
Bank balances and cash	25	**223,950**	352,473
		3,759,372	3,590,757
Assets classified as held for sale	19	**49,193**	–
		3,808,565	3,590,757
CURRENT LIABILITIES			
Trade and other payables	26	**1,938,128**	1,812,592
Amounts due to related companies	27	**241,374**	348,797
Financial liabilities at fair value through profit or loss ("FVTPL")	28	**5,616**	15,270
Income tax payables		**–**	14,178
Borrowings due within one year	29	**682,828**	789,577
		2,867,946	2,980,414
NET CURRENT ASSETS		**940,619**	610,343
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,307,928**	4,087,235

Consolidated Statement of Financial Position (Cont'd)

At 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
NON-CURRENT LIABILITIES			
Borrowings due after one year	29	**1,267,808**	1,029,866
Deferred income	30	**54,417**	64,966
		1,322,225	1,094,832
NET ASSETS		**2,985,703**	2,992,403
CAPITAL AND RESERVES			
Share capital	31	**10,457**	10,457
Reserves		**2,975,246**	2,981,946
TOTAL EQUITY		**2,985,703**	2,992,403

The consolidated financial statements on pages 67 to 148 were approved and authorised for issue by the board of directors of the Company (the "Board") on 25 March 2019 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 2018

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Surplus reserves RMB'000 *(Note a)*	Deemed distribution to a shareholder RMB'000 *(Note b)*	Contribution from a shareholder RMB'000 *(Note c)*	FVTOCI reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2017	10,457	700,258	193,457	359,728	(11,285)	8,319	–	1,603,376	2,864,310
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	128,093	128,093
Transfer	–	–	–	23,259	–	–	–	(23,259)	–
At 31 December 2017	10,457	700,258	193,457	382,987	(11,285)	8,319	–	1,708,210	2,992,403
Adjustment *(Note 2.2)*	–	–	–	–	–	–	–	(17,786)	(17,786)
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**

Notes:

(a) Surplus reserves comprise statutory surplus reserve and discretionary surplus reserve of Mianyang Xinchen Engine Co., Limited*（綿陽新晨動力機械有限公司）("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 RMB262,187,000 as at 31 December 2018 (2017: RMB256,367,000), 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 RMB129,531,000 as at 31 December 2018 (2017: RMB126,620,000) can be used to expand the existing operations of Mianyang Xinchen.

(b) 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.

(c) 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.

* *English name for reference only.*

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**10,774**	153,569
Adjustments for:		
Interest expenses	**73,972**	68,033
Interest income	**(8,320)**	(8,990)
Depreciation and amortisation	**336,737**	212,733
Amortisation of government grants	**(10,549)**	(11,133)
Provision for warranty, net of reversal	**18,591**	17,462
(Reversal of) provision for inventories, net	**(1,064)**	7,520
Share of result of a joint venture	**276**	304
Impairment loss on trade receivables and amounts due from related companies	**1,001**	1,084
Unrealised exchange (gain) loss	**(4,157)**	2,299
Net (gain) loss arising on financial liabilities at FVTPL, unrealised	**(9,654)**	15,270
Imputed interest income from loan to a shareholder	**(830)**	(823)
Loss on disposal of property, plant and equipment	**6**	81
Impairment loss of loan to a shareholder	**16,529**	–
Operating cash flows before movements in working capital	**423,312**	457,409
Increase in inventories	**(230,333)**	(137,592)
Decrease (increase) in trade and other receivables	**313,674**	(175,493)
Increase in receivables measured at FVTOCI	**(217,396)**	–
Increase in trade and other payables	**177,457**	340,968
Decrease (increase) in amounts due from related companies	**163,739**	(192,952)
(Increase) decrease in amounts due to related companies	**(107,668)**	88,586
Cash generated from operations	**522,785**	380,926
Income tax paid	**(52,407)**	(20,392)
NET CASH FROM OPERATING ACTIVITIES	**470,378**	360,534
INVESTING ACTIVITIES		
Advance to related companies	**(127)**	–
Repayment from related companies	**1**	37
Interest received	**8,320**	8,990
Purchase of property, plant and equipment	**(231,808)**	(542,964)
Purchase of land use right	**–**	(45,907)
Proceeds for disposal of property, plant and equipment	**1**	112
Receipt of government grants of assets related	**–**	37,313
Development costs paid	**(102,670)**	(150,603)
Withdrawal of pledged bank deposits	**1,030,461**	1,155,751
Placement of pledged bank deposits	**(1,343,376)**	(1,111,507)
NET CASH USED IN INVESTING ACTIVITIES	**(639,198)**	(648,778)

Consolidated Statement of Cash Flows (Cont'd)

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
FINANCING ACTIVITIES		
Interest paid	**(91,141)**	(91,350)
New borrowings raised	**1,211,170**	1,395,086
Repayment of borrowings	**(1,079,977)**	(967,798)
Advance from related companies	**282**	–
Repayment to related companies	**(37)**	(1,235)
NET CASH FROM FINANCING ACTIVITIES	**40,297**	334,703
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(128,523)**	46,459
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**352,473**	306,014
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**223,950**	352,473

1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (2010 Revision) of the Cayman Islands on 10 March 2011. Brilliance China Automotive Holdings Limited ("Brilliance China", Brilliance China and its subsidiaries collectively referred to as "Brilliance China Group"), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and Sichuan Province Yibin Wuliangye Group Co., Ltd.*（四川省宜賓五糧液集團有限公司）("Wuliangye", Wuliangye and its subsidiaries collectively referred to as "Wuliangye Group"), a state owned enterprise registered in the 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 Company and its subsidiaries are set out in Note 42.

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

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

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

Except as described below, the application of the above amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or the disclosures set out in these consolidated financial statements.

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

2.1 HKFRS 15 *Revenue from Contracts with Customers*

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, i.e. 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources:

- Revenue from gasoline engines;
- Revenue from diesel engines; and
- Revenue from engine components.

For the sales of gasoline engines, diesel engines and engine components, revenue was recognised at the point when a customer obtains control of the goods (i.e. being the point the goods have been delivered to and received by the customers) which is consistent with its previous treatment.

The Group assessed the impact of applying HKFRS 15 and considered that there is no material impact to these consolidated financial statements.

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

2.2 HKFRS 9 *Financial Instruments and the related amendments*

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) ECL for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of HKFRS 9 are disclosed in Note 3.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, i.e. 1 January 2018. Line items that were not affected by the changes have not been included.

	Notes	**Trade and other receivables** RMB'000	**Amounts due from related companies** RMB'000	**Retained profits** RMB'000	**Receivables measured at FVTOCI** RMB'000
Closing balance at 31 December 2017 (measured under HKAS 39)		879,667	1,464,286	–	–
Effect arising from initial application of HKFRS 9					
Reclassification from:					
Trade and other receivables		(138,034)	–	–	138,034
Remeasurement:					
From amortised cost to fair value	(a)	(2,968)	–	(2,968)	–
Impairment under ECL model	(b)	–	(14,818)	(14,818)	–
Opening balance at 1 January 2018 (measured under HKFRS 9)		738,665	1,449,468	(17,786)	138,034

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

2.2 HKFRS 9 *Financial Instruments and the related amendments* (Cont'd)

Summary of effects arising from initial application of HKFRS 9 (Cont'd)

(a) From amortised cost to fair value

As part of the Group's cash flow management, the Group has the practice of discounting/endorsing some of the bills receivable to financial institutions/suppliers before the bills are due for payment and derecognises these bills on the basis that the Group has transferred substantially all risks and rewards to the relevant counterparties. Accordingly, certain of the Group's bills receivables were considered as within the business model of "held to collect contractual cash flows and to sell", and reclassified to receivables measured at FVTOCI. The related fair value losses were adjusted to receivables measured at FVTOCI and retained profits as at 1 January 2018.

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables, receivables at FVTOCI and trade related amounts due from related companies. To measure the ECL, these receivables have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise of other receivables, loan to a shareholder, non-trade related amounts due from related companies, pledged/restricted bank deposits, bank balances and cash are measured on 12-month ECL ("12m ECL") basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of RMB14,818,000 has been recognised against retained profits. The additional loss allowance is charged against the respective asset.

All loss allowances on financial assets including trade receivables and trade related amounts due from related companies as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

	Trade receivables	**Amounts due from related companies**
	RMB'000	RMB'000
At 31 December 2017 – HKAS 39	2,640	–
Amounts remeasured through opening retained profits	–	14,818
At 1 January 2018 – HKFRS 9	2,640	14,818

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

The Group has not early applied the following new, amendments to HKFRSs and new interpretation that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or after 1 January 2021.
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.
5 Effective for annual periods beginning on or after 1 January 2020.

Except for the new HKFRS mentioned below, the directors of the Company anticipate that the application of all other new, amendments to HKFRSs and new interpretation will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 *Leases*

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant assets should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

HKFRS 16 *Leases* (Cont'd)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents the upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments as operating cash flows. Upon application of the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group. Upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature as appropriate.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB24,680,000 as disclosed in Note 35. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group would elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as lease applying HKAS 17 and HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease* and not applying this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) – Int 4. Therefore the Group would not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group would elect the modified retrospective approach for the application of HKFRS 16 as lessee and would recognise the cumulative effect of initial application to opening retained profits, if any, without restating comparative information.

Amendments to HKAS 1 and HKAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all HKFRs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the CO.

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, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by 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.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Interest in a joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of a joint venture are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The financial statements of a joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. Changes in net assets of joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its joint venture, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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.

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2) (Cont'd)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Where a customer does not have the option to purchase a warranty separately, the Group accounts for the warranty in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications (i.e. service-type warranties).

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; and
- the amount of revenue can be measured reliably.

3. **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

Revenue recognition (prior to 1 January 2018) (Cont'd)

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leases

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 lessor

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.

The Group as 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)

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.

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.

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.

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.

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. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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/loss 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 and a joint venture, 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.

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. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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) 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.

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.

Prepaid lease payments

Payments for obtaining land use rights are accounted for as prepaid lease payments and are charged to profit or loss on a straight-line basis over the lease terms as stated in the relevant land use rights certificates granted for usage by the Group in the PRC. Prepaid lease payments which are to be charged to profit or loss in the next twelve months are classified as current assets.

Investment properties

Investment properties are properties held to earn rentals and/or capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of tangible and intangible assets (Cont'd)

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.

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.

Provision for warranty claims

Provision for warranty claims 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. Provisions for warranty claims are 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 claims 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).

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or finance liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or finance liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2) (Cont'd)

(ii) Receivables classified as at FVTOCI

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.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including loan to a shareholder, trade and other receivables, receivables measured at FVTOCI, amounts due from related companies, pledged/restricted bank deposits, bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition. Assessment are done based on the Group's historical credit loss experience, 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.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group's historical credit loss experience, 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.

The Group always recognises lifetime ECL for receivables in trade receivables and trade related amounts due from related companies without significant financing component. The ECL on these financial assets are assessed collectively using a matrix for trade receivables and bills receivables measured at FVTOCI, and assessed individually for trade related amounts due from related companies and loan to a shareholder with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m 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 increases in the likelihood or risk of a default occurring since initial recognition.

3. **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2) (Cont'd)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as 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.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

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.

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2) (Cont'd)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of Trade-related receivables, when the amounts are over three years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2) (Cont'd)

(v) Measurement and recognition of ECL (Cont'd)

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available for trade receivables and receivables measured at FVTOCI, the financial instruments are grouped on the analysis of that by basis of past due status of aging. In addition, trade related amounts due from related companies and loan to a shareholder are assessed for ECL individually.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, trade related amounts due from related companies and loan to a shareholder where the corresponding adjustment is recognised through a loss allowance account. For receivables measured at FVTOCI, the loss allowance is recongised in OCI and accumulated in FVTOCI reserve without reducing the carrying amount of these receivables.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

The Group's financial assets comprise loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related companies, loan to a shareholder, pledged/restricted bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Interest is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period ranging from 30 to 90 days, observable change in local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade related receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a Trade-related-receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity instruments

Classification of financial liabilities or equity instruments

Financial liabilities and equity instruments are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which HKFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss on the financial liabilities is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 28.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity instruments (Cont'd)

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, amounts due to related companies and borrowings are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the 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. KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

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.

At 31 December 2018, the carrying amount of intangible assets was RMB623,455,000 (2017: RMB590,478,000).

During the year ended 31 December 2018, the management revisited the expected saleable units of respective intangible assets and adjusted the total estimated saleable units based on the market condition and circumstances, an addition in amortisation expenses of intangible assets amounting to RMB33,939,000 (2017: a net reduction in amortisation expenses of RMB4,815,000) is recognised in the profit or loss during the year.

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

The Group estimates the amount of lifetime ECL of trade receivables and trade related amounts due from related companies 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 trade related amounts due from related companies based on individual assessment is by reference to the internal 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 2018, the carrying amounts of trade receivable and trade related amounts due from related companies are set out in Notes 23 and 24 respectively.

During the year ended 31 December 2018, impairment loss of RMB338,000 and RMB663,000 are recognised on trade receivables and trade related amounts due from related companies, respectively.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

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 15.

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. The 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.

Provision for warranty claims

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 claims 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 operation and main revenue streams are those described as below. The Group's revenue is derived from contracts of customers. The nature and effect of initially applying HKFRS 15 on the Group's consolidated financial statements are disclosed in Note 2. 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.

Segment revenue and segment results

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

(1) Gasoline engines;

(2) Diesel engines; and

(3) Engine components.

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

For the year ended 31 December 2018

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

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

Segment revenue and segment results (Cont'd)

For the year ended 31 December 2017

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

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

Other segment information included in the measurement of segment results:

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

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

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

Performance obligations for contracts with customers

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

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

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

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

Segment assets and liabilities

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

Geographical information

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

Information about major customers

Revenue from major customers which individually accounts for 10% or more of the Group's total revenue are sales of gasoline engines, diesel engines, engine components to the related parties as disclosed in Note 38.

6. OTHER INCOME

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

7. IMPAIRMENT LOSSES, NET

	2018 RMB'000	2017 RMB'000
Impairment losses recognised on:		
– loan to a shareholder *(Note 21)*	**16,529**	–
– trade and other receivables *(Note 23)*	**338**	1,084
– amounts due from related companies *(Note 24)*	**663**	–
	17,530	1,084

8. OTHER GAINS AND LOSSES

	2018 RMB'000	2017 RMB'000
Net gain (loss) arising on financial liabilities at FVTPL, unrealised *(Note 28)*	**9,654**	(15,270)
Foreign exchange losses (gains), net	**(51,842)**	35,875
Gain on disposal of miscellaneous materials	**1,859**	–
Net loss arising on receivables measured at FVTOCI	**(40,514)**	–
Loss on disposal of property, plant and equipment	**(6)**	(81)
Others	**213**	–
	(80,636)	20,524

9. FINANCE COSTS

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

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

10. INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000
PRC Enterprise Income Tax ("EIT")		
– provision for the year	**8,739**	29,432
– (over) under provision in prior year	**(1,988)**	362
	6,751	29,794
Deferred tax *(Note 20)*	**(6,701)**	(4,318)
	50	25,476

According to the announcement of "The State Administration of Taxation on issues concerning EIT related with enhancing the Western Region Development Strategy"(國家稅務總局關於深入實施西部大開發戰略有關稅收政策問題的通知), Mianyang Xinchen 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 law 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 RMB202,150,000(2017: RMB197,340,000) 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:

	2018 RMB'000	2017 RMB'000
Profit before tax	**10,774**	153,569
Tax at the PRC tax rate of 15% (2017: 15%)	**1,616**	23,035
Tax effect of expenses not deductible for tax purpose	**9,356**	4,136
Effect of different tax rate on a group entity operate in the PRC	**532**	4,245
Tax effect of income not taxable for tax purpose	**(2,563)**	(572)
(Over) under provision in prior year	**(1,988)**	362
Tax incentives on eligible expenditures *(Note)*	**(6,903)**	(5,730)
Income tax expense	**50**	25,476

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):

	2018	2017
	RMB'000	RMB'000
Directors' remuneration *(Note 12)*	**6,834**	6,952
Other staff costs	**164,830**	164,633
Contributions to retirement benefits scheme other than directors	**38,613**	35,445
Total staff costs	**210,277**	207,030
Depreciation of property, plant and equipment *(Note 15)*	**256,051**	160,180
Depreciation of investment properties *(Note 17)*	**1,215**	7,291
Amortisation of prepaid lease payments *(Note 16)*	**3,425**	2,605
Amortisation of intangible assets (included in cost of sales) *(Note 18)*	**76,046**	42,657
Total depreciation and amortisation	**336,737**	212,733
Auditors' remuneration	**1,402**	1,396
Research and development costs recognised as other expenses	**14,769**	15,167
Included in cost of sales:		
Cost of inventories recognised as expense	**2,640,204**	2,581,120
(Reversal of) provision of inventories, net *(Note 22)*	**(1,064)**	7,520
Warranty claims expenses *(Note 26)*	**18,591**	17,462

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

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:

	2018 **RMB'000**	2017 RMB'000
Fees	**508**	520
Salaries and allowances	**5,971**	6,068
Discretionary bonus	**340**	348
Contributions to retirement benefits scheme	**15**	16
	6,834	6,952

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

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**

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

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

Year ended 31 December 2017

	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	–	3,371	–	16	3,387
Wang Yunxian 王運先*	–	2,697	–	–	2,697
Non-executive directors					
Liu Tongfu 劉同富	–	–	–	–	–
Yang Ming 楊明	–	–	–	–	–
Independent non-executive directors					
Chi Guohua 池國華	130	–	87	–	217
Wang Jun 王雋	130	–	87	–	217
Huang Haibo 黃海波	130	–	87	–	217
Wang Songlin 王松林	130	–	87	–	217
	520	6,068	348	16	6,952

* *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.

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

Employees' remunerations

Of the five highest paid individuals of the Group, two (2017: two) are directors of the Company whose emoluments are disclosed above during the year ended 31 December 2018. The remunerations of the remaining three (2017: three) individuals are as follows:

	2018	2017
	RMB'000	RMB'000
Salaries and allowances	**3,668**	3,610
Discretionary bonus	**491**	–
Contributions to retirement benefits scheme	**30**	–
	4,189	3,610

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	
	2018	2017
Hong Kong Dollars ("HK$")		
1,000,001 to HK$1,500,000	**1**	2
HK$1,500,001 to HK$2,000,000	**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**	–
HK$4,000,001 to HK$4,500,000	**–**	1

During the years ended 31 December 2018 and 2017, 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.

13. DIVIDENDS

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

14. EARNINGS PER SHARE

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

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

15. 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 2017	384,055	1,550,897	94,227	14,939	502,190	2,546,308
Additions	–	789	318	–	628,059	629,166
Transfer	75,259	321,556	28,333	2,422	(427,570)	–
Transfer to construction in progress*	–	(90,039)	(13,569)	–	72,457	(31,151)
Disposals	–	–	(438)	–	–	(438)
At 31 December 2017	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	219,657	432,352	45,049	11,777	(708,835)	–
Transfer from investment properties *(Note 17)*	247,317	–	–	–	–	247,317
Transfer to construction in progress**	–	(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**
DEPRECIATION						
At 1 January 2017	84,245	432,384	39,816	6,970	–	563,415
Provided for the year	18,018	129,224	11,055	1,883	–	160,180
Transfer to construction in progress*	–	(24,071)	(7,080)	–	–	(31,151)
Eliminated on disposals	–	–	(245)	–	–	(245)
At 31 December 2017	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 17)*	37,024	–	–	–	–	37,024
Transfer to construction in progress**	–	(8,186)	–	–	–	(8,186)
Eliminated on disposals	–	–	(56)	–	–	(56)
At 31 December 2018	**171,664**	**726,595**	**69,179**	**9,594**	**–**	**977,032**
CARRYING VALUES						
At 31 December 2018	**755,366**	**1,439,525**	**87,348**	**19,544**	**279,368**	**2,581,151**
At 31 December 2017	357,051	1,245,666	65,325	8,508	775,136	2,451,686

* *In January 2017, 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 2018.*

** *In December 2018, the Group commenced a project to upgrade certain plant and machineries in coping with production of new crankshaft.*

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

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 amount of the buildings amounting to RMB117,719,000 as at 31 December 2018 (2017: RMB167,212,000), 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.

	2018 **RMB'000**	2017 RMB'000
Buildings	**3,564**	3,564
Plant and machinery	**12,927**	60,678
	16,491	64,242

16. PREPAID LEASE PAYMENTS

	RMB'000
CARRYING VALUES	
At 1 January 2017	93,909
Additions	45,907
Released to profit or loss	(2,605)
At 31 December 2017	137,211
Released to profit or loss	(3,425)
At 31 December 2018	**133,786**

16. PREPAID LEASE PAYMENTS (Cont'd)

	2018	2017
	RMB'000	RMB'000
Analysed for reporting purpose:		
Current assets	**3,378**	3,353
Non-current assets	**130,408**	133,858
	133,786	137,211

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.

The Group has pledged land use rights with carrying value of RMB53,000,000 as at 31 December 2018 (2017: RMB54,429,000), to secure general banking facilities granted to the Group.

17. INVESTMENT PROPERTIES

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives of 30 – 50 years using the straight-line method.

	RMB'000
COST	
At 1 January 2017 and 31 December 2017	247,317
Transfer to property, plant and equipment *(Note 15)*	(247,317)
At 31 December 2018	–
DEPRECIATION	
At 1 January 2017	28,518
Provided for the year	7,291
At 31 December 2017	35,809
Provided for the year	1,215
Transfer to property, plant and equipment *(Note 15)*	(37,024)
At 31 December 2018	–
CARRYING VALUES	
At 31 December 2018	–
At 31 December 2017	211,508

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.

18. INTANGIBLE ASSETS

	Completed development costs RMB'000	Development costs in progress RMB'000	Total RMB'000
COST			
At 1 January 2017	222,027	344,602	566,629
Additions	–	161,217	161,217
Transfer	137,163	(137,163)	–
At 31 December 2017	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**
AMORTISATION			
At 1 January 2017	94,711	–	94,711
Charge for the year	42,657	–	42,657
At 31 December 2017	137,368	–	137,368
Charge for the year *(Note)*	76,046	–	76,046
At 31 December 2018	**213,414**	**–**	**213,414**
CARRYING VALUES			
At 31 December 2018	**312,059**	**311,396**	**623,455**
At 31 December 2017	221,822	368,656	590,478

Note: During the year ended 31 December 2018, the management revisited the expected saleable units of each intangible asset and estimated the recoverable amount respectively, an additional amortisation expense of intangible assets amounting to RMB33,939,000 (2017: a net reduction in amortisation expenses of RMB4,815,000) is recognised in profit or loss.

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. INTEREST IN A JOINT VENTURE/ASSETS CLASSIFIED AS HELD FOR SALE

Details of the Group's investment in joint ventures are as follows:

	2018 RMB'000	2017 RMB'000
Cost of unlisted investment in a joint venture	**50,000**	50,000
Share of result and other comprehensive income	**(807)**	(531)
	49,193	49,469
Less: assets classified as held for sale	**(49,193)**	–
	–	49,469

Pursuant to a joint venture agreement entered into between Mianyang Xinchen and Dongfeng Automobile Co., Ltd.*（東風汽車股份有限公司）("Dongfeng") in December 2011, Changzhou Dongfeng Xinchen Engine Co., Ltd.*（常州東風新晨動力機械有限公司）("Dongfeng JV") was established on 9 January 2012 with registered capital of RMB250 million, which is owned as to 50% by Mianyang Xinchen and 50% by Dongfeng. The purpose of establishing Dongfeng JV was to construct an engine production facility with a planned production capacity of 200,000 units per annum to manufacture the joint venture branded engines for Dongfeng's light-duty vehicles.

The activities which will significantly affect the variable returns of Dongfeng JV shall be decided unanimously by two investors and thus Dongfeng JV is classified as the joint venture of the Group.

The joint ventures are accounted for using the equity method in this consolidated financial statements immediately prior to the investment classified as held for sale.

During the year ended 31 December 2018, the directors resolved to dispose of Dongfeng JV and commenced negotiation with an interested party. The interest in a joint venture, which is expected to be sold within twelve months, has been classified as an asset held for sale and is presented separately in the consolidated statement of financial position (see below). The net proceeds of disposal are expected to exceed the net carrying amount of the relevant assets immediately before the interest in a joint venture classified as held for sale and accordingly, no impairment loss has been recognised.

Summarised financial information in respect of the joint venture, representing amounts shown in Dongfeng JV's financial statements prepared in conformity with HKFRSs is as below:

	2018 RMB'000	2017 RMB'000
Revenue	**–**	240
Loss for the year prior to classified as held for sale	**(552)**	(608)
Proportion of the Group's ownership	**50%**	50%
	(276)	(304)

* *English name for reference only.*

19. INTEREST IN A JOINT VENTURE/ASSETS CLASSIFIED AS HELD FOR SALE (Cont'd)

	2017 RMB'000
Current assets	53,128
– cash and cash equivalent	51,454
Non-current assets	69,622
Current liabilities	(197)
Non-current liabilities	(23,615)
Net assets	98,938
Proportion of the Group's ownership	50%
	49,469

Reconciliation of the above summarised financial information to the carrying amount of the interest in Dongfeng JV recognised in the consolidated financial statements prior to classified as held for sale is as below:

	2018 **RMB'000**	2017 RMB'000
Net assets of Dongfeng JV	**98,386**	98,938
Proportion of the Group's ownership interest in Dongfeng JV	**50%**	50%
Carrying amount of the Group's interest in Dongfeng JV	**49,193**	49,469
Less: assets classified as held for sale	**(49,193)**	–
	–	49,469

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	**Provision on Inventories**	**Deferred income**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	3,627	918	3,634	8,179
Credit (charge) to profit or loss	4,243	1,128	(1,053)	4,318
At 31 December 2017	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**

At 31 December 2018 and 2017, the Group had no other material unrecognised deductible temporary differences.

21. LOAN TO A SHAREHOLDER

As detailed in Note 40, 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 40). 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 2019 in 2018.

At 31 December 2018, the 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. The management of the Company conducted the 12m 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 as disclosed in Note 2. The details of assessment on ECL are set out in Note 33.

22. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw material	**523,465**	346,680
Work-in-progress	**40,005**	17,515
Finished goods	**276,038**	243,916
	839,508	608,111

At 31 December 2018, the carrying amount of inventories included provision of RMB12,581,000 (2017: RMB13,645,000), which is determined with reference to the net realisable value of the inventory items. Additional provision of RMB1,768,000 (2017: RMB9,685,000) and a reversal of RMB2,832,000 (2017: RMB2,165,000) upon realisation of sales was made during the year ended 31 December 2018.

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

a. Trade and other receivables:

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

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

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

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

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

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

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

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

Starting from 1 January 2018, the Group applied simplified approach to provide the expected credit losses prescribed by HKFRS 9. The impairment methodology is set out in Note 2.

As part of the Group's credit management, the Group uses the debtor's ageing to assess the impairment of its customers because these customers consist of a large number of customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. 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 2018:

	Gross carrying amount	**Loss rate range**	**ECL (not credit-impaired)**
	RMB'000	(%)	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

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:

	2018 **Not credit-impaired** **RMB'000**
At beginning of year *(Note 2.2(b))*	**2,640**
Expected credit losses recognised	**338**
At end of year	**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 receivables not past due or not impaired at the end of each reporting period are of good credit quality.

At 31 December 2017, included in the Group's trade receivables balances are debtors with aggregate carrying amount of approximately RMB79,542,000, which are past due as at the reporting date. Considering the high credibility of these customers, good track record with the Group and subsequent settlement, the management believes that no impairment allowance is necessary in respect of the remaining unsettled balances.

The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired:

	31.12.2017 RMB'000
Within 1 month	8,179
Over 1 month but within 2 months	35,576
Over 2 months but within 3 months	21,251
Over 3 months but within 6 months	9,907
Over 6 months but within 1 year	3,549
Over 1 year	1,080
	79,542

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 allowance for doubtful debts:

	2017 RMB'000
At beginning of year	1,556
Addition	1,440
Reversal	(356)
At end of year	2,640

At 31 December 2017, all the Group's bills receivable are neither past due nor impaired and no provision for loss allowance provided for the balances as information indicates that the counterparties are highly likely to repay.

b. Receivables measured at fair value though other comprehensive income

	2018 RMB'000
Receivables measured at FVTOCI from third parties	150,150
Receivables measured at FVTOCI from related companies	67,246
	217,396

Starting from 1 January 2018, 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". The impact arising from initial application of HKFRS 9 is set out in Note 2.2. At 31 December 2018, all the bills are with a maturity period of less than one year. The Group considers the credit risk is limited because counterparties are banks with good credit standing and are highly likely to be paid, and the expected credit loss are considered as insignificant.

24. AMOUNTS DUE FROM RELATED COMPANIES

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

Notes:

a. The balance is unsecured, interest free and repayable on demand. The maximum amount outstanding as at 31 December 2018 amounted to RMB1,417,000 (2017: RMB1,328,000).

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

Notes: (Cont'd)

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

	2018 RMB'000	2017 RMB'000
Huachen Group#		
Mianyang Huarui Automotive Company Limited* ("Mianyang Huarui") 綿陽華瑞汽車有限公司	**130,819**	34,015
Shenyang Brilliance Power Train Machinery Co., Ltd.* ("Shenyang Brilliance") 瀋陽華晨動力機械有限公司	**439,575**	726,477
Mianyang Huaxiang Machinery Manufacturing Co., Ltd.* 綿陽華祥機械製造有限公司	**107,214**	106,130
Huachen Automotive Group Holdings Company Limited* ("Huachen Automotive") 華晨汽車集團控股有限公司	**19,738**	22,653
	697,346	889,275
Brilliance China Group		
Shenyang XingYuanDong Automobile Component Co., Ltd.* 瀋陽興遠東汽車零部件有限公司	**153,029**	288,637
Renault Brilliance JinBei Automobile Co., Ltd.* 華晨雷諾金杯汽車有限公司	**27,433**	98,348
Shenyang Jinbei Vehicle Manufacturing Co., Ltd* 瀋陽金杯車輛製造有限公司	**4,853**	5,795
Shenyang ChenFa Automobile Component Co., Ltd.* ("Shenyang ChenFa") 瀋陽晨發汽車零部件有限公司	**263,335**	955
BMW Brilliance Automotive Ltd. ("BMW Brilliance Automotive") 華晨寶馬汽車有限公司	**137,779**	179,985
	586,429	573,720
	1,283,775	1,462,995

* *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.*

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

Analysed as:

	2018 RMB'000	2017 RMB'000
Trade receivables	**1,283,587**	1,403,932
Bills receivable	**–**	58,800
Prepayment	**188**	263
	1,283,775	1,462,995

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:

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

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

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

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

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

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

To measure the ECL of amounts due from related companies, the balances are regarded as not credit-impaired and have been assessed based on individual assessment. As at 1 January 2018, the impairment loss allowance on the amounts due from related companies of RMB14,818,000 (Note 2) has been recognised against retained profits. As part of the Group's credit risk management, the Group applied internal credit rating for its customers and applying the expected loss rate ranging from 0.3% to 4.1% over the gross carrying amounts. As at 31 December 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.

Movement in the expected credit loss:

	2018 **Not credit-impaired** **RMB'000**
At beginning of year *(Note 2.2(b))*	**14,818**
Expected credit losses recognised	**663**
At end of year	**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 2018	**0.01% – 0.35%** **per annum**	**1.69% – 1.95%** **per annum**
At 31 December 2017	0.01% – 0.35% per annum	1.50% – 1.65% per annum

An amount of RMB552,323,000 (2017: RMB207,578,000) 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 RMB43,459,000 (2017: RMB75,289,000) represents restricted bank deposits for issuance of letters of credit with maturity of 3 to 6 months.

25. PLEDGED/RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH (Cont'd)

Balances denominated in foreign currencies:

	2018 RMB'000	2017 RMB'000
HK$	**29,989**	48,913
United States Dollars ("US$")	**2,295**	13,720
European Dollars ("Euro")	**50**	300

Other than bank balances shown above, all other remaining bank balances are denominated in RMB.

26. TRADE AND OTHER PAYABLES

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

Notes:

a. As at 31 December 2018 and 1 January 2018, the balances amounting to RMB5,834,000 and RMB5,767,000, respectively, represented the contract liabilities, i.e. the Group's obligation to transfer goods or services to customers for which the Group has received consideration from the customers. During the year ended 31 December 2018, the contract liabilities balance at the beginning of the year were fully recognised as revenue from sales 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 period of trade payables and bills payable is normally within 3 months and 3 to 6 months, respectively. The following is an aging analysis of trade payables presented based on the invoice date at the end of the reporting period:

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

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

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

The movement of warranty provision are as follows:

	2018 **RMB'000**	2017 RMB'000
At beginning of year	**4,006**	4,006
Charged to profit or loss	**18,591**	17,462
Utilised for the year	**(18,591)**	(17,462)
At end of year	**4,006**	4,006

27. AMOUNTS DUE TO RELATED COMPANIES

Details of amounts due to related companies are as follows:

	2018 RMB'000	2017 RMB'000
Trade related:		
Huachen Group		
Mianyang Huarui	**2**	2
Huachen Automotive	**1,105**	873
Shenyang Brilliance	**157**	27,536
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	**38,682**	43,774
Shenyang ChenFa	**3,306**	3,122
BMW Brilliance Automotive	**2,663**	136,296
Shenyang Jinbei Vehicle Dies Manufacturing Co., Ltd.* 瀋陽金杯汽車模具製造有限公司	**109**	81
Wuliangye Group		
Mianyang Xinhua Internal Combustion Engine Joint Stock Company Limited* ("Xinhua Combustion Engine") 綿陽新華內燃機股份有限公司	**175,774**	116,766
Sichuan Yi Bin Pushi Automotive Components Co., Ltd.* 四川省宜賓普什汽車零部件有限公司	**16,903**	16,691
Mianyang Xin Xinmao Trading Co., Ltd.* 綿陽新鑫茂商貿有限公司	**1,162**	2,384
Mianyang Xinhua Trading Co., Ltd.* 綿陽新華商貿有限公司	**–**	6
	239,863	347,531
Non-trade related:		
Huachen Group		
Huachen Automotive	**341**	341
Brilliance China Group		
Brilliance China	**1,142**	860
Wuliangye Group		
Xinhua Combustion Engine	**28**	65
	1,511	1,266
	241,374	348,797

* *English name for reference only.*

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

The trade related amounts are analysed as:

	2018 RMB'000	2017 RMB'000
Trade payables	**107,744**	270,616
Bills payable	**132,119**	76,915
	239,863	347,531

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:

	2018 RMB'000	2017 RMB'000
Within 3 months	**51,743**	219,866
Over 3 months but within 6 months	**25,913**	28,661
Over 6 months but within 1 year	**26,868**	8,851
Over 1 year	**3,220**	13,238
	107,744	270,616

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

	2018 RMB'000	2017 RMB'000
Within 3 months	**23,519**	71,975
Over 3 months but within 6 months	**75,600**	4,940
Over 6 months but within 1 year	**33,000**	–
	132,119	76,915

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. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
	RMB'000	RMB'000
Foreign currency forward contract (Note)	**5,616**	15,270

Note:

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.

29. BORROWINGS

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

29. BORROWINGS (Cont'd)

Notes:

a At 31 December 2018 and 2017, the balances were secured by property, plant and equipment and prepaid lease payments as set out in Notes 15 and 16.

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

In 2018, other than borrowings which are denominated in US$, i.e. US$130,800,000, equivalent to approximately RMB897,707,000 (2017: US$102,051,000, equivalent to approximately RMB691,443,000) and denominated in Euro, i.e. Euro2,455,000, equivalent to approximately RMB19,388,000 (2017: nil), the remaining loans are all denominated in RMB.

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

	2018	2017
	% per annum	% per annum
Fixed-rate borrowings – RMB	**1.200% to 5.880%**	1.200% to 5.880%
Fixed-rate borrowings – Euro	**2.500%**	N/A
Variable-rate borrowings – RMB	Benchmark rate[#]	Benchmark rate[#]
	x 100%	x 100%
Variable-rate borrowings – US$	LIBOR[##]+2.600%	LIBOR[##]+2.603%

\# *People's Bank of China one-year RMB Lending Rate*

\## *London Inter-Bank Offer Rate*

30. DEFERRED INCOME

	2018 RMB'000	2017 RMB'000
Amounts recognised in profit or loss during the year:		
Subsidies related to incurred costs (Note a)	**24,678**	19,036
Subsidies related to property, plant and equipment (Note b)	**10,549**	11,133
	35,227	30,169

The movement of deferred income is as follows:

	2018 RMB'000	2017 RMB'000
At beginning of year	**64,966**	38,786
Receipt of subsidies related to property, plant and equipment	**–**	37,313
Amount credited to profit or loss during the year	**(10,549)**	(11,133)
At end of year	**54,417**	64,966

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.

31. SHARE CAPITAL

Details of movement of the share capital of the Company are as follows:

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

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

32. 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.

The management of the Group reviews the capital structure periodically. As part of this review, the management considers the cost of capital and the risks associated with the capital. Based on recommendations of the 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.

33. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 RMB'000	2017 RMB'000
Financial assets		
At amortised cost*	**2,514,888**	–
Loans and receivables (including cash and cash equivalents)*	**–**	2,823,274
Receivables measured at FVTOCI	**217,396**	–
Financial liabilities		
At amortised cost**	**3,758,054**	3,500,656
Designated as at FVTPL	**5,616**	15,270

* *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*

(b) 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 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.

33. FINANCIAL INSTRUMENTS (Cont'd)

(b) 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:

	2018 RMB'000	2017 RMB'000
US$		
– Cash and cash equivalents	**2,295**	13,720
– Borrowings	**(897,707)**	(691,443)
	(895,412)	(677,723)
HK$		
Cash and cash equivalents	**29,989**	48,913

Sensitivity analysis

The following table details the Group's sensitivity to a 10% (2017: 5%) increase and decrease in RMB, the functional currency of the respective group entities operating in the PRC, against US$ and HK$. 10% is the sensitivity rate used which represents management's assessment of the possible changes in foreign currency rates. As a result of the volatile financial market in 2018, the management adjusted the sensitivity rate from 5% to 10% for the purpose of assessing foreign currency risk. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for 10% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in profit for the year where RMB strengthens 10% against US$ and HK$. For a 10% weakening of RMB against US$ and HK$, there would be an equal but opposite impact on the profit for the year.

	2018 RMB'000	2017 RMB'000
Profit for the year		
US$	**76,110**	28,803
HK$	**(2,549)**	(2,079)

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.

33. FINANCIAL INSTRUMENTS (Cont'd)

(b) 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 2018, the interest income amounting to RMB8,320,000 and RMB2,854,000 (2017: RMB8,990,000 and nil) 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 2018 would have decreased/increased by approximately RMB4,353,000 (2017: RMB3,491,000).

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 2018 would have increased/decreased by approximately RMB697,000 (2017: RMB540,000).

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.

Other price risk

The Group is exposed to other price risk through its investments in foreign currency forward contracts classified as financial liabilities designated as at FVTPL. The foreign currency forward contracts change with the exchange rate and no sensitivity analysis on such risk has been prepared.

33. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies (Cont'd)

Credit risk

Under HKAS 39 and HKFRS 9

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 37.

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 (2017: incurred loss model) on trade balances individually or based on provision matrix, as appropriate.

As at 31 December 2018, the Group has concentration of credit risk, 26% and 72% (2017: 39% and 76%) 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 2018 and 2017.

Under HKAS 39

In order to minimise the credit risk on Trade-related-receivables, other receivables, loan to a shareholder and non-trade related amounts due from related companies, management makes periodic individual assessment under incurred loss model on the recoverability of these debts based on historical settlement records and past experiences. The management of the Group considers that there is no material credit risk inherent in the Group's outstanding balances of other receivables. In addition, the credit risk on non-trade related amounts due from related companies is reduced as the Group can closely monitor the repayment of the related party. Other than concentration of credit risk on the Trade-related-receivables, pledged/restricted bank deposits and bank balances, the Group has no other significant concentration on recognised financial assets with exposure spread over a number of counterparties.

33. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies (Cont'd)

Credit risk (Cont'd)

Under HKFRS 9

Starting from 1 January 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.

From 1 January 2018, 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.

Other than collective assessment of ECL (i.e. provision matrix) on trade receivables, the Group applies individual assessment of ECL on trade related amounts due from related companies, bills receivable 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 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 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 12m 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 at the initial of application, i.e. 1 January 2018 or during the year ended 31 December 2018.

33. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies (Cont'd)

Credit risk (Cont'd)

Under HKFRS 9 (Cont'd)

For loan to a shareholder, the Group made periodic individual assessment on the recoverability. No loss allowance was provided at initial application of HKFRS 9 (i.e. 1 January 2018) as the expected loss was considered insignificant whereas a loss allowance was recognised during the year ended 31 December 2018 (Note 21).

The management considered the credit risk on pledged/restricted bank deposits and bank balances were limited because the counterparties are banks with good credit standing. There had 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 was 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 the management to meet in full its financial obligations as they fall due for the foreseeable future. The 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 2018 and 2017. 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 the management considers that the contractual maturities are essential for an understanding of the timing of the cash flows of endorsed and discounted bills receivable.

33. FINANCIAL INSTRUMENTS (Cont'd)

(b) 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	3 – 6 months	6 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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	**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**
At 31 December 2017							
Non-interest bearing							
Trade and other payables	N/A	1,332,416	–	–	–	1,332,416	1,332,416
Amounts due to related companies	N/A	348,797	–	–	–	348,797	348,797
Outstanding endorsed and discounted bills receivable	N/A	482,257	498,607	–	–	980,864	–
Interest bearing							
Other borrowing	1.20	300	300	600	108,400	109,600	100,000
Borrowings							
– Fixed rate	4.35-5.22	308,839	306,273	7,830	431,805	1,054,747	898,000
– Variable rate	3.33-5.88	8,057	202,898	12,559	705,838	929,352	821,443
		2,480,666	1,008,078	20,989	1,246,043	4,755,776	3,500,656

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.

33. FINANCIAL INSTRUMENTS (Cont'd)

(c) 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 2018	2017	Fair value hierarchy	Valuation technique and key inputs
Receivables measured at FVTOCI in the consolidated statement of financial position	**RMB 217,396,000**	N/A	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**	RMB15,270,000	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 for the year.

34. 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. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows as cash flows from financing activities.

	Borrowings	**Amounts due to related companies**	**Total**
	RMB'000	RMB'000	RMB'000
At 1 January 2017	1,392,155	2,501	1,394,656
Financing cash flows	335,938	(1,235)	334,703
Finance cost recognised *(Note 9)*	91,350	–	91,350
At 31 December 2017	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

35. OPERATING LEASE

The Group as lessee

The minimum lease payment under operating lease in respect of office premises and production facilities amounted to RMB8,624,000 (2017: RMB8,444,000) for the year ended 31 December 2018.

At the end of the reporting period, the Group had commitments for future lease payments under non-cancellable operating leases which fall due as follows:

	2018	2017
	RMB'000	RMB'000
Within one year	**9,340**	7,795
Between the second and fifth year inclusive	**15,340**	–
	24,680	7,795

Operating lease payments represent rental payable by the Group for certain office premises and factory premises. Leases are negotiated for terms of 3 years with fixed rental provision included in the contracts.

35. OPERATING LEASE (Cont'd)

The Group as lessor

Rental income earned from investment properties amounted to RMB3,090,000 (2017: RMB21,574,000) for the year ended 31 December 2018.

At the end of the reporting period, the Group had contracted with tenant for the following future minimum lease payments:

	2018 **RMB'000**	2017 RMB'000
Within one year	**–**	4,687

Operating lease income represents rental receivables by the Group for the investment properties leased to BMW Brilliance Automotive in Shenyang, PRC.

36. CAPITAL COMMITMENTS

	2018 **RMB'000**	2017 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	**110,965**	186,299
Capital contribution in respect of investment in a joint venture – contracted for but not provided in the consolidated financial statements	**75,000**	75,000

37. 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:

	2018	2017
	RMB'000	RMB'000
Settlement of trade and other payables	**791,849**	665,732
Discounted bills for raising of cash	**634,039**	315,132
Outstanding endorsed and discounted bills receivable with recourse	**1,425,888**	980,864

Maturity analysis of the outstanding endorsed and discounted bills receivable:

	2018	2017
	RMB'000	RMB'000
Within 3 months	**771,966**	482,257
Over 3 months but within 6 months	**625,791**	498,607
Over 6 months but within 12 months	**28,131**	–
	1,425,888	980,864

38. RELATED PARTY DISCLOSURES

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

	2018 RMB'000	2017 RMB'000
Sale of goods		
Brilliance China Group	**1,130,027**	786,329
Huachen Group	**491,301**	891,316
	1,621,328	1,677,645
Purchase of goods		
Brilliance China Group	**217,568**	179,845
Huachen Group	**3**	14,885
Wuliangye Group	**145,932**	105,077
	363,503	299,807
Purchase of land, production lines and inventories		
Brilliance China Group	**–**	352,415
Rental charged and auxiliary services received		
Brilliance China Group	**–**	2,800
Huachen Group	**6,000**	6,000
	6,000	8,800
Rental income		
Brilliance China Group	**3,540**	26,444
Maintenance and construction cost charged		
Wuliangye Group	**1,351**	2,725
Brilliance China Group	**–**	15,239
	1,351	17,964

38. RELATED PARTY DISCLOSURES (Cont'd)

	2018 **RMB'000**	2017 RMB'000
Cleaning and greening services received		
Wuliangye Group	**840**	2,240
Consulting service received		
Brilliance China Group	**–**	23,682
Wuliangye Group	**–**	10,736
Huachen Group	**8,406**	119
	8,406	34,537
Water and electricity costs charged		
Brilliance China Group	**–**	4,003
Wuliangye Group	**817**	465
	817	4,468
Repairment fee		
Brilliance China Group	**–**	659
Wuliangye Group	**114**	229
	114	888

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.

38. RELATED PARTY DISCLOSURES (Cont'd)

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.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	2018	2017
	RMB'000	RMB'000
Short-term benefits	**11,313**	15,998
Post-employment benefits	**30**	30
	11,343	16,028

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 2018 and 2017, and such amounts are considered as insignificant.

39. 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 2018, RMB38,628,000 (2017: RMB35,461,000) expenses were incurred and recognised in profit or loss.

40. SHARE-BASED PAYMENT TRANSACTIONS

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 2018 (2017: nil). As at 31 December 2018, Lead In held 33,993,385 (2017: 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 2018 and 2017.

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 2018 and 2017, no share options were granted under the Share Option Scheme by the Company. In addition, as at 31 December 2018 and 2017, no share options under the Share Option Scheme were outstanding.

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	**826,377**	826,377
Property, plant and equipment	**313**	571
Loan to a shareholder	**13,097**	27,396
	839,787	854,344
CURRENT ASSETS		
Prepayments and other receivables	**633**	398
Amounts due from related companies/a subsidiary	**24**	23
Bank balances and cash	**33,374**	50,766
	34,031	51,187
CURRENT LIABILITIES		
Other payables	**912**	1,099
Amounts due to related companies	**1,858**	1,605
	2,770	2,704
NET CURRENT ASSETS	**31,261**	48,483
NET ASSETS	**871,048**	902,827
CAPITAL AND RESERVES		
Share capital	**10,457**	10,457
Reserves *(Note)*	**860,591**	892,370
TOTAL EQUITY	**871,048**	902,827

41. 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 2017	700,258	348,103	8,319	(139,340)	917,340
Loss and total comprehensive expense for the year	–	–	–	(24,970)	(24,970)
At 31 December 2017	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**

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.

42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	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 States	British Virgin Islands/ Hong Kong	US$1 Ordinary share	100%	–	Investment holding
Mianyang Xinchen#	PRC	US$100,000,000 Registered capital	–	100%	Development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles and manufacture of engine parts and components of the passenger vehicles
Xinchen Engine (Shenyang) Co., Limited* 新晨動力機械(瀋陽)有限公司	PRC	RMB253,000,000 Registered capital	–	100%	Factory premise leasing

There is no loan capital issued by the Company's subsidiaries at the end of the year.

The subsidiary is a sino-foreign equity joint venture enterprise.

* *English name for reference only.*