

# POWER XINCHEN

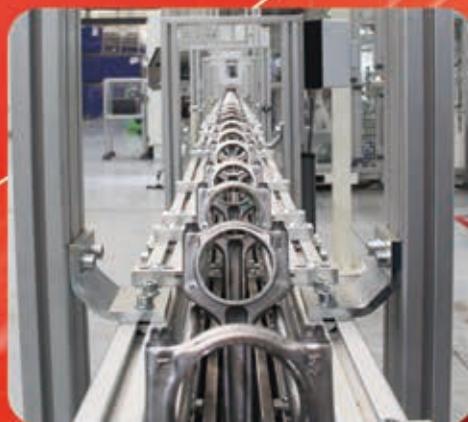
新 晨 动 力

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



Annual Report 2016



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# 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<sup>#</sup>  
Mr. Yang Ming<sup>#</sup>  
Mr. Chi Guohua\*  
Mr. Wang Jun\*  
Mr. Huang Haibo\*  
Mr. Wang Songlin\*

<sup>#</sup> *non-executive director*

\* *independent non-executive director*

## AUTHORISED REPRESENTATIVES

Mr. Wu Xiao An  
Mr. Wang Yunxian

## CHIEF FINANCIAL OFFICER

Ms. Luo Hang

## 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  
Hang Seng Bank Limited  
The Hongkong and Shanghai Banking Corporation Limited,  
Hong Kong Branch

## 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  
Hong Kong

## LEGAL ADVISORS TO THE COMPANY

Appleby  
Troutman Sanders

## INVESTOR RELATIONS

Wonderful Sky Financial Group Holdings Limited  
6th Floor, Nexxus Building  
41 Connaught 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				
	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
<b>Income Statement Data:</b>					
Revenue	<b>3,462,460</b>	3,269,331	2,652,446	2,586,193	2,572,741
Profit before Income Tax Expense	<b>228,263</b>	270,759	317,016	324,085	342,096
Income Tax Expense	<b>42,367</b>	(46,094)	(45,470)	(53,336)	(51,987)
Profit Attributable to Owners of the Company	<b>185,896</b>	224,665	271,546	270,749	290,109
Basic Earnings per Share	<b>RMB0.145</b>	RMB0.175	RMB0.211	RMB0.222	RMB0.309
Diluted Earnings per Share	<b>RMB0.145</b>	RMB0.175	RMB0.211	RMB0.222	RMB0.309
<b>Statement of Financial Position Data:</b>					
Non-current Assets	<b>2,851,636</b>	2,155,545	1,623,130	663,052	525,237
Current Assets	<b>3,090,088</b>	2,998,976	3,119,672	3,785,037	2,555,353
Current Liabilities	<b>2,427,827</b>	(1,691,593)	(1,872,480)	(2,228,521)	(1,717,071)
Non-current Liabilities	<b>649,587</b>	(783,507)	(410,029)	(39,140)	(41,018)
Shareholders' Equity	<b>2,864,310</b>	2,679,421	2,460,293	2,180,428	1,322,501

*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 Xincheng China Power Holdings Limited for the year ended 31 December 2016.

The growth of automobile industry remained strong in the second half of 2016 backed by the strong demand for the SUVs and MPVs and the favourable purchase tax cut policy on the sale of small engine vehicles. According to the China Association of Automobile Manufacturers, the sale of passenger vehicle and commercial vehicle segments increased by around 14.9% and 5.8% in 2016 respectively. The Ministry of Finance of the People's Republic of China issued a new notice regarding the policy of purchase tax of small engine vehicles towards end of 2016, which states that the sale of small engine vehicles will be subject to 7.5% purchase tax in 2017 (i.e. 5% purchase tax in 2016) and normal purchase tax of 10% since 2018. Considering customers will still be able to enjoy tax benefit from buying small engine vehicles in 2017, and there will be continuous growth in China's economy, it is expected that the Chinese automotive sector will grow steadily in the coming year. However, the first tier automotive manufacturers will continuously gain more market share from the second and third tiers industry players.

In 2016, the Group recorded the total sales of approximately RMB3,462.46 million, representing an increase of approximately 5.9% as compared with 2015. The increase in the total sales was mainly due to an increase in the sales of XCE branded gasoline engines and crankshafts. During the year under review, the Group's profit margin was adversely affected due to i) there was an increase in the sale of small engines, which are less profitable; and ii) there was a decrease in the sale of connection rods, which affected the profit margin of the components business segment. Therefore, the Group recorded a net profit of approximately RMB185.90 million in 2016, representing a decrease of approximately 17.3% as compared with 2015.

In 2016, the increase in the sale volume of the XCE branded engines was mainly driven by the increase in the sale of the Group's XCE branded small engines, which are equipped with a recently launched SUV model of the Group's customer. Given all of the Group's major customers are second or third tier Chinese branded automobile manufacturers, market share of which are continuously taken over by the leading market players, we expect that the demand for the Group's XCE branded engines will remain volatile in near future. The Group is exploring more cooperation with the leading and sizeable automobile manufacturers by leveraging on the Group's new engines platform in order to avoid reliance on few customers and diversify its business risk. The Group was licensed by BMW AG to produce Prince engines. The Group acquired an engine assembly line from BMW Brilliance Automotive Ltd. ("**BMW Brilliance Automotive**") for the purpose of building up production facility for Prince engines. The Group is upgrading and modifying the assembly line, which will then be installed in the Group's production plant in Mianyang. The industrialisation plan for the manufacturing of the Prince engines is on schedule. The Group expects that the Prince engines with 1.6L displacement will be launched in the second half of 2017. The Group is developing the Prince engines with 1.8L displacement simultaneously. Subject to the market demand and project development, the Group plans to introduce the Prince engines with 1.8L displacement in 2018.

## Chairman's Statement (Cont'd)

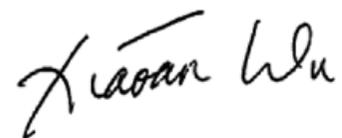
Regarding the N20 engines business, the Group has finished the supply of N20 engines to BMW Brilliance Automotive as N20 engines will be phased out in 2017 for BMW vehicles. However, the Group will remain supplying N20 engines for Huasong MPV. The sale of N20 engines had a big contribution to the Group's result in the past few years. Since the Group ceased supplying N20 engines to BMW Brilliance Automotive, the financial performance of the Group will be adversely affected in 2017.

Other than the Prince and N20 engines, the Group has formed a working team to assess the market potential and work on the research and development of a three cylinder engine in response to the more stringent requirement for fuel consumption and emission standard in near future. Should this be materialised, the Group believes that the three cylinder engine could be paired up with electric motor(s) to provide hybrid powertrain solution to the Group's customers in the future.

In respect of parts and components business, the Group acquired the crankshaft line in 2015. Since then, the operation efficiency of the crankshaft line has been improved under the guidance of BMW AG and BMW Brilliance Automotive. The Group is still in discussion with BMW AG regarding the feasibility of exporting certain units of crankshafts to BMW AG in the future. In respect of connection rods, the Group has upgraded one connection rod processing line to enable it to supply Bx8 connection rods to BMW Brilliance Automotive in 2017. Considering the market demand and the need of building up in-house core competence in parts processing, the Group decided to upgrade the other connection rod processing line, which is now producing N20 connection rods, for the purpose of producing connection rods for Prince engines. It is expected that the said upgrade will be completed in the second half of 2017. In addition, the Group decided to build up a cylinder head processing line for Prince engines, which is expected to start production in late 2017 or early 2018. Should there be any unutilised production capacity, the Group will also discuss with potential customers regarding the potential supply of cylinder head.

The Group will continue to explore cooperation opportunities with BMW AG, BMW Brilliance Automotive and other business partners in the future. In particular, the Group will actively identify potential merger and acquisition opportunities and assess possibilities of forming joint ventures with other partners to expand its product portfolio and strengthen its core competitiveness.

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*  
23 March 2017

# Management's Discussion & Analysis

## BUSINESS REVIEW

The Group achieved total consolidated sales of approximately RMB3,462.46 million, representing an increase of approximately 5.9% compared to the corresponding period last year (RMB3,269.33 million). The increase was mainly due to the increase in demand for the Group's traditional engines and crankshafts, which was partially offset by the decrease in the sale of N20 engines and connection rods, during the year.

In respect of the engines business segment, the Group recorded approximately 4.7% increase in segment revenue, from approximately RMB2,831.21 million in 2015 to approximately RMB2,964.15 million in 2016. Sales volume of engines increased approximately 16.3% from around 225,800 units in 2015 to around 262,500 units in 2016. The increase was mainly due to an increase in the sales of traditional small engines during the year, which was partially offset by a decrease in the sales of N20 engines, from around 43,800 units in 2015 to around 36,200 units in 2016.

In respect of the engine components segment, the Group recorded approximately 13.7% increase in segment revenue, from approximately RMB438.12 million in 2015 to approximately RMB498.31 million in 2016. The increase was mainly due to full year contribution of crankshaft business in 2016. The Group sold around 259,100 units of crankshafts in 2016, representing an increase of approximately 62.0%, from around 159,900 units in 2015. However, there was a decrease in the demand for connection rods due to intense market competition. The Group sold around 776,700 units of connection rods in 2016, down by approximately 31.3%, from around 1,129,900 units in 2015.

The consolidated cost of sales in 2016 amounted to approximately RMB3,009.44 million, up by approximately 9.1% when compared to approximately RMB2,759.22 million recorded in 2015. The increase of cost of sales was mainly due to the increase in the depreciation and amortisation expenses.

The gross profit margin of the Group decreased from approximately 15.6% in 2015 to approximately 13.1% in 2016, which was mainly due to the increase in the sales of small engines, which has lower profit margin, and the decrease in the demand for connection rods.

Other income and gain increased from approximately RMB72.71 million in 2015 to approximately RMB79.41 million in 2016, representing an increase of approximately 9.2%. The increase was mainly due to one-off income from the expropriation of a land by local government recognised in 2016.

Selling and distribution expenses increased by approximately 3.5%, from approximately RMB66.14 million in 2015 to approximately RMB68.43 million in 2016, representing approximately 2.0% and approximately 2.0% of the revenue in 2015 and 2016 respectively. The increase was mainly due to the increase in packaging and storage related expenses.

Administrative expenses increased by approximately 4.5%, from approximately RMB141.77 million in 2015 to approximately RMB148.10 million in 2016, representing approximately 4.3% and approximately 4.3% of the revenue in 2015 and 2016, respectively. The increase was mainly due to an increase in staff costs and government taxes.

Finance costs decreased by approximately 2.8%, from approximately RMB49.88 million in 2015 to approximately RMB48.50 million in 2016. The decrease was mainly due to reduction of the bills financing.

Other expenses and losses decreased by approximately 26.4% from approximately RMB54.08 million in 2015 to approximately RMB39.80 million in 2016, which was mainly due to the decrease in research expenses and unrealised foreign exchange translation loss recognised in 2016.

The Group's profit before tax decreased by approximately 15.7% from approximately RMB270.76 million in 2015 to approximately RMB228.26 million in 2016.

Income tax expenses decreased by approximately 8.1% from approximately RMB46.09 million in 2015 to approximately RMB42.37 million in 2016.

For the year 2016, the net income attributable to owners of the Company was approximately RMB185.90 million, representing an approximately 17.3% decrease from approximately RMB224.67 million in 2015. Basic earnings per share in 2016 amounted to approximately RMB0.145, compared to approximately RMB0.175 in 2015.

# Management's Discussion & Analysis (Cont'd)

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the Group had approximately RMB306.01 million in cash and cash equivalents (31 December 2015: RMB288.21 million), and approximately RMB90.50 million in pledged bank deposits (31 December 2015: RMB112.18 million). The Group had trade and other payables of approximately RMB1,380.66 million (31 December 2015: RMB1,193.03 million), bank borrowings due within one year in the amount of approximately RMB781.35 million (31 December 2015: RMB350.50 million), and bank borrowings due after one year in the amount of approximately RMB610.80 million (31 December 2015: RMB737.80 million).

## CAPITAL STRUCTURE

As at 31 December 2016, the Group's total assets was approximately RMB5,941.72 million (31 December 2015: RMB5,154.52 million), which was funded by the following: (1) share capital of approximately RMB10.46 million (31 December 2015: RMB10.47 million), (2) reserves of approximately RMB2,853.85 million (31 December 2015: RMB2,668.96 million) and (3) total liabilities of approximately RMB3,077.41 million (31 December 2015: RMB2,475.10 million).

## CONTINGENT LIABILITIES

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

## PLEDGE OF ASSETS

As at 31 December 2016, the Group pledged certain of its land use rights, buildings, plant and machinery with an aggregate carrying value of approximately RMB136.09 million (31 December 2015: RMB153.86 million) to certain banks to secure certain credit facilities granted to the Group.

As at 31 December 2016, the Group also pledged bank deposits in the amount of approximately RMB90.50 million (31 December 2015: RMB112.18 million) to certain banks to secure certain credit facilities granted to the Group.

## GEARING RATIO

As at 31 December 2016, the debt-to-equity ratio, computed by dividing total liabilities by total equity attributable to owners of the Company, was approximately 1.07 (31 December 2015: 0.92). The increase in the debt-to-equity ratio was mainly due to the increase of bank borrowing in 2016.

As at 31 December 2016, the gearing ratio, computed by dividing bank borrowings by total equity attributable to owners of the Company, was approximately 49% (31 December 2015: 41%). 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 2016, certain portion of the Group's premises located in Shenyang was leased to BMW Brilliance Automotive, which generated rental income of approximately RMB29.17 million for the year ended 31 December 2016 (2015: RMB31.59 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 Dollar ("US\$") and Hong Kong Dollar ("HK\$"), the Group is exposed to foreign currency translation risk.

# Management's Discussion & Analysis (Cont'd)

The Group has and will continue to monitor its foreign exchange risks and may consider hedging its foreign currency exposure, if and when necessary. Certain portion of United States Dollar-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 2016, the Group employed approximately 1,918 employees (31 December 2015: approximately 1,805). Employee costs amounted to approximately RMB200.73 million for the year ended 31 December 2016 (31 December 2015: approximately RMB181.04 million). The Group will endeavor to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' remuneration is based on their performance.

## SIGNIFICANT INVESTMENTS

On 6 April 2016, Mianyang Xincheng Engine Co., Ltd. ("**Mianyang Xincheng**") entered into assets transfer agreement with BMW Brilliance Automotive for the acquisition of the enhancement equipment and facilities and the related consumables in connection with the operation of the Group's crankshaft production line. The consideration was finalized at approximately RMB401.75 million. The transaction was completed in second quarter of 2016. Details of the transaction are set out in the announcement of the Company dated 6 April 2016.

On 13 September 2016, Mianyang Xincheng entered into assets transfer agreement with BMW Brilliance Automotive for the acquisition of the N20 engine assembly line, affiliated facilities and spare parts. The consideration was finalized at approximately RMB94.77 million. The transaction was completed in late 2016. Details of the transaction are set out in the announcement of the Company dated 13 September 2016 and the circular of the Company dated 12 October 2016.

On 14 September 2016, Mianyang Xincheng won a tender and entered into acquisition agreement with Mianyang Xinhua Internal Combustion Engine Joint Stock Company Limited ("**Xinhua Combustion Engine**") in relation to the acquisition of lands and buildings at the consideration of approximately RMB264.26 million. The transaction was completed in the fourth quarter of 2016. Details of the transaction are set out in the announcements of the Company dated 6 July 2016 and 14 September 2016 and the circular of the Company dated 27 July 2016.

Save as disclosed, there were no major acquisition and disposal of subsidiaries and associated companies undertaken by the Group during the year ended 31 December 2016.

## CAPITAL COMMITMENT

As at 31 December 2016, the Group had capital commitments of approximately RMB636.24 million (31 December 2015: RMB786.42 million), of which contracted capital commitments amounted to approximately RMB130.09 million (31 December 2015: RMB138.33 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 55, 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 22 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 (“**Southern State**”). From April 1998 to September 2005 and from July 2011 to November 2016, he was a director of Mianyang Xincheng. 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. (“**Shenyang Jinbei**”). 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 62, 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 40 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 Xincheng, 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 Xincheng since March 2004. Since 1976, Mr. Wang held various positions in 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 52, 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 vice general manager of auto business unit of Huachen since March 2016. 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).

# Directors, Senior Management and Company Secretary (Cont'd)

**Mr. Yang Ming** (楊明), aged 48, was appointed as a non-executive director of the Company on 7 November 2016. Mr. Yang has been serving as a director of Mianyang Xincheng 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 and general manager of Chengdu Pushi Vehicle Dies Co., Ltd. (成都普什汽車模具有限公司) since May 2016. 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 42, 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. Since March 2000, Mr. Chi has been serving as 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. Since March 2010, he has been the deputy head of Internal Control Research Center of the PRC (中國內部控制研究中心). Furthermore, since April 2012, Mr. Chi has been serving as 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). From November 2014 to October 2016, Mr. Chi was a consultant in the Committee on Internal Control Standards of Enterprise for the Ministry of Finance of the PRC (中國財政部企業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 Finance Cost Branch of Accounting Society of China (中國會計學會財務成本分會) since August 2010. Mr. Chi was awarded Qianren-level of the “Liaoning Baiqianwan Talents Program” (遼寧省「百千萬人才工程」千人層次) in November 2007, 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, and an outstanding representative of tertiary education institution of Liaoning Province (遼寧省高等學校優秀人才) in August 2007. 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** (王隽), aged 55, was appointed as an independent non-executive director of the Company on 24 April 2012. He has over 26 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).

# Directors, Senior Management and Company Secretary (Cont'd)

**Mr. Huang Haibo** (黃海波), aged 62, 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 32 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. Since 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 is the chairman of the Sichuan Xihua Vehicle Authentication Institution (四川西華機動車司法鑒定所) since August 2005 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) since 2008. 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 65, was appointed as an independent non-executive director of the Company on 24 April 2012. He has over 37 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 50, is the vice general manager of Mianyang Xinchun. Mr. He has over 26 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 Xinchun. From February 2004 to January 2008, he had been the assistant to the general manager and director of technology and quality of Mianyang Xinchun. 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.

# Directors, Senior Management and Company Secretary (Cont'd)

**Mr. Song Ning** (宋寧), aged 53, is the vice general manager of Mianyang Xincheng. Mr. Song has over 30 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 Xincheng. 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 Xincheng. 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 57, is the vice general manager of Mianyang Xincheng. Mr. Ma has over 33 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 Xincheng, 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.

**Ms. Luo Hang** (羅航), aged 45, was appointed as the chief financial officer of the Company in September 2015. Ms. Luo has over 21 years of experience in overseeing financial management, auditing, merger and acquisition and investor relations, and long-term working experience in automotive industry. She is primarily responsible for the financial management of the Group. Since September 2015, she has served as the chief financial officer of Mianyang Xincheng, and during the period from July 2014 to September 2015, she served as the finance executive director of Mianyang Xincheng. Before joining Mianyang Xincheng, she was the chief financial officer and financial controller of several multinational companies and was an auditing manager in a Certified Public Accountants firm. Ms. Luo is the Chinese Certified Public Accountant. She has obtained a Master degree in Business Administration from the Chongqing University of China (中國重慶大學).

**Mr. Leung Man Ho** (梁文豪), aged 35, is the senior vice president of the Company. Mr. Leung joined the Company in February 2014. Mr. Leung is primarily responsible for the Group's investor relations, capital markets and financial reporting matters. He has over 12 years of corporate finance and merger and acquisition experience. Mr. Leung received Bachelor of Business Administration from City University of Hong Kong in 2004.

## COMPANY SECRETARY

**Ms. Ngai Ka Yan** (魏嘉茵), aged 34, 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 2016.

## 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 40 to the consolidated financial statements.

## BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2016 is set out on pages 6 to 8 and the paragraphs below.

### 1. Principal risks and uncertainties

We have identified in 2016 that the Group may be confronted with the following principal risks and uncertainties:

#### *Financial risk*

The Group's loans are mainly United States dollar-denominated loans. Therefore, the Group is exposed to the exchange rate risk resulting from appreciation of the United States Dollar 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 United States dollar-denominated bank borrowing was hedged with forward contract during the year under review in order to minimize exposure to foreign exchange risk.

#### *Market risk*

##### (i) Recent slowdown in the growth of China's automobile market

The performance of China's engine and engine parts manufacturing industry is closely related to the development of China's automobile market. According to the data released by the China Association of Automobile Manufacturers, the growth rate of the automobile market in China is 13.7% in 2016, down from 46.15% in 2009. In view of the current macroeconomic situations, the growth of the automobile market in China is expected to further slow down or remain at a low level. Therefore, automobile manufacturers will continue to see a slowdown in demand for engines and engine parts in the future which may adversely affect the performance of the Group. Although, we cannot guarantee any significant increase in the market share of our products in the future, we will continue tackle the risk by establishing an extended product lineup for the existing customers and committing to strengthen and expand our market share by improving product technologies.

##### (ii) Fierce industry competition

China's engine and engine parts manufacturers, in particular, the conventional small displacement engine manufacturers are facing fierce competition within the industry. Some automobile manufacturers that have reached a certain scale but have not manufactured engines on their own are now building or seeking to build the capacity of engine manufacturing on their own, thus hindering market expansion of independent engine manufacturers. 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, improving technical standards of 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 some existing customers with better cost control and customer satisfactory rate.

##### (iii) Regulatory risk

As China's 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 subjected to increasingly stringent regulatory requirements. For example, on 22 December 2014, the Ministry of Industry and Information Technology of the PRC released the Fuel Consumption Limits for Passenger Cars, which takes effect on 1 January 2016 and requires the implementation of phase IV fuel consumption limits by 2020. This imposes challenges to fuel consumption of conventional engines of passenger cars. To meet such challenges, the Group will upgrade existing products and develop new products that comply with laws and regulations.

# Report of Directors (Cont'd)

## 2. Environment, 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 protection standards, and dispose of various wastes according to law to mitigate the environmental impact of business operations in full measure. The Group also requires that its suppliers shall abide by relevant national laws and regulations on environmental protection and obtain necessary approvals and permits from China's environment regulation authority. In 2016, the environmental monitoring centres 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 mainland China and Hong Kong. For the year ended 31 December 2016 and as of the date of this report, we have complied with all relevant laws and regulations in mainland China and Hong Kong.

## 3. Key relationships

### *Employees*

The Group's success lies in employees' capability and loyalty. Only with an outstanding workforce can the Group survive and develop amid fierce market competition. The Group is looking for high-quality, capable and conscientious employees who are physically and mentally fit, full of passion and innovation. The Group treats employees as its most precious asset.

The Group has therefore established and is constantly improving its human resources management system to attract, cultivate and retain outstanding employees. The Group provides employees with orientation, on-the-job training and development opportunities. Training courses include management skills, sales and production, customer service, quality control, exhibition planning, work ethics and other industry-related training. The Group provides employees with two career development paths: to become managers or to become technical experts. The Group cultivates professional and management skills of key employees through its projects, and provides employees with diverse development opportunities through job rotation.

The Group offers comprehensive and competitive remuneration packages to employees. In addition, the Group also offers such benefits as accommodation, transportation and phone allowances, leaves, commercial insurance, physical examination, team building and employee care activities, to help employees keep a balance between work and personal life and ensure physical and mental health. The Group has launched an equity-based incentive scheme to attract and retain senior managers and technical experts.

The Group respects employees' opinions, and praises and rewards employees who have given reasonable suggestions. The Group conducts an employee satisfaction survey each year and considers all valuable suggestions on improving working efficiency and creating a harmonious working atmosphere.

### *Customers*

We are devoted to providing our customers with marketable and legally compliant products featuring reliable quality, advanced technology, outstanding performance, and high cost efficiency. We maintain close cooperation and communication 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 and advantages of our products. 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 after-sales service. To this end, we have set up a nationwide network of special maintenance shops and carried out training in rotation to enable them to offer quality services to end users. We control the risk of losing business from our major customers by developing high-performance new products, expanding in the market, improving service quality, securing new customers and enlarging the existing market share.

# Report of Directors (Cont'd)

## *Suppliers*

We seek for cooperation with world-class suppliers and are constantly expanding such cooperation. We have established long-term partnership with a couple of world-class suppliers. We have implemented a stringent supplier selection process, and only those who meet certain criteria can become approved suppliers. We perform regular evaluations on the suppliers' performance based on their production capacity, reputation, experience, and market feedback. We ensure that the cooperation complies with laws and regulations through contracts, agreements and orders. All suppliers are required to comply with our anti-bribery policy.

## **FINANCIAL RESULTS**

The results of the Group for the year ended 31 December 2016 are set out in the consolidated financial statements of the Group on page 58.

## **CASH FLOW POSITION**

The cash flow position of the Group for the year ended 31 December 2016 is set out and analysed in the consolidated statement of cash flows on pages 61 to 62.

## **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 2016 (2015: Nil).

## **CLOSURE OF REGISTER OF MEMBERS**

The Company's forthcoming annual general meeting will be held at 9:00 a.m. on Thursday, 15 June 2017.

The Hong Kong branch register of members of the Company will be closed from Monday, 12 June 2017 to Thursday, 15 June 2017, 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 Monday, 12 June 2017 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 Friday, 9 June 2017.

## **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 2016.

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 60.

## **PROPERTY, PLANT AND EQUIPMENT**

The movements of property, plant and equipment of the Group for the year ended 31 December 2016 are set out in note 14 to the consolidated financial statements.

## **INVESTMENT PROPERTIES**

The details of investment properties of the Group are set out in note 16 to the consolidated financial statements.

# Report of Directors (Cont'd)

## CONTRACTS OF SIGNIFICANCE

Save as disclosed under the sections headed “CONNECTED TRANSACTIONS” and “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 2016; 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 2016.

## SHARE CAPITAL

Details of the Company’s share capital as of 31 December 2016 are set out in note 29 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 Xinchun 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”. All Shares under the Fixed Trust have been awarded to the Beneficiaries as at the date of this report.

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.

On 17 April 2014, 2,984,575 Shares held under the Discretionary Trust were awarded to a third party at a subscription price of HK\$1.0817 per Share. 1,492,288 Shares were exercised on 23 April 2015, the date following the first anniversary of 22 April 2014 (being the date of acceptance of the award by the third party). The remaining 1,492,287 Shares were exercised on 23 April 2016, the date following the second anniversary of 22 April 2014. As of the date of this report, Lead In holds 33,993,385 Shares under the Discretionary Trust.

Other than disclosed above, no Shares were awarded under the Discretionary Trust for the year ended 31 December 2016.

# Report of Directors (Cont'd)

## 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) options may also be granted to 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 higher 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 for the year ended 31 December 2016 and no expenses were recognized by the Group for 2016 (2015: nil).

# Report of Directors (Cont'd)

## DIRECTORS

The directors of the Company who held office during the year ended 31 December 2016 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. Qi Yumin (resigned on 12 September 2016)

Mr. Tang Qiao (resigned on 7 November 2016)

Mr. Liu Tongfu (appointed on 12 September 2016)

Mr. Yang Ming (appointed on 7 November 2016)

### *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. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin, will retire by rotation at the forthcoming annual general meeting of the Company to be held on 15 June 2017.

Each of Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin, 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.

Pursuant to Article 112 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 has offered himself for re-election at the extraordinary general meeting of the Company held on 1 November 2016; Mr. Yang Ming will offer himself for re-election at the forthcoming annual general meeting of the Company to be held on 15 June 2017.

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

## CHANGE IN DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the directors of the Company subsequent to the date of 2016 interim report of the Company are set out below:

- (1) Mr. Wu Xiao An resigned as a director of Southern State on 19 September 2016 and a director of Mianyang Xinchun on 1 December 2016.
- (2) Mr. Yang Ming was appointed as a director of Mianyang Xinchun on 1 December 2016.
- (3) Mr. Wang Songlin 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.

# Report of Directors (Cont'd)

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

As at 31 December 2016, 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 <sup>(6)</sup>
Brilliance Investment	Beneficial owner	400,000,000 (L)	31.20%
Brilliance China <sup>(1)</sup>	Interest in a controlled corporation	400,000,000 (L)	31.20%
Huachen <sup>(2)</sup>	Interest in a controlled corporation	400,000,000 (L)	31.20%
Xinhua Investment	Beneficial owner	400,000,000 (L)	31.20%
Xinhua Combustion Engine <sup>(3)</sup>	Interest in a controlled corporation	400,000,000 (L)	31.20%
Pushi Group <sup>(4)</sup>	Interest in a controlled corporation	400,000,000 (L)	31.20%
Sichuan Province Yibin Wuliangye Group Co., Ltd. <sup>(5)</sup>	Interest in a controlled corporation	400,000,000 (L)	31.20%
JPMorgan Chase & Co.	Beneficial owner	96,137,600 (L)	7.49%
		151,000 (S)	0.01%
	Custodian corporation/ approved lending agent	95,835,600 (P)	7.47%
Templeton Asset Management Ltd.	Investment Manager	89,829,000 (L)	7.01%

### 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 42.36% 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 2016.

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

# Report of Directors (Cont'd)

Save as disclosed herein, as at 31 December 2016, there was no other person so far as known to the directors or chief executives of the Company (other than a director or chief executive 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 2016, the interests and short positions of each director and chief executive of the Company and their respective associates in the shares, underlying shares and debentures of the Company or any associated corporation (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*

<u>Name of Director</u>	<u>Nature of interest</u>	<u>Number and class of Shares</u>	<u>Approximate percentage of shareholding<sup>(3)</sup></u>
Mr. Wu Xiao An (also known as Ng Siu On) <sup>(1)</sup>	Beneficial owner	8,320,041 ordinary	0.65%
	Trustee and interest in a controlled corporation	33,993,385 ordinary	2.65%
Mr. Wang Yunxian <sup>(2)</sup>	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 2016.

Save as disclosed above, as at 31 December 2016, none of the directors and chief executives of the Company or their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (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 2016 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.

# Report of Directors (Cont'd)

## 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

None of the directors 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

For the year ended 31 December 2016, 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

During the year ended 31 December 2016, the Company repurchased a total of 1,000,000 Shares on the Stock Exchange at an aggregate consideration of HK\$1,182,900 excluding transaction costs. The repurchased shares were subsequently cancelled. The repurchases were effected by the Board for the enhancement of shareholders' value in the long term. Details of the shares repurchased are as follows:

Month of repurchase in 2016	Number of Shares repurchased	Price per Share		Aggregate consideration paid (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
January	1,000,000	1.20	1.15	1,182,900
Total	1,000,000			1,182,900

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

# Report of Directors (Cont'd)

## DISCLOSURE UNDER RULE 13.21 OF THE LISTING RULES

On 28 October 2014, Mianyang Xinchun (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\$60,000,000 (the “**Facility Letter 2014**”). Pursuant to the Facility Letter 2014, it shall be an event of default, amongst others, if: (1) Brilliance China holds less than 25% (directly or indirectly) of the shareholding interest in the Company in aggregate; or (2) Wuliangye holds less than 25% (directly or indirectly) of the shareholding interest in the Company in aggregate. Details of the Facility Letter 2014 were set out in the announcement of the Company dated 28 October 2014.

On 16 April 2015, Mianyang Xinchun (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\$60,000,000 (the “**Facility Letter 2015**”). Under the Facility Letter 2015, it shall be an event of default, amongst others, if: (1) Brilliance China holds less than 25% (directly or indirectly) of the shareholding interest in the Company in aggregate; or (2) Wuliangye holds less than 25% (directly or indirectly) of the shareholding interest in the Company in aggregate. Details of the Facility Letter 2015 were set out in the announcement of the Company dated 16 April 2015.

On 26 September 2016, Mianyang Xinchun (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.

## PRE-EMPTIVE RIGHTS

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

## MAJOR CUSTOMERS AND SUPPLIERS

In 2016, the aggregate sales attributable to the Group’s five largest customers represented approximately 86.1% of the Group’s total turnover while the sales attributable to the Group’s largest customer was approximately 37.7% of the Group’s total turnover. The Company’s substantial shareholders are interested in four customers (including the largest customer) among the Group’s five largest customers. The aggregate purchases attributable to the Group’s five largest suppliers during the year represented approximately 46.2% of the Group’s total purchases and the purchases attributable to the Group’s largest supplier represented approximately 33.2% of the Group’s total purchases. The Company’s substantial shareholders are interested in two suppliers (including the largest supplier) among the Group’s five largest suppliers.

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

## PUBLIC FLOAT

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

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

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

# Report of Directors (Cont'd)

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 (the “**Prospectus**”) 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

# Report of Directors (Cont'd)

- (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 2016.

## **CONNECTED TRANSACTIONS**

In 2016, the Company entered into three transactions which constituted connected transactions and were subject to disclosure requirements under Chapter 14A of the Listing Rules. Details of the transactions are summarised below:

### **Upgrade of Crankshaft Production Line**

On 6 April 2016, Mianyang Xincheng entered into assets transfer agreement with BMW Brilliance Automotive for the acquisition of the enhancement equipment and facilities and the related consumables in connection with the operation of the Group's crankshaft production line. The consideration was finalized at approximately RMB401.75 million. Details of the transaction are set out in the announcement of the Company dated 6 April 2016.

### **Acquisition of properties**

On 6 July 2016, the Company proposed to participate and bid at the tender for the acquisition of properties comprising 3 parcels of land located at No. 69, Xingchang Avenue, Gaoxin District, Mianyang City, Sichuan Province, the PRC and 6 buildings and various ancillary structures erected thereon owned by Xinhua Combustion Engine through Mianyang Xincheng. The maximum consideration for the possible acquisition which Mianyang Xincheng was willing to bid at the tender was approximately RMB264.26 million. The possible acquisition and the transaction contemplated thereunder were approved by the independent shareholders of the Company at the extraordinary general meeting held on 25 August 2016.

Mianyang Xincheng won the tender at the consideration of approximately RMB264.26 million. The acquisition agreement was entered into between Mianyang Xincheng and Xinhua Combustion Engine on 14 September 2016. Details of the transaction are set out in the announcements of the Company dated 6 July 2016 and 14 September 2016 and the circular of the Company dated 27 July 2016.

### **Acquisition of N20 Engine Assembly Line**

On 13 September 2016, Mianyang Xincheng and BMW Brilliance Automotive entered into an assets transfer agreement pursuant to which BMW Brilliance Automotive would transfer to Mianyang Xincheng the production line for assembling the components and parts of N20 engines (the "N20 Engine Assembly Line") and the equipment and facilities and the spare parts in connection with the operation of the N20 Engine Assembly Line at a consideration of approximately RMB94.77 million. Details of the transaction are set out in the announcement of the Company dated 13 September 2016 and the circular of the Company dated 12 October 2016.

# Report of Directors (Cont'd)

## CONTINUING CONNECTED TRANSACTIONS

In 2016, the Group conducted various transactions which constituted continuing connected transactions under Chapter 14A of the Listing Rules. All the continuing connected transactions during the year 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 2016 is set out below:

Connected Person	Nature of Transaction	Actual monetary value for the financial year ended 31 December 2016 RMB'000
<i>Continuing connected transactions exempt from the independent shareholders' approval requirements</i>		
1. Brilliance China group (including Mianyang Ruian)	Purchase of engine components from Brilliance China group	39,400
2. Wuliangye group (including Mianyang Jianmen Real Estate)	Procurement of construction and building maintenance services from Wuliangye group	6,968
3. Shenyang Brilliance Power	Rental of factory premises from Shenyang Brilliance Power	6,000
4. Huachen	Management of an engine production line by Mianyang Xincheng	254
5. Huachen	Procurement of materials from Huachen group	44
6. BMW Brilliance Automotive	Lease of certain portion of land and properties to BMW Brilliance Automotive	29,165
7. An Shiji and Sichuan Anji	Provision of logistics services from An Shiji and Sichuan Anji	4,968
8. Xinhua Combustion Engine	Procurement of cleaning and greening services from Xinhua Combustion Engine	2,263
<i>Non-exempt continuing connected transactions</i>		
9. Brilliance China group (including Shenyang Jinbei and Xing Yuan Dong)	Sale of engines and engine components to Brilliance China group	354,379
10. Wuliangye group (including Sichuan Pushi and Xinhua Combustion Engine)	Purchase of engine components from Wuliangye group	101,413
11. Huachen group (including Huachen, Mianyang Huarui, Mianyang Huaxiang and Shenyang Brilliance Power)	Sale of engines and engine components to Huachen group	969,004
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	984,765
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	1,305,851

# Report of Directors (Cont'd)

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

**Transaction 1:** Mianyang Brilliance Ruian Automotive Components Co., Ltd. (“**Mianyang Ruian**”) is a wholly-owned subsidiary of Brilliance China, a substantial shareholder of the Company. The engine components purchased by the Group from Mianyang Ruian are either for the production of the Group’s products or sold by the Group to its customers for repair and maintenance of the Group’s products.

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 will purchase various types of engine components from Brilliance China group companies for a term of three years commencing from 1 January 2016 and ending on 31 December 2018. Unless the Brilliance China Purchase Agreement is terminated prior to its expiry date, the agreement is renewable for additional terms of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.

The annual caps of the continuing connected transactions contemplated under the Brilliance China Purchase Agreement for the three financial years ending 31 December 2018 are RMB55,919,000, RMB58,714,000 and RMB61,650,000, respectively. The continuing connected transaction contemplated under the Brilliance China Purchase Agreement for the year ended 31 December 2016 did not exceed the annual cap of RMB55,919,000.

Details of the Brilliance China Purchase Agreement are set out in the announcement of the Company dated 13 October 2015.

**Transaction 2:** Mianyang Jianmen Real Estate Development and Construction Co., Ltd. (“**Mianyang Jianmen Real Estate**”) is a wholly-owned subsidiary of Xinhua Combustion Engine, a substantial shareholder of the Company, the ultimate holding company of which is Wuliangye. The Group procured construction services for the real properties at its production site, including roads and walls, as well as the maintenance of the same from Mianyang Jianmen Real Estate.

On 13 October 2015, Mianyang Xincheng entered into a procurement framework agreement with Mianyang Jianmen Real Estate (the “**Wuliangye Procurement Agreement**”), pursuant to which Mianyang Xincheng will procure construction and building maintenance services from Mianyang Jianmen Real Estate for a term of three years commencing from 1 January 2016 and ending on 31 December 2018. Unless the Wuliangye Procurement Agreement is terminated prior to its expiry date, the agreement is renewable for additional terms of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.

The annual caps of the continuing connected transactions contemplated under the Wuliangye Procurement Agreement for the three financial years ending 31 December 2018 are RMB15,306,500, RMB11,495,000 and RMB11,495,000, respectively. The continuing connected transaction contemplated under the Wuliangye Procurement Agreement for the year ended 31 December 2016 did not exceed the annual cap of RMB15,306,500.

Details of the Wuliangye Procurement Agreement are set out in the announcement of the Company dated 13 October 2015.

**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 and therefore is a connected person of the Company.

On 13 October 2015, Shenyang Brilliance Power and Mianyang Xincheng entered into a new lease agreement (the “**New Lease Agreement**”) pursuant to which Shenyang Brilliance Power will lease to Mianyang Xincheng 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.

# Report of Directors (Cont'd)

The annual caps of the continuing connected transaction contemplated under the New Lease Agreement for the three financial years ending 31 December 2018 are RMB5,999,904, RMB5,999,904 and RMB5,999,904, respectively. The continuing connected transaction under the New Lease Agreement for the year ended 31 December 2016 did not exceed the annual cap of RMB5,999,904.

Details of the New Lease Agreement are set out in the announcement of the Company dated 13 October 2015.

**Transaction 4:** Huachen, which owns approximately 42.48% of Brilliance China, is deemed as a connected person of the Company under the Listing Rules.

On 27 June 2014, Mianyang Xincheng (including its branches) and Huachen entered into a management entrustment agreement (the “**Management Entrustment Agreement**”) pursuant to which Mianyang Xincheng (including its branches) agreed to be responsible for the management of an engine production line located at the E2 Factory for the period from 27 June 2014 to 31 December 2016.

The annual caps of the continuing connected transactions contemplated under the Management Entrustment Agreement for the financial year ending 31 December 2016 is RMB12,262,800. The continuing connected transaction under the Management Entrustment Agreement for the year ended 31 December 2016 did not exceed the annual cap of RMB12,262,800.

Details of the Management Entrustment Agreement are set out in the announcement of the Company dated 27 June 2014.

**Transaction 5:** Huachen is deemed as a connected person of the Company as described in Transaction 4 above.

On 13 October 2015, the Company and Huachen entered into a procurement framework agreement (the “**Procurement Agreement**”) pursuant to which the Group will purchase the remaining portion of the materials, tools, equipments and repair parts and products for the production of E3 engines from Huachen group companies for a term of three years commencing from 1 January 2016 and ending on 31 December 2018. Unless the 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 Procurement Agreement for the three financial years ending 31 December 2018 are approximately RMB4,022,000, RMB3,893,000 and RMB3,895,000, respectively. The continuing connected transaction under the Procurement Agreement for the year ended 31 December 2016 did not exceed the annual cap of approximately RMB4,022,000.

Details of the Procurement Agreement are set out in the announcement of the Company dated 13 October 2015.

**Transaction 6:** 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. and therefore is a connected person of the Company.

On 15 August 2014, the acquisition of Xincheng Engine (Shenyang) Co., Ltd. (“**Shenyang Xincheng**”) was completed. Shenyang Xincheng has become an indirectly wholly owned subsidiary of the Company. According to the existing lease agreement dated 28 August 2012 (the “**BBA Lease Agreement**”) (amended by the supplemental agreement dated 22 July 2013) entered between Shenyang Xincheng 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, leased to BMW Brilliance Automotive for a term commencing from 28 August 2012 and expiring on 27 February 2018 for production and ancillary purposes.

# Report of Directors (Cont'd)

On 21 January 2015, Mianyang Xincheng (including its branches), Shenyang Xincheng and BMW Brilliance Automotive entered into an agreement on operation site (the “**Agreement on Operation Site**”). Pursuant to the Agreement on Operation Site, Mianyang Xincheng (including its branches) agreed to lease from Shenyang Xincheng the operation site for the operation, future expansion and upgrading of the crankshaft production line (the “**Operation Site**”) acquired by Mianyang Xincheng (including its branches) from BMW Brilliance Automotive. BMW Brilliance Automotive and Shenyang Xincheng 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 Xincheng the reduced lease area and shall continue to pay monthly rental to Shenyang Xincheng 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 years ending 31 December 2016, 31 December 2017 and 31 December 2018 shall not exceed RMB33,143,030, RMB33,143,030 and RMB5,523,838, respectively. The continuing connected transaction under the BBA Lease Agreement for the year ended 31 December 2016 did not exceed the annual cap of RMB33,143,030.

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 7:** An Shiji Logistic Co., Ltd. Sichuan (“**An Shiji**”) and Sichuan Province Yibin Wuliangye Group Anji Logistic Co. (“**Sichuan Anji**”) are the wholly-owned subsidiaries of Wuliangye.

On 13 October 2015, Mianyang Xincheng entered into a framework agreement with An Shiji (the “**An Shiji Logistics Services Agreement**”), pursuant to which An Shiji will provide logistics services to Mianyang Xincheng for a term commencing from 13 October 2015 and ending on 31 December 2017. Unless the An Shiji 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 transaction contemplated under the An Shiji Logistics Services Agreement for the two financial years ending 31 December 2017 are RMB3,500,000 and RMB3,000,000, respectively. The continuing connected transaction under the An Shiji Logistics Services Agreement for the year ended 31 December 2016 did not exceed the annual cap of RMB3,500,000.

On 13 October 2015, Mianyang Xincheng 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 Xincheng for a term commencing from 13 October 2015 and ending on 31 December 2017. 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 transaction contemplated under the Sichuan Anji Logistics Services Agreement for the two financial years ending 31 December 2017 are RMB4,500,000 and RMB4,500,000, respectively. The continuing connected transaction under the Sichuan Anji Logistics Services Agreement for the year ended 31 December 2016 did not exceed the annual cap of RMB4,500,000.

Details of the An Shiji Logistics Services Agreement and the Sichuan Anji Logistics Services Agreement are set out in the announcement of the Company dated 13 October 2015.

**Transaction 8:** Xinhua Combustion Engine is a non wholly-owned subsidiary of Wuliangye.

On 13 October 2015, Mianyang Xincheng entered into a framework agreement with Xinhua Combustion Engine (the “**Wuliangye Cleaning and Greening Services Agreement**”), pursuant to which Mianyang Xincheng agreed to procure cleaning and greening services from Xinhua Combustion Engine for a term commencing from 13 October 2015 and ending on 31 December 2017. 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.

# Report of Directors (Cont'd)

The annual caps of the continuing connected transaction contemplated under the Wuliangye Cleaning and Greening Services Agreement for the two financial years ending 31 December 2017 are RMB2,600,000 and RMB2,600,000, respectively. The continuing connected transaction under the Wuliangye Cleaning and Greening Services Agreement for the year ended 31 December 2016 did not exceed the annual cap of RMB2,600,000.

Details of the Wuliangye Cleaning and Greening Services Agreement are set out in the announcement of the Company dated 13 October 2015.

**Transaction 9:** Shenyang Jinbei is a non wholly-owned subsidiary of Brilliance China, a substantial shareholder of the Company. Shenyang XingYuanDong Automobile Component Co., Ltd. ("**Xing Yuan Dong**") is a wholly-owned subsidiary of Brilliance China, a substantial shareholder of the Company. The Group supplied gasoline engines and various types of engine components to Shenyang Jinbei and/or Xing Yuan Dong.

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 will sell engines and engine components Brilliance China group companies for a term of three years commencing from 1 January 2016 and ending on 31 December 2018. Unless the Brilliance China Sale Agreement is terminated prior to its expiry date, the agreement is renewable for additional terms of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.

The annual caps of the continuing connected transactions contemplated under the Brilliance China Sale Agreement for the three financial years ending 31 December 2018 are RMB769,997,000, RMB808,991,000 and RMB848,781,000, respectively. The sales to Shenyang Jinbei and Xing Yuan Dong for the year ended 31 December 2016 did not exceed the annual cap of RMB769,997,000.

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.

**Transaction 10:** Sichuan Yibin Pushi Automotive Components Co., Ltd. ("**Sichuan Pushi**") is a direct wholly-owned subsidiary of Pushi Group which owns approximately 93% of Xinhua Combustion Engine, a substantial shareholder of the Company, the ultimate holding company of which is Wuliangye. The Company purchased 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 Xinchun entered into a purchase framework agreement with Sichuan Pushi (the "**Sichuan Pushi Purchase Agreement**"), pursuant to which Mianyang Xinchun will 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. Unless the Sichuan Pushi Purchase Agreement is terminated prior to its expiry date, the agreement is renewable for additional terms of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.

The annual caps of the continuing connected transaction contemplated under the Sichuan Pushi Purchase Agreement for the three financial years ending 31 December 2018 are RMB28,550,000, RMB30,000,000 and RMB31,500,000, respectively. The continuing connected transaction under the Sichuan Pushi Purchase Agreement for the year ended 31 December 2016 did not exceed the annual cap of RMB28,550,000.

# Report of Directors (Cont'd)

On 13 October 2015, Mianyang Xincheng entered into a purchase framework agreement with Xinhua Combustion Engine (the “**Xinhua Combustion Engine Purchase Agreement**”), pursuant to which Mianyang Xincheng will 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. Unless the Xinhua Combustion Engine Purchase Agreement is terminated prior to its expiry date, the agreement is renewable for additional terms of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.

The annual caps of the continuing connected transaction contemplated under the Xinhua Combustion Engine Purchase Agreement for the three financial years ending 31 December 2018 are RMB180,850,000, RMB186,870,000 and RMB193,180,000, respectively. The continuing connected transaction under the Xinhua Combustion Engine Purchase Agreement for the year ended 31 December 2016 did not exceed the annual cap of RMB180,850,000.

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.

**Transaction 11:** Huachen is deemed as a connected person of the Company as described in Transaction 4 above. Mianyang Huarui is a wholly-owned subsidiary of Huachen. Mianyang Huaxiang Machinery Manufacturing Co., Ltd. (“**Mianyang Huaxiang**”) is an indirect wholly-owned subsidiary of Huachen. Shenyang Brilliance Power is a connected person of the Company as described in Transaction 3 above.

The Group supplied different types of gasoline engines to Huachen, Shenyang Brilliance Power, Mianyang Huarui and Mianyang Huaxiang. The Group also supplied engine components to Huachen, Mianyang Huarui and Mianyang Huaxiang.

On 13 October 2015, the Company entered into a sale framework agreement with Huachen (the “**Huachen Sale Agreement**”), pursuant to which the Company will sell engines and engine components to Huachen group companies for a term of three years commencing from 1 January 2016 and ending on 31 December 2018. Unless the Huachen Sale Agreement is terminated prior to its expiry date, the agreement is renewable for additional terms of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.

The annual caps of the continuing connected transactions contemplated under the Huachen Sale Agreement for the three financial years ending 31 December 2018 are RMB1,374,440,000, RMB1,442,263,000 and RMB2,118,086,000, respectively. The total sales to Huachen group companies for the year ended 31 December 2016 did not exceed the annual cap of RMB1,374,440,000.

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.

**Transactions 12 & 13:** BMW Brilliance Automotive is a connected person of the Company as described in Transaction 6 above.

On 23 May 2014, the Company, Mianyang Xincheng (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 engine parts and components and the provision of related services.

On 21 January 2015, further to the BBA Compliance Agreement, Mianyang Xincheng (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 will be exceeded. Therefore, 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.

# Report of Directors (Cont'd)

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 four years ending 31 December 2019 are approximately RMB1,525,467,133, RMB662,998,000, 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 2016 did not exceed the annual cap of approximately RMB1,525,467,133.

The annual caps of the sale of engines and engine parts and components, raw materials for manufacturing engines and engine parts and components by the Group contemplated under the BBA Compliance Agreement for the four years ending 31 December 2019 are approximately RMB1,743,150,632, RMB575,200,000, 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 2016 did not exceed the annual cap of approximately RMB1,743,150,632.

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 35 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 35 to the consolidated financial statements which constituted connected transactions or continuing connected transactions of the Group that were required to be disclosed pursuant to Chapter 14A of the Listing Rules.

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

## **CORPORATE GOVERNANCE**

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 33 to 48 of this annual report.

# Report of Directors (Cont'd)

## **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 49 to 53 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 2017 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 15 June 2017 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,  
23 March 2017

# 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 2016, 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 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.

# Corporate Governance Report (Cont'd)

Participation of individual directors at the Board meetings in 2016 is as follows:

	Number of Board meetings attended/ Number of meetings eligible to attend	Attendance Rate
<i>Executive directors:</i>		
Mr. Wu Xiao An ( <i>Chairman</i> )	4/4	100%
Mr. Wang Yunxian ( <i>Chief Executive Officer</i> )	4/4	100%
<i>Non-executive directors:</i>		
Mr. Qi Yumin (resigned on 12 September 2016)	2/3	66.67%
Mr. Tang Qiao (resigned on 7 November 2016)	3/3	100%
Mr. Liu Tongfu (appointed on 12 September 2016)	1/1	100%
Mr. Yang Ming (appointed on 7 November 2016)	1/1	100%
<i>Independent non-executive directors:</i>		
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		96.67%

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 2016, including the annual general meeting held on 2 June 2016 and two extraordinary general meetings held on 25 August 2016 and 1 November 2016, is as follows:

	Number of general meetings attended/ Number of meetings eligible to attend	Attendance Rate
<i>Executive directors:</i>		
Mr. Wu Xiao An ( <i>Chairman</i> )	3/3	100%
Mr. Wang Yunxian ( <i>Chief Executive Officer</i> )	3/3	100%
<i>Non-executive directors:</i>		
Mr. Qi Yumin (resigned on 12 September 2016)	2/2	100%
Mr. Tang Qiao (resigned on 7 November 2016)	3/3	100%
Mr. Liu Tongfu (appointed on 12 September 2016)	1/1	100%
Mr. Yang Ming (appointed on 7 November 2016)	–	–
<i>Independent non-executive directors:</i>		
Mr. Chi Guohua	3/3	100%
Mr. Wang Jun	3/3	100%
Mr. Huang Haibo	3/3	100%
Mr. Wang Songlin	3/3	100%
Average attendance rate		100%

# Corporate Governance Report (Cont'd)

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 2016.

## 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 8 February 2013) 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 2016 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:

	<b>Membership of Board Committee(s)</b>
<i>Executive directors:</i>	
Mr. Wu Xiao An ( <i>Chairman</i> )	Member of Remuneration Committee Member of Nomination Committee
Mr. Wang Yunxian ( <i>Chief Executive Officer</i> )	–
<i>Non-executive directors:</i>	
Mr. Liu Tongfu	–
Mr. Yang Ming	–
<i>Independent non-executive directors:</i>	
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

# Corporate Governance Report (Cont'd)

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 2016, 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 14 years of experience in financial, 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 9 to 12 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.

Mr. Liu Tongfu was appointed as non-executive director of the Company on 12 September 2016 to fill the vacancy left by the resignation of Mr. Qi Yumin. Mr. Yang Ming was appointed as non-executive director of the Company on 7 November 2016 to fill the vacancy left by the resignation of Mr. Tang Qiao. Therefore, Mr. Liu Tongfu and Mr. Yang Ming were subject to re-election by the shareholders of the Company at the first general meeting after their appointment. Mr. Liu Tongfu has offered himself for re-election at the extraordinary general meeting of the Company held on 1 November 2016. Mr. Yang Ming will offer himself for re-election at the forthcoming annual general meeting of the Company to be held on 15 June 2017.

Each of the executive directors were 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. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin will retire by rotation at the forthcoming annual general meeting of the Company to be held on 15 June 2017 and have offered themselves for re-election at that annual general meeting.

# Corporate Governance Report (Cont'd)

## 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 refresh 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 of 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 2016, 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 <i>(Notes)</i>
Mr. Wu Xiao An	1 and 2
Mr. Wang Yunxian	1 and 2
Mr. Qi Yumin (resigned on 12 September 2016)	1
Mr. Tang Qiao (resigned on 7 November 2016)	1 and 2
Mr. Liu Tongfu (appointed on 12 September 2016)	1 and 2
Mr. Yang Ming (appointed on 7 November 2016)	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 provision 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 2016 in person or by way of telephone conference as required by 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 2016.

# Corporate Governance Report (Cont'd)

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 2016 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 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 include 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.

# Corporate Governance Report (Cont'd)

In 2016, the Nomination Committee held one (1) meeting and discharged its responsibilities. Attendance of individual members at the Nomination Committee meeting is as follows:

	<b>Attendance by directors/ Number of meetings</b>	<b>Attendance Rate</b>
Mr. Wang Jun ( <i>chairman of the Nomination Committee</i> )	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 2016 included:

- nominated two new non-executive directors as the replacement of two resigned non-executive directors;
- 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 2 June 2016.

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.

# Corporate Governance Report (Cont'd)

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:

	<b>Gender</b>	<b>Ethnicity</b>	<b>Age</b>	<b>Length of Service</b>
Mr. Wu Xiao An	Male	Chinese	55	6 years
Mr. Wang Yunxian	Male	Chinese	62	6 years
Mr. Qi Yumin (resigned on 12 September 2016)	Male	Chinese	57	5 years
Mr. Tang Qiao (resigned on 7 November 2016)	Male	Chinese	62	3 years
Mr. Liu Tongfu (appointed on 12 September 2016)	Male	Chinese	52	1 year
Mr. Yang Ming (appointed on 7 November 2016)	Male	Chinese	48	1 year
Mr. Chi Guohua	Male	Chinese	42	4 years
Mr. Wang Jun	Male	Chinese	55	5 years
Mr. Huang Haibo	Male	Chinese	62	5 years
Mr. Wang Songlin	Male	Chinese	65	5 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 include 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 2016, the Remuneration Committee held one (1) meeting and discharged its responsibilities. Attendance of individual members at the Remuneration Committee meeting is as follows:

	<b>Attendance by directors/ Number of meetings</b>	<b>Attendance Rate</b>
Mr. Huang Haibo ( <i>chairman of the Remuneration Committee</i> )	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.

# Corporate Governance Report (Cont'd)

The work performed by the Remuneration Committee in 2016 included:

- approved the remuneration of directors (including the independent non-executive directors);
- reviewed the letters of appointment of two new non-executive directors for a term of three years commencing from 12 September 2016 and 7 November 2016 respectively;
- 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 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 to ensure judgment and independence of the audit of the Group will not be impaired.

In 2016, the Audit Committee held two (2) meetings and discharged its responsibilities. Attendance of individual members at the Audit Committee meetings is as follows:

	<b>Attendance by directors/ Number of meetings</b>	<b>Attendance Rate</b>
Mr. Chi Guohua ( <i>chairman of the Audit Committee</i> )	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.

# Corporate Governance Report (Cont'd)

The following is a summary of the work performed by the Audit Committee in 2016:

- 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 2015;
- reviewed the interim report and the interim results announcement for the six months ended 30 June 2016;
- met with the auditors to go through any significant audit issues or key findings noted during the audit of the Group's 2015 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 2016 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 2016, 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 2016, 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 2016 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 2016. The Audit Committee therefore recommended the audited consolidated financial statements of the Group for the year ended 31 December 2016 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.

# Corporate Governance Report (Cont'd)

## 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 2016, 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 Rule 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 2016. Currently, the Company's external auditors are Deloitte Touche Tohmatsu (the "Auditors").

In 2016, the audit and non-audit service fees paid or payable by the Company amounted to approximately HK\$1,168,000 and RMB844,000, 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 Auditors' Report on pages 54 to 57 of this annual report.

# Corporate Governance Report (Cont'd)

## 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 Company'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 of 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 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.

# Corporate Governance Report (Cont'd)

## 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.

# Corporate Governance Report (Cont'd)

## 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.

# Corporate Governance Report (Cont'd)

## **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 2016, 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 2 June 2016 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 two extraordinary general meetings of the Company held on 25 August 2016 and 1 November 2016, all directors of the Company attended either in person or by way of telephone conference to answer questions raised by the shareholders at the meetings. All members of the independent board committee also attended the meetings.

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 Voting by poll**

At each of the annual general meeting held on 2 June 2016 and the two extraordinary general meetings held on 25 August 2016 and 1 November 2016, 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.

# Corporate Governance Report (Cont'd)

## 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 (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 the 13 March 2013. During the year ended 31 December 2016, 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 China. 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 of this annual report.

## I. ENVIRONMENTAL PROTECTION

### Emissions

Being a mechanical manufacturing corporation, the Group closely manages its emissions and minimises its impacts on the environment in strict compliance with the relevant 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 Environmental Pollution by Solid Waste (《中華人民共和國固體廢物防治法》). In 2016, the types of discharges of the Group were as follows:

- Atmospheric: industrial emissions, dust from production activities and cooking emissions, comprising mainly carbon monoxide (CO), nitrogen oxide (NOx), sulphur dioxide (SO<sub>2</sub>) and other pollutants.
- Water: effluents from production activities and domestic sewage, comprising mainly chemical oxygen demand by dichromate (CODcr), 5-day biochemical oxygen demand (BOD5), suspended solids (SS), linear alkylbenzene sulfonate (LAS), grease and other pollutants.
- Solid waste: non-hazardous solid waste including solid waste from melting furnaces, aluminium dust from dust collectors, scrap aluminium, waste sand, obsolete bolts, used packaging materials and domestic waste; and hazardous solid waste including waste mineral oil, oil-stained cloth, personal protective equipment, sludge from sewage treatment plants and used organic solvents.

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

Measures to mitigate air emissions, GHG and effluents implemented by the Group in 2016 were as follows:

- Atmospheric emissions were discharged after being treated by dust collection, mechanical ventilation and air purification systems so as to comply with the requirements of environmental protection standards.
- For effluents from production activities, the Group invested in and constructed sewage treatment plants with online monitoring systems to ensure that the effluents discharged into municipal sewer systems meet relevant requirements and environmental protection standards in terms of CODcr, BOD5, SS and other key pollutant treatment indicators.
- Domestic sewage was treated by the septic tank systems of the plants before being discharged into municipal sewer systems so as to meet level-3 standards under the Integrated Wastewater Discharge Standard (《污水綜合排放標準》) (GB8978-1996).

# Environmental, Social and Governance Report (Cont'd)

## *(II) Waste treatment*

The Group has implemented the following measures to strengthen waste management in 2016:

- Non-hazardous solid waste was separated and collected and disposed of by local environmental and hygiene departments.
- Hazardous waste was disposed of by qualified professional handling companies in strict compliance with the requirements of the environmental protection regulations after reporting to local environmental management departments.

## **Use of resources**

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

## *(I) Energy use efficiency*

In 2016, the Group's energy use efficiency in production activities was enhanced by the following initiatives:

- Capitalising on the national time-varying electricity rates system, a time-varying schedule of casting furnace operation was established to reduce cost and enhance efficiency.
- Transformers were fine-tuned to ensure power output of 75%-90%, thereby minimising wear and tear and ensuring safe operation.
- Street lamps in old plants were changed from double files to single files and those in new plants were subject to sectional and time control.

## *(II) Water use efficiency*

The Group stresses water recycling in its production activities. In office areas, water efficient facilities are installed and water-saving notices are posted to enhance water-saving awareness and foster water-saving habits amongst the staff.

## **Environment and natural resources**

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

- Thermostats in offices are set to over 26 degrees in summer and below 20 degrees in winter.
- Email and intranet systems are adopted to reduce the use of paper.
- Corporate shuttle buses take the staff members to and from work collectively to minimise vehicle exhaust fumes.

# Environmental, Social and Governance Report (Cont'd)

## II. SOCIAL RESPONSIBILITIES

### Staff development

#### (I) Working environment

The Group creates a cozy and comfortable working environment with 5S (i.e. sort (SEIRI), set in order (SEITON), shine (SEISO), standardise (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

The Group has an open, fair and equitable staff recruitment system in place to allow capable candidates to maximise their contributions in the right positions.

Newly-recruited employees must participate in safety law training in strict compliance with national, provincial and municipal laws such as the Labour 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 formulated several rules and systems such as the Labour 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》) and the Employee Training Management Methods (《員工培訓管理辦法》) which cover various employment aspects, including 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 laws and regulations.

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

#### (III) Health and safety

The Group has set up various occupational health and safety management rules that specify the responsibilities of each position in strict compliance with the relevant 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》), 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 Fire Prevention Law of the People's Republic of China (《中華人民共和國消防法》), the Regulations on Work-Related Injury Insurances (《工傷保險條例》) and the Regulations on the Safety Administration of Dangerous Chemicals (《危險化學品安全管理條例》). Staff members must pass three levels of tests after safety training before reporting duty in order to familiarise themselves with occupational health and safety knowledge.

The Group has also applied safety management and operation rules to relatively risky locations (such as oil tanks, transformer systems and air compression units) and operations (such as testing and repairing equipment). Staff involved in specialised operations must also go through the relevant training and obtain the respective certification before commencing their work.

# Environmental, Social and Governance Report (Cont'd)

In 2016, the Group recorded zero work-related fatalities. It believes that work accidents can be avoided effectively by constantly perfecting the relevant management rules as well as offering a safe and comfortable working environment and relevant training to the staff.

The Group aims to achieve zero workplace accident by gradually reducing the number of such accidents. It will carry on its effort in safeguarding staff's health and safety.

## *(IV) Development and training*

The Group has strengthened its training management system in 2016 to provide viable ways to increase work efficiency, enhance training results and reduce training costs.

Around 1,820 staff members attended 30 internal seminars on the development directions, strategic goals and values of the Group to align the values of the staff and the Group. Other special training programmes focused on research and development, quality management, production, manufacturing and other operations were also arranged to enhance the staff's performance.

## *(V) Labour standards*

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

## **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 2016, the Group set up the Veit Fund (懷特基金) together with Dr. Veit Kohnhause, the Consultant of General Manager, with the aim of subsidising local underprivileged students. The Group partnered with Yunxi Village, Yunxi Township, Yanting County and Yunfeng Village, Maming Township, Zitong County to support the poor and people in need.

## **III. OPERATING PRACTICES**

### **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 an 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 Management Manual (《供方管理手冊》) and the On-site Supplier Product Quality Check Management Methods (《供方產品質量現場認證管理辦法》).

# Environmental, Social and Governance Report (Cont'd)

## **Product responsibility**

The Group lay stress on product quality and production responsibility. It has established a quality assurance and assessment system that covers the whole operation (including raw material procurement, product design, manufacturing, advertising, labelling, privacy matters, after-sale services and quality control) and strengthened its testing systems, and persistently studies and minimises its environmental impacts, in order to provide its customers with products that are strictly in 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 emission and fuel consumption standards such as Limits and Measurement Methods for Emissions from Light-duty Vehicles (CHINA 5) (GB 18352.5-2013), Limits and Measurement Methods for Emissions from Light-duty Vehicles (CHINA III, IV) (GB 18352.3-2005), Limits and Measurement Methods for Emissions from Light-duty Vehicles (CHINA 6) (GB 18352.6-2016), Fuel Consumption Limits for Heavy-duty Commercial Vehicles (GB 30510-2014) and Fuel Consumption Evaluation Method and Targets for Passenger Cars (GB 27999-2011).

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

## **Anti-corruption**

The Group's disciplinary and supervision department conducts self-evaluations and implements improvements over its key aspects and activities such as construction project management, project investment, procurement of supplies, invitation and provision of tenders, the application of any 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. Controls against bribery, extortion, fraud and money-laundering were set up to promote compliance, integrity and an incorrupted culture amongst the management members. Long-term and effective risk control and warning systems against corruption are set up. Risk management over key corporate decision-making processes, major projects, substantial funds, appointment and dismissal of key management personnel, other major appointments and dismissals, and other activities was strengthened. Comprehensive party committee standing order and leader management system were established and refined. Whistle-blowing procedures were clarified and disciplinary review systems were reinforced to monitor the conducts and actions of the staff during daily operations. 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.

# Independent Auditor's Report



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 Xincheng China Power Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 58 to 120, which comprise the consolidated statement of financial position as at 31 December 2016 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 and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2016, and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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.

## 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 accompanying 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 2016, the Group has significant intangible assets amounting to RMB471,918,000 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 assets is based on the forecasting and discounted future cash flows, which are inherently highly judgmental.

The key estimate made by the management included the expected saleable units of respective automotive engines underlying the cash flow forecasts.

Management's disclosures with regard to the estimation are contained in Note 4, whilst the disclosures in respect of carrying value of intangible assets are set out in Note 17.

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 internal controls designed and implemented for the regular assessment of saleable units;
- Testing the subsequent sales units after the year-end, on a sample basis, to source documents;
- Evaluating the reasonableness of estimate on saleable units with reference to management's assessment of likelihood of sales units, historic sales records, and subsequent sales.

# Independent Auditor's Report (Cont'd)

## KEY AUDIT MATTERS (Cont'd)

### Key audit matter

#### *Revenue recognition*

Revenue of the Group mainly comprises sales of engines and parts. The Group enters into supply agreements with its major customers every year. According to the terms of the agreements, revenue is recognised when the goods are received and accepted by the customers, which is considered to be the point in time when the significant risks and rewards of ownership of the goods are transferred to the customers.

We have identified the recognition of revenue as a key audit matter because revenue is one of the key performance indicators of the Group and because there is an inherent risk of manipulation of the timing of recognition of revenue to meet specific targets or expectations. The disclosure in respect of revenue generated for the year are set out in Note 5.

### How our audit addressed the key audit matter

Our procedures to address the recognition of revenue included the following:

- Understanding the internal controls designed and implemented for the revenue recognition;
- Inspecting sales agreements signed in the current year, on a sample basis, and considering whether the agreements contained terms allowing the customers to make any sales returns;
- Obtaining external confirmations of the value of sales transactions for the year directly from distributors, on a sample basis;
- Inspecting the sales invoices and related goods delivery notes with the customers' signed acceptance for sales transactions for the year where the customers did not return the requested confirmations; and
- Comparing, for a sample of sales transaction just before and just after the financial year end, details in the sales invoices to the relevant goods delivery notes, which were signed by the customers to indicate their acceptance of the goods, to assess if the related revenue had been recognised in the appropriate financial period on the basis of the terms of sales as set out in the agreements.

# Independent Auditor's Report (Cont'd)

## **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 consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, 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 RESPONSIBILITY 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.

# Independent Auditor's Report (Cont'd)

## AUDITOR'S RESPONSIBILITY 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 Mr. Cheung Kwong Tat.

*Certified Public Accountants*

Hong Kong  
23 March 2017

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenue	5	3,462,460	3,269,331
Cost of sales		(3,009,444)	(2,759,218)
Gross profit		453,016	510,113
Other income and gain	6	79,409	72,710
Selling and distribution expenses		(68,430)	(66,137)
Administrative expenses		(148,101)	(141,774)
Finance costs	7	(48,496)	(49,879)
Other expenses and losses	8	(39,800)	(54,076)
Share of result of a joint venture	18	665	(198)
Profit before tax		228,263	270,759
Income tax expense	9	(42,367)	(46,094)
Profit and total comprehensive income for the year attributable to owners of the Company	10	185,896	224,665
Earnings per share – Basic (RMB)	13	0.145	0.175

# Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	1,982,893	1,410,030
Prepaid lease payments	15	91,614	94,306
Investment properties	16	218,799	226,090
Intangible assets	17	471,918	369,933
Interest in a joint venture	18	49,773	49,108
Deferred tax assets	19	8,179	6,078
Loan to a shareholder	20	28,460	–
		<b>2,851,636</b>	<b>2,155,545</b>
<b>CURRENT ASSETS</b>			
Inventories	21	478,039	440,999
Prepaid lease payments	15	2,295	2,308
Loan to a shareholder	20	–	30,862
Trade and other receivables	22	705,258	597,888
Amounts due from related companies	23	1,271,371	1,337,400
Tax recoverable		–	5,450
Pledged/restricted bank deposits	24	327,111	295,857
Bank balances and cash	24	306,014	288,212
		<b>3,090,088</b>	<b>2,998,976</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	25	1,380,663	1,193,033
Amounts due to related companies	26	261,446	148,060
Bank borrowings due within one year	27	781,354	350,500
Income tax payables		4,364	–
		<b>2,427,827</b>	<b>1,691,593</b>
<b>NET CURRENT ASSETS</b>		<b>662,261</b>	<b>1,307,383</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>3,513,897</b>	<b>3,462,928</b>
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings due after one year	27	610,801	737,803
Deferred income	28	38,786	45,704
		<b>649,587</b>	<b>783,507</b>
<b>NET ASSETS</b>		<b>2,864,310</b>	<b>2,679,421</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	29	10,457	10,466
Reserves		2,853,853	2,668,955
<b>TOTAL EQUITY</b>		<b>2,864,310</b>	<b>2,679,421</b>

The consolidated financial statements on pages 58 to 120 were approved and authorised for issue by the board of directors of the Company (the “Board”) on 23 March 2017 and are signed on its behalf by:

Wu Xiao Au (also known as Ng Siu On)  
DIRECTOR

Wang Yunxian  
DIRECTOR

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	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)	Retained profits RMB'000	Total RMB'000
At 1 January 2015	10,500	706,759	193,457	290,147	(11,285)	8,319	1,262,396	2,460,293
Profit and total comprehensive income for the year	-	-	-	-	-	-	224,665	224,665
Repurchase of ordinary shares	(34)	(5,503)	-	-	-	-	-	(5,537)
Transfer	-	-	-	36,799	-	-	(36,799)	-
At 31 December 2015	10,466	701,256	193,457	326,946	(11,285)	8,319	1,450,262	2,679,421
Profit and total comprehensive income for the year	-	-	-	-	-	-	185,896	185,896
Repurchase of ordinary shares	(9)	(998)	-	-	-	-	-	(1,007)
Transfer	-	-	-	32,782	-	-	(32,782)	-
At 31 December 2016	<b>10,457</b>	<b>700,258</b>	<b>193,457</b>	<b>359,728</b>	<b>(11,285)</b>	<b>8,319</b>	<b>1,603,376</b>	<b>2,864,310</b>

Notes:

- (a) Surplus reserves comprise statutory surplus reserve and discretionary surplus reserve of Mianyang Xincheng Engine Co., Limited\* (綿陽新晨動力機械有限公司) ("Mianyang Xincheng"), 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 Xincheng in accordance with its Articles of Association. Statutory surplus reserve amounting to approximately RMB240,861,000 as at 31 December 2016 (2015: RMB219,006,000), can be used to make up for previous year's losses or convert into additional capital of Mianyang Xincheng. Discretionary surplus reserve amounting to approximately RMB118,867,000 as at 31 December 2016 (31 December 2015: RMB107,940,000) can be used to expand the existing operations of Mianyang Xincheng.
- (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 Xincheng in prior years.
- (c) Contribution from a shareholder represents the fair value adjustments on shares awarded by Lead In Management Limited to a third party. Details are set out in Note 37.

\* English name for reference only.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
<b>OPERATING ACTIVITIES</b>			
Profit before tax		228,263	270,759
Adjustments for:			
Interest expenses		48,496	49,879
Interest income		(8,881)	(8,156)
Depreciation and amortisation		196,479	123,520
Amortisation of government grants		(6,918)	(6,918)
Provision for warranty, net of reversal		26,181	17,176
Allowance for provision of inventories		2,781	1,482
Share of result of a joint venture		(665)	198
Allowance for doubtful debts		671	539
Unrealised exchange loss (gain)		(3,522)	(2,923)
Loss (gain) on disposal of property, plant and equipment		77	(8)
Gain on disposal of land use rights		(7,608)	–
Operating cash flows before movements in working capital		475,354	445,548
(Increase) decrease in inventories		(39,821)	156,536
(Increase) decrease in trade and other receivables		(108,041)	224,838
Increase (decrease) in trade and other payables		102,647	(197,451)
Decrease (increase) in amounts due from related companies		65,504	(365,811)
Increase (decrease) in amounts due to related companies		113,730	(121,961)
Cash generated from operations		609,373	141,699
Income tax paid		(33,057)	(54,918)
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<b>576,316</b>	<b>86,781</b>
<b>INVESTING ACTIVITIES</b>			
Repayments from related parties		–	(1,350)
Advance to related parties		525	–
Interest received		8,881	8,156
Receipt from government grants		–	9,733
Purchase of property, plant and equipment		(711,222)	(270,760)
Proceeds for disposal of property, plant and equipment		1,171	8,437
Proceeds from expropriation of land use rights		8,000	–
Development costs paid		(136,712)	(96,110)
Withdrawal of pledged bank deposits		313,373	1,096,096
Placement of pledged bank deposits		(344,627)	(967,646)
Net cash outflow for acquisition of a business	38	–	(384,573)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(860,611)</b>	<b>(598,017)</b>

# Consolidated Statement of Cash Flows (Cont'd)

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
<b>FINANCING ACTIVITIES</b>			
Interest paid		(50,404)	(50,903)
New bank borrowings raised		797,888	899,897
Repayment of bank borrowings		(494,036)	(399,233)
Repurchase of ordinary shares		(1,007)	(5,537)
Other loan raised		50,000	-
Repayments to a related company		(344)	-
Advance from a related company		-	1,277
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<b>302,097</b>	<b>445,501</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>17,802</b>	<b>(65,735)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>288,212</b>	<b>353,947</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR,</b> represented by bank balances and cash		<b>306,014</b>	<b>288,212</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 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 wholly owned subsidiary, Southern State Investment Limited (“Southern State”), are investment holding. The principal activities of Mianyang Xincheng are development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles and manufacture of engine parts and components of the passenger vehicles in the PRC.

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

\* *English name for reference only.*

## 2. APPLICATION OF NEW AND AMENDMENTS OF HONG KONG ACCOUNTING STANDARDS AND HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the consolidated financial statements, the Group has adopted for the first time in this year the amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), which are mandatorily effective for the accounting period beginning on 1 January 2016.

Except as described below, the application of the other amendments to the Hong Kong Accounting Standards (“HKASs”) and HKFRSs in the current year has had no material impact on the Group’s consolidated financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### Amendments to HKAS 1 Disclosure Initiative

The Group has applied the amendments for the first time in the current year. The amendments clarify that an entity need not provide a specific disclosure required by an HKFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity’s financial position and financial performance.

As regard to the structure of the financial statements, the amendments provide example of systematic ordering or grouping of the notes.

The Group has applied the amendments retrospectively. Certain notes to the consolidated financial statements have been sort out in order to give prominence to the areas of the Group’s activities that management considers to be most relevant to an understanding of the Group’s financial performance and financial position. The above mentioned reordering of certain notes has not resulted any impact on the financial performance and financial position of the Group in the consolidated financial statements.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 2. APPLICATION OF NEW AND AMENDMENTS OF HONG KONG ACCOUNTING STANDARDS AND HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

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

HKFRS 9	Financial instruments <sup>1</sup>
HKFRS 15	Revenue from contracts with customers and the Related Amendments <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>1</sup>
Amendments to HKAS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKAS 7	Disclosure Initiative <sup>4</sup>
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses <sup>4</sup>

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

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

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

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2017.

Except as described below, the management of the Group considers that the application of the other new and amendments to HKFRSs is unlikely to have a material impact on the Group's financial position and performance as well as disclosure.

### HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting, and impairment requirements for financial assets.

Specifically, pursuant to HKFRS 9, all recognised financial assets that are within the scope of HKFRS 9:

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at 'fair value through other comprehensive income' (FVTOCI). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 2. APPLICATION OF NEW AND AMENDMENTS OF HONG KONG ACCOUNTING STANDARDS AND HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

### HKFRS 9 Financial Instruments (Cont'd)

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Except for the potential early recognition of credit losses based on the expected loss model in relation to the Group's financial assets measured at amortised costs, the management of the Group anticipates that the adoption of HKFRS 9 in the future may not have other significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments as at 31 December 2016.

### HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity 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. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Based on preliminary analysis, the management of the Group anticipates that the adoption of HKFRS 15 in the future is unlikely to have significant impact on recognition of revenue from sales of engines and components, and provision of services.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 2. APPLICATION OF NEW AND AMENDMENTS OF HONG KONG ACCOUNTING STANDARDS AND HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

### HKFRS 16 Leases

HKFRS 16 specifies how an HKFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lease accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with HKFRS 16's approach to lessor accounting substantially unchanged from HKAS 17.

HKFRS 16, which upon the effective date will supersede HKAS 17 *Leases*, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statements of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The total operating lease commitments of the Group in respect of leased premises as at 31 December 2016 are set out in Note 32. The management of the Group expects that the adoption of HKFRS 16 is unlikely to result in significant impact on the Group's result but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated financial statements as right-of-use assets and lease liabilities.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

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 Hong Kong Companies Ordinance ("CO").

### Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, as explained in the accounting policies set out 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, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

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

### **Basis of preparation (Cont'd)**

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.

### **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.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

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

### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Noncurrent Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

### 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. 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. 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 requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* 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.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

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

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when goods are delivered to and accepted by the customers, which is considered to be the point in time when the significant risk and rewards of ownership of the goods are transferred to the customers. Advances received from customers prior to meeting the criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. 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.

### 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.

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.

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.

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.

### Acquisition of assets through acquisition of a subsidiary

Where an acquisition of an asset or a group of assets does not constitute a business, the Group identify and recognise the individual identifiable assets acquired and liabilities assumed by allocating the purchase price to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

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

### **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.

### **Leasing**

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.

#### *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.

### **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.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

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

### **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 the state-managed retirement benefit scheme in the PRC or the Mandatory Provident Fund Scheme in Hong Kong are recognised as expense when employees have rendered service entitling them to the contributions.

### **Taxation**

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

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

### **Taxation** (Cont'd)

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. 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.

### **Investment properties**

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.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

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

### 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.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the 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 sales.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

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

### **Financial instruments**

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

#### *Financial assets*

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

#### 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 (see accounting policy on impairment loss on financial assets below).

#### Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where 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.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

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

### Financial instruments (Cont'd)

#### *Financial assets (Cont'd)*

#### Impairment of financial assets (Cont'd)

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables and amounts due from related companies of trade nature (collectively referred to as "Trade Nature Receivable(s)"), assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. 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 average credit period, or an 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 Nature 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 Nature Receivable 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.

#### *Financial liabilities and equity instruments*

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

#### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

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

### Financial instruments (Cont'd)

#### *Financial liabilities and equity instruments (Cont'd)*

##### Financial liabilities

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

##### 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.

##### *Derecognition*

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 in its entirety, 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.

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

##### **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).

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

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

### 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 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. 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.

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.

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.

### Share-based payment transactions

Share-based compensation expense related to shares issued pursuant to the Group's share incentive plan or share incentive scheme is generally determined based on the fair value of the shares issued on the business day immediately prior to the date of grant. For share awards that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to 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 judgments, 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 affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following 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 a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 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 value 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. Change 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. The directors consider that the recoverable amount exceeded the carrying amount of the property, plant and equipment and, therefore, no impairment was recognised during the year.

The carrying amount of property, plant and equipment is set out in Note 14.

### **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 useful lives of intangible assets of similar nature and functions. Management will increase the amortisation 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.

The Group tests whether intangible assets have suffered any impairment in accordance with its accounting policy. The recoverable amounts of intangible assets have been determined based on the discounted cash flow method. 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.

The carrying amount of intangible assets is set out in Note 17.

### **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 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 is set out in Note 21.

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

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of trade receivables and amounts due from related companies which are of trade nature is set out in Notes 22 and 23, respectively.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

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

### 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 25.

## 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 or services provided.

### Segment revenue and segment results

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

- (1) Gasoline engines;
- (2) Diesel engines; and
- (3) Engine components and service income.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 5. REVENUE AND SEGMENT INFORMATION (Cont'd)

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

### For the year ended 31 December 2016

	Gasoline engines RMB'000	Diesel engines RMB'000	Engine components and service income RMB'000	Total RMB'000
Segment revenue – external <i>(Note)</i>	2,696,215	267,931	498,314	3,462,460
Segment results	298,360	30,579	124,077	453,016
Unallocated income and gain				79,409
Unallocated expenses				
Selling and distribution expenses				(68,430)
Administrative expenses				(148,101)
Finance costs				(48,496)
Other expenses and losses				(39,800)
Share of result of a joint venture				665
Profit before tax				228,263

### For the year ended 31 December 2015

	Gasoline engines RMB'000	Diesel engines RMB'000	Engine components and service income RMB'000	Total RMB'000
Segment revenue – external <i>(Note)</i>	2,568,436	262,772	438,123	3,269,331
Segment results	327,697	38,288	144,128	510,113
Unallocated income and gain				72,710
Unallocated expenses				
Selling and distribution expenses				(66,137)
Administrative expenses				(141,774)
Finance costs				(49,879)
Other expenses and losses				(54,076)
Share of result of a joint venture				(198)
Profit before tax				270,759

*Note:* There is no inter-segment sales during the years of 2016 and 2015.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 5. REVENUE AND SEGMENT INFORMATION (Cont'd)

Other segment information included in the measurement of segment results:

	Gasoline engines RMB'000	Diesel engines RMB'000	Engine components and service income RMB'000	Unallocated RMB'000	Total RMB'000
<b>For the year ended 31 December 2016</b>					
Depreciation and amortisation	82,679	8,686	76,956	28,158	196,479
Provision of inventories	2,091	690	-	-	2,781
<b>For the year ended 31 December 2015</b>					
Depreciation and amortisation	46,180	6,109	45,599	25,632	123,520
Provision of inventories	1,091	391	-	-	1,482

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

### Segment assets and liabilities

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

### Geographical information

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

### Information about major customers

Revenue from major customers which individually accounts for 10% or more of the Group's total revenue are sales of gasoline engines, diesel engines, engine components and service income to certain related parties as disclosed in Note 35.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 6. OTHER INCOME AND GAIN

	2016 RMB'000	2015 RMB'000
Bank interest income	8,881	8,156
Government grants (see Note 28)	38,597	39,199
Gain on expropriation of land use rights	7,608	–
Gain on disposal of property, plant and equipment	–	8
Rental income from investment properties, net of direct outgoing expenses	23,218	25,055
Others	1,105	292
	<b>79,409</b>	<b>72,710</b>

## 7. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on borrowings:		
Bank loans	47,100	38,800
Adjustment on loan to a shareholder	4,326	–
Discounted bills	3,304	12,103
	<b>54,730</b>	<b>50,903</b>
<i>Less: amounts capitalised</i>	<b>(6,234)</b>	<b>(1,024)</b>
	<b>48,496</b>	<b>49,879</b>

Borrowing costs capitalised during the year arose on the general borrowing pool and were calculated by applying a capitalisation rate of 3.41% (2015: 3.45%) per annum to expenditure on qualifying assets.

## 8. OTHER EXPENSE AND LOSSES

	2016 RMB'000	2015 RMB'000
Research expenses	6,606	19,465
Exchange losses, net	31,364	32,673
Loss on disposal of property, plant and equipment	77	–
Others	1,753	1,938
	<b>39,800</b>	<b>54,076</b>

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 9. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
PRC Enterprise Income Tax		
Current tax	42,466	46,678
Under (over) provision in prior year	2,002	(1,429)
	44,468	45,249
Deferred tax (see Note 19)	(2,101)	845
	42,367	46,094

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

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

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

The Group is subject to PRC dividend withholding tax on the dividends paid by Mianyang Xincheng as it is a tax resident in the PRC but Southern State, the immediate holding company of Mianyang Xincheng, is a non-PRC tax resident. As a result, the Group will be subject to the PRC dividend withholding tax of 10% when and if undistributed earnings of Mianyang Xincheng are declared to be paid as dividends out of profits that arose on or after 1 January 2008. Deferred tax has not been provided for in the consolidated financial statements in respect of the tax effect of temporary differences attributable to accumulated undistributed earnings of Mianyang Xincheng as at 31 December 2016 arising since 1 January 2008 amounting to approximately RMB182,967,000 (2015: RMB161,681,000), as the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The directors of Mianyang Xincheng plan to set aside such undistributed profits of Mianyang Xincheng for investment purpose.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 9. INCOME TAX EXPENSE (Cont'd)

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:

	2016 RMB'000	2015 RMB'000
Profit before tax	<b>228,263</b>	270,759
Tax at PRC tax rate of 15%	<b>34,239</b>	40,614
Tax effect of expenses not deductible for tax purpose	<b>5,326</b>	5,211
Effect of different tax rate of a group entity operate in the PRC	<b>4,301</b>	3,443
Tax effect of income not taxable for tax purpose	<b>(1,038)</b>	(1,120)
Under (over) provision in prior year	<b>2,002</b>	(1,429)
Tax incentives on eligible expenditures <sup>(Note)</sup>	<b>(1,047)</b>	(3,724)
Others	<b>(1,416)</b>	3,099
Income tax expense	<b>42,367</b>	46,094

*Note:* The eligible expenditures represent research and development costs charged to profit or loss for the year, which is subject to an additional 50% tax deduction in the calculation of income tax expense.

## 10. PROFIT FOR THE YEAR

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

	2016 RMB'000	2015 RMB'000
Directors' remuneration (see Note 11)	<b>13,783</b>	10,948
Other staff costs	<b>157,294</b>	147,325
Contributions to retirement benefits scheme	<b>29,656</b>	22,762
Total staff costs	<b>200,733</b>	181,035
Depreciation of property, plant and equipment (see Note 14)	<b>150,770</b>	102,741
Depreciation of investment properties	<b>7,291</b>	7,291
Amortisation of prepaid lease payments	<b>2,313</b>	2,313
Amortisation of intangible assets (included in cost of sales)	<b>36,105</b>	11,175
Total depreciation and amortisation	<b>196,479</b>	123,520
Auditors' remuneration	<b>1,271</b>	1,129
Allowance for doubtful debts	<b>671</b>	539
Included in cost of sales:		
Cost of inventories recognised as expense	<b>3,009,444</b>	2,759,218
Allowance for provision of inventories (see Note 21)	<b>2,781</b>	1,482
Provision for warranty, net (see Note 25)	<b>26,181</b>	17,176

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 11. 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:

	2016 RMB'000	2015 RMB'000
Fees	512	480
Salaries and allowances	5,977	5,755
Discretionary bonus	7,279	4,696
Contributions to retirement benefits scheme	15	17
	<b>13,783</b>	<b>10,948</b>

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

### Year ended 31 December 2016

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonus RMB'000	Contributions to retirement benefit scheme RMB'000	Total RMB'000
<i>Executive directors</i>					
Wu Xiao An 吳小安	–	3,321	3,854	15	7,190
Wang Yunxian 王運先*	–	2,656	2,569	–	5,225
<i>Non-executive directors</i>					
Qi Yumin 祁玉民 (resigned on 12 September 2016)	–	–	–	–	–
Tang Qiao 唐橋 (resigned on 7 Novemebr 2016)	–	–	–	–	–
Liu Tongfu 劉同富 (appointed on 12 September 2016)	–	–	–	–	–
Yang Ming 楊明 (appointed on 7 November 2016)	–	–	–	–	–
<i>Independent non-executive directors</i>					
Chi Guohua 池國華	128	–	214	–	342
Wang Jun 王隽	128	–	214	–	342
Huang Haibo 黃海波	128	–	214	–	342
Wang Songlin 王松林	128	–	214	–	342
	512	5,977	7,279	15	13,783

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

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

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

Year ended 31 December 2015

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonus RMB'000	Contributions to retirement benefit scheme RMB'000	Total RMB'000
<i>Executive directors</i>					
Wu Xiao An 吳小安	–	3,114	2,609	14	5,737
Wang Yunxian 王運先*	–	2,641	1,739	3	4,383
<i>Non-executive directors</i>					
Qi Yumin 祁玉民	–	–	–	–	–
Tang Qiao 唐橋	–	–	–	–	–
<i>Independent non-executive directors</i>					
Chi Guohua 池國華	120	–	87	–	207
Wang Jun 王隽	120	–	87	–	207
Huang Haibo 黃海波	120	–	87	–	207
Wang Songlin 王松林	120	–	87	–	207
	480	5,755	4,696	17	10,948

\* 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, non-executives shown above were paid for their services in connection with the management of the affairs of the Company and the Group, for serving as directors of the Company or its subsidiaries and those to independent non-executive directors are 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.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

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

### Employees' remuneration

Of the five highest paid individuals of the Group, two (2015: two) are directors of the Company whose emoluments are included above during the year ended 31 December 2016. The remunerations of the remaining three (2015: three) individuals are as follows:

	2016 RMB'000	2015 RMB'000
Salaries and allowances	3,620	2,247
Discretionary bonus	1,205	3,090
Contribution to retirement benefits scheme	31	24
Others	-	850
	<b>4,856</b>	<b>6,211</b>

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, other than directors, were within the following bands:

	Number of Employee	
	2016	2015
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	1	-
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$3,500,001 to HK\$4,000,000	-	1

During the years ended 31 December 2016 and 2015, 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.

## 12. DIVIDENDS

No dividend has been paid or declared by the Company during the years ended 31 December 2016 and 2015, nor has any dividend been proposed since the end of the reporting period.

## 13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to owners of the Company and weighted average number of shares of 1,282,260,974 (2015: 1,286,016,471), after taking into effect of shares repurchased, for the year ended 31 December 2016.

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.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 14. 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
<b>COST</b>						
At 1 January 2015	326,362	739,119	76,250	12,453	142,564	1,296,748
Additions	–	39	146	7	267,180	267,372
Additions through acquisition of a business	–	–	–	–	301,925	301,925
Transfer	31,255	556,760	33,538	3,192	(624,745)	–
Disposals	(9,094)	(427)	(907)	(257)	–	(10,685)
<b>At 31 December 2015</b>	<b>348,523</b>	<b>1,295,491</b>	<b>109,027</b>	<b>15,395</b>	<b>86,924</b>	<b>1,855,360</b>
Additions	–	432	101	808	723,540	724,881
Transfer	75,692	347,240	11,733	967	(435,632)	–
Transfer to construction in progress*	(38,828)	(92,266)	(26,301)	–	127,358	(30,037)
Disposals	(1,332)	–	(333)	(2,231)	–	(3,896)
<b>At 31 December 2016</b>	<b>384,055</b>	<b>1,550,897</b>	<b>94,227</b>	<b>14,939</b>	<b>502,190</b>	<b>2,546,308</b>
<b>DEPRECIATION</b>						
At 1 January 2015	64,937	250,051	25,805	4,052	–	344,845
Provided for the year	11,316	80,128	9,613	1,684	–	102,741
Eliminated on disposals	(1,311)	(363)	(350)	(232)	–	(2,256)
<b>At 31 December 2015</b>	<b>74,942</b>	<b>329,816</b>	<b>35,068</b>	<b>5,504</b>	<b>–</b>	<b>445,330</b>
Provided for the year	13,187	119,848	15,110	2,625	–	150,770
Eliminated on disposals	(1,166)	–	(323)	(1,159)	–	(2,648)
Transfer to construction in progress*	(2,718)	(17,280)	(10,039)	–	–	(30,037)
<b>At 31 December 2016</b>	<b>84,245</b>	<b>432,384</b>	<b>39,816</b>	<b>6,970</b>	<b>–</b>	<b>563,415</b>
<b>CARRYING VALUES</b>						
<b>At 31 December 2016</b>	<b>299,810</b>	<b>1,118,513</b>	<b>54,411</b>	<b>7,969</b>	<b>502,190</b>	<b>1,982,893</b>
At 31 December 2015	273,581	965,675	73,959	9,891	86,924	1,410,030

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 14. 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	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 RMB194,658,000 as at 31 December 2016 (2015: RMB129,082,000), is in the process of obtaining the property ownership certificate.

\* *In December 2016, the Group commenced a project to upgrade certain plant and machineries and related buildings in coping with production of new models.*

During the year end 31 December 2015, the Group completed upgrading of certain production facilities for the purpose of achieving enhanced performance with higher efficiency. Since the useful lives of these production facilities were expected to be longer than originally estimated, useful lives have been revised to extend from 5 years to 10 years. The upgrading work was completed in the end of 2015, thus there is no impact on the profit or loss for the year ended 31 December 2015 due to the change in useful lives.

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

	2016 RMB'000	2015 RMB'000
Buildings	3,564	3,564
Plant and machinery	76,367	92,298
	<b>79,931</b>	95,862

## 15. PREPAID LEASE PAYMENTS

	RMB'000
CARRYING VALUES	
At 1 January 2015	98,927
Released to profit or loss	(2,313)
At 31 December 2015	96,614
Released to profit or loss	(2,313)
Disposals <sup>(Note)</sup>	(392)
<b>At 31 December 2016</b>	<b>93,909</b>

Note: During the year, a parcel of land with carrying value of RMB392,000 was expropriated by local authority at a cash reimbursement of RMB8,000,000.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 15. PREPAID LEASE PAYMENTS (Cont'd)

	2016 RMB'000	2015 RMB'000
Analysed for reporting purpose:		
Current assets	2,295	2,308
Non-current assets	91,614	94,306
	<b>93,909</b>	96,614

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 42 to 50 years.

The Group has pledged land use rights with carrying values of RMB56,160,000 as at 31 December 2016 (2015: RMB57,994,000), to secure general banking facilities granted to the Group.

## 16. 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.

	Total RMB'000
<b>COST</b>	
Additions in 2015, at 31 December 2015 and 2016	247,317
<b>DEPRECIATION</b>	
At 31 December 2014	(13,936)
Provided for the year	(7,291)
At 31 December 2015	(21,227)
Provided for the year	(7,291)
<b>At 31 December 2016</b>	<b>(28,518)</b>
<b>CARRYING VALUES</b>	
<b>At 31 December 2016</b>	<b>218,799</b>
At 31 December 2015	226,090

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 17. INTANGIBLE ASSETS

	Completed development costs RMB'000	Development costs in progress RMB'000	Total RMB'000
<b>COST</b>			
At 1 January 2015	159,765	172,664	332,429
Additions	–	96,110	96,110
Transfer	62,262	(62,262)	–
At 31 December 2015	222,027	206,512	428,539
Additions	–	138,090	138,090
<b>At 31 December 2016</b>	<b>222,027</b>	<b>344,602</b>	<b>566,629</b>
<b>AMORTISATION</b>			
At 1 January 2015	47,431	–	47,431
Charge for the year	11,175	–	11,175
At 31 December 2015	58,606	–	58,606
Charge for the year	36,105	–	36,105
<b>At 31 December 2016</b>	<b>94,711</b>	<b>–</b>	<b>94,711</b>
<b>CARRYING VALUES</b>			
At 31 December 2015	163,421	206,512	369,933
<b>At 31 December 2016</b>	<b>127,316</b>	<b>344,602</b>	<b>471,918</b>

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.

## 18. INTEREST IN A JOINT VENTURE

	2016 RMB'000	2015 RMB'000
Cost of unlisted investment in a joint venture	50,000	50,000
Share of result and other comprehensive income	(227)	(892)
	<b>49,773</b>	<b>49,108</b>

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 18. INTEREST IN A JOINT VENTURE (Cont'd)

Pursuant to a joint venture agreement entered into between Mianyang Xincheng and Dongfeng Automobile Co., Ltd.\* (東風汽車股份有限公司) (“Dongfeng”) in December 2011, Changzhou Dongfeng Xincheng 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 Xincheng 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.

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:

	2016 RMB’000	2015 RMB’000
Current assets	53,084	55,859
– cash and cash equivalent	51,724	54,411
Non-current assets	70,867	68,293
Current liabilities	(255)	(1,250)
Non-current liabilities	(24,150)	(24,686)
Revenue	–	515
Loss for the year	(258)	(395)
Other comprehensive income	–	–

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

	2016 RMB’000	2015 RMB’000
Net assets of Dongfeng JV	99,546	98,216
Proportion of the Group’s ownership interest in Dongfeng JV	50%	50%
Carrying amount of the Group’s interest in Dongfeng JV, adjusting by unrealised profit <sup>(Note)</sup>	49,773	49,108

Note: The balance has been adjusted by unrealised profits arising from goods sold by the Group to Dongfeng JV.

\* English name for reference only.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 19. DEFERRED TAX ASSETS

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

	Development costs RMB'000	Temporary difference on Provision on Inventories RMB'000	Deferred income RMB'000	Total RMB'000
At 1 January 2015	2,662	279	3,982	6,923
(Credit) charge to profit or loss	(1,186)	222	119	(845)
At 31 December 2015	1,476	501	4,101	6,078
Charge (credit) to profit or loss	2,151	417	(467)	2,101
<b>At 31 December 2016</b>	<b>3,627</b>	<b>918</b>	<b>3,634</b>	<b>8,179</b>

At 31 December 2016 and 2015, the Group has no other material unrecognized deductible temporary differences.

## 20. LOAN TO A SHAREHOLDER

### The Group and the Company

As detailed in Note 37, the Company has two trust arrangements which entitle the Group's employees to subscribe for shares of the Company through Lead In Management Limited ("Lead In") for their services to the Group. Under loan agreements dated 18 October 2011, each of the two shareholders of the Company, namely Brilliance Investment Holdings Limited ("Brilliance Investment") and Xinhua Investment Holdings Limited ("Xinhua Investment"), 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 (see Note 37). All the loans are non-trade related, unsecured and interest free.

The Company has repaid "Loans from Shareholders" in October 2013, whilst the "Loan to a Shareholder" was renewed annually and is further extended to October 2017 in 2016.

At 31 December 2016, the management of the Company expected the "Loan to a Shareholder" would not be recovered within one year and the outstanding balance is classified as non-current assets. An amount of RMB4,326,000, representing the adjustment on revised estimate of receipts from the shareholder, is recognised in profit or loss for the year.

## 21. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw material and components	235,185	216,690
Work-in-progress	12,730	13,739
Finished goods	230,124	210,570
	<b>478,039</b>	<b>440,999</b>

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 21. INVENTORIES (Cont'd)

The inventories are net of provision of RMB6,125,000 as at 31 December 2016 (2015: RMB3,344,000), which is determined with reference to the net realisable value of the inventory items. Additional provision of RMB2,781,000 (2015: RMB1,512,000) and a reversal of nil (2015: RMB30,000) was made during the year ended 31 December 2016.

## 22. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise the following:

	2016 RMB'000	2015 RMB'000
Trade receivables	149,760	179,020
Less: Allowance for doubtful debts	(1,556)	(885)
Trade receivables, net	148,204	178,135
Bills receivable	356,209	259,235
Total trade and bills receivables	504,413	437,370
Prepayments for purchase of raw materials and engine components	6,607	9,289
Other receivables <i>(Note)</i>	194,238	151,229
	<b>705,258</b>	<b>597,888</b>

*Note:* Included in the balance is value added tax recoverable of RMB131,644,000 (2015: RMB125,004,000).

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

	2016 RMB'000	2015 RMB'000
Within 1 month	77,463	63,343
Over 1 month but within 2 months	19,462	37,863
Over 2 months but within 3 months	23,084	24,560
Over 3 months but within 6 months	7,439	24,685
Over 6 months but within 1 year	6,475	13,021
Over 1 year	14,281	14,663
	<b>148,204</b>	<b>178,135</b>

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 22. TRADE AND OTHER RECEIVABLES (Cont'd)

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

	2016 RMB'000	2015 RMB'000
Within 3 months	240,044	178,585
Over 3 months but within 6 months	109,242	80,080
Over 6 months but within 1 year	6,923	570
	<b>356,209</b>	259,235

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 change 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 nor impaired at the end of each reporting period are of good credit quality.

Included in the Group's trade receivables balances are debtors with aggregate carrying amount of approximately RMB70,192,000 at 31 December 2016 (2015: RMB114,310,000), 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:

	2016 RMB'000	2015 RMB'000
Within 1 month	14,833	7,464
Over 1 month but within 2 months	4,079	29,917
Over 2 months but within 3 months	23,085	24,560
Over 3 months but within 6 months	7,439	24,685
Over 6 months but within 1 year	6,475	13,021
Over 1 year	14,281	14,663
	<b>70,192</b>	114,310

Movement in the allowance for doubtful debts:

	2016 RMB'000	2015 RMB'000
At beginning of year	885	346
Addition	671	539
At end of year	<b>1,556</b>	885

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 23. AMOUNTS DUE FROM RELATED COMPANIES

	2016 RMB'000	2015 RMB'000
Non-trade related <i>(Note a)</i>	1,328	1,853
Trade related <i>(Note b)</i>	1,270,043	1,335,547
	<b>1,271,371</b>	<b>1,337,400</b>

Notes:

- The balance are unsecured, interest free and repayable on demand. The maximum amount outstanding for the year amounted to RMB1,853,000 (2015: RMB1,853,000).
- The amounts due from related companies are trade related with details as follows:

	2016 RMB'000	2015 RMB'000
<b>Huachen Group<sup>#</sup></b>		
Mianyang Huarui Automotive Company Limited* ("Mianyang Huarui") 綿陽華瑞汽車有限公司	89,679	94,268
Shenyang Brilliance Power Train Machinery Co., Ltd.* ("Shenyang Brilliance") 瀋陽華晨動力機械有限公司	560,982	627,720
Mianyang Huaxiang Machinery Manufacturing Co., Ltd.* 綿陽華祥機械製造有限公司	115,399	97,664
Huachen Automotive Group Holdings Company Limited* ("Huachen Automotive") 華晨汽車集團控股有限公司	19,743	22,254
	<b>785,803</b>	<b>841,906</b>
<b>Brilliance China Group</b>		
Shenyang XingYuanDong Automobile Component Co., Ltd.* 瀋陽興遠東汽車零部件有限公司	279,774	256,708
Shenyang Brilliance JinBei Automobile Co., Ltd.* 瀋陽華晨金杯汽車有限公司	97,166	146,325
BMW Brilliance Automotive Ltd. ("BMW Brilliance Automotive") 華晨寶馬汽車有限公司	107,300	64,972
	<b>484,240</b>	<b>468,005</b>
<b>Wuliangye Group</b>		
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	-	24,469
<b>Dongfeng JV</b>	-	1,167
	<b>1,270,043</b>	<b>1,335,547</b>

<sup>#</sup> *Huachen Automotive and its subsidiaries collectively referred to as "Huachen Group".*

\* *English name for reference only.*

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 23. AMOUNTS DUE FROM RELATED COMPANIES (Cont'd)

Analysed as:

	2016 RMB'000	2015 RMB'000
Trade receivables	1,222,850	1,047,815
Bills receivable	47,193	263,263
Prepayment	-	24,469
	<b>1,270,043</b>	<b>1,335,547</b>

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

	2016 RMB'000	2015 RMB'000
Within 3 months	588,119	689,339
Over 3 months but within 6 months	222,972	55,068
Over 6 months but within 1 year	199,311	234,714
Over 1 year	212,448	68,694
	<b>1,222,850</b>	<b>1,047,815</b>

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

	2016 RMB'000	2015 RMB'000
Within 3 months	33,385	200,188
Over 3 months but within 6 months	12,274	63,075
Over 6 months but within 1 year	1,534	-
	<b>47,193</b>	<b>263,263</b>

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

Included above are trade receivables due from related companies with aggregate carrying amounts of approximately RMB634,731,000 at 31 December 2016 (2015: RMB358,476,000), which is past due as at the reporting date. The management of the Group has assessed these related companies to be financially sound and taking into consideration of the gradual and frequent repayments from those related companies, no impairment allowance is considered necessary in respect of these balances. In the opinion of the directors of the Company, the amounts due from related companies not past due nor impaired at the end of each reporting period are of good credit quality. The Group does not hold any collateral over these balances.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 23. AMOUNTS DUE FROM RELATED COMPANIES (Cont'd)

The aging of amounts due from related companies that are past due but not impaired is as follows:

	2016 RMB'000	2015 RMB'000
Over 3 months but within 6 months	222,972	55,068
Over 6 months but within 1 year	199,311	234,714
Over 1 year	212,448	68,694
	<b>634,731</b>	358,476

## 24. 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 2016	0.01% – 0.35%	1.10% – 1.50%
At 31 December 2015	0.01% – 0.35%	1.10% – 2.50%

An amount of RMB90,500,000 (2015: RMB112,180,000) represents pledged bank deposits pledged to banks to secure bills payable issued to suppliers of the Group for the purchase of raw materials and crankshaft production line.

An amount of RMB236,611,000 (2015: RMB183,677,000) represents restricted bank deposits for issuance of letters of credit with maturity of 3 to 6 months.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

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

Balance denominated in foreign currencies:

	2016 RMB'000	2015 RMB'000
Hong Kong Dollars ("HK\$")	72,251	91,852
United States Dollars ("US\$")	7,394	4,279
European Dollars	122	835

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

## 25. TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	523,254	501,850
Bills payable	395,759	380,796
Total trade and bills payables	919,013	882,646
Accrued purchase of raw materials	289,486	192,183
Construction payables	9,118	17,921
Payroll and welfare payables	52,322	44,838
Advances from customers	3,103	11,315
Provision for warranty <sup>(Note a)</sup>	4,006	4,006
Retention money	26,030	33,977
Interest bearing payables <sup>(Note b)</sup>	50,000	-
Other payables	27,585	6,147
	<b>1,380,663</b>	<b>1,193,033</b>

Notes:

- a. The balance of provision for warranty represents management's best estimate of the Group's liability under the one year warranty granted on the sale of automotive engines and automotive engines components, based on prior experience and industry averages for defective products at the end of each reporting period.
- b. The payable is from a non-related party, unsecured, bearing interest at 5.5% per annum and repayable on 27 June 2017.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 25. 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 aged analysis of trade payables presented based on the invoice date at the end of each reporting period:

	2016 RMB'000	2015 RMB'000
Within 3 months	418,632	282,651
Over 3 months but within 6 months	78,722	181,570
Over 6 months but within 1 year	22,388	27,105
Over 1 year but within 2 year	3,512	10,524
	<b>523,254</b>	501,850

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

	2016 RMB'000	2015 RMB'000
Within 3 months	228,326	243,080
Over 3 months but within 6 months	167,433	137,716
	<b>395,759</b>	380,796

The movement of warranty provision are as follows.

	2016 RMB'000	2015 RMB'000
At beginning of year	4,006	3,670
Charged to profit or loss	26,181	17,176
Utilised for the year	(26,181)	(16,840)
At end of year	4,006	4,006

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 26. AMOUNTS DUE TO RELATED COMPANIES

Details of amounts due to related companies are as follows:

	2016 RMB'000	2015 RMB'000
Trade related:		
<b>Huachen Group</b>		
Mianyang Huarui	4	4
Huachen Automotive	949	1,018
Shenyang Brilliance	16,091	10,445
<b>Brilliance China Group</b>		
Mianyang Brilliance Ruian Automotive Components Co., Ltd.* 綿陽華晨瑞安汽車零部件有限公司	31,949	26,096
Shenyang ChenFa Automobile Component Co., Ltd.* 瀋陽晨發汽車零部件有限公司	2,110	1,080
BMW Brilliance Automotive	10,367	7,703
Shenyang Jinbei Vehicle Dies Manufacturing Co., Ltd.* 瀋陽金杯汽車模具製造有限公司	67	-
<b>Wuliangye Group</b>		
Xinhua Combustion Engine	181,368	90,480
Sichuan Yi Bin Pushi Automotive Components Co., Ltd.* 四川省宜賓普什汽車零部件有限公司	10,174	6,218
Mianyang Jianmen Real Estate Development and Construction Limited Liability Company* ("Mianyang Jianmen RE") 綿陽劍門房地產開發建設有限責任公司	1,877	1,088
Mianyang Xinhua Automobile Sales and Service Co., Ltd.* 綿陽新華汽車銷售服務有限公司	-	196
Mianyang Xinhua Trading Co., Ltd.* 綿陽新華商貿有限公司	6	6
Sichuan An Shi Ji Logistics Co., Ltd.* ("An Shi Ji") 四川安仕吉供應鏈管理有限公司	765	628
Sichuan Yi Bin Wuliangye Group An Ji Logistics Co., Ltd.* 四川省宜賓五糧液集團安吉物流有限公司	3,218	253
	<b>258,945</b>	<b>145,215</b>
Non-trade related:		
<b>Huachen Group</b>		
Huachen Automotive	458	338
<b>Brilliance China Group</b>		
Brilliance China	850	739
<b>Wuliangye Group</b>		
Mianyang Jianmen RE	-	832
Xinhua Combustion Engine	1,093	836
An Shi Ji	100	100
	<b>2,501</b>	<b>2,845</b>
	<b>261,446</b>	<b>148,060</b>

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 26. AMOUNTS DUE TO RELATED COMPANIES (Cont'd)

The trade related amounts are analysed as:

	2016 RMB'000	2015 RMB'000
Trade payables	95,081	44,882
Bills payable	156,029	92,631
Accrual	7,835	7,702
	<b>258,945</b>	145,215

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:

	2016 RMB'000	2015 RMB'000
Within 3 months	53,171	38,622
Over 3 months but within 6 months	11,963	4,432
Over 6 months but within 1 year	21,647	462
Over 1 year	8,300	1,366
	<b>95,081</b>	44,882

The bills payable are guaranteed by banks in the PRC and have maturities of 3 to 6 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.

	2016 RMB'000	2015 RMB'000
Within 3 months	142,759	12,255
Over 3 months but within 6 months	13,270	80,376
	<b>156,029</b>	92,631

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.

\* *English name for reference only.*

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 27. BANK BORROWINGS

	2016 RMB'000	2015 RMB'000
Carrying amount repayable:		
Within one year	781,354	350,500
More than one year, but not more than two years	–	350,654
More than two years, but not more than five years	610,801	387,149
	<b>1,392,155</b>	1,088,303
<i>Less: amounts shown under current liabilities</i>	<b>(781,354)</b>	(350,500)
Amounts shown under non-current liabilities	<b>610,801</b>	737,803
Secured	<b>192,000</b>	78,500
Unsecured <i>(Note)</i>	<b>1,200,155</b>	1,009,803
	<b>1,392,155</b>	1,088,303

In 2016, other than a loan of principal amounting to approximately RMB905,280,000 (2015: RMB740,270,000) is denominated in US\$ amounted to US\$130,500,000 (2015: US\$114,000,000), the remaining loans are all denominated in RMB.

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

	2016	2015
Fixed-rate borrowings – RMB	<b>3.625% to 5.093%</b>	4.568% to 5.093%
Variable-rate borrowings – RMB	<b>Benchmark rate<sup>#</sup> x 100%</b>	Benchmark rate <sup>#</sup> x 100%
Variable-rate borrowings – US\$	<b>LIBOR<sup>##</sup>+2.603%</b>	LIBOR <sup>##</sup> +2.603%

<sup>#</sup> *People's Bank of China one-year RMB Lending Rate*

<sup>##</sup> *London Inter-Bank Offer Rate*

*Note:*

Included in the balances are loans of principal amounting to approximately RMB192,000,000 (2015: RMB78,500,000) are secured by property, plant and equipment or prepaid lease payment as set out in Notes 14 and 15. Included in unsecured borrowings is RMB902,155,000 (2015: RMB737,803,000) which was guaranteed by companies within the Group. The remaining balance of RMB298,000,000 (2015: RMB272,000,000) was unguaranteed and unsecured.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 28. DEFERRED INCOME/GOVERNMENT GRANTS

	2016 RMB'000	2015 RMB'000
Amounts recognised in profit or loss during the year:		
Subsidies related to incurred costs <i>(Note a)</i>	31,679	32,281
Subsidies related to property, plant and equipment <i>(Note b)</i>	6,918	6,918
	<b>38,597</b>	39,199

The movement of deferred income is as follows:

	2016 RMB'000	2015 RMB'000
At beginning of year	45,704	42,889
Receipt of subsidies related to property, plant and equipment	-	9,733
Amount credited to profit or loss during the year	<b>(6,918)</b>	(6,918)
At end of year	<b>38,786</b>	45,704

Notes:

- (a) The Group received government subsidies for research and development activities to enhance the competitiveness in the industry and to promote new products. The subsidies related to research and development activities 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.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 29. 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		
<i>Authorised:</i>		
At date of incorporation, 1 January 2015, 31 December 2015 and 2016	8,000,000,000	80,000,000
<i>Issued and fully paid:</i>		
At 1 January 2015	1,287,407,794	12,874,078
<i>Repurchase of shares (Note):</i>		
Repurchase of shares on 31 August 2015	(1,066,000)	(10,660)
Repurchase of shares on 1 September 2015	(1,000,000)	(10,000)
Repurchase of shares on 2 September 2015	(927,000)	(9,270)
Repurchase of shares on 4 September 2015	(1,000,000)	(10,000)
Repurchase of shares on 7 September 2015	(203,000)	(2,030)
At 31 December 2015	1,283,211,794	12,832,118
<i>Repurchase of shares (Note):</i>		
Repurchase of shares on 19 January 2016	(1,000,000)	(10,000)
At 31 December 2016	1,282,211,794	12,822,118
	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
Share capital presented in consolidated statement of financial position	<b>10,457</b>	10,466

*Note:*

In 2016, the Company repurchased on the Stock Exchange a total of 1,000,000 shares of HK\$0.01 each of the Company, at an aggregate consideration after expense of approximately HK\$1,197,000 (approximately RMB1,007,000), all the shares were cancelled in 2016.

In 2015, the Company repurchased on the Stock Exchange a total of 4,196,000 shares of HK\$0.01 each of the Company, at an aggregate consideration after expense of approximately HK\$6,746,000 (approximately RMB5,537,000), all the shares were cancelled in 2015.

The nominal value of the cancelled shares was credit to share premium and the aggregate consideration paid was debited to the share premium of the Company.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 30. 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 bank 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.

## 31. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

	2016 RMB'000	2015 RMB'000
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)*	2,444,434	2,397,571
<b>Financial liabilities</b>		
At amortised cost**	2,999,570	2,407,928

\* Prepayment, deposits and value added tax recoverable are excluded

\*\* Income tax payable and retention money are excluded

### (b) Financial risk management objectives and policies

The management monitors and manages the financial risks relating to the operations of the Group through internal risk assessment which analyses exposures by degree and magnitude of risks. The risks included market risk (including interest rate risk and currency 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.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 31. 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 pledged bank deposits and bank balances, and variable rate of interest incurred on bank borrowings. The Group is also exposed to fair value interest rate risk in relation to fixed-rate bank 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's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

#### *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 2016 would decrease/increase by approximately RMB3,834,000 (2015: RMB3,136,000).

#### *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 2016 would increase/decrease by approximately RMB538,000 (2015: RMB496,000).

#### *Credit risk*

At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position and outstanding endorsed and discounted bills receivable as disclosed in Note 34.

In order to minimise the credit risk, the management of the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 31. FINANCIAL INSTRUMENTS (Cont'd)

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

#### *Credit risk (Cont'd)*

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

The credit risk on bills receivable, including endorsed and discounted, is considered as minimal as such amounts are to be settled by or placed with banks with good reputation.

The Group has concentration of credit risk as 88% (2015: 88%) of the Group's total trade receivables and amounts due from related companies (trade related) as at 31 December 2016 was due from the five largest customers. 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 receivables and bills receivables comprise various debtors which are all located in PRC during the year ended 31 December 2016 and 2015.

#### *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 utilization 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 2016 and 2015. 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 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.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 31. 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 RMB'000	3 - 6 months RMB'000	6 months to 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
<b>At 31 December 2016</b>							
<i>Non-interest bearing</i>							
Trade and other payables	N/A	1,295,969	-	-	-	1,295,969	1,295,969
Amounts due to related companies	N/A	261,446	-	-	-	261,446	261,446
Outstanding endorsed and discounted bills receivables	N/A	394,855	507,519	-	-	902,374	-
<i>Interest bearing</i>							
Other payables	5.50	688	50,688	-	-	51,376	50,000
Bank borrowings							
– Fixed rate	4.24	418,794	101,281	101,087	-	621,162	490,000
– Variable rate	2.96	6,695	6,695	303,330	628,179	944,899	902,155
		2,378,447	666,183	404,417	628,179	4,077,226	2,999,570
<b>At 31 December 2015</b>							
<i>Non-interest bearing</i>							
Trade and other payables	N/A	1,171,565	-	-	-	1,171,565	1,171,565
Amounts due to related companies	N/A	148,060	-	-	-	148,060	148,060
Outstanding endorsed and discounted bills receivable	-	159,148	311,241	-	-	470,389	-
<i>Interest bearing</i>							
Bank borrowings							
– Fixed rate	4.92	4,760	78,291	313,684	-	396,735	350,500
– Variable rate	2.60	4,801	4,801	9,603	752,782	771,987	737,803
		1,488,334	394,333	323,287	752,782	2,958,736	2,407,928

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.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 31. FINANCIAL INSTRUMENTS (Cont'd)

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

#### *Currency Risk*

The carrying amounts of the Group's 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:

	2016 RMB'000	2015 RMB'000
US\$		
– Cash and cash equivalents	7,394	4,279
– Borrowings	(902,155)	(737,803)
	<b>(894,761)</b>	<b>(733,524)</b>
HK\$		
Cash and cash equivalents	72,251	91,852

#### Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% (2015: 1%) increase and decrease in RMB, the functional currency of the respective group entities operating in the PRC, against US\$ and HK\$. 5% is the sensitivity rate used which represents management's assessment of the possible change in foreign currency rate, as the exchange rates movements were relatively large during 2016, the sensitivity rate increased from 1% to 5%. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in profit for the year where RMB strengthens 5% against US\$ and HK\$. For a 5% weakening of RMB against US\$ and HK\$, there would be an equal but opposite impact on the profit for the year.

	2016 RMB'000	2015 RMB'000
<b>Profit for the year</b>		
US\$	38,027	6,235
HK\$	(3,071)	(780)

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.

### (c) Fair value

The fair value of the Call Option in relation to the acquisition of the Acquired Assets as mentioned in Note 38 at initial recognition, 31 December 2015 and 31 December 2016, are considered insignificant.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 31. FINANCIAL INSTRUMENTS (Cont'd)

### (c) Fair value (Cont'd)

*Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on recurring basis*

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 recorded at amortised cost in the consolidated financial statements approximate their fair values.

## 32. OPERATING LEASE

### The Group as lessee

The minimum lease payment under operating lease in respect of office premises and production facilities amounted to RMB8,800,000 (2015: RMB7,727,000) for the year ended 31 December 2016.

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:

	2016 RMB'000	2015 RMB'000
Within one year	8,746	2,748
Between the second and fifth year inclusive	12,203	4,601
	<b>20,949</b>	7,349

Operating lease payments represent rental payable by the Group for certain office premises and production facilities. Leases are negotiated for terms of 1 to 2 years with fixed rental provision included in the contracts.

### The Group as lessor

Property rental income earned was RMB29,165,000 (2015: RMB31,588,000) for the year ended 31 December 2016.

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

	2016 RMB'000	2015 RMB'000
Within one year	29,016	30,818
Between the second and fifth year inclusive	3,674	35,954
	<b>32,690</b>	66,772

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

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 33. CAPITAL COMMITMENTS

	2016 RMB'000	2015 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment, prepaid lease payments and intangible assets:		
– contracted for but not provided in the consolidated financial statements	55,088	63,329
Capital expenditure in respect of investment in a joint venture		
– contracted for but not provided in the consolidated financial statements	75,000	75,000

## 34. 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 receivables, 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:

	2016 RMB'000	2015 RMB'000
Settlement of trade and other payables	815,694	275,309
Discounted bills for raising of cash	86,680	195,080
Outstanding endorsed and discounted bills receivable with recourse	902,374	470,389

Maturity analysis of the outstanding endorsed and discounted bills receivable:

	2016 RMB'000	2015 RMB'000
Within 3 months	394,855	159,148
Over 3 months but within 6 months	507,519	311,241
	902,374	470,389

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 35. 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:

	2016 RMB'000	2015 RMB'000
<b>Sale of goods</b>		
Brilliance China Group	1,660,230	1,835,942
Huachen Group	969,004	661,135
Dongfeng JV	-	134
	<b>2,629,234</b>	<b>2,497,211</b>
<b>Purchase of goods</b>		
Brilliance China Group	948,239	1,193,579
Huachen Group	44	1,184
Wuliangye Group	101,412	92,921
	<b>1,049,695</b>	<b>1,287,684</b>
<b>Purchase of land, productions lines and inventories</b>		
Brilliance China Group	424,378	384,573 <sup>(Note)</sup>
Wuliangye Group	251,600	-
	<b>675,978</b>	<b>384,573</b>

Note: RMB37,646,000 inventories inclusive

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 35. RELATED PARTY DISCLOSURES (Cont'd)

	2016 RMB'000	2015 RMB'000
<b>Rental charged and auxiliary services received</b>		
Brilliance China Group	2,800	3,311
Huachen Group	6,254	5,599
Wuliangye Group	860	2,600
	<b>9,914</b>	<b>11,510</b>
<b>Rental income</b>		
Brilliance China Group	29,165	31,588
<b>Maintenance and construction cost charged</b>		
Wuliangye Group	6,968	3,605
<b>Logistics Services received</b>		
Wuliangye Group	4,967	2,305
<b>Cleaning and greening services received</b>		
Wuliangye Group	2,263	2,579
<b>Consulting service received</b>		
Brilliance China Group	75,927	35,943
<b>Water and electricity cost charged</b>		
Brilliance China Group	8,812	-
Wuliangye Group	219	-
	<b>9,031</b>	<b>-</b>

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.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 35. 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 ("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 government 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 consider those state-controlled entities to be 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:

	2016 RMB'000	2015 RMB'000
Short-term benefits	19,296	20,611
Post-employment benefits	31	49
	<b>19,327</b>	20,660

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 year, and such amounts are considered as insignificant.

## 36. RETIREMENT BENEFIT PLAN

The employees of the Group are members of the state-managed retirement benefit scheme operated by the PRC government. Mianyang Xinchun 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.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 37. 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, 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 Xinchun 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.

Under the Fixed Trust, on 31 October 2011, the relevant Beneficiaries subscribed for 57,021,834 shares of the Company at HK\$1.0817 per share, which represented a price approximated fair value of each share at the date of issuance. Therefore, those shares granted under the Fixed Trust have not resulted in share-based payment expense for the Group.

The following table discloses the number of outstanding shares awarded under the Fixed Trust:

	No. of Shares	Vesting period
Directors	8,504,930	(a)
	8,504,930	(b)
	4,252,467	(c)
Employees	14,303,774	(a)
	14,303,774	(b)
	7,151,959	(c)
	57,021,834	

The shares of the Company under the Fixed Trust are subject to three vesting periods: (a) from the listing date of the Company until the expiry date of the six-month period from the listing date (the "Lock-up Period") (vesting period "a"); (b) the date following the first anniversary from the expiry date of the Lock-up Period (vesting period "b"); and (c) the date following the second anniversary from the expiry date of the Lock-up Period (vesting period "c"). The Fixed Trust will be terminated on (i) the date which is 10 years from the date of the trust deed (i.e. 25 October 2012); or (ii) the date on which the transfer of all the trust assets to the relevant Beneficiaries under the Fixed Trust is completed, whichever is earlier.

To the extent that Lead In receives any dividends from the Company prior to the transfer, Lead In will retain such dividends for the sole purpose of future subscriptions of the shares of the Company to award future Beneficiaries.

During the year ended 31 December 2015, 11,404,426 shares were awarded to the relevant Beneficiaries under the Fixed Trust. No entitlement of interests in the shares under the Fixed Trust was outstanding by the end of 31 December 2015. Details of the Fixed Trust are set out in section titled "Share Incentive Scheme Established by Lead In" in the Report of Directors.

On 17 April 2014, 2,984,575 shares held under the Discretionary Trust were granted to a third party at a subscription price of HK\$1.0817 per share. 1,492,288 shares were vested on 23 April 2015, the date following the first anniversary of 22 April 2014 (being the date of acceptance of the award by the third party). The remaining 1,492,287 shares were vested on 23 April 2016, the date following the second anniversary of 22 April 2014.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 37. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

### Share Incentive Scheme (Cont'd)

Other than disclosed above, no shares were granted, exercised, lapsed or forfeited under the Discretionary Trust during the years ended 31 December 2016 and 2015.

### 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. Details of the Share Option Scheme are set out in section titled "Share Option Scheme" in the Report of Directors.

During the years ended 31 December 2016 and 2015, no share options were granted under the Share Option Scheme by the Company. In addition, as of 31 December 2016 and 2015, no share options under the Share Option Scheme were outstanding.

## 38. ACQUISITION OF A BUSINESS

During the year ended 31 December 2015, Mianyang Xinchun completed the acquisition of the Acquired Assets<sup>#</sup>, the Transferred Contracts<sup>#</sup> and the Call Option<sup>#</sup> from BMW Brilliance Automotive as set out in the Assets Transfer Agreement<sup>#</sup> entered into between BMW Brilliance Automotive and Mianyang Xinchun on 21 January 2015 (the "Crankshaft Acquisition").

The Crankshaft Acquisition constitutes a business combination in accordance with HKFRS 3 "Business Combinations" and as such, the acquisition has been accounted for as an acquisition of a business.

<sup>#</sup> Capitalised terms used have the same meaning as defined in the Circular dated 18 February 2015

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Net assets recognised:	
Property, plant and equipment	301,925
Inventory	26,770
Other receivables	55,878
	384,573
Satisfied by:	
Cash consideration paid and net cash outflow on acquisition	(384,573)

The acquisition-related costs have been recognized in the consolidated statement of profit or loss and other comprehensive income.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 RMB'000	2015 RMB'000
<b>NON-CURRENT ASSET</b>		
Investment in subsidiary	826,377	826,377
Property, plant and equipment	904	1,120
Loan to a shareholder	28,460	-
	<b>855,741</b>	<b>827,497</b>
<b>CURRENT ASSETS</b>		
Prepayments and other receivables	641	6,376
Amounts due from related companies/a subsidiary	24	150
Loan to a shareholder	-	30,862
Bank balances and cash	74,229	93,705
	<b>74,894</b>	<b>131,093</b>
<b>CURRENT LIABILITIES</b>		
Other payables	1,189	706
Amounts due to related companies	1,649	1,486
	<b>2,838</b>	<b>2,192</b>
<b>NET CURRENT ASSETS</b>	<b>72,056</b>	<b>128,901</b>
<b>NET ASSETS</b>	<b>927,797</b>	<b>956,398</b>
<b>CAPITAL AND RESERVES</b>		
Share capital	10,457	10,466
Reserves <sup>(Note)</sup>	917,340	945,932
<b>TOTAL EQUITY</b>	<b>927,797</b>	<b>956,398</b>

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 39. 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 <i>(Note)</i>	Contribution from a shareholder RMB'000	Accumulated losses RMB'000	Total RMB'000
At 31 December 2014	706,759	348,103	8,319	(89,989)	973,192
Loss and total comprehensive expense for the year	-	-	-	(21,757)	(21,757)
Repurchase of ordinary shares	(5,503)	-	-	-	(5,503)
At 31 December 2015	701,256	348,103	8,319	(111,746)	945,932
Loss and total comprehensive expense for the year	-	-	-	(27,594)	(27,594)
Repurchase of ordinary shares	(998)	-	-	-	(998)
<b>At 31 December 2016</b>	<b>700,258</b>	<b>348,103</b>	<b>8,319</b>	<b>(139,340)</b>	<b>917,340</b>

*Note:* The special reserve represents the difference between total equity of Southern State at the date the Company obtained entire issued share capital of Southern State from the then shareholders of the Company and the paid consideration of US\$1 upon group reorganisation underwent in 2011.

# Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2016

## 40. 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		Principal activities
			Directly	Indirectly	
Southern State	British Virgin Islands/ Hong Kong	US\$1 Ordinary share	100%	–	Investment holding
Mianyang Xincheng <sup>#</sup>	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
Xincheng Engine (Shenyang) Co., Limited* 新晨動力機械(瀋陽)有限公司	PRC	RMB253,000,000 Registered capital	–	100%	Rental under operating lease

There is no loan capital issued by the Company's subsidiaries during the year and up to the date of this report.

<sup>#</sup> *The subsidiary is a sino-foreign equity joint venture enterprise.*

\* *English name for reference only.*