

# 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

2016  
Interim Report





## RESULTS

The board of directors (the “**Board**”) of Xinchen China Power Holdings Limited (the “**Company**”) presents the unaudited consolidated interim financial results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2016 together with comparative figures as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Notes	Six months ended	
		30.6.2016 RMB'000 (unaudited)	30.6.2015 RMB'000 (unaudited)
Revenue	3	1,721,635	1,672,114
Cost of sales		(1,488,327)	(1,413,547)
Gross profit		233,308	258,567
Other income and gain	4	49,915	43,169
Selling and distribution expenses		(27,623)	(36,414)
Administrative expenses		(66,144)	(61,985)
Finance costs		(17,346)	(23,895)
Other expenses and losses		(17,141)	(1,011)
Share of result of a joint venture		(47)	(126)
Profit before tax	5	154,922	178,305
Income tax expense	6	(27,068)	(32,190)
Profit and total comprehensive income for the period attributable to owners of the Company		127,854	146,115
Earnings per share – Basic (RMB)	8	0.100	0.113

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

AT 30 JUNE 2016

	<i>Notes</i>	<b>30.6.2016</b> <i>RMB'000</i> <b>(unaudited)</b>	31.12.2015 <i>RMB'000</i> <b>(audited)</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	1,686,371	1,410,030
Prepaid lease payments		93,135	94,306
Investment properties		222,444	226,090
Intangible assets	9	432,759	369,933
Investment in a joint venture		49,854	49,108
Deferred tax assets		6,078	6,078
		<hr/>	<hr/>
		2,490,641	2,155,545
<b>CURRENT ASSETS</b>			
Inventories		459,997	440,999
Prepaid lease payments		2,308	2,308
Trade and other receivables	10	634,555	597,888
Amounts due from related companies	11	1,389,113	1,337,400
Loan to a shareholder	12	31,512	30,862
Tax recoverable		–	5,450
Pledged/restricted bank deposits		124,626	295,857
Bank balances and cash		568,442	288,212
		<hr/>	<hr/>
		3,210,553	2,998,976
<b>TOTAL ASSETS</b>			
		<hr/>	<hr/>
		5,701,194	5,154,521
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	1,504,177	1,193,033
Amounts due to related companies	14	153,342	148,060
Bank borrowings due within one year	15	452,500	350,500
Income tax payables		5,647	–
		<hr/>	<hr/>
		2,115,666	1,691,593
<b>NET CURRENT ASSETS</b>			
		<hr/>	<hr/>
		1,094,887	1,307,383
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<hr/>	<hr/>
		3,585,528	3,462,928

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)**

AT 30 JUNE 2016

	<i>Notes</i>	<b>30.6.2016</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2015 <i>RMB'000</i> (audited)
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings due after one year	15	<b>714,375</b>	737,803
Deferred income		<b>64,885</b>	45,704
		<hr/>	
		<b>779,260</b>	783,507
		<hr/>	
<b>NET ASSETS</b>		<b>2,806,268</b>	2,679,421
		<hr/>	
<b>CAPITAL AND RESERVES</b>			
Share capital	16	<b>10,457</b>	10,466
Reserves		<b>2,795,811</b>	2,668,955
		<hr/>	
<b>TOTAL EQUITY</b>		<b>2,806,268</b>	2,679,421
		<hr/>	

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2016**

	Share capital	Share premium	Special reserve	Surplus reserves	Deemed distribution to a shareholder	Contribution from a shareholder	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000 (Note a)	RMB'000 (Note b)	RMB'000 (Note c)	RMB'000	RMB'000
At 1 January 2015 (audited)	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 period	-	-	-	-	-	-	146,115	146,115
At 30 June 2015 (unaudited)	10,500	706,759	193,457	290,147	(11,285)	8,319	1,408,511	2,606,408
At 1 January 2016 (audited)	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 period	-	-	-	-	-	-	127,854	127,854
Repurchase of ordinary shares	(9)	(998)	-	-	-	-	-	(1,007)
At 30 June 2016 (unaudited)	10,457	700,258	193,457	326,946	(11,285)	8,319	1,578,116	2,806,268

**Notes:**

- (a) Surplus reserves comprise statutory surplus reserve and discretionary surplus reserve of Mianyang Xincheng Engine Co., Ltd.\* (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 RMB219,006,000 as at 30 June 2016 (31 December 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 RMB107,940,000 as at 30 June 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 year.
- (c) Contribution from a shareholder represents the fair value adjustments on shares awarded by Lead In Management Limited ("Lead In") to a third party. Details of which are set out in Note 21.

\* English name for reference only

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Six months ended	
	30.6.2016	30.6.2015
	RMB'000	RMB'000
	(unaudited)	(unaudited)
NET CASH FROM OPERATING ACTIVITIES	<b>448,257</b>	100,430
INVESTING ACTIVITIES		
Interest received	<b>6,531</b>	5,495
Purchase of property, plant and equipment	<b>(350,449)</b>	(415,121)
Development costs paid	<b>(72,983)</b>	(48,578)
Withdrawal of pledged/restricted bank deposits	<b>801,243</b>	688,537
Placement of pledged/restricted bank deposits	<b>(630,012)</b>	(622,958)
Other investing cash flows	<b>24,424</b>	3,516
NET CASH USED IN INVESTING ACTIVITIES	<b>(221,246)</b>	(389,109)
FINANCING ACTIVITIES		
Interest paid	<b>(24,346)</b>	(24,919)
New bank borrowings raised	<b>406,000</b>	488,816
Repayment of bank borrowings	<b>(327,428)</b>	(42,000)
Repurchase of ordinary shares	<b>(1,007)</b>	–
NET CASH FROM FINANCING ACTIVITIES	<b>53,219</b>	421,897
NET INCREASE IN CASH AND CASH EQUIVALENTS	<b>280,230</b>	133,218
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<b>288,212</b>	353,947
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, represented by bank balances and cash	<b>568,442</b>	487,165

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2016*

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has adopted and applied, for the first time, certain amendments to the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the current interim period.

The application of these amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in the condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

### 3. REVENUE AND SEGMENT INFORMATION

Information reported to the Board, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focuses on types of goods delivered or services provided.

#### Segment revenue and segment results

The Board reviews operating results and financial information on by product and/or service 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, which 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.

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

#### Segment revenue and segment results (Cont'd)

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

	Segment revenue		Segment results	
	Six months ended		Six months ended	
	30.6.2016 RMB'000 (unaudited)	30.6.2015 RMB'000 (unaudited)	30.6.2016 RMB'000 (unaudited)	30.6.2015 RMB'000 (unaudited)
Gasoline engines	1,388,478	1,336,530	172,381	172,808
Diesel engines	105,795	175,982	11,495	27,657
Engine components and service income	227,362	159,602	49,432	58,102
<b>Total segment and consolidated</b>	<b>1,721,635</b>	<b>1,672,114</b>	<b>233,308</b>	<b>258,567</b>
Unallocated income			49,915	43,169
Unallocated expenses				
Selling and distribution expenses			(27,623)	(36,414)
Administrative expenses			(66,144)	(61,985)
Finance costs			(17,346)	(23,895)
Other expenses and losses			(17,141)	(1,011)
Share of result of a joint venture			(47)	(126)
<b>Profit before tax</b>			<b>154,922</b>	<b>178,305</b>

Revenue reported above represents revenue generated from sales of goods or service provision to external customers. There were no inter-segment sales during the six months ended 30 June 2015 and 2016.

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, other expenses and losses and share of result of a joint venture. This is the measure reported to the Board for the purpose of resource allocation and performance assessment.

#### Segment assets and liabilities

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

#### Geographical information

The majority of the Group's operations and non-current assets are located in the PRC; and all of the Group's revenue from external customers is generated in the PRC, which is the country of domicile of Mianyang Xincheng and its subsidiary.

#### Information about major customers

Revenue from major customers which accounts for 10% or more of the Group's total revenue are sales of engines to certain related parties as disclosed in Note 20.

#### 4. OTHER INCOME AND GAIN

	Six months ended	
	30.6.2016 <i>RMB'000</i> (unaudited)	30.6.2015 <i>RMB'000</i> (unaudited)
Bank interest income	6,531	5,495
Government grants ( <i>Note</i> )	31,002	27,757
Loss on disposal of property, plant and equipment	(50)	(175)
Rental income under operating lease, net outgoing expenses	12,183	10,210
Others	249	(118)
	<hr/> 49,915	<hr/> 43,169

*Note:* During the six months ended 30 June 2016, included in the government grants is RMB26,133,000 representing subsidies for the compensating expenses already incurred.

#### 5. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

	Six months ended	
	30.6.2016 <i>RMB'000</i> (unaudited)	30.6.2015 <i>RMB'000</i> (unaudited)
Employee benefits expenses (including directors):		
– salaries and other benefits	80,766	72,821
– retirement benefit scheme contributions	14,018	10,701
	<hr/> 94,784	<hr/> 83,522
Total staff costs		
Depreciation of property, plant and equipment	69,711	46,210
Depreciation of investment properties	3,646	3,693
Amortisation of prepaid lease payments	1,171	1,109
Amortisation of intangible assets (included in cost of sales)	10,157	4,942
	<hr/> 84,685	<hr/> 55,954
Total depreciation and amortisation		
Exchange gain (loss), net (included in other expenses and losses)	(13,299)	2,755
	<hr/> (13,299)	<hr/> 2,755

6. **INCOME TAX EXPENSE**

	<b>Six months ended</b>	
	<b>30.6.2016</b>	30.6.2015
	<i>RMB'000</i>	<i>RMB'000</i>
	<b>(unaudited)</b>	(unaudited)
Tax expense comprises:		
Current tax expense	27,068	32,190
Deferred tax expense	—	—
	<hr/>	<hr/>
	<b>27,068</b>	<b>32,190</b>
	<hr/>	<hr/>

Mianyang Xinchun was subject to 15% enterprise income tax rate for the period ended 30 June 2016 (six months ended 30 June 2015: 15%), which is lower than the standard tax rate of 25%. According to the announcement of the State Administration of Taxation on issues concerning Enterprise Income Tax Related with enhancing the Western Region Development Strategy, Mianyang Xinchun was registered with the local tax authority to be eligible to the reduced 15% enterprise income tax rate from 2011 to 2020. The preferential enterprise income tax rate is subject to assessment and approval by the local tax authority on annual basis.

7. **DIVIDENDS**

No dividend has been paid or declared by the Company during both period ended 30 June 2016 and 2015, nor has any dividend been proposed since the end of the reporting period.

8. **EARNINGS PER SHARE**

The calculation of basic earnings per share attributable to the owners of the Company is based on the following data:

	<b>Six months ended</b>	
	<b>30.6.2016</b>	30.6.2015
	<b>(unaudited)</b>	(unaudited)
<b>Earnings</b>		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share ( <i>RMB'000</i> )	127,854	146,115
	<hr/>	<hr/>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,282,300,683	1,287,407,794
	<hr/>	<hr/>

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

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

During the current interim period, the Group acquired property, plant and equipment, other than construction in progress, amounting to approximately RMB122,000 (six months ended 30 June 2015: approximately RMB916,000) for the purpose of upgrading its manufacturing capacity of the Group. The Group has also disposed of certain plant and equipment with an aggregate carrying amount of approximately RMB275,000 (six months ended 30 June 2015: approximately RMB191,000) for proceed of approximately RMB225,000 (six months ended 30 June 2015: approximately RMB16,000), resulting in a loss on disposal of approximately RMB50,000 (six months ended 30 June 2015: approximately RMB175,000).

In addition, during current interim period, the Group had approximately RMB346,205,000 (six months ended 30 June 2015: approximately RMB424,206,000) addition to construction in progress, primarily for scaling up the Group's production facilities and capacity. Included in the total addition is approximately RMB7,000,000 (six months ended 30 June 2015: approximately RMB1,024,000) interests capitalised but no new assets were acquired (six months ended 30 June 2015: approximately RMB353,000,000) through business acquisition.

During the current interim period, the Group capitalised development costs of technical know-how of new automotive engines amounting to approximately RMB72,983,000 (six months ended 30 June 2015: approximately RMB48,578,000) for the purpose of expanding its products range of gasoline and diesel engines.

## 10. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise the following:

	<b>30.6.2016</b>	31.12.2015
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(audited)
Trade receivables	<b>168,979</b>	179,020
<i>Less:</i> Allowance for doubtful debts	<b>(885)</b>	(885)
	<hr/>	<hr/>
Trade receivables, net	<b>168,094</b>	178,135
Bills receivable	<b>301,651</b>	259,235
	<hr/>	<hr/>
Total trade and bills receivables	<b>469,745</b>	437,370
Prepayments for purchase of raw materials and engine components	<b>2,556</b>	9,289
Other receivables*	<b>162,254</b>	151,229
	<hr/>	<hr/>
	<b>634,555</b>	597,888
	<hr/>	<hr/>

\* Included in the balance is value added tax recoverable of RMB138,495,000 (year ended 31 December 2015: RMB125,004,000).

10. **TRADE AND OTHER RECEIVABLES (Cont'd)**

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:

	<b>30.6.2016</b> <i>RMB'000</i> <b>(unaudited)</b>	31.12.2015 <i>RMB'000</i> <b>(audited)</b>
Within 1 month	120,939	63,343
Over 1 month but within 2 months	5,722	37,863
Over 2 months but within 3 months	8,116	24,560
Over 3 months but within 6 months	8,027	24,685
Over 6 months but within 1 year	19,690	13,021
Over 1 year	5,600	14,663
	<hr/>	
	<b>168,094</b>	<b>178,135</b>
	<hr/>	

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

	<b>30.6.2016</b> <i>RMB'000</i> <b>(unaudited)</b>	31.12.2015 <i>RMB'000</i> <b>(audited)</b>
Within 3 months	186,969	178,585
Over 3 months but within 6 months	104,438	80,080
Over 6 months but within 1 year	10,244	570
	<hr/>	
	<b>301,651</b>	<b>259,235</b>
	<hr/>	

11. **AMOUNTS DUE FROM RELATED COMPANIES**

Analysed as:

	<b>30.6.2016</b> <i>RMB'000</i> <b>(unaudited)</b>	31.12.2015 <i>RMB'000</i> <b>(audited)</b>
Trade related	1,388,042	1,335,547
Non-trade related	1,071	1,853
	<hr/>	
	<b>1,389,113</b>	<b>1,337,400</b>
	<hr/>	

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

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

	30.6.2016 <i>RMB'000</i> (unaudited)	31.12.2015 <i>RMB'000</i> (audited)
<b>Huachen Group<sup>a</sup></b>		
Shenyang Brilliance Power Train Machinery Co., Ltd.* ("Shenyang Brilliance") 瀋陽華晨動力機械有限公司	822,918	627,720
Mianyang Huarui Automotive Company Limited* ("Mianyang Huarui") 綿陽華瑞汽車有限公司	86,288	94,268
Mianyang Huaxiang Machinery Manufacturing Co., Ltd.* 綿陽華祥機械製造有限公司	104,799	97,664
Huachen Automotive Group Holdings Company Limited* ("Huachen Automotive") 華晨汽車集團控股有限公司	13,391	22,254
	<hr/> 1,027,396	841,906
<b>Brilliance China Group<sup>a</sup></b>		
Shenyang XingYuanDong Automobile Component Co., Ltd.* 瀋陽興遠東汽車零部件有限公司	179,879	256,708
BMW Brilliance Automotive Ltd.* ("BMW Brilliance Automotive") 華晨寶馬汽車有限公司	110,732	64,972
Shenyang Brilliance JinBei Automobile Co., Ltd.* ("Shenyang JinBei") 瀋陽華晨金杯汽車有限公司	8,204	146,325
	<hr/> 298,815	468,005
<b>Wuliangye Group<sup>a</sup></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	60,619	24,469
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	1,212	-
	<hr/> 61,831	24,469
<b>Dongfeng JV<sup>a</sup></b>		
	<hr/> -	1,167
Analysed as:		
Trade receivables	1,209,021	1,047,815
Bills receivable	117,200	263,263
Prepayment	61,821	24,469
	<hr/> 1,388,042	1,335,547

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

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

	<b>30.6.2016</b> <i>RMB '000</i> <b>(unaudited)</b>	31.12.2015 <i>RMB '000</i> <b>(audited)</b>
Within 3 months	646,442	689,339
Over 3 months but within 6 months	305,647	55,068
Over 6 months but within 1 year	249,922	234,714
Over 1 year	7,010	68,694
	<hr/> <b>1,209,021</b>	<hr/> <b>1,047,815</b>

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

	<b>30.6.2016</b> <i>RMB '000</i> <b>(unaudited)</b>	31.12.2015 <i>RMB '000</i> <b>(audited)</b>
<b>Trade related:</b>		
Within 3 months	79,900	200,188
Over 3 months but within 6 months	37,300	63,075
	<hr/> <b>117,200</b>	<hr/> <b>263,263</b>
<b>Non-trade related:</b>		
Huachen Group, Brilliance China Group and Wuliangye Group	<hr/> <b>1,071</b>	<hr/> <b>1,853</b>

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

\* *English name for reference only*

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

"" *Brilliance China Automotive Holdings Limited ("Brilliance China", Brilliance China and its subsidiaries collectively referred to as "Brilliance China Group")*

"" *Sichuan Province Yibin Wuliangye Group Co., Ltd.\* 四川省宜賓五糧液集團有限公司 ("Wuliangye", Wuliangye and its subsidiaries collectively referred to as "Wuliangye Group")*

"" *Changzhou Dongfeng Xinchen Engine Co., Ltd.\* (常州東風新晨動力機械有限公司) ("Dongfeng JV")*

## 12. LOAN TO A SHAREHOLDER

As detailed in Note 21, the Company has two trust arrangements which entitle the beneficiaries to subscribe for shares of the Company (the "Share(s)") through 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 and Xinhua Investment Holdings Limited, advanced loans in equal amounts of HK\$20,000,000 to the Company (collectively, the "Loans from Shareholders"). In return, (i) the Company lent an aggregate amount of HK\$40,000,000, equal to the Loans from Shareholders, to Lead In (the "Loan to a shareholder") and (ii) Lead In used the funding obtained from the Company to subscribe for 36,977,960 Shares under the Discretionary Trust (see Note 21).

The Company has repaid the Loans from Shareholders in October 2013.

All the loans are non-trade related, unsecured, interest free and will be repayable within one year from the date of loan agreements by the Company and Lead In and, accordingly, they are classified as current assets and current liabilities, respectively. The Loan to a shareholder was extended to October 2015 in 2014 and further extended to October 2016 in 2015.

## 13. TRADE AND OTHER PAYABLES

Trade and other payables comprise the following:

	30.6.2016 <i>RMB '000</i> (unaudited)	31.12.2015 <i>RMB '000</i> (audited)
Trade payables	739,153	501,850
Bills payable	371,442	380,796
	<hr/>	<hr/>
Total trade and bills payables	1,110,595	882,646
Accrued purchase of raw materials	297,692	192,183
Construction payables	6,349	17,921
Payroll and welfare payables	26,239	44,838
Advances from customers	6,922	11,315
Provision for warranty ( <i>Note</i> )	4,006	4,006
Retention money	51,924	33,977
Other payables	450	6,147
	<hr/>	<hr/>
	1,504,177	1,193,033

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 the reporting period:

	30.6.2016 <i>RMB '000</i> (unaudited)	31.12.2015 <i>RMB '000</i> (audited)
Within 3 months	507,382	282,651
Over 3 months but within 6 months	151,293	181,570
Over 6 months but within 1 year	60,645	27,105
Over 1 year but within 2 years	19,833	10,524
	<hr/>	<hr/>
	739,153	501,850

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

13. **TRADE AND OTHER PAYABLES (Cont'd)**

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

	<b>30.6.2016</b> <i>RMB'000</i> <b>(unaudited)</b>	31.12.2015 <i>RMB'000</i> <b>(audited)</b>
Within 3 months	240,704	243,080
Over 3 months but within 6 months	130,738	137,716
	<hr/> 371,442	<hr/> 380,796

14. **AMOUNTS DUE TO RELATED COMPANIES**

	<b>30.6.2016</b> <i>RMB'000</i> <b>(unaudited)</b>	31.12.2015 <i>RMB'000</i> <b>(audited)</b>
--	--	--

**Trade related:**

**Huachen Group**

Huachen Automotive	1,059	1,018
Shenyang Brilliance	10,090	10,445
Mianyang Huarui	4	4
	<hr/> 11,153	<hr/> 11,467

**Brilliance China Group**

BMW Brilliance Automotive	–	7,703
Mianyang Brilliance Ruian Automotive Components Co., Ltd.* 綿陽華晨瑞安汽車零部件有限公司	39,120	26,096
Shenyang ChenFa Automobile Components Co., Ltd.* 瀋陽晨發汽車零部件有限公司	1,315	1,080
Shenyang Jinbei Vehicle Dies Manufacturing Co., Ltd.* 瀋陽金杯汽車模具製造有限公司	84	–
	<hr/> 40,519	<hr/> 34,879

**Wuliangye Group**

Sichuan Yi Bin Pushi Automotive Components Co., Ltd* 四川省宜賓普什汽車零部件有限公司	5,731	6,218
Sichuan An Shi Ji Logistics Co., Ltd.* ("An Shi Ji") 四川安仕吉物流有限公司	897	628
Mianyang Jianmen RE Mianyang Xinhua Automobile Sales and Service Co., Ltd.* 綿陽新華汽車銷售服務有限公司	2,742	1,088
Xinhua Combustion Engine Mianyang Xinhua Trading Co., Ltd.* 綿陽新華商貿有限公司	150	196
Sichuan Yi Bin Wuliangye Group An Ji Logistics Co.* 四川省宜賓五糧液集團安吉物流公司	89,672	90,480
	6	6
	<hr/> 1,173	<hr/> 253
	<hr/> 100,371	<hr/> 98,869
	<hr/> 152,043	<hr/> 145,215

\* English name for reference only

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

	30.6.2016 <i>RMB'000</i> (unaudited)	31.12.2015 <i>RMB'000</i> (audited)
<b>Non-trade related:</b>		
<b>Huachen Group</b>		
Huachen Automotive	338	338
<b>Brilliance China Group</b>		
Brilliance China	813	739
<b>Wuliangye Group</b>		
Xinhua Combustion Engine	27	836
An Shi Ji	100	100
Mianyang Jianmen RE	21	832
	<b>148</b>	<b>1,768</b>
	<b>1,299</b>	<b>2,845</b>
	<b>153,342</b>	<b>148,060</b>
<b>Trade related balances analysed as:</b>		
Trade payables	49,659	44,882
Bills payable	95,164	92,631
Accrual	7,220	7,702
	<b>152,043</b>	<b>145,215</b>

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:

	30.6.2016 <i>RMB'000</i> (unaudited)	31.12.2015 <i>RMB'000</i> (audited)
Within 3 months	39,569	38,622
Over 3 months but within 6 months	6,388	4,432
Over 6 months but within 1 year	3,702	462
Over 1 year	-	1,366
	<b>49,659</b>	<b>44,882</b>

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

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 bills issue date at the end of the reporting period:

	<b>30.6.2016</b> <i>RMB'000</i> <b>(unaudited)</b>	31.12.2015 <i>RMB'000</i> <b>(audited)</b>
Within 3 months	<b>77,164</b>	12,255
Over 3 months but within 6 months	<b>18,000</b>	80,376
	<hr/> <b>95,164</b>	<hr/> 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.

#### 15. BANK BORROWINGS

During the current interim period, the Group obtained new bank borrowings amounting to RMB406,000,000 (six months ended 30 June 2015: RMB488,816,000) carrying interest ranging from 2.60% to 5.09% (six months ended 30 June 2015: 2.60% to 6.00%) per annum and are repayable throughout to April 2018. The proceeds were used to finance the acquisition and construction of new plant facilities and used for working capital and other general purposes.

#### 16. SHARE CAPITAL

	<b>Number of shares</b>	<b>Amount HK\$</b>
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
1 January 2015, 30 June 2015, 1 January 2016 and 30 June 2016	8,000,000,000	80,000,000
<i>Issued and fully paid:</i>		
At 31 December 2014	1,287,407,794	12,874,078
Repurchase of shares:		
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
Repurchase of shares:		
Repurchase of shares on 19 January 2016	(1,000,000)	(10,000)
At 30 June 2016	1,282,211,794	12,822,118

16. SHARE CAPITAL (Cont'd)

	<b>30.6.2016</b> <i>RMB'000</i> (unaudited)	31.12.2015 <i>RMB'000</i> (audited)
Share capital presented in condensed consolidated statement of financial position	<b>10,457</b>	10,466

17. OPERATING LEASE COMMITMENTS

**The Group as lessee**

The minimum lease payment under operating lease in respect of office premises and production facilities amount to RMB4,378,000 (six months ended 30 June 2015: RMB4,055,000).

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

	<b>30.6.2016</b> <i>RMB'000</i> (unaudited)	31.12.2015 <i>RMB'000</i> (audited)
Within one year	<b>8,606</b>	2,748
Between the second and fifth year inclusive	<b>12,040</b>	4,601
	<b>20,646</b>	7,349

Operating lease payments represent rental payable by the Group for certain office premises and factory premises. Leases are negotiated for original terms of 1 to 2 years with fixed rental.

**The Group as lessor**

Property rental income earned was RMB14,330,893 for the period ended 30 June 2016 (six months ended 30 June 2015: RMB16,363,826).

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

	<b>30.6.2016</b> <i>RMB'000</i> (unaudited)	31.12.2015 <i>RMB'000</i> (audited)
Within one year	<b>30,818</b>	30,818
Between the second and fifth year inclusive	<b>20,545</b>	35,954
	<b>51,363</b>	66,772

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

18. CAPITAL COMMITMENTS

	<b>30.6.2016</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2015 <i>RMB'000</i> (audited)
Capital expenditure in respect of acquisition of property, plant and equipment, prepaid lease payments and intangible assets:		
– contracted for but not provided in the condensed consolidated financial statements	102,164	63,329
– authorised but not contracted for in the condensed consolidated financial statements	313,491	648,087
	<hr/> 415,655	<hr/> 711,416
Capital expenditure in respect of investment in a joint venture		
– contracted for but not provided in the condensed consolidated financial statements	75,000	75,000
	<hr/> 75,000	<hr/> 75,000

19. CONTINGENT LIABILITIES

During the period, the Group (i) endorsed certain bills receivable for the settlement of trade and other payables; and (ii) discounted certain bills receivable to banks for raising of cash. In the opinion of the directors, the Group has transferred the significant risks and rewards relating to these bills receivable, and the Group's obligations to the corresponding counterparties were discharged in accordance with the commercial practice in the PRC and the risk of the default in payment of the endorsed and discounted bills receivable is low because all endorsed and discounted bills receivable are issued and guaranteed by the reputable PRC banks. As a result, the relevant assets and liabilities were not recognised in the condensed 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 the reporting period are as follows:

	<b>30.6.2016</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2015 <i>RMB'000</i> (audited)
Settlement of trade and other payables	289,499	275,309
Discounted bills for raising of cash	134,307	195,080
	<hr/> 423,806	<hr/> 470,389

Maturity analysis of the outstanding endorsed and discounted bills receivable:

	<b>30.6.2016</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2015 <i>RMB'000</i> (audited)
Within 3 months	202,701	159,148
Over 3 months but within 6 months	221,105	311,241
	<hr/> 423,806	<hr/> 470,389



## 20. 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 period were as follows:

	Six months ended	
	30.6.2016	30.6.2015
	RMB '000	RMB '000
	(unaudited)	(unaudited)
Short-term benefits	6,854	8,667
Post-employment benefits	64	21
	<hr/>	<hr/>
	6,918	8,688

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 period, and such amounts are considered as insignificant.

## 21. SHARE BASED PAYMENT TRANSACTION

### 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 ("Beneficiaries") 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, 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 was 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 Dong Feng Motors Engineering Co., Limited (i.e. HK\$1.0817 per Share), which is an independent third party prior to its investment.

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. The shares award is for the purpose of achieving a long run cooperation strategic partnership with the Company and the amount of approximately RMB8,319,000 (HK\$10,500,000), representing the difference between closing price of the Company's share as quoted on the Stock Exchange on the acceptance date and the subscription price, is recognised as share-based payment expense for the Group.

For the year ended 31 December 2015, the remaining 11,404,426 shares under the Fixed Trust were issued to the relevant Beneficiaries. No entitlement of interests in the Shares under the Fixed Trust was outstanding since then.

Other than disclosed above, no Shares were exercised, lapsed or forfeited under the Fixed Trust and the Discretionary Trust during the six months ended 30 June 2016.

## 22. ACQUISITION OF A BUSINESS

During the six months ended 30 June 2015, Mianyang Xincheng completed the acquisition of the Acquired Assets\*, the Transferred Contracts\* and the Call Option\* to BMW Brilliance Automotive as set out in the Assets Transfer Agreement\* entered into between BMW Brilliance Automotive and Mianyang Xincheng 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.

Up to the date of issue of the condensed consolidated financial statements for the period ended 30 June 2015, the valuation of the Crankshaft Acquisition was still in process. Accordingly, the fair value of the Acquired Assets, the Transferred Contracts and the Call Option were not yet finalized, the fair value of the Acquired Assets (and related tax effect) were determined provisionally and were subject to change pending finalization of the valuation of the Crankshaft Acquisition. The provisional fair value was determined based on the unaudited book value of the Acquired Assets provided by BMW Brilliance Automotive and related taxes, amounting to approximately RMB353 million, value-added tax inclusive. The provisional fair value of Transferred Contracts was assumed to be nil.

The acquisition-related costs had been recognized in the consolidated statement of comprehensive income.

\* *Capitalised terms used had the same meaning as defined in the circular of the Company dated 18 February 2015.*

## 23. EVENTS AFTER THE END OF THE REPORTING PERIOD

Subsequent to 30 June 2016, the Group proposed to participate in a tender to bid 3 parcels of land, 6 buildings and various ancillary structures erected thereon from Xinhua Combustion Engine at a maximum consideration amounting to approximately RMB264.26 million. Details of which were set out in the announcement of the Company dated 6 July 2016 and the circular of the Company dated 27 July 2016.

## MANAGEMENT'S DISCUSSION & ANALYSIS

### Business review

In the first half of 2016, the Group achieved total unaudited revenue of approximately RMB1,721.64 million, representing an increase of approximately 3.0% compared to approximately RMB1,672.11 million for the corresponding period last year. The increase in revenue was mainly due to an increase in the sales of XCE branded gasoline engines and crankshaft. The increase in the sales of the Group's small gasoline engines was driven by the stimulus policy of cutting the purchase tax in PRC and an increase in demand for SUVs, which were equipped with the Group's small engines. The increase in the sales of crankshaft was mainly due to full half year contribution of crankshaft business in the first half of 2016.

Sales volume of engines increased by approximately 14.2%, from approximately 123,700 units in the first half of 2015 to approximately 141,300 units in the first half of 2016, mainly due to an increase in demand for the Group's gasoline engines for domestic branded autos. Sales volume of XCE branded engines increased from approximately 102,300 units in the first half of 2015 to approximately 124,900 units in the first half of 2016. The increase in the sales volume of gasoline engines was partially offset by a decrease in the sales volume of diesel engines. The sales volume of N20 engines decreased from approximately 21,400 units in the first half of 2015 to approximately 16,400 units in the first half of 2016.

With respect to the engines business segment, the Group recorded approximately 1.2% decrease in the segment revenue, from approximately RMB1,512.51 million in the first half of 2015 to approximately RMB1,494.27 million in the first half of 2016. The decrease was mainly due to a decrease in the sales of N20 engines and XCE branded diesel engines.

With respect to the engine components and service income segment, the Group recorded approximately 42.5% increase in the segment revenue, from approximately RMB159.60 million in the first half of 2015 to approximately RMB227.36 million in the first half of 2016. The increase was mainly due to an increase in the sales of crankshaft in the first half of 2016. The Group sold approximately 113,200 units of crankshaft in the first half of 2016, representing approximately 363.9% increase compared to approximately 24,400 units for the corresponding period of 2015. The increase in the sales of crankshaft was mainly due to full half year contribution in 2016, whereas the Group only recognized two month sales of crankshaft in the first half of 2015 following the acquisition of the crankshaft line completed in April 2015. The Group sold approximately 448,400 units of connection rods in the first half of 2016, representing approximately 22.8% decrease compared to approximately 580,500 units for the corresponding period of 2015. The decrease in the sales of connection rods was mainly due to a decrease in demand for N20 connection rods in response to the replacement of N20 engines with new engines by the Group's customer.

The unaudited cost of sales amounted to approximately RMB1,488.33 million in the first half of 2016, representing an increase of approximately 5.3% compared to approximately RMB1,413.55 million for the corresponding period last year. The increase was generally in line with the increase in the Group's total unaudited revenue.

The gross profit margin of the Group decreased from approximately 15.5% in the first half of 2015 to approximately 13.6% in the first half of 2016. The decrease was mainly due to a decrease in the sales volume of diesel engines, which affected the profitability of the Group's diesel engines products and a decrease in the selling price and sales volume of connection rods.

The unaudited other income and gain increased from approximately RMB43.17 million in the first half of 2015 to approximately RMB49.92 million in the first half of 2016, representing an increase of approximately 15.6%. The increase was mainly due to an increase in government grant recognised during the period under review.

The unaudited selling and distribution expenses decreased by approximately 24.1%, from approximately RMB36.41 million in the first half of 2015 to approximately RMB27.62 million in the first half of 2016, representing approximately 2.2% and approximately 1.6% of the revenue in the first half of 2015 and 2016 respectively. The decreases in terms of value and percentage were mainly due to a decrease in delivery costs as a result of more engines were produced and delivered by the Group's production plant in Shenyang, which is closer to its customer(s) as compared with the Group's production plant in Mianyang.

The unaudited administrative expenses increased by approximately 6.7%, from approximately RMB61.99 million in the first half of 2015 to approximately RMB66.14 million in the first half of 2016, representing approximately 3.7% and approximately 3.8% of the revenue in the first half of 2015 and 2016 respectively. The increase was mainly due to an increase in depreciation expenses and staff costs.

The unaudited finance costs decreased by approximately 27.4%, from approximately RMB23.90 million in the first half of 2015 to approximately RMB17.35 million in the first half of 2016. The decrease was mainly due to less short term financing by discounting bills.

The unaudited other expenses and losses increased by approximately 1,597.0%, from approximately RMB1.01 million in the first half of 2015 to approximately RMB17.14 million in the first half of 2016. It was because we recognised an unrealised foreign exchange translation loss in the first half of 2016, while we recognised an unrealised foreign exchange translation gain in the same period in 2015.

The Group's unaudited profit before tax decreased by approximately 13.1%, from approximately RMB178.31 million in the first half of 2015 to approximately RMB154.92 million in the first half of 2016.

The unaudited income tax expenses decreased by approximately 15.9%, from approximately RMB32.19 million in the first half of 2015 to approximately RMB27.07 million in the first half of 2016.

In the first half of 2016, the Group achieved unaudited net income attributable to the owners of the Company of approximately RMB127.85 million, representing a decrease of approximately 12.5% compared to approximately RMB146.12 million for the corresponding period of 2015.

### **Liquidity and financial resources**

As at 30 June 2016, the Group had approximately RMB568.44 million in bank balances and cash (31 December 2015: approximately RMB288.21 million), and approximately RMB124.63 million in pledged/restricted bank deposits (31 December 2015: approximately RMB295.86 million).

As at 30 June 2016, the Group had trade and other payables of approximately RMB1,504.18 million (31 December 2015: approximately RMB1,193.03 million), bank borrowings due within one year in the amount of approximately RMB452.50 million (31 December 2015: approximately RMB350.50 million), and bank borrowings due after one year in the amount of approximately RMB714.38 million (31 December 2015: approximately RMB737.80 million).

### **Pledge of assets**

As at 30 June 2016, the Group pledged certain of its buildings, plant and machinery with a total value of approximately RMB145.21 million (31 December 2015: approximately RMB153.86 million) to certain banks to secure certain credit facilities granted to the Group.

As at 30 June 2016, the Group also pledged bank deposits of approximately RMB70.00 million (31 December 2015: approximately RMB112.18 million) to certain banks to secure certain credit facilities granted to the Group.

## **Gearing ratio**

As at 30 June 2016, the Debt-to-Equity ratio of the Group, computed by dividing total liabilities by total equity attributable to the equity owners of the Company, was approximately 1.03 (31 December 2015: approximately 0.92).

As at 30 June 2016, the gearing ratio, computed by dividing bank borrowings by total equity attributable to owners of the Company, was approximately 42% (31 December 2015: approximately 41%). Both Debt-to-Equity ratio and gearing ratio increased, which were mainly due to an increase in total bank borrowings for financing the acquisition of property, plant and equipment.

## **Contingent liabilities**

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

## **Material acquisition and disposal**

On 6 April 2016, Mianyang Xincheng (including its branches) entered into the assets transfer agreement with BMW Brilliance Automotive for the acquisition of enhancement equipment and facilities and the related consumables in connection with the operation of the Group's crankshaft production line. The assets transfer was completed in the first half of 2016.

Details of the transaction were set out in the announcement of the Company dated 6 April 2016. Save as disclosed, there were no major acquisition and disposal of subsidiaries and associated companies undertaken by the Group during the six months ended 30 June 2016.

## **Capital commitments**

As at 30 June 2016, the Group had capital commitments of approximately RMB490.66 million (31 December 2015: approximately RMB786.42 million), of which contracted capital commitments amounted to approximately RMB177.16 million (31 December 2015: approximately RMB138.33 million), which is primarily related to the capital expenditure in respect of acquisition of property, plant and equipment, and new engine development.

## **Foreign exchange risks**

The Group's functional currency is RMB. Since the Group has certain assets and liabilities, such as receivables, payables, cash and bank borrowings, denominated in foreign currencies, such as United States Dollar and Hong Kong Dollar, the Group is exposed to foreign currency translation risk.

The Group will monitor its foreign exchange risks and may consider hedging its foreign currency exposure, if and when necessary. There were no hedging transactions outstanding as at 30 June 2016.

## **Employees and remuneration policy**

As at 30 June 2016, the Group had approximately 1,930 employees (30 June 2015: approximately 1,640). Employee costs amounted to approximately RMB94.78 million for the six months ended 30 June 2016 (2015: approximately RMB83.52 million). The Group will endeavor to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' remuneration is based on their performance.

## **Outlook**

In the first half of 2016, the growth of the passenger vehicles segment of the automotive sector in the PRC gained momentum and recorded a high single digit growth on year-on-year basis while the growth of the commercial vehicles segment remained weak. The growth of the passenger vehicles segment was mainly driven by an increase in demand for SUVs and MPVs and the stimulus policy in relation to purchase tax cut in PRC which remained effective.

In the first half of 2016, the Group recorded a significant growth in the sales of its small gasoline engines due to an increase in demand for SUVs and the impact of the favorable purchase tax cut policy. However, the slowdown of the economic activities in the PRC adversely affected the sales of the Group's diesel engines and large gasoline engines which were installed in light commercial vehicles. In response to the weak demand for the large gasoline engines and diesel engines, the Group has been working with its customers to explore the possibilities of realigning the product portfolio and applying same engines for different car models in order to achieve economies of scale, so as to maintain the profitability of the relevant products.

Regarding new engine business, given that BMW Brilliance Automotive has been replacing N20 engines with another new engines since this year and Shenyang JinBei is still spending a lot of effort of marketing its new brands and new MPVs, the Group expects that contribution from the sales of N20 engines will gradually decrease in near future. Prince engines, which is considered to be more competitive engine in the PRC regarding, among others, its size, technology and fuel consumption, will be the main driver of the growth of the Group's engine business in the future. The Group is in process of implementing the industrialization of Prince engines. In particular, the Group intends to build up new production facilities for Prince engines in Mianyang and develop derivatives from the existing Prince engine for the purpose of building up a new engine platform. The Group has built up a designated team to market the Prince engines, and received positive feedback from the market. The Group expects that Prince engines will be launched in 2017, and will replace N20 engines and become the key driver for the Group's engine business going forward.

Regarding engine components business, the production capacities of the Group's engine components has been affected due to the upgrade of connection rod and crankshaft lines for producing connection rods and crankshafts for other engine model this year. Since automotive manufacturers remain cautious for the outlook of automotive sector in the PRC in near future in light of the slowdown of economic activities in the PRC, the Group expects the prices of its engine components will still be under pressure as automotive manufacturers will be likely to take more aggressive approach on costs controlling and there will be more intense market competition among engine components suppliers. Therefore, the Group intends to expand its production output by way of securing more orders from potential customers in order to achieve economies of scale to lower average production cost of the Group's products and maintain the Group's competitiveness. In particular, the Group is still working on the export of its crankshaft. In addition, the Group is assessing feasibility of producing connection rods in house for its Prince engines in order to strengthen the Group's core competence in engine parts machining.

#### **INTERIM DIVIDEND**

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: nil).

#### **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 the Beneficiaries identified by the trustees of the trusts (further described hereinafter) with that of the Company. Lead In was incorporated for the purpose of holding the Shares on trust for the Beneficiaries pursuant to the Incentive Scheme.

Lead In is currently owned as to 50% by Mr. Wu Xiao An and as to 50% by Mr. Wang Yunxian, both are executive directors of the Company. Lead In holds such Shares on trust for the Beneficiaries under two separate trust arrangements, namely the “Fixed Trust” and the “Discretionary Trust”.

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

There was no outstanding Shares under the Fixed Trust for the six months ended 30 June 2016.

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. Save as disclosed, no Shares had been awarded under the Discretionary Trust for the six months ended 30 June 2016.

## **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**”).

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 at 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 since its inception and for the six months ended 30 June 2016 and no expenses were recognised by the Group for the period under review (six months ended 30 June 2015: nil).

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

As at 30 June 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 Holdings Limited	Beneficial owner	400,000,000	31.20%
Brilliance China <sup>(1)</sup>	Interest in a controlled corporation	400,000,000	31.20%
Huachen Automotive <sup>(2)</sup>	Interest in a controlled corporation	400,000,000	31.20%
Xinhua Investment Holdings Limited	Beneficial owner	400,000,000	31.20%
Xinhua Combustion Engine <sup>(3)</sup>	Interest in a controlled corporation	400,000,000	31.20%
Sichuan Yibin Pushi Group Co., Ltd. <sup>(4)</sup>	Interest in a controlled corporation	400,000,000	31.20%
Wuliangye <sup>(5)</sup>	Interest in a controlled corporation	400,000,000	31.20%
Templeton Asset Management Ltd.	Investment Manager	89,829,000	7.01%

*Notes:*

- (1) Brilliance Investment Holdings Limited ("**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 42.38% by Huachen Automotive and Huachen Automotive 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 Holdings Limited ("**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 Sichuan Yibin Pushi Group Co., Ltd. ("**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 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 30 June 2016.

Save as disclosed herein, as at 30 June 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 30 June 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*

<b>Name of director</b>	<b>Nature of interest</b>	<b>Number and class of Shares</b>	<b>Approximate percentage of shareholding<sup>(3)</sup></b>
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 30 June 2016.

Save as disclosed above, as at 30 June 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.

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

During the six months ended 30 June 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:

<b>Month of repurchase</b>	<b>Number of shares repurchased</b>	<b>Price per share</b>		<b>Aggregate consideration paid (HK\$)</b>
		<b>Highest (HK\$)</b>	<b>Lowest (HK\$)</b>	
January 2016	1,000,000	1.20	1.15	1,182,900
<b>Total</b>	<b>1,000,000</b>			<b>1,182,900</b>

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 six months ended 30 June 2016.

#### **DISCLOSURE UNDER RULE 13.21 OF THE LISTING RULES**

On 28 October 2014, Mianyang Xincheng (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 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 Xincheng (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.

## **COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

The Company is committed to achieving and maintaining the highest standards of corporate governance, consistent with the needs and requirements of the business and its shareholders. The Company has adopted the code provisions set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules. The Company has complied with all code provisions of the CG Code throughout the six months ended 30 June 2016.

## **COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry with all directors of the Company, all directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2016.

## **REVIEW OF FINANCIAL STATEMENTS**

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2016.

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

## **BOARD OF DIRECTORS**

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

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

Hong Kong, 25 August 2016