POWER XINCHEN
新 晨 动 力

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1148)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board of directors (the "**Board**") of Xinchen China Power Holdings Limited (the "**Company**") announces 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 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended	
	NOTES	**30.6.2017** ***RMB'000*** **(unaudited)**	30.6.2016 *RMB'000* (unaudited)
Revenue	*3*	**1,237,942**	1,721,635
Cost of sales		**(1,078,877)**	(1,488,327)
Gross profit		**159,065**	233,308
Other income and gain	*4*	**35,753**	49,915
Selling and distribution expenses		**(17,728)**	(27,623)
Administrative expenses		**(65,885)**	(66,144)
Finance costs		**(22,860)**	(17,346)
Other expenses and losses		**(2,783)**	(17,141)
Share of result of a joint venture		**(159)**	(47)
Profit before tax	*5*	**85,403**	154,922
Income tax expense	*6*	**(14,441)**	(27,068)
Profit and total comprehensive income for the period attributable to owners of the Company		**70,962**	127,854
Earnings per share – Basic *(RMB)*	*8*	**0.055**	0.100

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2017

	NOTES	**30.6.2017** **RMB'000** **(unaudited)**	31.12.2016 *RMB'000* (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*9*	**2,383,668**	1,982,893
Prepaid lease payments		**103,718**	91,614
Investment properties		**215,153**	218,799
Intangible assets	*9*	**572,370**	471,918
Investment in a joint venture		**49,614**	49,773
Deferred tax assets		**8,179**	8,179
Loan to a shareholder		**27,206**	28,460
		3,359,908	2,851,636
CURRENT ASSETS			
Inventories		**625,033**	478,039
Prepaid lease payments		**2,296**	2,295
Trade and other receivables	*10*	**602,944**	705,258
Amounts due from related companies	*11*	**1,399,161**	1,271,371
Pledged/restricted bank deposits		**500,002**	327,111
Bank balances and cash		**349,005**	306,014
		3,478,441	3,090,088
TOTAL ASSETS		**6,838,349**	5,941,724
CURRENT LIABILITIES			
Trade and other payables	*12*	**1,814,993**	1,380,663
Amounts due to related companies	*13*	**345,223**	261,446
Bank borrowings due within one year		**877,878**	781,354
Income tax payables		**1,385**	4,364
		3,039,479	2,427,827
NET CURRENT ASSETS		**438,962**	662,261
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,798,870**	3,513,897

	NOTES	30.6.2017 RMB'000 (unaudited)	31.12.2016 RMB'000 (audited)
NON-CURRENT LIABILITIES			
Bank borrowings due after one year		**829,682**	610,801
Deferred income		**33,916**	38,786
		863,598	649,587
NET ASSETS		**2,935,272**	2,864,310
CAPITAL AND RESERVES			
Share capital	*14*	**10,457**	10,457
Reserves		**2,924,815**	2,853,853
TOTAL EQUITY		**2,935,272**	2,864,310

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting*.

2. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of new standards effective as of 1 January 2017. The application of these amendments to the Hong Kong Financial Reporting Standards 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.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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 by type of product and/or service. 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.

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	
	30.6.2017	30.6.2016	**30.6.2017**	30.6.2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Gasoline engines	**889,756**	1,388,478	**87,393**	172,381
Diesel engines	**162,638**	105,795	**21,064**	11,495
Engine components and service income	**185,548**	227,362	**50,608**	49,432
Total segment and consolidated	**1,237,942**	1,721,635	**159,065**	233,308
Unallocated income			**35,753**	49,915
Unallocated expenses				
Selling and distribution expenses			**(17,728)**	(27,623)
Administrative expenses			**(65,885)**	(66,144)
Finance costs			**(22,860)**	(17,346)
Other expenses and losses			**(2,783)**	(17,141)
Share of result of a joint venture			**(159)**	(47)
Profit before tax			**85,403**	154,922

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 2016 and 2017.

Segment results represent the profit earned by each segment before the allocation of selling and distribution expenses, administrative expenses, finance costs, 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 People's Republic of China (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 Xinchen Engine Co., Ltd.*（綿陽新晨動力機械有限公司）("Mianyang Xinchen") and its subsidiary.

4. OTHER INCOME AND GAIN

	Six months ended	
	30.6.2017	30.6.2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Bank interest income	**4,080**	6,531
Government grants	**4,870**	31,002
Loss on disposal of property, plant and equipment	**(151)**	(50)
Rental income under operating lease, net outgoing expenses	**10,430**	12,183
Exchange gains, net	**15,978**	–
Others	**546**	249
	35,753	49,915

5. PROFIT BEFORE TAX

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

	Six months ended	
	30.6.2017	30.6.2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Employee benefits expenses (including directors):		
– salaries and other benefits	**81,925**	80,766
– retirement benefit scheme contributions	**15,780**	14,018
Total staff costs	**97,705**	94,784
Depreciation of property, plant and equipment	**68,773**	69,711
Depreciation of investment properties	**3,646**	3,646
Amortisation of prepaid lease payments	**1,070**	1,171
Amortisation of intangible assets (included in cost of sales)	**21,134**	10,157
Total depreciation and amortisation	**94,623**	84,685
Exchange gain (losses), net (included in "other income and gain" and "other expenses and losses", respectively)	**15,978**	(13,299)

6. INCOME TAX EXPENSE

	Six months ended	
	30.6.2017	30.6.2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Tax expense comprises:		
Current tax expense	**14,441**	27,068
Deferred tax expense	**–**	–
	14,441	27,068

Mianyang Xinchen was subject to 15% enterprise income tax rate for the period ended 30 June 2017 (six months ended 30 June 2016: 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"(國家稅務總局關於深入實施西部大開發戰略有關稅收政策問題的通知), Mianyang Xinchen was registered with the local tax authority to be eligible to the reduced 15% enterprise income tax rate from 2011 to 2020. The preferential enterprise income tax rate is subject to assessment by the local tax authority on annual basis.

7. DIVIDENDS

No dividend has been paid or declared by the Company during both periods ended 30 June 2017 and 2016, 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:

	Six months ended	
	30.6.2017	30.6.2016
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share *(RMB'000)*	**70,962**	127,854
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,282,211,794**	1,282,300,683

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 RMB2,141,000 (six months ended 30 June 2016: approximately RMB122,000) 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 RMB151,000 (six months ended 30 June 2016: approximately RMB275,000) without proceeds (six months ended 30 June 2016: for the proceeds of approximately RMB225,000), resulting in a loss on disposal of approximately RMB151,000 (six months ended 30 June 2016: approximately RMB50,000).

In addition, during current interim period, the Group had approximately RMB480,733,000 (six months ended 30 June 2016: approximately RMB346,205,000) addition to construction in progress, primarily for scaling up the Group's production facilities and capacity. Besides, the Group had reclassification from construction in progress to land use rights, amounting to approximately RMB13,175,000 (six months ended 30 June 2016: nil). Included in the total addition is approximately RMB2,874,000 (six months ended 30 June 2016: approximately RMB7,000,000) interests capitalised.

During the current interim period, the Group capitalised development costs of technical know-how of new automotive engines amounting to approximately RMB121,586,000 (six months ended 30 June 2016: approximately RMB72,983,000) 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:

	30.6.2017 ***RMB'000*** **(unaudited)**	31.12.2016 *RMB'000* (audited)
Trade receivables	**187,386**	149,760
Less: Allowance for doubtful debts	**(1,619)**	(1,556)
Trade receivables, net	**185,767**	148,204
Bills receivable	**136,504**	356,209
Total trade and bills receivables	**322,271**	504,413
Prepayments for purchase of raw materials and engine components	**15,533**	6,607
Other receivables*	**265,140**	194,238
	602,944	705,258

* *Included in the balance is value added tax recoverable of RMB203,597,000 (at 31 December 2016: RMB131,644,000).*

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 ageing analysis of trade receivables, net of allowance for doubtful debts, presented based on the invoice date as at the end of the reporting period:

	30.6.2017	31.12.2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 1 month	**111,609**	77,463
Over 1 month but within 2 months	**44,691**	19,462
Over 2 months but within 3 months	**8,361**	23,084
Over 3 months but within 6 months	**6,326**	7,439
Over 6 months but within 1 year	**4,427**	6,475
Over 1 year	**10,353**	14,281
	185,767	148,204

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

	30.6.2017	31.12.2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**63,595**	240,044
Over 3 months but within 6 months	**70,880**	109,242
Over 6 months but within 1 year	**2,029**	6,923
	136,504	356,209

11. AMOUNTS DUE FROM RELATED COMPANIES

Analysed as:

	30.6.2017	31.12.2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade related	**1,398,197**	1,270,043
Non-trade related	**964**	1,328
	1,399,161	1,271,371

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

	30.6.2017 *RMB'000* (unaudited)	31.12.2016 *RMB'000* (audited)
Huachen Group#		
Shenyang Brilliance Power Train Machinery Co., Ltd.* ("Shenyang Brilliance") 瀋陽華晨動力機械有限公司	**729,512**	560,982
Mianyang Huarui Automotive Company Limited* ("Mianyang Huarui") 綿陽華瑞汽車有限公司	**116,040**	89,679
Mianyang Huaxiang Machinery Manufacturing Co., Ltd* 綿陽華祥機械製造有限公司	**96,277**	115,399
Huachen Automotive Group Holdings Company Limited* ("Huachen Automotive") 華晨汽車集團控股有限公司	**20,280**	19,743
	962,109	785,803
Brilliance China Group##		
Shenyang XingYuanDong Automobile Component Co., Ltd.* 瀋陽興遠東汽車零部件有限公司	**304,105**	279,774
BMW Brilliance Automotive Ltd.* ("BMW Brilliance Automotive") 華晨寶馬汽車有限公司	**55,549**	107,300
Shenyang Brilliance JinBei Automobile Co., Ltd.* 瀋陽華晨金杯汽車有限公司	**68,774**	97,166
Shenyang Jinbei Vehicle Manufacturing Co., Ltd.* 瀋陽金杯車輛製造有限公司	**7,660**	–
	436,088	484,240

	30.6.2017 *RMB'000* (unaudited)	31.12.2016 *RMB'000* (audited)
Analysed as:		
Trade receivables	**1,298,902**	1,222,850
Bills receivable	**99,295**	47,193
	1,398,197	1,270,043

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

	30.6.2017	31.12.2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**509,975**	588,119
Over 3 months but within 6 months	**378,481**	222,972
Over 6 months but within 1 year	**291,682**	199,311
Over 1 year	**118,764**	212,448
	1,298,902	1,222,850

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

	30.6.2017	31.12.2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade related:		
Within 3 months	**90,100**	33,385
Over 3 months but within 6 months	**9,094**	12,274
Over 6 months but within 1 year	**101**	1,534
	99,295	47,193
Non-trade related:		
Huachen Group, Brilliance China Group and Wuliangye Group###	**964**	1,328

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")*

12. TRADE AND OTHER PAYABLES

Trade and other payables comprise the following:

	30.6.2017	31.12.2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade payables	**816,428**	523,254
Bills payable	**572,565**	395,759
Total trade and bills payables	**1,388,993**	919,013
Accrued purchase of raw materials	**265,090**	289,486
Construction payables	**9,401**	9,118
Payroll and welfare payables	**36,551**	52,322
Advances from customers	**4,819**	3,103
Provision for warranty *(Note a)*	**4,006**	4,006
Retention money	**19,938**	26,030
Interest bearing payables *(Note b)*	**50,000**	50,000
Other payables	**36,195**	27,585
	1,814,993	1,380,663

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

	30.6.2017	31.12.2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**495,705**	418,632
Over 3 months but within 6 months	**210,763**	78,722
Over 6 months but within 1 year	**97,979**	22,388
Over 1 year but within 2 years	**11,981**	3,512
	816,428	523,254

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 engine components, based on prior experience and industry average for defective products at the end of the 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 as stipulated in the contract. Up to the date of this announcement, the balance has not been repaid.

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

	30.6.2017	31.12.2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**409,397**	228,326
Over 3 months but within 6 months	**163,168**	167,433
	572,565	395,759

13. AMOUNTS DUE TO RELATED COMPANIES

	30.6.2017	31.12.2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade related:		
Huachen Group		
Huachen Automotive	**569**	949
Shenyang Brilliance	**16,113**	16,091
Mianyang Huarui	**4**	4
	16,686	17,044
Brilliance China Group		
BMW Brilliance Automotive	**90,278**	10,367
Mianyang Brilliance Ruian Automotive Components Co., Ltd.* 綿陽華晨瑞安汽車零部件有限公司	**41,063**	31,949
Shenyang ChenFa Automobile Components Co., Ltd.* 瀋陽晨發汽車零部件有限公司	**2,341**	2,110
Shenyang Jinbei Vehicle Dies Manufacturing Co., Ltd.* 瀋陽金杯汽車模具製造有限公司	**94**	67
	133,776	44,493
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	**10,788**	10,174
Sichuan An Shi Ji Logistics Co., Ltd.* ("An Shi Ji") 四川安仕吉物流有限公司	**738**	765
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	**3,649**	1,877
Mianyang Xinhua Internal Combustion Engine Joint-Stock Company Limited* ("Xinhua Combustion Engine") 綿陽新華內燃機股份有限公司	**175,932**	181,368
Mianyang Xinhua Trading Co., Ltd.* 綿陽新華商貿有限公司	**6**	6
Sichuan Yi Bin Wuliangye Group An Ji Logistics Co., Ltd* 四川省宜賓五糧液集團安吉物流公司	**2,486**	3,218
	193,599	197,408
	344,061	258,945

* *English name for reference only*

	30.6.2017 *RMB'000* (unaudited)	31.12.2016 *RMB'000* (audited)
Non-trade related:		
Huachen Group		
Huachen Automotive	**–**	458
Brilliance China Group		
Brilliance China	**893**	850
Wuliangye Group		
Xinhua Combustion Engine	**29**	1,093
An Shi Ji	**–**	100
Mianyang Jianmen RE	**240**	–
	269	1,193
	1,162	2,501
	345,223	261,446
Trade related balances analysed as:		
Trade payables	**204,167**	95,081
Bills payable	**139,894**	156,029
Accrual	**–**	7,835
	344,061	258,945

The average credit period for supply of goods/raw material and provision of services is 3 to 6 months. The ageing of trade related amounts due to related companies presented based on the invoice date as at the end of the reporting period is as follows:

	30.6.2017 *RMB'000* (unaudited)	31.12.2016 *RMB'000* (audited)
Within 3 months	**152,135**	53,171
Over 3 months but within 6 months	**19,808**	11,963
Over 6 months but within 1 year	**20,292**	21,647
Over 1 year	**11,932**	8,300
	204,167	95,081

The bills payable are guaranteed by banks in the PRC and have original maturities of 3 to 6 months. The following is an ageing analysis of bills payable of trade related are presented based on the bills issue date as at the end of the reporting period:

	30.6.2017	31.12.2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**134,879**	142,759
Over 3 months but within 6 months	**5,015**	13,270
	139,894	156,029

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

14. SHARE CAPITAL

	Number of shares	**Amount**
		HK$
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2016, 30 June 2016 and 30 June 2017	8,000,000,000	80,000,000
Issued and fully paid:		
At 1 January 2016	1,283,211,794	12,832,118
Repurchase of shares:		
Repurchase of shares on 19 January 2016	(1,000,000)	(10,000)
At 31 December 2016 and 30 June 2017	1,282,211,794	12,822,118

	30.6.2017	31.12.2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Share capital presented in the condensed consolidated statement of financial position	**10,457**	10,457

MANAGEMENT'S DISCUSSION & ANALYSIS

Business review

In the first half of 2017, the Group achieved total unaudited revenue of approximately RMB1,237.94 million, representing a decrease of approximately 28.1% compared to approximately RMB1,721.64 million for the corresponding period last year. The decrease in revenue was mainly due to a decrease in the sales of N20 gasoline engines. The decrease in the sales of N20 gasoline engines was caused by the discontinuation of using N20 engines for BMW vehicles in 2017.

Sales volume of engines decreased by approximately 15.7%, from approximately 141,300 units in the first half of 2016 to approximately 119,100 units in the first half of 2017, mainly due to a decrease in sales of the Group's N20 gasoline engines. Sales volume of N20 engines decreased from approximately 16,400 units in the first half of 2016 to nil unit in the first half of 2017. Sales volume of XCE branded engines decreased from approximately 124,900 units in the first half of 2016 to approximately 119,100 units in the first half of 2017, and this was mainly due to the decrease in the sales volume of gasoline engines, partially offset by an increase in the sales volume of diesel engines.

With respect to the engines business segment, the Group recorded approximately 29.6% decrease in the segment revenue, from approximately RMB1,494.27 million in the first half of 2016 to approximately RMB1,052.39 million in the first half of 2017. The decrease was mainly due to a decrease in the sales of N20 engines.

With respect to the engine components and service income segment, the Group recorded approximately 18.4% decrease in the segment revenue, from approximately RMB227.36 million in the first half of 2016 to approximately RMB185.55 million in the first half of 2017. The decrease was mainly due to a decrease in the sales of connecting rods in the first half of 2017. The Group sold approximately 372,370 units of connecting rods in the first half of 2017, representing approximately 17.0% decrease compared to approximately 448,400 units for the corresponding period of 2016. The decrease in the sales of connecting rods was mainly due to a decrease in demand for N20 connecting rods in response to the replacement of N20 engines with new engines by the Group's customer. The Group sold approximately 115,000 units of crankshaft in the first half of 2017, representing approximately 1.6% increase compared to approximately 113,200 units for the corresponding period of 2016.

The unaudited cost of sales amounted to approximately RMB1,078.88 million in the first half of 2017, representing a decrease of approximately 27.5% compared to approximately RMB1,488.33 million for the corresponding period last year. The decrease was generally in line with the decrease in the Group's total unaudited revenue.

The gross profit margin of the Group decreased from approximately 13.6% in the first half of 2016 to approximately 12.8% in the first half of 2017. The decrease was mainly due to the discontinuation of producing N20 engines.

The unaudited other income and gain decreased from approximately RMB49.92 million in the first half of 2016 to approximately RMB35.75 million in the first half of 2017, representing an decrease of approximately 28.4%. The decrease was mainly due to a decrease in government grant recognized during the period under review.

The unaudited selling and distribution expenses decreased by approximately 35.8%, from approximately RMB27.62 million in the first half of 2016 to approximately RMB17.73 million in the first half of 2017, representing approximately 1.6% and approximately 1.4% of the revenue in the first half of 2016 and 2017 respectively. The decrease in terms of value was mainly due to a decrease in delivery costs as a result of fewer engines were produced during the period under review. The percentage of selling and distribution expenses to revenue remained stable between the two periods under review.

The unaudited administrative expenses decreased by approximately 0.4%, from approximately RMB66.14 million in the first half of 2016 to approximately RMB65.89 million in the first half of 2017, representing approximately 3.8% and approximately 5.3% of the revenue in the first half of 2016 and 2017 respectively. The increase in terms of percentage was mainly due to a decrease in unaudited revenue while staff cost, depreciation and office expenses remained the same.

The unaudited finance costs increased by approximately 31.8%, from approximately RMB17.35 million in the first half of 2016 to approximately RMB22.86 million in the first half of 2017. The increase was mainly due to an increase in bank borrowing for financing the acquisitions, including crankshaft production line and more short term financing by discounting bills.

The unaudited other expenses and losses decreased by approximately 83.8%, from approximately RMB17.14 million in the first half of 2016 to approximately RMB2.78 million in the first half of 2017. It was because we recognised an unrealised foreign exchange translation gain in the first half of 2017, whilst we recognised an unrealised foreign exchange translation loss in the same period in 2016.

The Group's unaudited profit before tax decreased by approximately 44.9%, from approximately RMB154.92 million in the first half of 2016 to approximately RMB85.40 million in the first half of 2017, due to less taxable income.

The unaudited income tax expenses decreased by approximately 46.7%, from approximately RMB27.07 million in the first half of 2016 to approximately RMB14.44 million in the first half of 2017.

In the first half of 2017, the Group achieved unaudited net income attributable to the owners of the Company of approximately RMB70.96 million, representing a decrease of approximately 44.5% compared to approximately RMB127.85 million for the corresponding period of 2016.

Liquidity and financial resources

As at 30 June 2017, the Group had approximately RMB349.01 million in bank balances and cash (31 December 2016: approximately RMB306.01 million), and approximately RMB500.00 million in pledged/restricted bank deposits (31 December 2016: approximately RMB327.11 million).

As at 30 June 2017, the Group had trade and other payables of approximately RMB1,814.99 million (31 December 2016: approximately RMB1,380.66 million), bank borrowings due within one year in the amount of approximately RMB877.88 million (31 December 2016: approximately RMB781.35 million), and bank borrowings due after one year in the amount of approximately RMB829.68 million (31 December 2016: approximately RMB610.80 million).

Pledge of assets

As at 30 June 2017, the Group pledged certain of its land use rights, buildings, plant and machinery with a total value of approximately RMB127.55 million (31 December 2016: approximately RMB136.09 million) to certain banks to secure certain credit facilities granted to the Group.

As at 30 June 2017, the Group also pledged bank deposits of approximately RMB267.30 million (31 December 2016: approximately RMB90.50 million) to certain banks to secure certain credit facilities granted to the Group.

Gearing ratio

As at 30 June 2017, 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 1.33 (31 December 2016: approximately 1.07).

As at 30 June 2017, the gearing ratio, computed by dividing bank borrowings by total equity attributable to owners of the Company, was approximately 58% (31 December 2016: approximately 49%). 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 11 April 2017, Mianyang Xinchen (including its branches) entered into the assets transfer agreement with BMW Brilliance Automotive for the acquisition of the C3 crankshaft production line, the equipment and facilities and the related contracts in connection with the expansion of the Group's crankshaft production line. The assets transfer was completed in the first half of 2017.

Details of the transaction were set out in the announcements of the Company dated 11 April 2017, 13 April 2017 and 26 May 2017 and the circular of the Company dated 26 May 2017. 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 2017.

Capital commitments

As at 30 June 2017, the Group had capital commitments of approximately RMB515.70 million (31 December 2016: approximately RMB636.24 million), of which contracted capital commitments amounted to approximately RMB210.14 million (31 December 2016: approximately RMB130.09 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.

Employees and remuneration policy

As at 30 June 2017, the Group had approximately 2,033 employees (30 June 2016: approximately 1,930). Employee costs amounted to approximately RMB97.71 million for the six months ended 30 June 2017 (2016: approximately RMB94.78 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 2017, the sales of the passenger vehicles segment of the automotive sector in the PRC maintained the positive momentum. According to the China Association of Automobile Manufacturers, the sales of passenger vehicles recorded a growth of 1.61% on a year-on-year basis whilst the commercial vehicles segment recorded a growth of 17.39%. Passenger vehicles accounted for about 84.3% of sales of the automotive sector. The growth of the passenger vehicles segment was mainly driven by an increase in demand for SUVs and the stimulus policy in relation to purchase tax cut by 2.5 percentage point from 10% to 7.5% in PRC which remained effective in 2017.

Regarding the Prince engine business, the Group expects that contribution from the sales of Prince engines will gradually be in place by end of 2017. 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 coming years. The Group is near the end of implementing the industrialization of Prince engines with 1.6L and 1.8L displacement. 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. Other than the 1.6L and 1.8L displacement models, the Group has been developing 1.2L displacement engine as well. The Group has a designated team to work on the research and development of a three cylinder 1.2L displacement engine in response to the market demand of more stringent requirement for fuel consumption and emission standard. The three cylinder engine could be paired up with electric motors to cope with the increasing demand of hybrid electric vehicles. The Group expects that Prince engines will become the key driver for the Group's engine business going forward.

As for engine components business, the Group just acquired another crankshaft production line for BMW Brilliance Automotive products in the first half of 2017. BMW Brilliance Automotive achieved increased sales in 2016, it is expected that the demand of finished crankshaft for Bx8 engines will increase as new models of BMW vehicles will be put up for sales in the coming few years. Apart from this, the Group has reached an agreement with BMW AG to export of its crankshafts overseas from 2018 onwards. In addition, the Group has upgraded one connecting rod production line from N20 to Prince engine compatible, which strengthens the Group's core competence in engine parts machining.

While the Group maintains its operations for developing and manufacturing engines and engine component, it has been exploring other potential strategic opportunities for further growth and development.

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

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

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 2017.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to achieving and maintaining the highest standards of corporate governance, consistent with the needs and requirements of the business and its shareholders. The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company has complied with all code provisions of the CG Code throughout the six months ended 30 June 2017.

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 2017.

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

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

Hong Kong, 24 August 2017