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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 2015

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 2015 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015

		Six months ended	
	<i>Notes</i>	30.6.2015	30.6.2014
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	3	1,672,114	1,453,434
Cost of sales		(1,413,547)	(1,166,545)
Gross profit		258,567	286,889
Other income and gain	4	43,169	9,427
Selling and distribution expenses		(36,414)	(27,483)
Administrative expenses		(61,985)	(64,229)
Finance costs		(23,895)	(21,692)
Other expenses and losses		(1,011)	(10,295)
Share of result of a joint venture		(126)	175
Profit before tax	5	178,305	172,792
Income tax expense	6	(32,190)	(29,374)
Profit and total comprehensive income for the period attributable to owners of the Company		146,115	143,418
Earnings per share – Basic (<i>RMB</i>)	8	0.113	0.111

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2015

	<i>Notes</i>	30.6.2015 RMB'000 (unaudited)	31.12.2014 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	<i>9</i>	1,330,640	951,903
Prepaid lease payments		95,510	96,619
Investment properties		229,688	233,381
Intangible assets	<i>9</i>	328,634	284,998
Investment in a joint venture		49,180	49,306
Deferred tax assets		6,923	6,923
		<hr/> 2,040,575	<hr/> 1,623,130
CURRENT ASSETS			
Inventories		507,683	572,247
Prepaid lease payments		2,308	2,308
Trade and other receivables	<i>10</i>	574,680	767,387
Amounts due from related companies	<i>11</i>	1,003,553	970,239
Loan to a shareholder		29,144	29,237
Pledged/restricted bank deposits		358,728	424,307
Bank balances and cash		487,165	353,947
		<hr/> 2,963,261	<hr/> 3,119,672
TOTAL ASSETS		<hr/> 5,003,836	<hr/> 4,742,802
CURRENT LIABILITIES			
Trade and other payables	<i>12</i>	1,179,196	1,377,719
Amounts due to related companies	<i>13</i>	131,317	268,743
Bank borrowings due within one year		300,500	220,500
Income tax payables		10,671	5,518
		<hr/> 1,621,684	<hr/> 1,872,480
NET CURRENT ASSETS		<hr/> 1,341,577	<hr/> 1,247,192
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 3,382,152	<hr/> 2,870,322

	<i>Notes</i>	30.6.2015 RMB'000 (unaudited)	31.12.2014 <i>RMB'000</i> (audited)
NON-CURRENT LIABILITIES			
Bank borrowings due after one year		733,632	367,140
Deferred income		42,112	42,889
		<u>775,744</u>	<u>410,029</u>
NET ASSETS		<u>2,606,408</u>	<u>2,460,293</u>
CAPITAL AND RESERVES			
Share capital	<i>14</i>	10,500	10,500
Reserves		2,595,908	2,449,793
TOTAL EQUITY		<u>2,606,408</u>	<u>2,460,293</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

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 “Listing Rules”).

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 2015 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2014.

In the current interim period, the Group has adopted and applied, for the first time, certain new interpretation and 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 new interpretation and 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 a product by product basis. Each individual engine product constitutes an operating segment. For certain operating segments that exhibit similar long-term financial performance as they have similar economic characteristics, 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	
	30.6.2015 <i>RMB'000</i> (unaudited)	30.6.2014 <i>RMB'000</i> (unaudited)	30.6.2015 <i>RMB'000</i> (unaudited)	30.6.2014 <i>RMB'000</i> (unaudited)
Gasoline engines	1,336,530	1,065,066	172,808	185,887
Diesel engines	175,982	251,587	27,657	42,477
Engine components and service income	159,602	136,781	58,102	58,525
Total segment and consolidated	1,672,114	1,453,434	258,567	286,889
Unallocated income			43,169	9,427
Unallocated expenses				
Selling and distribution expenses			(36,414)	(27,483)
Administrative expenses			(61,985)	(64,229)
Finance costs			(23,895)	(21,692)
Other expenses and losses			(1,011)	(10,295)
Share of result of a joint venture			(126)	175
Profit before tax			178,305	172,792

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 2014 and 2015.

Segment results represent the profit earned by each segment before the allocation of selling and distribution expenses, administrative expenses, finance costs, other income and gain/expenses and losses and share of result of a joint venture. This is the measure reported to the Board for the 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 ("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 Engine Co., Ltd. ("Mianyang Xincheng") and its subsidiary.

4. OTHER INCOME AND GAIN

	Six months ended	
	30.6.2015 <i>RMB'000</i> (unaudited)	30.6.2014 <i>RMB'000</i> (unaudited)
Bank interest income	5,495	3,668
Government grants (<i>Note</i>)	27,757	4,309
Loss on disposal of property, plant and equipment	(175)	–
Rental income under operating lease, net outgoing expenses	10,210	–
Others	(118)	1,450
	<u>43,169</u>	<u>9,427</u>

Note: The government grants in the amount of approximately RMB21,087,000 received during the six months ended 30 June 2015 are subsidy on certain research activities received by a group entity for facilitating local technology development. These government grants are accounted for as immediate financial support with no future related costs expected to be incurred and do not related to any assets.

5. PROFIT BEFORE TAX

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

	Six months ended	
	30.6.2015 <i>RMB'000</i> (unaudited)	30.6.2014 <i>RMB'000</i> (unaudited)
Employee benefits expenses (including directors):		
– salaries and other benefits	72,821	61,535
– retirement benefit scheme contributions	10,701	6,143
Total staff costs	<u>83,522</u>	<u>67,678</u>
Depreciation of property, plant and equipment	46,210	25,261
Depreciation of investment properties	3,693	–
Amortisation of prepaid lease payments	1,109	720
Amortisation of intangible assets (included in cost of sales)	4,942	2,838
Total depreciation and amortisation	<u>55,954</u>	<u>28,819</u>
Exchange gain, net	2,755	1,395
Share-based payment expenses (included in other expenses and losses)	–	8,319
	<u>–</u>	<u>8,319</u>

6. INCOME TAX EXPENSE

	Six months ended	
	30.6.2015	30.6.2014
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Tax expense comprises:		
Current tax expense	32,190	29,374
Deferred tax expense	—	—
	<u>32,190</u>	<u>29,374</u>

Mianyang Xinchun was subject to 15% enterprise income tax rate for the period ended 30 June 2015 (six months ended 30 June 2014: 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 2015 and 2014, 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	
	30.6.2015	30.6.2014
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share (<i>RMB'000</i>)	<u>146,115</u>	<u>143,418</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>1,287,407,794</u>	<u>1,287,407,794</u>

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 RMB916,000 (six months ended 30 June 2014: RMB189,298,000) 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 RMB191,000 (six months ended 30 June 2014: Nil) for proceed of RMB16,000 (six months ended 30 June 2014: Nil), resulting in a loss on disposal of RMB175,000 (six months ended 30 June 2014: Nil).

In addition, during current interim period, the Group had approximately RMB424,206,000 (six months ended 30 June 2014: approximately RMB363,656,000) addition to construction in progress, primarily for scaling up the Group's production facilities and capacity. Included in the total addition is approximately RMB1,024,000 (six months ended 30 June 2014: approximately RMB3,758,000) interests capitalised and approximately RMB353,000,000 (provisional amount) of new fixed assets through acquisition of a business.

During the current interim period, the Group capitalised development costs of technical know-how of new automotive engines amounting to approximately RMB48,578,000 (six months ended 30 June 2014: approximately RMB47,001,000) 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:

	30.6.2015 RMB'000 (unaudited)	31.12.2014 RMB'000 (audited)
Trade receivables	296,004	241,347
<i>Less:</i> Allowance for doubtful debts	(806)	(346)
Trade receivables, net	295,198	241,001
Bills receivable	104,017	333,475
Total trade and bills receivables	399,215	574,476
Prepayments for purchase of raw materials and engine components	15,625	20,661
Other receivables*	159,840	172,250
	574,680	767,387

* *Included in the balance is value added tax recoverable of RMB129,612,000 (year ended 31 December 2014: RMB146,552,000).*

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

	30.6.2015 <i>RMB'000</i> (unaudited)	31.12.2014 <i>RMB'000</i> (audited)
Within 1 month	143,748	136,999
Over 1 month but within 2 months	78,065	47,042
Over 2 months but within 3 months	19,051	3,253
Over 3 months but within 6 months	19,451	18,772
Over 6 months but within 1 year	34,883	21,195
Over 1 year	–	13,740
	295,198	241,001

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

	30.6.2015 <i>RMB'000</i> (unaudited)	31.12.2014 <i>RMB'000</i> (audited)
Within 3 months	62,812	160,155
Over 3 months but within 6 months	41,205	170,937
Over 6 months but within 1 year	–	2,383
	104,017	333,475

11. AMOUNTS DUE FROM RELATED COMPANIES

Analysed as:

	30.6.2015 <i>RMB'000</i> (unaudited)	31.12.2014 <i>RMB'000</i> (audited)
Trade related	1,002,653	969,736
Non-trade related	900	503
	1,003,553	970,239

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

	30.6.2015 RMB'000 (unaudited)	31.12.2014 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	446,939	311,792
Mianyang Huarui Automotive Company Limited* ("Mianyang Huarui") 綿陽華瑞汽車有限公司	100,523	116,958
Mianyang Huaxiang Machinery Manufacturing Co., Ltd* 綿陽華祥機械製造有限公司	92,046	46,967
Huachen Automotive Group Holdings Company Limited ("Huachen") 華晨汽車集團控股有限公司	11,818	35,166
	651,326	510,883
Brilliance China Group##		
Shenyang XingYuanDong Automobile Component Co., Ltd. 瀋陽興遠東汽車零部件有限公司	183,917	378,873
BMW Brilliance Automotive Ltd.* ("BMW Brilliance Automotive") 華晨寶馬汽車有限公司	87,368	56,545
Shenyang Brilliance JinBei Automobile Co., Ltd. 瀋陽華晨金杯汽車有限公司	71,555	5,950
	342,840	441,368
Dongfeng JV		
Changzhou Dong Feng Xincheng Engine Co., Ltd.* 常州東風新晨動力機械有限公司	8,487	17,485
	1,002,653	969,736
	30.6.2015 RMB'000 (unaudited)	31.12.2014 RMB'000 (audited)
Analysed as:		
Trade receivables	929,698	778,904
Bills receivable	72,955	190,832
	1,002,653	969,736

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:

	30.6.2015 RMB'000 (unaudited)	31.12.2014 RMB'000 (audited)
Within 3 months	512,516	253,856
Over 3 months but within 6 months	202,983	197,155
Over 6 months but within 1 year	204,494	327,893
Over 1 year	9,705	–
	929,698	778,904

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

	30.6.2015 RMB'000 (unaudited)	31.12.2014 RMB'000 (audited)
Within 3 months	70,600	155,507
Over 3 months but within 6 months	2,355	33,000
Over 6 months but within 1 year	–	2,325
	72,955	190,832

	30.6.2015 RMB'000 (unaudited)	31.12.2014 RMB'000 (audited)
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Non-trade related:

Huachen Group, Wuliangye Group ^{###} and Brilliance China Group	900	503
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The non-trade related amounts are interest free, unsecured and repayable on demand.

* *English name for reference only*

Huachen 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:

	30.6.2015 RMB'000 (unaudited)	31.12.2014 RMB'000 (audited)
Trade payables	388,178	383,155
Bills payable	314,892	698,183
	<hr/>	<hr/>
Total trade and bills payables	703,070	1,081,338
Accrued purchase of raw materials	374,358	165,873
Construction payables	31,310	22,333
Payroll and welfare payables	24,448	42,271
Advances from customers	6,267	13,355
Provision for warranty (<i>Note</i>)	3,670	3,670
Retention money	33,769	42,013
Other payables	2,304	6,866
	<hr/>	<hr/>
	1,179,196	1,377,719
	<hr/> <hr/>	<hr/> <hr/>

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:

	30.6.2015 RMB'000 (unaudited)	31.12.2014 RMB'000 (audited)
Within 3 months	374,144	146,827
Over 3 months but within 6 months	9,914	210,380
Over 6 months but within 1 year	3,384	15,378
Over 1 year but within 2 years	736	10,570
	<hr/>	<hr/>
	388,178	383,155
	<hr/> <hr/>	<hr/> <hr/>

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.

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

	30.6.2015 RMB'000 (unaudited)	31.12.2014 RMB'000 (audited)
Within 3 months	168,733	301,719
Over 3 months but within 6 months	146,159	325,281
Over 6 months but within 1 year	–	71,183
	314,892	698,183

13. AMOUNTS DUE TO RELATED COMPANIES

	30.6.2015 RMB'000 (unaudited)	31.12.2014 RMB'000 (audited)
Trade related:		
Huachen Group		
Huachen	560	369
Shenyang Brilliance	127	5,000
Mianyang Huarui	4	2
	691	5,371
Brilliance China Group		
BMW Brilliance Automotive	70,640	81,751
Mianyang Brilliance Ruian Automotive Components Co., Ltd* 綿陽華晨瑞安汽車零部件有限公司	16,568	24,314
Shenyang Chenfa Automotive Components Co., Ltd.* 瀋陽晨發汽車零部件有限公司	618	–
	87,826	106,065
Wuliangye Group		
Mianyang Xinhua Internal Combustion Engine Joint-Stock Company Limited* (“Xinhua Combustion Engine”) 綿陽新華內燃機股份有限公司	22,269	150,359
Sichuan Yi Bin Pushen Automotive Components Co., Ltd* 四川省宜賓普什汽車零部件有限公司	6,714	4,912
Sichuan An Shi Ji Logistics Co., Ltd* (“Sichuan An Shi Ji”) 四川安仕吉物流有限公司	1,325	–
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	274	265
Mianyang Xinhua Automobile Sales and Service Co., Ltd.* 綿陽新華汽車銷售服務有限公司	–	204
	30,582	155,740
	119,099	267,176

	30.6.2015 RMB'000 (unaudited)	31.12.2014 RMB'000 (audited)
Non-trade related:		
Huachen Group		
Shenyang Brilliance	10,000	–
Huachen	585	497
	<u>10,585</u>	<u>497</u>
Brilliance China Group		
Brilliance China	718	724
BMW Brilliance Automotive	318	318
	<u>1,036</u>	<u>1,042</u>
Wuliangye Group		
Xinhua Combustion Engine	476	28
Sichuan An Shi Ji	100	–
Mianyang Jianmen RE	21	–
	<u>597</u>	<u>28</u>
	<u>12,218</u>	<u>1,567</u>
	<u>131,317</u>	<u>268,743</u>
	30.6.2015 RMB'000 (unaudited)	31.12.2014 RMB'000 (audited)
Trade related balances analysed as:		
Trade payables	83,749	25,960
Bills payable	8,005	153,626
Accrual	27,345	87,590
	<u>119,099</u>	<u>267,176</u>

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:

	30.6.2015 RMB'000 (unaudited)	31.12.2014 RMB'000 (audited)
Within 3 months	83,749	24,588
Over 3 months but within 6 months	–	1,370
Over 6 months but within 1 year	–	–
Over 1 year	–	2
	<u>83,749</u>	<u>25,960</u>

* *English name for reference only*

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:

	30.6.2015 RMB'000 (unaudited)	31.12.2014 RMB'000 (audited)
Within 3 months	2,685	82,105
Over 3 months but within 6 months	5,320	59,410
Over 6 months but within 1 year	–	12,111
	<u>8,005</u>	<u>153,626</u>

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.

14. SHARE CAPITAL

	Number of shares	Amount HK\$
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
At date of incorporation, 1 January 2014, 30 June 2014, 1 January 2015 and 30 June 2015	<u>8,000,000,000</u>	<u>80,000,000</u>
<i>Issued and fully paid:</i>		
At 1 January 2014, 30 June 2014, 1 January 2015 and 30 June 2015 (unaudited)	<u>1,287,407,794</u>	<u>12,874,078</u>
	30.6.2015 RMB'000 (unaudited)	31.12.2014 RMB'000 (audited)
Share capital presented in condensed consolidated statement of financial position	<u>10,500</u>	<u>10,500</u>

MANAGEMENT'S DISCUSSION & ANALYSIS

Business Review

In the first half of 2015, the Group achieved total unaudited revenue of approximately RMB1,672.11 million, representing an increase of approximately 15.0% compared to approximately RMB1,453.43 million for the corresponding period last year. The increase in revenue was mainly due to an increase in the sales of N20 engines.

Sales volume of engines decreased by approximately 13.9%, from around 143,600 units in the first half of 2014 to around 123,700 units in the first half of 2015 mainly due to a decrease in demand for the Group's engines for domestic branded autos. Sales volume of XCE branded engines decreased from approximately 143,600 units in the first half of 2014 to approximately 102,300 units in the first half of 2015. The decrease in the sales volume of XCE branded engines was partially offset by an increase in the sales volume of N20 engines. During the period under review, the Group sold approximately 21,400 units of N20 engines.

With respect to the engines business segment, the Group recorded approximately 14.9% increase in the segment revenue, from approximately RMB1,316.65 million in the first half of 2014 to approximately RMB1,512.51 million in the first half of 2015. The increase was mainly due to an increase in the sales of N20 engines.

With respect to the engine components and service income segment, the Group recorded approximately 16.7% increase in the segment revenue, from approximately RMB136.78 million in the first half of 2014 to approximately RMB159.60 million in the first half of 2015. The increase was mainly due to the introduction of finished crankshaft in the first half of 2015. The Group sold approximately 580,500 units of connection rods, representing 12.8% increase compared to approximately 514,700 units for the corresponding period of 2014. The Group sold approximately 24,400 units of finished crankshaft in the first half of 2015.

The unaudited cost of sales amounted to approximately RMB1,413.55 million in the first half of 2015, representing an increase of approximately 21.2% compared to approximately RMB1,166.55 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 19.7% in the first half of 2014 to approximately 15.5% in the first half of 2015. The decrease was mainly due to an increase in the sales of lower profit margin products.

The unaudited other income and gains increased from approximately RMB9.43 million in the first half of 2014 to approximately RMB43.17 million in first half of 2015, representing an increase of approximately 357.8%. The increase was mainly due to an increase in government grant recognised and additional rental income from the lease with BMW Brilliance Automotive during the period under review.

The unaudited selling and distribution expenses increased by approximately 32.5%, from approximately RMB27.48 million in first half of 2014 to approximately RMB36.41 million in first half of 2015, representing approximately 1.9% and approximately 2.2% of the revenue in the first half of 2014 and 2015 respectively. The increase in selling and distribution expenses was mainly due to an increase in delivery costs. The percentage of selling and distribution expenses to revenue remained stable during the period under review.

The unaudited general and administrative expenses decreased by approximately 3.5%, from approximately RMB64.23 million in the first half of 2014 to approximately RMB61.99 million in the first half of 2015, representing approximately 4.4% and approximately 3.7% of the revenue in the first half of 2014 and 2015 respectively. The decrease was mainly due to a decrease in staff costs and other tax expenses.

The unaudited finance costs increased by approximately 10.2%, from approximately RMB21.69 million in first half of 2014 to approximately RMB23.90 million in the first half of 2015. The increase was mainly due to an increase in bank borrowing for financing the acquisition of property, plant and equipment.

The unaudited other expenses and losses decreased by approximately 90.2%, from approximately RMB10.30 million in the first half of 2014 to approximately RMB1.01 million in the first half of 2015. It is because there was a share-based payment expense recognised in the first half of 2014, but no such expenses was recognised in the first half of 2015.

The Group's unaudited profit before tax increased by approximately 3.2% from approximately RMB172.79 million in the first half of 2014 to approximately RMB178.31 million in the first half of 2015.

The unaudited income tax expenses increased by approximately 9.6% from approximately RMB29.37 million in the first half of 2014 to approximately RMB32.19 million in the first half of 2015.

In the first half of 2015, the Group achieved unaudited net income attributable to the owners of the Company of approximately RMB146.12 million, representing an increase of approximately 1.9% compared to approximately RMB143.42 million for the corresponding period of 2014.

Liquidity and financial resources

As at 30 June 2015, the Group had approximately RMB487.17 million in cash and cash equivalents (31 December 2014: approximately RMB353.95 million), and approximately RMB358.73 million in pledged/restricted bank deposits (31 December 2014: approximately RMB424.31 million).

As at 30 June 2015, the Group had trade and other payables of approximately RMB1,179.20 million (31 December 2014: approximately RMB1,377.72 million), bank borrowings due within one year in the amount of approximately RMB300.50 million (31 December 2014: approximately RMB220.50 million), and bank borrowings due after one year in the amount of approximately RMB733.63 million (31 December 2014: approximately RMB367.14 million).

Pledge of assets

As at 30 June 2015, the Group pledged certain of its buildings, plant and machinery with a total value of approximately RMB164.99 million (31 December 2014: approximately RMB172.86 million) to certain banks to secure certain credit facilities granted to the Group.

As at 30 June 2015, the Group also pledged bank deposits of approximately RMB130.95 million (31 December 2014: approximately RMB181.56 million) to certain banks to secure certain credit facilities granted to the Group.

Gearing ratio

As at 30 June 2015, 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 0.92 (31 December 2014: approximately 0.93). The Debt-to-Equity ratio remained stable.

As at 30 June 2015, the gearing ratio, computed by dividing bank borrowings by total equity attributable to owners of the Company, was approximately 40% (31 December 2014: approximately 24%). The increase in gearing ratio was mainly due to an increase in total bank borrowing as a result of the finance of 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 the reputable PRC banks.

Material acquisition and disposal

On 21 January 2015, Mianyang Xincheng (including its branches) entered into the assets transfer agreement, agreement on operation site, consulting service and technical agreement, raw materials supply agreement and purchase agreement on finished crankshaft, with BMW Brilliance Automotive in relation to the acquisition by Mianyang Xincheng (including its branches) of the crankshaft production line, and subsequent arrangements for the operation of the crankshaft production line and supply of finished crankshaft to BMW Brilliance Automotive. The assets transfer was completed in the first half of 2015.

Details of the transaction were set out in the announcement of the Company dated 21 January 2015 and the circular of the Company dated 18 February 2015. 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 2015.

Capital commitments

As at 30 June 2015, the Group had capital commitments of approximately RMB1,006.03 million (31 December 2014: approximately RMB545.31 million), of which contracted capital commitments amounted to approximately RMB229.63 million (31 December 2014: approximately RMB151.45 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 Renminbi. Since the Group has certain assets and liabilities, such as receivables, payables and cash and cash equivalents, 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 2015.

Employees and Remuneration Policy

As at 30 June 2015, the Group had approximately 1,640 employees (30 June 2014: approximately 1,660). Employee costs amounted to approximately RMB83.52 million for the six months ended 30 June 2015 (2014: approximately RMB67.68 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 2015, market demand for certain domestic branded vehicles installed with the Group's engines remained weak. In addition, following the imposition of stringent emission control, there was a significant decrease in the sale volume of commercial vehicles. Therefore, there was a significant decrease in the sales volume of traditional engines in the first half of 2015. Although some of the Group's customers launched or will launch new products in 2015, in light of the slowdown in industry growth and the more stringent emission standard, the market will still be very challenging for the Group's domestic branded customers in near future. The Group will monitor sale performance of vehicles equipped with the Group's engines and adjust its sale strategy and production plan based on the latest market situation. In light of unfavorable industry outlook, the Group will further strengthen costs control measures to lower its operating costs and introduce more competitive products to support the long-term development of the Group's self-branded engine business.

The Group has been looking for premium product(s) to broaden its product portfolio. In June 2015, the Group successfully secured the second premium engine model, prince engine, from Bayerische Motoren Werke Aktiengesellschaft (“**BMW AG**”). The Group is currently in discussion with technical experts and professional parties to formulate the industrialisation plan of the new engine and has initiated discussions with existing and new customers in relation to the potential supply arrangement of this new engine in the future. The new engine is equipped with advanced technology. The Group is exploring the possibilities of localising the new engine’s parts and components in order to lower its production costs to make it more competitive in the market.

The Group has been supplying N20 engines and connection rods to BMW Brilliance Automotive since 2014. The Group’s core competence in engine assembly and engine parts machining has been acknowledged by BMW AG through the supply arrangement of N20 engines and connection rods. In the first of 2015, the Group successfully secured second core engine part business from BMW Brilliance Automotive. Following completion of acquisition of a crankshaft production line from BMW Brilliance Automotive, the Group commenced to supply finished crankshaft to BMW Brilliance Automotive in the second quarter of 2015. The Group will continue to explore new business opportunities with BMW Brilliance Automotive and BMW AG going forward.

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: 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 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 2015.

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 2015.

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. 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, 20 August 2015