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POWER XINCHEN

新 晨 動 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 2014

The board of directors (the “**Board**”) of Xinchén 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 2014 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

		Six months ended	
		30.6.2014	30.6.2013
	<i>Notes</i>	RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	3	1,453,434	1,302,188
Cost of sales		(1,166,545)	(1,065,255)
Gross profit		286,889	236,933
Other income and gains	4	9,427	20,257
Selling and distribution expenses		(27,483)	(25,877)
General and administrative expenses		(64,229)	(29,399)
Finance costs		(21,692)	(8,409)
Other expenses and losses		(10,295)	(27,497)
Share of result of a joint venture		175	5
Profit before tax	5	172,792	166,013
Taxation	6	(29,374)	(25,320)
Profit and total comprehensive income for the period attributable to owners of the Company		143,418	140,693
Earnings per share – Basic (<i>RMB</i>)	8	0.111	0.123

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	Notes	30.6.2014 RMB'000 (unaudited)	31.12.2013 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	877,565	349,872
Prepaid lease payments		58,721	59,441
Intangible assets	9	221,799	177,636
Investment in a joint venture		49,429	49,259
Deferred tax assets		151	151
Deposits for acquisition of property, plant and equipment and land use rights		11,654	26,693
		<u>1,219,319</u>	<u>663,052</u>
CURRENT ASSETS			
Inventories		319,906	385,051
Prepaid lease payments		1,434	1,434
Trade and other receivables	10	770,782	896,220
Amounts due from related companies	11	1,304,044	1,113,544
Loan to a shareholder		29,281	31,426
Pledged bank deposits		322,156	190,996
Bank balances and cash		1,055,241	1,166,366
		<u>3,802,844</u>	<u>3,785,037</u>
TOTAL ASSETS		<u>5,022,163</u>	<u>4,448,089</u>
CURRENT LIABILITIES			
Trade and other payables	12	1,742,459	1,750,005
Amounts due to related companies	13	187,336	94,125
Bank borrowings – due within one year		702,150	343,450
Income tax payables		19,772	40,941
		<u>2,651,717</u>	<u>2,228,521</u>
NET CURRENT ASSETS		<u>1,151,127</u>	<u>1,556,516</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,370,446</u>	<u>2,219,568</u>

	<i>Notes</i>	30.6.2014 <i>RMB'000</i> (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
NON-CURRENT LIABILITIES			
Deferred income		<u>38,281</u>	<u>39,140</u>
		<u>38,281</u>	<u>39,140</u>
NET ASSETS		<u>2,332,165</u>	<u>2,180,428</u>
OWNERS' EQUITY			
Share capital	<i>14</i>	10,500	10,500
Reserves		<u>2,321,665</u>	<u>2,169,928</u>
		<u>2,332,165</u>	<u>2,180,428</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

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 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2013.

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

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

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	
	30.6.2014	30.6.2013	30.6.2014	30.6.2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Gasoline engines	1,065,066	1,119,104	185,887	191,720
Diesel engines	251,587	163,656	42,477	38,463
Engine components and service income	136,781	19,428	58,525	6,750
Total segment and consolidated	1,453,434	1,302,188	286,889	236,933
Unallocated income			9,427	20,257
Unallocated expenses				
Selling and distribution expenses			(27,483)	(25,877)
General and administrative expenses			(64,229)	(29,399)
Finance costs			(21,692)	(8,409)
Other expenses and losses			(10,295)	(27,497)
Share of result of a joint venture			175	5
Profit before tax			172,792	166,013

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 2013 and 2014.

Segment results represent the gross profit of each operating segment, conforming to the same measurement reported to the CODM for the purposes of resources allocation and performance assessment.

Geographical information

The Group principally operates in the PRC (country of domicile of the operating subsidiaries) and all of the revenue reported above are generated from external customers within the PRC.

4. OTHER INCOME AND GAINS

	Six months ended	
	30.6.2014	30.6.2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Bank interest income	3,668	7,299
Government grants (<i>note</i>)	850	9,500
Loss on disposal of property, plant and equipment	–	(5)
Release of asset-related government grants	3,459	2,773
Others	1,450	690
	9,427	20,257

Note: The grants of RMB9,500,000 recognised during the six months ended 30 June 2013 represented reimbursement from local authority received by a group entity for particular research activities.

5. PROFIT BEFORE TAX

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

	Six months ended	
	30.6.2014	30.6.2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Employee benefits expenses (including directors):		
– salaries and other benefits	61,535	36,951
– retirement benefit scheme contributions	6,143	4,500
	<hr/>	<hr/>
Total staff costs	67,678	41,451
	<hr/>	<hr/>
Depreciation of property, plant and equipment	25,261	12,418
Release of prepaid lease payments	720	720
Amortisation of intangible assets (included in cost of sales)	2,838	408
Initial public offering expenses (included in other expenses and losses)	–	11,014
Exchange (gain) loss, net (included in other income and gains/other expenses and losses)	(1,395)	8,710
Share-based payment expenses (included in other expenses and losses)	8,319	–
	<hr/> <hr/>	<hr/> <hr/>

6. TAXATION

	Six months ended	
	30.6.2014	30.6.2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Tax expense comprises:		
Current tax expense	29,374	25,320
Deferred tax expense	–	–
	<hr/>	<hr/>
	29,374	25,320
	<hr/> <hr/>	<hr/> <hr/>

Mianyang Xinchun was accredited as a “High and New Technology Enterprise” by the Science and Technology Bureau of Sichuan Province in prior years and be eligible to a reduced 15% enterprise income tax rate in the PRC throughout to 31 December, 2014.

7. DIVIDENDS

The directors of the Company did not recommend the payment of any interim dividend for the six months ended 30 June 2014. No dividends were paid, declared or proposed during the six months ended 30 June 2013.

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	
	30.6.2014	30.6.2013
	(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>)	143,418	140,693
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,287,407,794	1,147,898,490

No diluted earnings per share are presented as there was no 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 RMB189,298,000 (six months ended 30 June 2013: Nil) for the purpose of upgrading its manufacturing capacity of the Group.

In addition, during current interim period, the Group had approximately RMB363,656,000 (six months ended 30 June 2013: approximately RMB8,430,000) addition to construction in progress, primarily for extending the Group's production facilities. Included in the total addition is approximately RMB3,758,000 (six months ended 30 June 2013: approximately RMB535,000) interests capitalised.

During the current interim period, the Group capitalised development costs of technical know-how of new automotive engines amounting to approximately RMB47,001,000 (six months ended 30 June 2013: approximately RMB29,810,000) 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:

	30.6.2014 <i>RMB'000</i> (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
Trade receivables	387,648	407,870
Less: allowance for doubtful debts	(232)	(256)
Trade receivables, net	387,416	407,614
Bills receivable	241,149	421,009
Total trade and bills receivable	628,565	828,623
Prepayments for purchase of raw materials and engine components	31,709	18,358
Other receivables	110,508	49,239
	770,782	896,220

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, which approximated the revenue recognition date, at the end of each reporting period.

	30.6.2014 <i>RMB'000</i> (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
Within 1 month	130,829	165,083
Over 1 month but within 2 months	116,237	57,615
Over 2 months but within 3 months	28,649	22,328
Over 3 months but within 6 months	40,895	146,954
Over 6 months but within 1 year	60,081	13,688
Over 1 year	10,725	1,946
	387,416	407,614

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

	30.6.2014 <i>RMB'000</i> (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
Within 3 months	202,345	327,096
Over 3 months but within 6 months	38,804	93,806
Over 6 months but within 1 year	–	107
	241,149	421,009

11. AMOUNTS DUE FROM RELATED COMPANIES

	30.6.2014 RMB'000 (unaudited)	31.12.2013 RMB'000 (audited)
Trade related:		
Huachen Group (note 1)		
Mianyang Huarui Automotive Company Limited* ("Mianyang Huarui") 綿陽華瑞汽車有限公司	169,564	131,733
Shenyang Brilliance Power Train Machinery Co., Ltd.* ("Shenyang Brilliance") 瀋陽華晨動力機械有限公司	369,524	416,452
Mianyang Huaxiang Machinery Manufacturing Co., Ltd* 綿陽華祥機械製造有限公司	19,601	29,739
Huachen Automotive Group Holdings Company Limited* ("Huachen Automotive") 華晨汽車集團控股有限公司	110,554	3,164
	669,243	581,088
Brilliance China Group (note 2)		
Shenyang XingYuanDong Automobile Component Co., Ltd.* ("XingYuanDong") 瀋陽興遠東汽車零部件有限公司	507,967	451,072
Shenyang Brilliance JinBei Automobile Co., Ltd.* 瀋陽華晨金杯汽車有限公司	6,618	6,121
BMW Brilliance Automotive Ltd.* ("BMW Brilliance") 華晨寶馬汽車有限公司	33,303	–
	547,888	457,193
Wuliangye Group (note 3)		
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	56,801	18,024
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	–	8
	56,801	18,032
Dongfeng JV		
Changzhou Dongfeng Xincheng Engine Co., Ltd.* 常州東風新晨動力機械有限公司	26,665	56,148
	1,300,597	1,112,461

	30.6.2014 RMB'000 (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
Non-trade related:		
Huachen Group and Wuliangye Group	<u>3,447</u>	<u>1,083</u>
	<u>1,304,044</u>	<u>1,113,544</u>

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

	30.6.2014 RMB'000 (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
Trade related balances analysed as:		
Trade receivables	1,138,564	839,510
Bills receivable	105,233	254,919
Prepayment	<u>56,800</u>	<u>18,032</u>
	<u>1,300,597</u>	<u>1,112,461</u>

Notes:

- ¹ Huachen Automotive Group Holdings Company Limited* 華晨汽車集團控股有限公司 (“Huachen”, Huachen and its subsidiaries collectively referred to as “Huachen Group”)
 - ² Brilliance China Automotive Holdings Limited* 華晨中國汽車控股有限公司 (“Brilliance China”, Brilliance China and its subsidiaries collectively referred to as “Brilliance China Group”)
 - ³ 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”)
- * English name for reference only

Amounts due from related companies are generally with a credit period of 3 months from the invoice date or an extended credit period up to 6 months for settlement by way of bank-accepted bills.

The following is an aged analysis of trade related amounts due from related companies presented based on the invoice date at the end of each reporting period:

	30.6.2014 <i>RMB'000</i> (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
Within 3 months	648,731	515,766
Over 3 months but within 6 months	114,787	286,187
Over 6 months but within 1 year	330,183	37,492
Over 1 year	44,863	65
	<u>1,138,564</u>	<u>839,510</u>

The following is an aged analysis of bills receivable (trade related) from related companies presented based on the bills issue date at the end of the reporting period:

	30.6.2014 <i>RMB'000</i> (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
Within 3 months	89,517	154,149
Over 3 months but within 6 months	15,716	99,600
Over 6 months but within 1 year	–	1,170
	<u>105,233</u>	<u>254,919</u>

During the period ended 30 June 2014, an amount of RMB91,712,980 receivable from Huachen Group was set off against consideration payables for acquisition of certain production lines and inventories from the same parties.

12. TRADE AND OTHER PAYABLES

Trade and other payables comprise the following:

	30.6.2014 <i>RMB'000</i> (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
Trade payables	771,227	427,786
Bills payable	571,847	668,316
Total trade and bill payables	1,343,074	1,096,102
Accrued purchase of raw materials	298,298	538,393
Construction payables	3,512	9,842
Payroll and welfare payables	21,430	34,487
Advances from customers	6,787	9,437
Provision for warranty (<i>Note</i>)	2,084	5,084
Retention money	43,863	41,033
Other payables	23,411	15,627
	1,742,459	1,750,005

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 each reporting period.

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

	30.6.2014 <i>RMB'000</i> (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
Within 3 months	471,469	324,699
Over 3 months but within 6 months	208,693	85,793
Over 6 months but within 1 year	61,476	6,134
Over 1 year but within 2 years	29,589	11,160
	771,227	427,786

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

	30.6.2014 <i>RMB'000</i> (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
Within 3 months	352,387	296,284
Over 3 months but within 6 months	219,460	372,032
	571,847	668,316

13. AMOUNTS DUE TO RELATED COMPANIES

	30.6.2014 RMB'000 (unaudited)	31.12.2013 RMB'000 (audited)
Trade related:		
Huachen Group		
Mianyang Huarui	3	3
Huachen Automotive	49,944	1,118
Shenyang Brilliance	544	—
	<u>50,491</u>	<u>1,121</u>
Brilliance China Group		
Xing YuanDong	—	1,409
Mianyang Brilliance Ruian Automotive Components Co., Ltd* ("Mianyang Ruian") 綿陽華晨瑞安汽車零部件有限公司	36,292	33,942
BMW Brilliance	11,076	—
	<u>47,368</u>	<u>35,451</u>
Wuliangye Group		
Xinhua Combustion Engine	70,401	37,144
Sichuan Yi Bin Pushen Automotive Components Co., Ltd* 四川省宜賓普什汽車零部件有限公司	8,244	14,371
Mianyang Jianmen RE	2	10
	<u>78,647</u>	<u>51,525</u>
	<u><u>176,506</u></u>	<u><u>87,997</u></u>
Non-trade related:		
Brilliance China Group		
Brilliance China	551	408
Mianyang Ruian	2,437	2,437
Shenyang Brilliance	5,000	—
	<u>7,988</u>	<u>2,945</u>
Wuliangye Group		
Mianyang Jianmen RE	483	461
Xinhua Combustion Engine	2,359	2,822
	<u>2,842</u>	<u>3,283</u>
	<u>10,830</u>	<u>6,128</u>
	<u><u>187,336</u></u>	<u><u>94,125</u></u>

* English name for reference only

	30.6.2014 RMB'000 (unaudited)	31.12.2013 RMB'000 (audited)
Trade related balances analysed as:		
Trade payables	34,522	17,299
Other payables	27,940	–
Bills payable	73,343	34,511
Accruals	40,701	36,187
	<u>176,506</u>	<u>87,997</u>

The aging of trade related amounts due to related companies presented based on the invoice date at the end of each reporting period is as follows:

	30.6.2014 RMB'000 (unaudited)	31.12.2013 RMB'000 (audited)
Within 3 months	28,400	15,464
Over 3 months but within 6 months	6,122	1,684
Over 6 months but within 1 year	–	91
Over 1 year	–	60
	<u>34,522</u>	<u>17,299</u>

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.

	30.6.2014 RMB'000 (unaudited)	31.12.2013 RMB'000 (audited)
Within 3 months	40,747	11,937
Over 3 months but within 6 months	32,596	22,574
	<u>73,343</u>	<u>34,511</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	Share capital HK\$
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
At date of incorporation, 1 January 2013, 30 June 2013, 1 January 2014 and 30 June 2014	8,000,000,000	80,000,000
<i>Issued and fully paid:</i>		
At 1 January 2012 and 31 December 2012	940,199,794	9,401,998
Issue of new shares on 12 March 2013	313,400,000	3,134,000
Issue of new shares on 9 April 2013	33,808,000	338,080
At 30 June 2013, 1 January 2014 and 30 June 2014 (unaudited)	1,287,407,794	12,874,078
	30.6.2014 RMB'000 (unaudited)	31.12.2013 RMB'000 (audited)
Share capital presented in condensed consolidated statement of financial position	10,500	10,500

MANAGEMENT'S DISCUSSION & ANALYSIS

Business Review

In the first half of 2014, the Group achieved unaudited total revenue of approximately RMB1,453.43 million, representing an increase of approximately 11.6% when compared to approximately RMB1,302.19 million for the corresponding period last year. The main reason of the increase in the total revenue was due to the Group's expansion into the core engine parts and components business by supplying connection rods and increase in sales of light-duty diesel engines.

In respect of the engines business segment, the Group recorded approximately 2.6% increase in the segment revenue, from approximately RMB1,282.76 million in the first half of 2013 to approximately RMB1,316.65 million in the first half of 2014 and approximately 1.0% increase in the sales volume of engines, from around 142,200 units in the first half of 2013 to around 143,600 units in the first half of 2014. The increase was mainly due to increase in sales of light-duty diesel engines.

In respect of the engine components and service income segment, the Group recorded approximately 604.0% increase in the segment revenue, from approximately RMB19.43 million in the first half of 2013 to approximately RMB136.78 million in the first half of 2014. The increase was mainly due to introduction of connection rods in the first half of 2014. The Group sold around 510,000 units of connection rods in the first half of 2014.

The unaudited cost of sales amounted to approximately RMB1,166.55 million in the first half of 2014, representing an increase of approximately 9.5% when compared to approximately RMB1,065.26 million for the corresponding period last year. Following completion of acquisition of E3 engine and connection rod production lines in Shenyang, the PRC in the first half of 2014, the Group has increased its operation scale in Shenyang, the PRC. As a result, the overhead costs increased significantly. However, the increase of the unaudited cost of sales was generally in line with the increase in the Group's unaudited total revenue.

The gross profit margin of the Group increased from approximately 18.2% in the first half of 2013 to approximately 19.7% in the first half of 2014, which was mainly due to introduction of connection rods in the first half of 2014.

The unaudited other income and gains decreased from approximately RMB20.26 million in first half of 2013 to approximately RMB9.43 million in the first half of 2014, representing a decrease of approximately 53.5%. The decrease was mainly due to a decrease in government grant recognised and decrease in interest income during the period under review.

The unaudited selling and distribution expenses increased by approximately 6.2%, from approximately RMB25.88 million in first half of 2013 to approximately RMB27.48 million in first half of 2014, representing approximately 2.0% and approximately 1.9% of the revenue in the first half of 2013 and 2014 respectively. The increase in selling and distribution expenses was generally in line with the increase in the Group's revenue. The percentage of selling and distribution expenses to revenue remained stable during the period under review.

The unaudited general and administrative expenses increased by approximately 118.5%, from approximately RMB29.40 million in the first half of 2013 to approximately RMB64.23 million in the first half of 2014, representing approximately 2.3% and approximately 4.4% of the revenue in the first half of 2013 and 2014 respectively. The increase was mainly due to increase in staff costs as a result of increase in headcounts to support the Group's daily operation and business development and office expenses.

The unaudited finance costs increased by approximately 157.9%, from approximately RMB8.41 million in the first half of 2013 to approximately RMB21.69 million in first half of 2014. The increase was mainly due to increase in use of discounted bills during the course of business and increase in bank borrowing for the purpose of financing the acquisition of certain assets.

The unaudited other expenses and losses decreased by approximately 62.5% from approximately RMB27.50 million in the first half of 2013 to approximately RMB10.30 million in the first half of 2014. There was a decrease in other expenses because there were expenses relating to the initial public offering of the shares of the Company and a foreign exchange translation loss recognised in the first half of 2013, but no such expenses incurred and/or recognised in the first half of 2014.

The Group's unaudited profit before tax increased by approximately 4.1% from approximately RMB166.01 million in the first half of 2013 to approximately RMB172.79 million in the first half of 2014.

The unaudited income tax expenses increased by approximately 16.0% from approximately RMB25.32 million in the first half of 2013 to approximately RMB29.37 million in the first half of 2014.

In the first half of 2014, the Group achieved unaudited net income attributable to the owners of the Company of approximately RMB143.42 million, representing an increase of approximately 1.9% when compared to approximately RMB140.69 million for the corresponding period of 2013.

Liquidity and financial resources

As at 30 June 2014, the Group's total assets and total liabilities were approximately RMB5,022.16 million (31 December 2013: approximately RMB4,448.09 million) and approximately RMB2,690.00 million (31 December 2013: approximately RMB2,267.66 million) respectively.

As at 30 June 2014, the Group had approximately RMB1,055.24 million (31 December 2013: approximately RMB1,166.37 million) in cash and cash equivalents, and approximately RMB322.16 million (31 December 2013: approximately RMB191.00 million) in pledged bank deposits.

The Group had trade and other payables of approximately RMB1,742.46 million (31 December 2013: approximately RMB1,750.01 million), and bank borrowings of approximately RMB702.15 million (31 December 2013: approximately RMB343.45 million) due within one year, but had no long-term bank borrowings outstanding as at 30 June 2014.

Gearing ratio

As at 30 June 2014, 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 1.15 (31 December 2013: approximately 1.04). The increase in Debt-to-Equity ratio was mainly due to increase in bank borrowing for the purpose of financing acquisition of certain assets.

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.

Pledge of assets

As at 30 June 2014, the Group pledged certain of its buildings, plant and machinery with a total value of approximately RMB174.56 million (31 December 2013: approximately RMB183.82 million) to certain banks to secure certain credit facilities granted to the Group.

As at 30 June 2014, the Group also pledged bank deposits of approximately RMB322.16 million (31 December 2013: approximately RMB191.00 million) to certain banks to secure certain credit facilities granted to the Group.

Material acquisition and disposal

On 23 June 2014, the Group entered into an acquisition agreement in relation to the acquisition of the entire equity interest in CMT International Logistics Group Shenyang Co., Ltd.* (中床國際物流集團瀋陽有限公司), which holds certain land and properties in Shenyang, the PRC. As set out in the announcement of the Company dated 23 June 2014, the directors of the Company considered that the acquisition would represent a good opportunity for the Group to secure a parcel of land to strengthen its presence in Shenyang, where some of its major customers (including BMW Brilliance Automotive Ltd.) are located. As the manufacture bases of some of the Group's major customers are located in Shenyang and neighboring areas, the land and properties acquired would be used as one of the Group's manufacture and/or logistics bases, thereby reducing the Group's operating costs and enhancing the Group's profitability.

* *English name for reference only*

On 24 June 2014, the Group entered into a supplemental sales and installation agreement, payment transfer agreement and assets transfer agreement for the purpose of acquiring a further connection rod production line to expand its production capacity of connection rods in response to the growing demand for connection rods from the Group's customer, namely BMW Brilliance Automotive Ltd..

For further details of the abovementioned transactions, please refer to the announcements of the Company dated 23 June 2014 and 24 June 2014 respectively. Save as disclosed herein, there was no other material acquisition or disposal of subsidiaries and associated companies undertaken by the Group during the six months ended 30 June 2014.

Capital commitments

As at 30 June 2014, the Group had capital commitments of approximately RMB894.42 million of which contracted capital commitments amounted to approximately RMB116.77 million, which was principally used for the capital expenditure in respect of acquisition of property, plant and equipment, and new engine products development.

Foreign exchange risks

The Group's functional currency is RMB. 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 2014.

Employees and Remuneration Policy

As at 30 June, 2014, the Group had approximately 1,664 employees (30 June 2013: approximately 1,005). Employee costs amounted to approximately RMB67.68 million for the six months ended 30 June 2014 (six months ended 30 June 2013: approximately RMB41.45 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 2014, the production and sales volume in the auto industry in the PRC continued to grow in a steady rate. In particular, the sales growth of foreign-branded passenger vehicles remained strong and outperformed that of the local-branded passenger vehicles.

The Group started supplying connection rods to BMW Brilliance Automotive Ltd. in the first half of 2014. In addition, the Group will supply N20 engines to BMW Brilliance Automotive Ltd. in the second half of 2014. As such, the directors of the Company believe that the Group will be benefited from the continuous growth in the auto industry in the PRC, in particular, solid growth of the sales of BMW Brilliance Automotive Ltd..

However, facing challenges from foreign-branded auto manufacturers, a slowdown in the sales growth of local branded passenger vehicles and commercial vehicles and stringent environmental control imposed by the Chinese government from time to time, the Group's engine business may face certain headwinds which may affect the performance of the Group's engine business. The Group will continue to strengthen its cost control to maintain its competitiveness.

Going forward, by leveraging on the close relationship with BMW Brilliance Automotive Ltd., the Group will be more focusing and allocate more resources on the development of engine assembly and core engine parts and components businesses for foreign-branded auto manufacturer(s), especially for BMW Brilliance Automotive Ltd. related businesses in order to capture the escalating business opportunities in this segment.

INTERIM DIVIDEND

The directors did not recommend the payment of any interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: 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 2014.

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 (the "**Listing Rules**"). The Company has complied with all code provisions of the CG Code throughout the six months ended 30 June 2014.

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 2014.

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. Li Peiqi; 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, 18 August 2014