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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 RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

The board of directors (the “**Board**”) of Xinchen China Power Holdings Limited (the “**Company**”) announces the audited consolidated financial results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTES	2016 RMB'000	2015 RMB'000
Revenue	3	3,462,460	3,269,331
Cost of sales		(3,009,444)	(2,759,218)
Gross profit		453,016	510,113
Other income and gain	4	79,409	72,710
Selling and distribution expenses		(68,430)	(66,137)
Administrative expenses		(148,101)	(141,774)
Finance costs	5	(48,496)	(49,879)
Other expenses and losses	6	(39,800)	(54,076)
Share of result of a joint venture		665	(198)
Profit before tax		228,263	270,759
Income tax expense	7	(42,367)	(46,094)
Profit and total comprehensive income for the year attributable to owners of the Company	8	185,896	224,665
Earnings per share – Basic (RMB)	10	0.145	0.175

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	<i>NOTES</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		1,982,893	1,410,030
Prepaid lease payments		91,614	94,306
Investment properties		218,799	226,090
Intangible assets		471,918	369,933
Interest in a joint venture		49,773	49,108
Deferred tax assets		8,179	6,078
Loan to a shareholder		28,460	–
		2,851,636	2,155,545
CURRENT ASSETS			
Inventories		478,039	440,999
Prepaid lease payments		2,295	2,308
Loan to a shareholder		–	30,862
Trade and other receivables	<i>11</i>	705,258	597,888
Amounts due from related companies	<i>12</i>	1,271,371	1,337,400
Tax recoverable		–	5,450
Pledged/restricted bank deposits		327,111	295,857
Bank balances and cash		306,014	288,212
		3,090,088	2,998,976
CURRENT LIABILITIES			
Trade and other payables	<i>13</i>	1,380,663	1,193,033
Amounts due to related companies		261,446	148,060
Bank borrowings due within one year	<i>14</i>	781,354	350,500
Income tax payables		4,364	–
		2,427,827	1,691,593
NET CURRENT ASSETS		662,261	1,307,383
TOTAL ASSETS LESS CURRENT LIABILITIES		3,513,897	3,462,928
NON-CURRENT LIABILITIES			
Bank borrowings due after one year	<i>14</i>	610,801	737,803
Deferred income		38,786	45,704
		649,587	783,507
NET ASSETS		2,864,310	2,679,421
CAPITAL AND RESERVES			
Share capital	<i>15</i>	10,457	10,466
Reserves		2,853,853	2,668,955
TOTAL EQUITY		2,864,310	2,679,421

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (2010 Revision) of the Cayman Islands on 10 March 2011. Brilliance China Automotive Holdings Limited (“Brilliance China”, Brilliance China and its subsidiaries collectively referred to as “Brilliance China Group”), a company listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), and Sichuan Province Yibin Wuliangye Group Co., Ltd.* (四川省宜賓五糧液集團有限公司) (“Wuliangye”, Wuliangye and its subsidiaries collectively referred to as “Wuliangye Group”), a state owned enterprise registered in the People’s Republic of China (the “PRC”), are able to exercise significant influence over the Company. In March 2013, the Company completed the listing of its shares on the Main Board of the Stock Exchange.

The principal activities of the Company and its wholly owned subsidiary, Southern State Investment Limited, are investment holding. The principal activities of Mianyang Xincheng Engine Co., Limited* (綿陽新晨動力機械有限公司) (“Mianyang Xincheng”) are development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles and manufacture of engine parts and components of the passenger vehicles in the PRC.

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

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

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

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

Amendments to HKAS 1 *Disclosure Initiative*

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

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

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

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

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

¹ Effective for annual periods beginning on or after 1 January 2018.

² Effective for annual periods beginning on or after 1 January 2019.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2017.

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

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, 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:

For the year ended 31 December 2016

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

For the year ended 31 December 2015

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

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

Other segment information included in the measurement of segment results:

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

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

Segment assets and liabilities

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

Geographical information

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

Information about major customers

Revenue from major customers which individually accounts for 10% or more of the Group's total revenue are sales of gasoline engines, diesel engines and engine components and service income to certain related parties as disclosed in Note 16.

4. OTHER INCOME AND GAIN

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

5. FINANCE COSTS

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

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

6. OTHER EXPENSE AND LOSSES

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

7. INCOME TAX EXPENSE

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

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

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

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

8. PROFIT FOR THE YEAR

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

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

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

10. EARNINGS PER SHARE

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

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

11. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise the following:

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

Note:

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

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

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

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

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

12. AMOUNTS DUE FROM RELATED COMPANIES

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

Amounts due from related companies are unsecured, interest free and with a credit period ranging from 45 days to 90 days from the invoice date and a further 3 to 6 months for bills receivable. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period:

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

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

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

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

13. TRADE AND OTHER PAYABLES

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

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

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Within 3 months	418,632	282,651
Over 3 months but within 6 months	78,722	181,570
Over 6 months but within 1 year	22,388	27,105
Over 1 year but within 2 year	3,512	10,524
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	523,254	501,850
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The following is an aged analysis of bills payable presented based on the issuance date of bills at the end of each reporting period:

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

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

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

15. SHARE CAPITAL

Details of movement of the share capital of the Company are as follows:

	Number of shares	Amount HK\$
Ordinary shares of Hong Kong Dollar (“HK\$”) 0.01 each		
<i>Authorised:</i>		
At date of incorporation, 1 January 2015, 31 December 2015 and 2016	<u>8,000,000,000</u>	<u>80,000,000</u>
<i>Issued and fully paid:</i>		
At 1 January 2015	<u>1,287,407,794</u>	<u>12,874,078</u>
<i>Repurchase of shares (Note):</i>		
Repurchase of shares on 31 August 2015	(1,066,000)	(10,660)
Repurchase of shares on 1 September 2015	(1,000,000)	(10,000)
Repurchase of shares on 2 September 2015	(927,000)	(9,270)
Repurchase of shares on 4 September 2015	(1,000,000)	(10,000)
Repurchase of shares on 7 September 2015	<u>(203,000)</u>	<u>(2,030)</u>
At 31 December 2015	1,283,211,794	12,832,118
<i>Repurchase of shares (Note):</i>		
Repurchase of shares on 19 January 2016	<u>(1,000,000)</u>	<u>(10,000)</u>
At 31 December 2016	<u>1,282,211,794</u>	<u>12,822,118</u>
	2016	2015
	RMB'000	RMB'000
Share capital presented in consolidated statement of financial position	<u>10,457</u>	<u>10,466</u>

Note:

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

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

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

16. RELATED PARTY DISCLOSURES

Other than those disclose elsewhere in the consolidated financial statements, during the year, the Group entered into the following transactions with related parties:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Sale of goods		
Brilliance China Group	1,660,230	1,835,942
Huachen Group ⁽¹⁾	969,004	661,135
Dongfeng JV ⁽²⁾	–	134
	<u>2,629,234</u>	<u>2,497,211</u>
Purchase of goods		
Brilliance China Group	948,239	1,193,579
Huachen Group	44	1,184
Wuliangye Group	101,412	92,921
	<u>1,049,695</u>	<u>1,287,684</u>
Purchase of land, productions line and inventories		
Brilliance China Group	424,378	384,573 ⁽³⁾
Wuliangye Group	251,600	–
	<u>675,978</u>	<u>384,573</u>
<i>Notes:</i>		
(1) <i>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”)</i>		
(2) <i>Changzhou Dongfeng Xincheng Engine Co., Ltd.* (常州東風新晨動力機械有限公司) (“Dongfeng JV”)</i>		
(3) <i>RMB37,646,000 inventories inclusive</i>		
Rental charged and auxiliary services		
Brilliance China Group	2,800	3,311
Huachen Group	6,254	5,599
Wuliangye Group	860	2,600
	<u>9,914</u>	<u>11,510</u>
Rental income		
Brilliance China Group	29,165	31,588
Maintenance and construction cost charged		
Wuliangye Group	6,968	3,605
Logistics Services		
Wuliangye Group	4,967	2,305
Cleaning and greening services		
Wuliangye Group	2,263	2,579
Consulting service		
Brilliance China Group	75,927	35,943
Water and electricity		
Brilliance China Group	8,812	–
Wuliangye Group	219	–
	<u>9,031</u>	<u>–</u>

BUSINESS REVIEW AND PROSPECT

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

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

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

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

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

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

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

MANAGEMENT'S DISCUSSION & ANALYSIS

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

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

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

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

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

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

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

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

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

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

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

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

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

Liquidity and financial resources

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

Capital structure

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

Contingent liabilities

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

Pledge of assets

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

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

Gearing ratio

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

As at 31 December 2016, the gearing ratio, computed by dividing bank borrowings by total equity attributable to owners of the Company, was approximately 49% (31 December 2015: 41%). The increase in gearing ratio was mainly due to the increase in total bank borrowing as a result of the finance of the acquisition of property, plant and equipment during the year with bank borrowings.

Investment property

In 2016, certain portion of the Group's premises located in Shenyang was leased to BMW Brilliance Automotive, which generated rental income of approximately RMB29.17 million for the year ended 31 December 2016 (2015: RMB31.59 million).

Foreign exchange risks

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

The Group has and will continue to monitor its foreign exchange risks and may consider hedging its foreign currency exposure, if and when necessary. Certain portion of United States Dollar-denominated bank borrowing was hedged with forward contract during the year under review in order to minimize exposure to foreign exchange risk.

Employees and remuneration policy

As at 31 December 2016, the Group employed approximately 1,918 employees (31 December 2015: approximately 1,805). Employee costs amounted to approximately RMB200.73 million for the year ended 31 December 2016 (31 December 2015: approximately RMB181.04 million). The Group will endeavor to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' remuneration is based on their performance.

Significant investments

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

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

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

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

Capital commitment

As at 31 December 2016, the Group had capital commitments of approximately RMB636.24 million (31 December 2015: RMB786.42 million), of which contracted capital commitments amounted to approximately RMB130.09 million (31 December 2015: RMB138.33 million), which is primarily related to the capital expenditure in respect of acquisition of property, plant and equipment, and new engine development.

ENVIRONMENTAL AND SOCIAL

As a responsible corporation, the Group is committed to maintaining the highest environmental and social standards to ensure sustainable development of its business. During the year, the Group has endeavoured to manage, monitor, recommend and report on environmental and social aspects.

The Group has complied with all relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment and the environment. The Group understands a better future depends on everyone's participation and contribution. Towards that end, it has encouraged employees, customers, suppliers and other stakeholders to participate in environmental and social activities which benefit the community as a whole.

The Group maintains strong relationships with its employees, has enhanced cooperation with its suppliers and has provided high quality products and services to its customers so as to ensure sustainable development.

DIVIDEND

The Board did not recommend the payment of any dividend in respect of the year ended 31 December 2016 (2015: Nil).

CLOSURE OF REGISTER OF MEMBERS

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

The Hong Kong branch register of members of the Company will be closed from Monday, 12 June 2017 to Thursday, 15 June 2017, both dates inclusive, during which period no transfer of shares will be registered. Only shareholders of the Company whose names appear on the register of members of the Company on Monday, 12 June 2017 or their proxies or duly authorised corporate representatives are entitled to attend the annual general meeting. In order to qualify for attending the annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 9 June 2017.

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

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

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

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

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 year ended 31 December 2016.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry with all directors of the Company, all directors confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding securities transaction by directors for the year ended 31 December 2016.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial report matters, including the consolidated financial statements of the Group for the year ended 31 December 2016.

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

PUBLICATION OF ANNUAL REPORT

The 2016 annual report of the Company containing the information required by the Listing Rules will be despatched to the shareholders and published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.xinchenpower.com) respectively in due course.

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, 23 March 2017

* *for identification purposes only*