

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

POWER XINCHEN

新 晨 动 力



INTERIM REPORT 2013

RESULTS

The board of directors (the “**Board**”) of Xinchen China Power Holdings Limited (the “**Company**”) presents the unaudited consolidated interim financial results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30th June, 2013 together with comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30th June, 2013

		Six months ended	
		30.6.2013	30.6.2012
	Notes	RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	3	1,302,188	1,394,458
Cost of sales		<u>(1,065,255)</u>	<u>(1,120,278)</u>
Gross profit		236,933	274,180
Other income	4	20,257	3,906
Selling and distribution expenses		(25,877)	(31,103)
General and administrative expenses		(29,399)	(35,853)
Finance costs		(8,409)	(18,137)
Other expenses		(27,497)	(19,184)
Share of result of a joint venture		<u>5</u>	<u>9</u>
Profit before tax	5	166,013	173,818
Taxation	6	<u>(25,320)</u>	<u>(25,460)</u>
Profit and total comprehensive income for the period attributable to owners of the Company		<u>140,693</u>	<u>148,358</u>
Earnings per share – Basic (RMB)	8	<u>0.123</u>	<u>0.158</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th June, 2013

		30.6.2013	31.12.2012
	Notes	RMB'000	RMB'000
		(unaudited)	(audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	315,638	319,642
Prepaid lease payments		60,162	60,882
Intangible assets	9	117,555	88,153
Investment in a joint venture		49,077	49,441
Deferred tax assets		552	552
Deposits for acquisition of property, plant and equipment and land use rights		7,428	6,567
		550,412	525,237
CURRENT ASSETS			
Inventories		294,475	214,728
Prepaid lease payments		1,434	1,434
Trade and other receivables	10	751,432	660,114
Amounts due from related companies	11	1,079,377	804,004
Loan to a shareholder	12	31,832	32,515
Pledged bank deposits		89,720	177,807
Bank balances and cash		1,221,291	664,751
		3,469,561	2,555,353
TOTAL ASSETS		4,019,973	3,080,590
CURRENT LIABILITIES			
Trade and other payables	13	1,604,139	1,337,637
Amounts due to related companies	14	37,060	43,067
Loans from shareholders	12	–	32,515
Bank Borrowings – due within one year	15	224,950	194,950
Other loan		4,000	4,000
Other tax payables		36,906	54,444
Income tax payables		23,738	50,458
		1,930,793	1,717,071
NET CURRENT ASSETS		1,538,768	838,282
TOTAL ASSETS LESS CURRENT LIABILITIES		2,089,180	1,363,519

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)*As at 30th June, 2013*

		30.6.2013	31.12.2012
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(audited)
NON-CURRENT LIABILITIES			
Deferred income		38,808	41,018
		<hr/>	
		38,808	41,018
		<hr/>	
NET ASSETS		2,050,372	1,322,501
		<hr/>	
OWNERS' EQUITY			
Share capital	16	10,500	7,693
Reserves		2,039,872	1,314,808
		<hr/>	
		2,050,372	1,322,501
		<hr/>	

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2013

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Special reserve <i>RMB'000</i>	Surplus reserves <i>RMB'000</i> <i>(Note a)</i>	Deemed distribution to a shareholder <i>RMB'000</i> <i>(Note b)</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1st January, 2012 (audited)	7,693	122,388	193,457	152,386	(11,285)	567,753	1,032,392
Profit and total comprehensive income for the period	-	-	-	-	-	148,358	148,358
At 30th June, 2012 (unaudited)	7,693	122,388	193,457	152,386	(11,285)	716,111	1,180,750
At 1st January, 2012 (audited)	7,693	122,388	193,457	198,699	(11,285)	811,549	1,322,501
Profit and total comprehensive income for the period	-	-	-	-	-	140,693	140,693
Issue of new share <i>(Note 16)</i>	2,807	623,232	-	-	-	-	626,039
Transaction costs attributable to issue of shares	-	(38,861)	-	-	-	-	(38,861)
At 30th June, 2013 (unaudited)	10,500	706,759	193,457	198,699	(11,285)	952,242	2,050,372

Notes:

- (a) Surplus reserves comprise statutory surplus reserve and discretionary surplus reserve of Mianyang Xincheng Engine Co., Limited ("Mianyang Xincheng"), a major operating subsidiary of the Group and a Sino-foreign equity joint venture enterprise, which are non-distributable and the transfer to these reserves is determined according to the relevant laws in the People's Republic of China (the "PRC") and by the board of directors of Mianyang Xincheng in accordance with its Articles of Association. Statutory surplus reserve amounting to approximately RMB133,508,000 as at 30th June, 2013 (31st December, 2012: RMB133,508,000), can be used to make up for previous year's losses or convert into additional capital of Mianyang Xincheng. Discretionary surplus reserve amounting to approximately RMB65,191,000 as at 30th June, 2013 (31st December, 2012: RMB65,191,000) can be used to expand the existing operations of Mianyang Xincheng.
- (b) Deemed distribution to a shareholder represents the fair value adjustments on interest-free loan to a subsidiary of a joint controlling shareholder of Mianyang Xincheng.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June, 2013

	Six months ended	
	30.6.2013	30.6.2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	<u>(47,191)</u>	336,568
INVESTING ACTIVITIES		
Interest received	7,299	1,635
Purchase of property, plant and equipment	(39,608)	(23,585)
Development cost paid capitalised in intangible assets	(29,810)	(32,201)
Investment in a joint venture	–	(50,000)
Withdrawal of pledged bank deposits	177,807	339,987
Placement of pledge bank deposits	(89,720)	(264,936)
Other investing cash flows	<u>869</u>	<u>116</u>
NET CASH FROM (USED IN) INVESTING ACTIVITIES	<u>26,837</u>	<u>(28,984)</u>
FINANCING ACTIVITIES		
Interest paid	(8,944)	(19,337)
Proceeds from issuance of shares	626,039	–
Transaction costs attributable to issue of shares	(38,861)	–
New borrowings raised	143,000	113,000
Repayment of borrowings	(113,000)	(82,000)
Repayment to shareholders	(32,515)	–
Other financing cash flows	<u>1,175</u>	<u>(1,619)</u>
NET CASH FROM FINANCING ACTIVITIES	<u>576,894</u>	<u>10,044</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>556,540</u>	<u>317,628</u>
CASH AND CASH EQUIVALENTS		
AT THE BEGINNING OF THE PERIOD	<u>664,751</u>	<u>327,747</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, represented by bank balances and cash	<u>1,221,291</u>	<u>645,374</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2013

1. BASIS OF PREPARATION

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 13th March, 2013.

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.

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2012.

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

The application of the above new and revised 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 (the "CODM"), for the purpose of resource allocation and assessment of segment performance focuses on types of goods delivered or services provided.

3. REVENUE AND SEGMENT INFORMATION (Cont'd)

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:

	Segment revenue		Segment results	
	Six months ended		Six months ended	
	30.6.2013	30.6.2012	30.6.2013	30.6.2012
	RMB '000	RMB '000	RMB '000	RMB '000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Gasoline engines	1,119,104	1,106,646	191,720	199,309
Diesel engines	163,656	269,911	38,463	69,808
Engine components and service income	19,428	17,901	6,750	5,063
Total segment and consolidated	1,302,188	1,394,458	236,933	274,180
Unallocated income			20,257	3,906
Unallocated expenses				
Selling and distribution expenses			(25,877)	(31,103)
General and administrative expenses			(29,399)	(35,853)
Finance costs			(8,409)	(18,137)
Other expenses			(27,497)	(19,184)
Share of result of a joint venture			5	9
Profit before tax			166,013	173,818

Revenue reported above represents revenue generated from sales of goods or service provision to external customers. There was no inter-segment sales during the six months ended 30th June, 2012 and 2013.

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.

3. REVENUE AND SEGMENT INFORMATION (Cont'd)

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

	Six months ended	
	30.6.2013	30.6.2012
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Bank interest income	7,299	1,635
Government grants (<i>note</i>)	9,500	300
Loss on disposal of property, plant and equipment	(5)	–
Release of asset-related government grants	2,773	1,826
Others	690	145
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	20,257	3,906
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Note: Government grants in the amount of RMB9,500,000 recognised during the six months ended 30th June, 2013 represents 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	
	30.6.2013	30.6.2012
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Employee benefits expenses (including directors):		
– salaries and other benefits	36,951	40,734
– retirement benefit scheme contributions	4,500	3,991
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Total staff costs	41,451	44,725
	<hr/>	
Auditor's remuneration	242	100
Depreciation of property, plant and equipment	12,418	6,371
Release of prepaid lease payments	720	1,441
Amortisation of intangible assets (included in cost of sales)	408	1,561
Initial public offering expenses (included in other expenses)	11,014	11,275
Exchange loss, net (included in other expenses)	8,710	–
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6. TAXATION

	Six months ended	
	30.6.2013	30.6.2012
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Tax expense comprises:		
Current tax expense	25,320	25,285
Deferred tax expense	–	175
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	25,320	25,460
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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 enterprise income tax rate of 15% in the People's Republic of China through to 31st December, 2014.

7. 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	
	30.6.2013	30.6.2012
Earnings		
Profit for the period attributable to owners of the Company		
for the purpose of basic earnings per share (<i>RMB'000</i>) (unaudited)	140,693	148,358
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Number of shares		
Weighted average number of ordinary shares		
for the purpose of basic earnings per share (unaudited)	1,147,898,490	940,199,794
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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.

8. 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 nil (six months ended 30th June, 2012: approximately RMB675,000) for the purpose of upgrading its manufacturing capacity.

In addition, during the current interim period, the Group had approximately RMB8,430,000 (six months ended 30th June, 2012: approximately RMB66,903,000) addition to construction in progress, including approximately RMB535,000 (six months ended 30th June, 2012: approximately RMB1,200,000) interests capitalised, in relation to new plant facilities in the PRC.

During the current interim period, the Group capitalised development costs of technical know-how of new automotive engines amounting to approximately RMB29,810,000 (six months ended 30th June, 2012: approximately RMB15,909,000) for the purpose of expanding its products range of gasoline and diesel engines.

9. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise the following:

	30.6.2013 RMB'000 (unaudited)	31.12.2012 RMB'000 (audited)
Trade receivables	429,109	389,584
<i>Less: allowance for doubtful debts</i>	<u>(207)</u>	<u>(156)</u>
Trade receivable, net	428,902	389,428
Bills receivables	<u>293,827</u>	<u>257,642</u>
Total trade and bills receivables	722,729	647,070
Prepayments for purchase of raw materials and engine components	1,358	1,953
Other receivables	<u>27,345</u>	<u>11,091</u>
	<u>751,432</u>	<u>660,114</u>

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 the reporting period.

	30.6.2013 RMB'000 (unaudited)	31.12.2012 RMB'000 (audited)
Within 1 month	213,396	167,808
Over 1 month but within 2 months	112,186	26,339
Over 2 months but within 3 months	32,781	26,229
Over 3 months but within 6 months	61,912	83,672
Over 6 months but within 1 year	8,627	84,915
Over 1 year	<u>–</u>	<u>465</u>
	<u>428,902</u>	<u>389,428</u>

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

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

	30.6.2013	31.12.2012
	RMB'000	RMB'000
	(unaudited)	(audited)
Within 3 months	208,243	124,613
Over 3 months but within 6 months	79,184	133,029
Over 6 months but within 1 year	6,400	–
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	293,827	257,642
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10. **AMOUNTS DUE FROM RELATED COMPANIES**

	30.6.2013	31.12.2012
	RMB'000	RMB'000
	(unaudited)	(audited)
Trade related:		
Huachen Group*		
Mianyang Huarui Automotive Company Limited*		
綿陽華瑞汽車有限公司	266,521	171,638
Shenyang Brilliance Power Train Machinery Co., Ltd.		
瀋陽華晨動力機械有限公司	320,993	192,125
Mianyang Huaxiang Machinery Manufacturing Co., Ltd*		
綿陽華祥機械製造有限公司	67,316	11,877
Huachen Automotive Group Holdings Company Limited		
華晨汽車集團控股有限公司	3,285	4,604
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	658,115	380,244
	<hr/>	
Brilliance China Group**		
Shenyang XingYuanDong Automobile Component Co., Ltd.		
瀋陽興遠東汽車零部件有限公司	349,813	377,746
Shenyang Brilliance JinBei Automobile Co., Ltd.		
瀋陽華晨金杯汽車有限公司	16,307	7,378
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	366,120	385,124
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Joint venture	55,142	38,636
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	1,079,377	804,004
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10. AMOUNTS DUE FROM RELATED COMPANIES (Cont'd)

* *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”)

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

* *English name for reference only*

	30.6.2013	31.12.2012
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Analysed as:		
Trade receivables	1,073,204	736,134
Bills receivable	6,173	67,870
	1,079,377	804,004

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 receivables due from related companies presented based on the invoice date, which approximated the revenue recognition date, at the end of the reporting period:

	30.6.2013	31.12.2012
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Within 3 months	418,128	374,753
Over 3 months but within 6 months	303,437	241,056
Over 6 months but within 1 year	351,639	120,070
Over 1 year	–	255
	1,073,204	736,134

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

	30.6.2013	31.12.2012
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Within 3 months	1,523	65,500
Over 3 months but within 6 months	4,650	2,370
	6,173	67,870

11. LOAN TO A SHAREHOLDER/LOANS FROM SHAREHOLDERS

In prior years, the Company set up two incentive schemes under trust arrangements for the purpose of entitling the Group's employees to subscribe for shares of the Company through Lead In Management Limited ("Lead In") for their services to the Group. Under loan agreements dated 18th October, 2011, each of the two shareholders of the Company, namely Brilliance Investment Holdings Limited and Xinhua Investment Holdings Limited, advanced loans in equal amounts of HK\$20,000,000 to the Company (collectively, the "Loans from Shareholders"). In return, (i) the Company lent an aggregate amount of HK\$40,000,000, equal to the Loans from Shareholders, to Lead In (the "Loan to a shareholder") and (ii) Lead In used the funding obtained from the Company to subscribe for 36,977,960 shares of the Company under the discretionary trust detailed in Note 21.

All the loans are non-trade related, unsecured, interest free and will be repayable by October 2013 pursuant to an extended loan agreement entered into in October 2012.

The Company repaid the loan from shareholders during the period ended 30th June, 2013.

12. TRADE AND OTHER PAYABLES

Trade and other payables comprise the following:

	30.6.2013	31.12.2012
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Trade payables	517,047	346,874
Bills payable	315,219	385,419
	<hr/>	<hr/>
Total trade and bills payable	832,366	732,293
Accrued purchase of raw materials	702,291	496,231
Construction payables	10,299	41,477
Payroll and welfare payables	22,831	37,521
Advances from customers	5,229	4,752
Provision for warranty	5,000	5,084
Other payables	26,223	20,279
	<hr/>	<hr/>
	1,604,139	1,337,637
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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:

	30.6.2013	31.12.2012
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Within 3 months	428,925	200,568
Over 3 months but within 6 months	69,264	100,334
Over 6 months but within 1 year	18,858	45,972
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	517,047	346,874
	<hr/>	<hr/>

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

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

	30.6.2013	31.12.2012
	RMB'000	RMB'000
	(unaudited)	(audited)
Within 3 months	232,447	146,434
Over 3 months but within 6 months	82,772	238,985
	315,219	385,419

13. **AMOUNTS DUE TO RELATED COMPANIES**

	30.6.2013	31.12.2012
	RMB'000	RMB'000
	(unaudited)	(audited)
Trade related:		
Brilliance China Group		
Mianyang Brilliance Ruian Automotive Components Co., Ltd*		
綿陽華晨瑞安汽車零部件有限公司	22,617	10,743
Wuliangye Group*		
Mianyang Xinhua Internal Combustion Engine Joint-Stock Company Limited*		
綿陽新華內燃機股份有限公司	4,395	24,653
Sichuan Yi Bin Pushen Automotive Components Co., Ltd*		
四川省宜賓普什汽車零部件有限公司	7,794	6,592
	34,806	41,988
Non-trade related:		
Brilliance China Group		
Brilliance China	478	309
Wuliangye Group		
Mianyang Jianmen Real Estate Development and Construction Co., Ltd.*		
綿陽劍門房地產開發建設有限責任公司	1,776	770
	2,254	1,079
	37,060	43,067

* 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

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

	30.6.2013	31.12.2012
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Trade related:		
Analysed as:		
Trade payables	23,619	19,295
Bills payable	11,187	22,693
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	34,806	41,988
	<hr/>	<hr/>

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:

	30.6.2013	31.12.2012
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Within 3 months	20,753	15,396
Over 3 months but within 6 months	2,807	2,957
Over 6 months but within 1 year	59	326
Over 1 year	–	616
	<hr/>	<hr/>
	23,619	19,295
	<hr/>	<hr/>

The bills payable to related companies 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.

	30.6.2013	31.12.2012
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Within 3 months	10,455	12,744
Over 3 months but within 6 months	732	9,949
	<hr/>	<hr/>
	11,187	22,693
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The non-trade related amounts are interest free, unsecured and repayable on demand.

14. DIVIDENDS

No dividends were paid, declared or proposed during the six months ended 30th June, 2012 and 2013. The directors of the Company have determined that no dividend will be declared in respect of the six months ended 30th June, 2013.

15. **BORROWINGS**

During the current interim period, the Group obtained new bank borrowings amounting to approximately RMB143,000,000 (*six months ended 30th June, 2012: RMB113,000,000*) carrying fixed interest at 6.06 % (*six months ended 30th June, 2012: 6.06% to 7.21%*) per annum and are repayable throughout to April 2014. The proceeds were used to finance the acquisition and construction of new plant facilities and used for working capital and other general purposes.

16. **SHARE CAPITAL**

	Number of shares	Share capital HK\$
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
At 1st January, 2012, 30th June, 2012, 1st January, 2013 and 30th June, 2013	8,000,000,000	80,000,000
<i>Issued and fully paid:</i>		
1st January, 2012, 30th June, 2012 and 1st January, 2013	940,199,794	9,401,998
Issue of new shares pursuant to the public offering (<i>note i</i>)	313,400,000	3,134,000
Issue of new shares pursuant to over-allotment (<i>note ii</i>)	33,808,000	338,080
At 30th June, 2013 (unaudited)	1,287,407,794	12,874,078
	30.6.2013	31.12.2012
	RMB'000	RMB'000
	(unaudited)	(audited)
Share capital presented in condensed consolidated statement of financial position	10,500	7,693

- (i) On 12th March, 2013, 313,400,000 shares of HK\$0.01 each of the Company, amounting to HK\$3,134,000 (approximately RMB2,534,000), were issued at HK\$2.23 per share by way of public offering and the Company's shares have then listed on the Main Board of the Stock Exchange.
- (ii) On 9th April, 2013, 33,808,000 shares of HK\$0.01 each of the Company, amounting to HK\$338,080 (approximately RMB273,000), were issued at HK\$2.23 per share under over-allotment arrangement pursuant to public offering.

17. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payments paid under operating lease during the period:

	Six months ended	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Warehouse	50	50
Production facilities	1,265	–
	<hr/>	<hr/>

Operating lease payments represent rental payable by the Group for warehouse and production facilities at fixed rental.

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

	30.6.2013	31.12.2012
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Within one year	15,182	–
Between second and fifth year inclusive	22,772	–
	<hr/>	<hr/>
	37,954	–
	<hr/>	<hr/>

Operating lease payments represent rental payable by the Group for production facilities in Shenyang, PRC. The lease is negotiated for a term of 2.5 years with fixed rental.

18. OTHER COMMITMENTS

	30.6.2013	31.12.2012
	RMB'000	RMB'000
	(unaudited)	(audited)
Capital expenditure in respect of acquisition of plant and machinery and land use rights		
– Contracted for but not provided in the condensed consolidated financial statements	14,142	16,671
– Authorised but not contracted for in the condensed consolidated financial statements	55,895	48,416
	<u>70,037</u>	<u>65,087</u>
Capital expenditure in respect of investment in a jointly controlled entity		
– Contracted for but not provided in the condensed consolidated financial statements	75,000	75,000

19. CONTINGENT LIABILITIES

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

	30.6.2013	31.12.2012
	RMB'000	RMB'000
	(unaudited)	(audited)
Endorsed bills for settlement of trade and other payables	190,823	583,732
Discounted bills for raising of cash	61,105	116,676
	<u>251,928</u>	<u>700,408</u>

Maturity analysis of the outstanding endorsed and discounted bills receivable:

	30.6.2013	31.12.2012
	RMB'000	RMB'000
	(unaudited)	(audited)
Within 3 months	167,026	186,073
Over 3 months but within 6 months	84,902	514,335
	<u>251,928</u>	<u>700,408</u>

20. RELATED PARTY DISCLOSURES

Other than those disclosed elsewhere in the condensed consolidated financial statements, the Group entered into the following significant transactions with related parties during the period:

	Six months ended	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Sale of goods		
Brilliance China Group	204,275	270,456
Huachen Group	409,166	339,251
Jointly controlled entity	14,107	14,157
Wuliangye Group	–	123
	<hr/>	<hr/>
	627,548	623,987
	<hr/>	<hr/>
Purchase of goods		
Brilliance China Group	18,075	30,008
Huachen Group	1	10
Wuliangye Group	56,782	97,207
	<hr/>	<hr/>
	74,858	127,215
	<hr/>	<hr/>
Rental charged		
Huachen Group	1,265	–
Wuliangye Group	50	50
	<hr/>	<hr/>
Maintenance and construction cost charged		
Wuliangye Group	1,015	6,457
	<hr/>	<hr/>

Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). The Group has entered into various transactions in the ordinary course of business, including deposits placements, borrowings and other general banking facilities, with banks which are PRC government related entities.

In addition, the Group itself is jointly controlled by a subsidiary of Brilliance China and a subsidiary of Wuliangye, each of which are ultimately controlled by the PRC government. Apart from the transactions with Brilliance China Group, Huachen Group and Wuliangye Group disclosed above, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities to be independent third parties so far as the Group's business transactions with them are concerned.

20. RELATED PARTY DISCLOSURES (Cont'd)

Compensation of key management personnel

The remuneration of directors and other members of key management during the period were as follows:

	Six months ended	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Short-term benefits	4,339	1,542
Post-employment benefits	4	–
	<hr/>	<hr/>
	4,343	1,542
	<hr/>	<hr/>

The remuneration of directors of the Company and key executives during the period were determined by the remuneration committee having regard to the performance of individuals and market trends.

The directors and certain senior management have also been employed by the Brilliance China Group and Wuliangye Group and the payment of their post-employment benefits representing contributions to retirement benefits scheme was centralised and made by the Brilliance China Group and Wuliangye Group for the period, and such amounts are considered as insignificant.

21. SHARE BASED PAYMENT TRANSACTION

Share Incentive Scheme

During the year ended 31st December, 2011, the Company established a share incentive scheme to provide an incentive to directors, management, employees and relevant personnel of the Group who have contributed or will make contributions to the development and growth of the Group (the "Incentive Scheme") which contains two trust arrangements, namely a fixed trust (the "Fixed Trust") and a discretionary trust (the "Discretionary Trust"). Details of the Fixed Trust and Discretionary Trust are set out in section titled "Share Incentive Scheme Established by Lead In" in the Group's annual financial statements for the year ended 31st December, 2012.

During the six months ended 30th June, 2013, no share options (*six months ended 30th June, 2012: nil*) were granted, exercised or forfeited under the Fixed Trust and the Discretionary Trust. In addition, as of 30th June, 2013, no shares under the Discretionary Trust were outstanding.

Share Option Scheme

The Company has conditionally adopted a share option scheme (the "Share Option Scheme") on 25th April, 2012 (amended and restated on 8th February, 2013) to provide incentives or rewards to participants for their contribution to the Group and/or to enable the management of the Group to recruit and retain employees that are valuable to the Group. Details of the Share Option Scheme are set out in section titled 'Share Option Scheme' in the Group's annual financial statements for the year ended 31st December, 2012.

During the six months ended 30th June, 2013, no share options were granted under the Share Option Scheme. In addition, as of 30th June, 2013, no share options under the Share Option Scheme were outstanding.

MANAGEMENT'S DISCUSSION & ANALYSIS

Business Review

In the first half of 2013, the Group achieved total unaudited consolidated sales of RMB1,302.2 million, representing a decrease of 6.6% when compared to the corresponding period last year (RMB1,394.5 million), which included revenue from sales of gasoline engines of RMB1,119.1 million (RMB1,106.6 million for the corresponding period last year), revenue from sales of diesel engines of RMB163.7 million (RMB269.9 million for the corresponding period last year) and revenue from sales of engine components and services of RMB19.4 million (RMB17.9 million for the corresponding period last year), representing 85.9%, 12.6% and 1.5% of the total amount respectively. The main reason of the decrease in sales revenue was the decrease in diesel engine sales, which was mainly attributable to the adjustment of the State's emission policy resulting in a reduction in inventory of downstream customers.

The unaudited cost of sales amounted to RMB1,065.3 million, down by 4.9% when compared to RMB1,120.3 million for the corresponding period last year, which was slightly lower than the proportionate decrease in revenue.

Changes in overall profit margin for the period were mainly due to the impact of changes in products mix, which was mainly reflected in the increase in the percentage of sales of light-duty gasoline engines (smaller than 1.6 litre) with lower profit margin, resulting in a decrease of 1.5% in overall profit margin.

The unaudited other income amounted to RMB20.257 million, representing an increase of 418% when compared to RMB3.906 million of the corresponding period last year. The increase was mainly due to (i) the increase in interest income of RMB5.664 million, which was mainly attributable to the increase in cash balances, and (ii) the increase in government subsidies of RMB9.20 million, which was mainly attributable to the receipt of government subsidy in supporting of the research and development of new turbocharged direct injection engine and improvement of the NVH testing laboratory of our research and development centre.

The unaudited selling and distribution expenses decreased from RMB31.103 million in the first half of 2012 to RMB25.877 million in the first half of 2013, representing 2.2% and 2.0% of sales income in the first half of 2012 and 2013, respectively.

The unaudited general and administrative expenses decreased from RMB35.853 million in the first half of 2012 to RMB29.399 million in the first half of 2013, decreased by RMB6.454 million or 18%, which was attributable to the transfer of expenses of approximately 5 million incurred by the change of positions of certain employees from general and administrative expenses to expenses of specific items.

The unaudited finance costs amounted to RMB8.409 million, down by 53.6% when compared to RMB18.137 million for the corresponding period last year, which was attributable to the decrease in discounting costs due to the Company's control on discounted bills volume.

The unaudited other expenses amounted to RMB27.497 million, representing an increase of 43.3% when compared to RMB19.184 million for the corresponding period last year, which was attributable to currency exchange loss.

The unaudited profit before tax amounted to RMB166.013 million, representing a decrease of 4.4% when compared to RMB173.818 million for the corresponding period last year, which was attributable to the decrease in income, in particular, the decrease in sales of diesel engines with higher gross profit margin.

The unaudited income tax expense amounted to RMB25.320 million, representing a decrease of RMB0.14 million when compared to the corresponding period last year, which was calculated at the preferential tax rate of 15% for high-tech enterprises after deducting current net non-taxable profits (being non-taxable profits adjusted by non-deductible expenses). The Company's effective income tax rate was 15.2%, up by 0.6 percentage points when compared to 14.6% for the corresponding period last year.

In the first half of 2013, the Group achieved unaudited net earnings attributable to the owners of the Company of RMB140.693 million, representing a decrease of 5.1% when compared to RMB148.310 million for the corresponding period of 2012. The unaudited basic earnings per share in the first half of 2013 was RMB0.123.

Liquidity and financial resources

As at 30th June, 2013, the Group had RMB1,221 million in cash and cash equivalents, and RMB90 million in pledged bank deposits. The Group had trade and other payables of RMB1,604 million, and bank borrowings of RMB225 million due within one year, but had no long-term bank borrowings outstanding as at 30th June, 2013.

Capital structure

As at 30th June, 2013, the Group's total assets were RMB4,020 million (31st December, 2012: RMB3,081 million), of which they included: (1) share capital of RMB10.50 million, (2) reserves of RMB2,040 million, and (3) debts of RMB1,970 million. The corresponding amounts as at 31st December, 2012 were RMB7.693 million, RMB1,315 million, and RMB1,758 million, respectively.

Contingent liabilities

As at 30th June, 2013 the Group (i) endorsed to pay bills receivables of RMB190.823 million for the settlement of trade and other payables; and (ii) discounted outstanding bills receivables of RMB61.105 million to banks for raising cash. The Group considers that the risk of the default in payment of the aforesaid endorsed and discounted bills receivable is low as all the endorsed and discounted bills receivables are issued and guaranteed by reputable PRC banks.

Pledge of assets

As at 30th June, 2013, the Group pledged certain of its buildings, plant and machinery with a total value of approximately RMB139.4 million to certain banks to secure certain credit facilities granted to the Group.

As at 30th June, 2013, the Group also pledged bank deposits of approximately RMB90 million to certain banks to secure certain credit facilities granted to the Group.

Material acquisition and disposal

There were no major acquisition and disposal of subsidiaries and associated companies undertaken by the Group during the six months ended 30th June, 2013.

Gearing ratio

As at 30th June, 2013, 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 0.96 (*31st December, 2012: 1.33*). The decrease in Debt-to-Equity ratio was mainly due to the increase in equity and reserves.

As at 30th June, 2013, the Quick ratio, defined as current assets (net of inventories) divided by current liabilities, was approximately 1.64 (*31st December, 2012: 1.36*). The reason for the increase in Quick ratio was primarily due to the improvement of cash position (RMB1,221 million vs. RMB665 million).

New Product

A new model of diesel engine D22TZ, an upgraded version of D20A, will be introduced to the market in late 2013.

Plans for capital expenditure

There is no material change to the plans for capital expenditure as that disclosed in the last published annual report of the Company.

Significant Investment

The construction works of the first phase production facility of Changzhou Dongfeng Xincheng Engine Co., Ltd. (Dongfeng JV) has been completed during the period. Installation of major equipments will commence in October, 2013.

The Group was authorized by BMW AG of Germany in December of 2012 to manufacture a model of engine N20 and production will start in June, 2014. The key equipments for the production line have been ordered and employee training and building upgrading are currently underway now.

Use of fund raised

The Company was listed on 13th March, 2013 and the gross proceeds raised were approximately US\$99.27 million. After deducting the listing costs, the net proceeds were approximately US\$87.06 million. Apart from reserving a small portion in Hong Kong for settlement of expenses incurred and to be incurred outside China, most of the proceeds in the amount of approximately US\$75.88 million will be remitted to Mianyang Xincheng Engine Co., Ltd. ("**Mianyang Xincheng**") through foreign exchange channel. Currently, Mianyang Xincheng is undergoing the required procedures which are expected to be completed by September. The funds will be applied in the manner as stated in the IPO prospectus.

Foreign exchange risks

As at 30th June 2013, the Group recorded foreign exchange loss in the amount of RMB8.71 million, which was mainly attributable to the impact of government foreign exchange control approval and the appreciation of Renminbi during the period. The Group will strengthen its foreign exchange risk management and explore appropriate measures in order to minimise exchange risks.

Employees and Remuneration Policy

As at 30th June, 2013, the Group employed approximately 1,005 employees (*30th June, 2012: approximately 1,001*). Employee costs amounted to approximately RMB41.45 million for the six months ended 30th June, 2013 (*30th June, 2012: approximately RMB44.73 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 2013, both the automobile production and sales volume in Mainland China had exceeded 10 million, achieving a double-digit growth rate. The sales volume of automotive engines also increased by nearly 10%. However, independent engine manufacturers for passenger vehicles faced various challenges such as technology and environmental protection policies. It is expected that challenges will continue for a certain period of time.

In order to lay a more solid and sustainable development foundation, the Group intends to adjust its product mix, accelerates its investment in research and development, in particular to increase its efforts in developing new products that can better fulfill the future technology requirements.

Meanwhile, the Group has decided to seek more extensive and comprehensive strategic co-operation with BMW Brilliance Automotive Ltd. and BMW AG by initiating the N20 engine project, with an aim to enhance its standards in production, research and development, IT and logistics and eventually become a stable engine supplier of BMW Brilliance Automotive Ltd. and BMW AG in China.

INTERIM DIVIDEND

The directors of the Company did not recommend the payment of any interim dividend for the six months ended 30th June, 2013 (*six months ended 30th June, 2012: nil*).

SHARE INCENTIVE SCHEME ESTABLISHED BY LEAD IN

The share incentive scheme (the “**Incentive Scheme**”) was established in 2011 before the listing of the shares of the Company (the “**Shares**”) on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 13th March, 2013 (“**the Listing Date**”) to serve as a retention tool, and to align the interests of certain directors, management, employees and relevant personnel of the Group (the “**Beneficiaries**”) with that of the Company. Lead In Management Limited (“**Lead In**”) was incorporated for the purpose of holding the Shares on trust for the Beneficiaries pursuant to the Incentive Scheme.

Lead In is currently owned as to 50% by Mr. Wu Xiao An and 50% by Mr. Wang Yunxian, both of whom are executive directors of the Company. Lead In subscribed for 93,999,794 Shares, representing approximately 7.30% of the issued share capital of the Company. Lead In holds such Shares on trust for the Beneficiaries under two separate trust arrangements, namely the “Fixed Trust” and the “Discretionary Trust”.

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

The Beneficiaries who have been awarded with the Shares under the Fixed Trust have not been changed since the publication of the annual report of the Company dated 27th March, 2013.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 25th April, 2012, which was amended and restated on 8th February, 2013 (the “**Share Option Scheme**”).

The Share Option Scheme will remain in force for a period of 10 years from the Listing Date. The period during which an option may be exercised will be determined by the directors of the Company at their absolute discretion, save that no option shall be exercised later than 10 years from the date of grant.

No share options had been granted by the Company under the Share Option Scheme since the Listing Date up to 30th June, 2013 and no expenses were recognized by the Group for the period under review (*six months ended 30th June, 2012: nil*).

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

As at 30th June, 2013, so far as is known to the directors or chief executives of the Company, the following persons other than a director or chief executive of the Company had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (the "SFO"):

Name of Shareholder	Capacity	Number of Shares	Approximate percentage of shareholding⁽⁹⁾
Brilliance Investment Holdings Limited	Beneficial owner	400,000,000	31.07%
Brilliance China Automotive Holdings Limited ⁽¹⁾	Interest in a controlled corporation	400,000,000	31.07%
Huachen Automotive Group Holdings Company Limited ⁽²⁾	Interest in a controlled corporation	400,000,000	31.07%
Xinhua Investment Holdings Limited	Beneficial owner	400,000,000	31.07%
Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited ⁽³⁾	Interest in a controlled corporation	400,000,000	31.07%
Sichuan Yibin Pushi Group Co., Ltd. ⁽⁴⁾	Interest in a controlled corporation	400,000,000	31.07%
Sichuan Province Yibin Wuliangye Group Co., Ltd. ⁽⁵⁾	Interest in a controlled corporation	400,000,000	31.07%
Lead In Management Limited ⁽⁶⁾	Trustee	93,999,794	7.30%
Mr. Wu Xiao An ⁽⁷⁾ (also known as Ng Siu On)	Trustee and interest in a controlled corporation	93,999,794	7.30%
	Beneficial owner	8,320,041	0.64%
Mr. Wang Yunxian ⁽⁸⁾	Trustee and interest in a controlled corporation	93,999,794	7.30%
	Beneficial owner	6,471,143	0.50%

Notes:

- (1) Brilliance Investment Holdings Limited ("**Brilliance Investment**") is wholly-owned by Brilliance China Automotive Holdings Limited ("**Brilliance China**") as at the date of this interim report and Brilliance China is deemed or taken to be interested in approximately 31.07% of the issued share capital of the Company in which Brilliance Investment is interested.
- (2) Brilliance China is owned as to approximately 42.48% by Huachen Automotive Group Holdings Company Limited ("**Huachen**") as at the date of this interim report and Huachen is deemed or taken to be interested in approximately 31.07% of the issued share capital of the Company in which Brilliance Investment is interested.
- (3) Xinhua Investment Holdings Limited ("**Xinhua Investment**") is a direct wholly-owned subsidiary of Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited ("**Xinhua Combustion Engine**") as at the date of this interim report and Xinhua Combustion Engine is deemed or taken to be interested in approximately 31.07% of the issued share capital of the Company in which Xinhua Investment is interested.
- (4) Xinhua Combustion Engine is a direct non wholly-owned subsidiary of Sichuan Yibin Pushi Group Co., Ltd. ("**Pushi Group**") as at the date of this interim report and Pushi Group is deemed or taken to be interested in approximately 31.07% of the issued share capital of the Company in which Xinhua Investment is interested.
- (5) Pushi Group is a direct wholly-owned subsidiary of Sichuan Province Yibin Wuliangye Group Co., Ltd. ("**Wuliangye**") as at the date of this interim report and Wuliangye is deemed or taken to be interested in approximately 31.07% of the issued share capital of the Company in which Xinhua Investment is interested.
- (6) Lead In Management Limited ("**Lead In**") is a trustee of the fixed trust and discretionary trust under the Incentive Scheme and is deemed or taken to be interested in approximately 7.30% of the issued share capital of the Company.
- (7) Mr. Wu Xiao An is a trustee of the fixed trust and the discretionary trust under the Incentive Scheme and holds 50% interests in Lead In. Mr. Wu Xiao An is also the beneficial owner of 8,320,041 Shares, representing approximately 0.64% of the issued share capital of the Company, held under the fixed trust. Mr. Wu Xiao An is deemed or taken to be interested in approximately 7.30% of the issued share capital of the Company.
- (8) Mr. Wang Yunxian is a trustee of the fixed trust and the discretionary trust under the Incentive Scheme and holds 50% interests in Lead In. Mr. Wang Yunxian is also the beneficial owner of 6,471,143 Shares, representing approximately 0.50% of the issued share capital of the Company, held under the fixed trust. Mr. Wang Yunxian is deemed or taken to be interested in approximately 7.30% of the issued share capital of the Company.
- (9) These percentages are calculated on the basis of 1,287,407,794 Shares in issue as at the date of this interim report.

Save as disclosed herein, as at 30th June, 2013, there was no other person so far known to the directors or chief executives of the Company, other than a director or chief executive of the Company as having an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30th June, 2013, the interests and short positions of each director and chief executive of the Company and their respective associates in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange, are set out below:

Interest in the shares of the Company

Name of Director	Nature of interest	Number and class of shares	Approximate percentage of shareholding ⁽⁴⁾
Mr. Wu Xiao An (also known as Ng Siu On) ⁽¹⁾⁽³⁾	Trustee and interest in a controlled corporation	93,999,794 ordinary	7.30%
	Beneficial owner	8,320,041 ordinary	0.64%
Mr. Wang Yunxian ⁽²⁾⁽³⁾	Trustee and interest in a controlled corporation	93,999,794 ordinary	7.30%
	Beneficial owner	6,471,143 ordinary	0.50%
Mr. Li Peiqi ⁽³⁾	Beneficial owner	6,471,143 ordinary	0.50%

Notes:

- (1) Mr. Wu Xiao An is a trustee of the fixed trust and the discretionary trust under the Incentive Scheme and holds 50% interests in Lead In. Mr. Wu Xiao An is also the beneficial owner of 8,320,041 Shares, representing approximately 0.64% of the issued share capital of the Company, held under the fixed trust. Mr. Wu Xiao An is deemed or taken to be interested in approximately 7.30% of the issued share capital of the Company.
- (2) Mr. Wang Yunxian is a trustee of the fixed trust and the discretionary trust under the Incentive Scheme and holds 50% interests in Lead In. Mr. Wang Yunxian is also the beneficial owner of 6,471,143 Shares, representing approximately 0.50% of the issued share capital of the Company, held under the fixed trust. Mr. Wang Yunxian is deemed or taken to be interested in approximately 7.30% of the issued share capital of the Company.
- (3) The beneficiaries of the fixed trust comprise certain directors of the Company including Mr. Wu Xiao An, Mr. Wang Yunxian and Mr. Li Peiqi, 48 senior management and employees of the Group. The above directors of the Company are taken or deemed to be interested in their entitlement in the Shares held by Lead In.
- (4) These percentages are calculated on the basis of 1,287,407,794 Shares in issue as at the date of this interim report.

Save as disclosed above, as at 30th June, 2013, none of the directors and chief executives of the Company or their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

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

The Shares were listed on the Stock Exchange on the Listing Date. 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 30th June, 2013.

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 since the Listing Date up to 30th June 2013.

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 reporting matters, including the unaudited consolidated interim financial statements of the Group for the six months ended 30th June, 2013.

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.

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 since the Listing Date up to 30th June, 2013.

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

Hong Kong, 12th August, 2013