

# POWER XINCHEN

新 晨 動 力

## XINCHEN CHINA POWER HOLDINGS LIMITED

## 新晨中國動力控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

Stock Code: 1148



### Interim Report 2015



## 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 30 June 2015 together with comparative figures as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2015

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

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

AT 30 JUNE 2015

		<b>30.6.2015</b>	31.12.2014
	<i>NOTES</i>	<b><i>RMB'000</i></b>	<i>RMB'000</i>
		<b>(unaudited)</b>	(audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	<b>1,330,640</b>	951,903
Prepaid lease payments		<b>95,510</b>	96,619
Investment properties		<b>229,688</b>	233,381
Intangible assets	9	<b>328,634</b>	284,998
Investment in a joint venture		<b>49,180</b>	49,306
Deferred tax assets		<b>6,923</b>	6,923
		<b>2,040,575</b>	1,623,130
<b>CURRENT ASSETS</b>			
Inventories		<b>507,683</b>	572,247
Prepaid lease payments		<b>2,308</b>	2,308
Trade and other receivables	10	<b>574,680</b>	767,387
Amounts due from related companies	11	<b>1,003,553</b>	970,239
Loan to a shareholder	12	<b>29,144</b>	29,237
Pledged/restricted bank deposits		<b>358,728</b>	424,307
Bank balances and cash		<b>487,165</b>	353,947
		<b>2,963,261</b>	3,119,672
<b>TOTAL ASSETS</b>		<b>5,003,836</b>	4,742,802
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	<b>1,179,196</b>	1,377,719
Amounts due to related companies	14	<b>131,317</b>	268,743
Bank borrowings due within one year	15	<b>300,500</b>	220,500
Income tax payables		<b>10,671</b>	5,518
		<b>1,621,684</b>	1,872,480
<b>NET CURRENT ASSETS</b>		<b>1,341,577</b>	1,247,192
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>3,382,152</b>	2,870,322

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)**

AT 30 JUNE 2015

		<b>30.6.2015</b>	31.12.2014
	<i>Notes</i>	<b><i>RMB'000</i></b>	<i>RMB'000</i>
		<b>(unaudited)</b>	(audited)
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings due after one year	15	<b>733,632</b>	367,140
Deferred income		<b>42,112</b>	42,889
		<hr/>	<hr/>
		<b>775,744</b>	410,029
		<hr/>	<hr/>
<b>NET ASSETS</b>		<b>2,606,408</b>	2,460,293
		<hr/>	<hr/>
<b>CAPITAL AND RESERVES</b>			
Share capital	16	<b>10,500</b>	10,500
Reserves		<b>2,595,908</b>	2,449,793
		<hr/>	<hr/>
<b>TOTAL EQUITY</b>		<b>2,606,408</b>	2,460,293
		<hr/>	<hr/>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2015**

	Share capital	Share premium	Special reserve	Surplus reserves	Deemed distribution to a shareholder	Contribution from a shareholder	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000 (Note a)	RMB'000 (Note b)	RMB'000 (Note c)	RMB'000	RMB'000
At 1 January 2014 (audited)	10,500	706,759	193,457	246,404	(11,285)	–	1,034,593	2,180,428
Profit and total comprehensive income for the period	–	–	–	–	–	–	143,418	143,418
Contribution from a shareholder	–	–	–	–	–	8,319	–	8,319
At 30 June 2014 (unaudited)	10,500	706,759	193,457	246,404	(11,285)	8,319	1,178,011	2,332,165
At 1 January 2015 (audited)	10,500	706,759	193,457	290,147	(11,285)	8,319	1,262,396	2,460,293
Profit and total comprehensive income for the period	–	–	–	–	–	–	146,115	146,115
At 30 June 2015 (unaudited)	10,500	706,759	193,457	290,147	(11,285)	8,319	1,408,511	2,606,408

*Notes:*

- (a) Surplus reserves comprise statutory surplus reserve and discretionary surplus reserve of Mianyang Xinchen Engine Co., Ltd. ("Mianyang Xinchen"), 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 Xinchen in accordance with its Articles of Association. Statutory surplus reserve amounting to approximately RMB194,474,000 as at 30 June 2015 (31 December 2014: RMB194,474,000), can be used to make up for previous year's losses or convert into additional capital of Mianyang Xinchen. Discretionary surplus reserve amounting to approximately RMB95,673,000 as at 30 June 2015 (31 December 2014: RMB95,673,000) can be used to expand the existing operations of Mianyang Xinchen.
- (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 Xinchen in prior year.
- (c) Contribution from a shareholder represents the fair value adjustments on shares awarded by Lead In Management Limited ("Lead In") to a third party. Details of which are set out in Note 21.

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

FOR THE SIX MONTHS ENDED 30 JUNE 2015

	<b>Six months ended</b>	
	<b>30.6.2015</b>	30.6.2014
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(unaudited)
NET CASH FROM OPERATING ACTIVITIES	<b>100,430</b>	173,957
INVESTING ACTIVITIES		
Interest received	<b>5,495</b>	3,668
Purchase of property, plant and equipment	<b>(415,121)</b>	(448,776)
Development costs paid	<b>(48,578)</b>	(47,001)
Withdrawal of pledged/restricted bank deposits	<b>688,537</b>	515,803
Placement of pledged/restricted bank deposits	<b>(622,958)</b>	(646,963)
Other investing cash flows	<b>3,516</b>	235
NET CASH USED IN INVESTING ACTIVITIES	<b>(389,109)</b>	(623,034)
FINANCING ACTIVITIES		
Interest paid	<b>(24,919)</b>	(25,450)
New bank borrowings raised	<b>488,816</b>	570,700
Repayment of bank borrowings	<b>(42,000)</b>	(212,000)
Other financing cash flows	<b>–</b>	4,702
NET CASH FROM FINANCING ACTIVITIES	<b>421,897</b>	337,952
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<b>133,218</b>	(111,125)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<b>353,947</b>	1,166,366
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, represented by bank balances and cash	<b>487,165</b>	1,055,241

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2015*

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

### 2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2015 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2014.

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

The application of these new interpretation and amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in the condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

### 3. REVENUE AND SEGMENT INFORMATION

Information reported to the Board, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focuses on types of goods delivered or services provided.

#### **Segment revenue and segment results**

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

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



### 3. REVENUE AND SEGMENT INFORMATION (Cont'd)

#### Segment revenue and segment results (Cont'd)

The following is an analysis of the Group's revenue and results by reportable segment:

	Segment revenue		Segment results	
	Six months ended		Six months ended	
	30.6.2015	30.6.2014	30.6.2015	30.6.2014
	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Gasoline engines	1,336,530	1,065,066	172,808	185,887
Diesel engines	175,982	251,587	27,657	42,477
Engine components and service income	159,602	136,781	58,102	58,525
<b>Total segment and consolidated</b>	<b>1,672,114</b>	<b>1,453,434</b>	<b>258,567</b>	<b>286,889</b>
Unallocated income			43,169	9,427
Unallocated expenses				
Selling and distribution expenses			(36,414)	(27,483)
Administrative expenses			(61,985)	(64,229)
Finance costs			(23,895)	(21,692)
Other expenses and losses			(1,011)	(10,295)
Share of result of a joint venture			(126)	175
<b>Profit before tax</b>			<b>178,305</b>	<b>172,792</b>

Revenue reported above represents revenue generated from sales of goods or service provision to external customers. There were no inter-segment sales during the six months ended 30 June 2014 and 2015.

Segment results represent the profit earned by each segment before the allocation of selling and distribution expenses, administrative expenses, finance costs, other income and gain/expenses and losses and share of result of a joint venture. This is the measure reported to the Board for the purpose of resource allocation and performance assessment.

#### Segment assets and liabilities

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

#### Geographical information

The majority of the Group's operations and non-current assets are located in the PRC; and all of the Group's revenue from external customers is generated in the PRC, which is the country of domicile of Mianyang Xinchen and its subsidiary.

#### Information about major customers

Revenue from major customers which accounts for 10% or more of the Group's total revenue are sales of engines to certain related parties as disclosed in Note 20.

#### 4. OTHER INCOME AND GAIN

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

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

#### 5. PROFIT BEFORE TAX

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

	Six months ended	
	30.6.2015	30.6.2014
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Employee benefits expenses (including directors):		
– salaries and other benefits	72,821	61,535
– retirement benefit scheme contributions	10,701	6,143
	<hr/>	
Total staff costs	83,522	67,678
	<hr/>	
Depreciation of property, plant and equipment	46,210	25,261
Depreciation of investment properties	3,693	–
Amortisation of prepaid lease payments	1,109	720
Amortisation of intangible assets (included in cost of sales)	4,942	2,838
	<hr/>	
Total depreciation and amortisation	55,954	28,819
	<hr/>	
Exchange gain, net	2,755	1,395
Share-based payment expenses ( <i>Note 21, included in other expenses and losses</i> )	–	8,319
	<hr/>	

6. **INCOME TAX EXPENSE**

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

Mianyang Xincheng was subject to 15% enterprise income tax rate for the period ended 30 June 2015 (six months ended 30 June 2014: 15%), which is lower than the standard tax rate of 25%. According to the announcement of the State Administration of Taxation on issues concerning Enterprise Income Tax Related with enhancing the Western Region Development Strategy, Mianyang Xincheng was registered with the local tax authority to be eligible to the reduced 15% enterprise income tax rate from 2011 to 2020. The preferential enterprise income tax rate is subject to assessment and approval by the local tax authority on annual basis.

7. **DIVIDENDS**

No dividend has been paid or declared by the Company during both period ended 30 June 2015 and 2014, nor has any dividend been proposed since the end of the reporting period.

8. **EARNINGS PER SHARE**

The calculation of basic earnings per share attributable to the owners of the Company is based on the following data:

	<b>Six months ended</b>	
	<b>30.6.2015</b>	30.6.2014
	<b>(unaudited)</b>	(unaudited)
<b>Earnings</b>		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share ( <i>RMB'000</i> )	<hr/> <b>146,115</b>	<hr/> 143,418
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<hr/> <b>1,287,407,794</b>	<hr/> 1,287,407,794

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

## 9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

During the current interim period, the Group acquired property, plant and equipment, other than construction in progress, amounting to approximately RMB916,000 (six months ended 30 June 2014: RMB189,298,000) for the purpose of upgrading its manufacturing capacity of the Group. The Group has also disposed of certain plant and equipment with an aggregate carrying amount of RMB191,000 (six months ended 30 June 2014: Nil) for proceed of RMB16,000 (six months ended 30 June 2014: Nil), resulting in a loss on disposal of RMB175,000 (six months ended 30 June 2014: Nil).

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

During the current interim period, the Group capitalised development costs of technical know-how of new automotive engines amounting to approximately RMB48,578,000 (six months ended 30 June 2014: approximately RMB47,001,000) for the purpose of expanding its products range of gasoline and diesel engines.

## 10. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise the following:

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

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

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

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:

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

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

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

11. **AMOUNTS DUE FROM RELATED COMPANIES**

Analysed as:

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

11. AMOUNTS DUE FROM RELATED COMPANIES (Cont'd)

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

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

11. AMOUNTS DUE FROM RELATED COMPANIES (Cont'd)

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

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

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

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

**Non-trade related:**

Huachen Group, Wuliangye Group <sup>***</sup> and Brilliance China Group	<hr/> <b>900</b>	<hr/> <b>503</b>
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The non-trade related amounts are interest free, unsecured and repayable on demand.

\* *English name for reference only*

" *Huachen and its subsidiaries collectively referred to as "Huachen Group"*

<sup>##</sup> *Brilliance China Automotive Holdings Limited ("Brilliance China", Brilliance China and its subsidiaries collectively referred to as "Brilliance China Group")*

<sup>\*\*\*</sup> *Sichuan Province Yibin Wuliangye Group Co., Ltd.\* 四川省宜賓五糧液集團有限公司 ("Wuliangye", Wuliangye and its subsidiaries collectively referred to as "Wuliangye Group")*

## 12. LOAN TO A SHAREHOLDER

As detailed in Note 21, the Company has two trust arrangements which entitle the beneficiaries to subscribe for shares of the Company through Lead In. Under loan agreements dated 18 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 (see Note 21).

The Company has repaid loans from shareholders in October 2013.

All the loans are non-trade related, unsecured, interest free and will be repayable within one year from the date of loan agreements by the Company and Lead In and, accordingly, they are classified as current assets and current liabilities, respectively. The Loan to a shareholder was extended to October 2014 in 2013 and further extended to October 2015 in 2014.

## 13. TRADE AND OTHER PAYABLES

Trade and other payables comprise the following:

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

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

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

*Note:* The balance of provision for warranty represents management's best estimate of the Group's liability under the one year warranty granted on the sale of automotive engines and automotive engine components, based on prior experience and industry average for defective products at the end of the reporting period.



### 13. 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 the reporting period:

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

### 14. AMOUNTS DUE TO RELATED COMPANIES

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

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

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

\* English name for reference only

#### 14. AMOUNTS DUE TO RELATED COMPANIES (Cont'd)

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:

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

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

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

The trade related amounts are interest-free, unsecured and with credit period of 3 to 6 months.

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

#### 15. BANK BORROWINGS

During the current interim period, the Group obtained new bank borrowings amounting to approximately RMB488,816,000 (six months ended 30 June 2014: RMB570,700,000) carrying interest ranging from 2.60% to 6.00% (six months ended 30 June 2014: 5.6% to 6.44%) per annum and are repayable throughout to April 2018. 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	Amount HK\$
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
At date of incorporation, 1 January 2014, 30 June 2014, 1 January 2015 and 30 June 2015	8,000,000,000	80,000,000
<i>Issued and fully paid:</i>		
At 1 January 2014, 30 June 2014, 1 January 2015 and 30 June 2015 (unaudited)	1,287,407,794	12,874,078
	<b>30.6.2015</b>	31.12.2014
	<i>RMB'000</i>	<i>RMB'000</i>
	<b>(unaudited)</b>	(audited)
Share capital presented in condensed consolidated statement of financial position	<b>10,500</b>	10,500

17. OPERATING LEASE COMMITMENTS

**The Group as lessee**

The minimum lease payment under operating lease in respect of office premises and production facilities amount to RMB4,055,000 (six months ended 30 June 2014: RMB4,298,000).

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:

	30.6.2015 <i>RMB'000</i> <b>(unaudited)</b>	31.12.2014 <i>RMB'000</i> (audited)
Within one year	<b>3,099</b>	7,398

Operating lease payments represent rental payable by the Group for certain office premises and factory premises. Leases are negotiated for original terms of 1 to 2 years with fixed rental.

17. OPERATING LEASE COMMITMENTS (Cont'd)

The Group as lessor

Property rental income earned was RMB16,363,826 for the period ended 30 June 2015 (six months ended 30 June 2014: Nil).

At the end of the reporting period, the Group had contracted with tenant for the following future minimum lease payments:

	30.6.2015 <i>RMB'000</i> (unaudited)	31.12.2014 <i>RMB'000</i> (audited)
Within one year	33,323	33,143
Between the second and fifth year inclusive	55,238	71,810
	<hr/> 88,561	<hr/> 104,953

Operating lease income represents rental receivables by the Group for the investment properties with BMW Brilliance Automotive in Shenyang, PRC.

18. CAPITAL COMMITMENTS

	30.6.2015 <i>RMB'000</i> (unaudited)	31.12.2014 <i>RMB'000</i> (audited)
Capital expenditure in respect of acquisition of property, plant and equipment, prepaid lease payments and intangible assets:		
– contracted for but not provided in the condensed consolidated financial statements	154,629	76,451
– authorised but not contracted for in the condensed consolidated financial statements	776,405	393,854
	<hr/> 931,034	<hr/> 470,305
Capital expenditure in respect of investment in a joint venture		
– 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, 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 the reporting period are as follows:

	30.6.2015 <i>RMB'000</i> (unaudited)	31.12.2014 <i>RMB'000</i> (audited)
Settlement of trade and other payables	217,780	406,026
Discounted bills for raising of cash	385,633	148,433
	<hr/> 603,413	<hr/> 554,459

19. CONTINGENT LIABILITIES (Cont'd)

Maturity analysis of the outstanding endorsed and discounted bills receivable:

	30.6.2015 <i>RMB'000</i> (unaudited)	31.12.2014 <i>RMB'000</i> (audited)
Within 3 months	277,801	158,735
Over 3 months but within 6 months	325,612	395,724
	<hr/>	<hr/>
	603,413	554,459
	<hr/>	<hr/>

20. RELATED PARTY DISCLOSURES

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

	Six months ended	
	30.06.2015 <i>RMB'000</i> (unaudited)	30.06.2014 <i>RMB'000</i> (unaudited)
<b>Sale of goods</b>		
Brilliance China Group	929,030	225,837
Huachen Group	293,403	491,988
Dongfeng JV	134	14,410
	<hr/>	<hr/>
	1,222,567	732,235
	<hr/>	<hr/>
<b>Purchase of goods</b>		
Brilliance China Group	455,003	19,597
Wuliangye Group	43,417	68,038
Huachen Group	1	12,417
	<hr/>	<hr/>
	498,421	100,052
	<hr/>	<hr/>
<b>Purchase of productions lines and inventories</b>		
Huachen Group*	–	394,281
BMW Brilliance Automotive (Note 22)	301,925	–
	<hr/>	<hr/>

\* RMB37,646,000 inventories inclusive

20. RELATED PARTY DISCLOSURES (Cont'd)

	Six months ended	
	30.06.2015 <i>RMB '000</i> (unaudited)	30.06.2014 <i>RMB '000</i> (unaudited)
<b>Rental charged and auxiliary services</b>		
Huachen Group	2,918	30,440
Brilliance China Group	1,491	1,798
Wuliangye Group	110	–
	4,519	32,238
<b>Rental income</b>		
BMW Brilliance Automotive	16,184	–
	–	1,922

**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.

**Compensation of key management personnel**

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

	Six months ended	
	30.06.2015 <i>RMB '000</i> (unaudited)	30.06.2014 <i>RMB '000</i> (unaudited)
Short-term benefits	8,667	7,743
Post-employment benefits	21	17
	8,688	7,760

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 31 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 ("Beneficiaries") which contains two trust arrangements, namely a fixed trust (the "Fixed Trust") and a discretionary trust (the "Discretionary Trust"). On 31 October 2011, the Company issued 93,999,794 shares of the Company, representing approximately 9.998% of then enlarged issued share capital of the Company, to Lead In, which held on trust for the relevant Beneficiaries under the two trust arrangements at subscription price of HK\$1.0817 per share. The subscription price of HK\$1.0817 per share is considered as fair value since it was determined based on the Mianyang Xinchun Valuation Report, which was issued by an independent valuer for the purpose of group reorganisation and it was also used to determine the consideration for the shares issued to Dong Feng Motors Engineering Co., Limited (i.e. HK\$1.0817 per share), which is an independent third party prior to its investment.

On 17 April 2014, 2,984,575 shares held under the Discretionary Trust were awarded to a third party at a subscription price of HK\$1.0817 per share. 1,492,288 shares were exercised on 23 April 2015, the date following the first anniversary of 22 April 2014 (being the date of acceptance of the award by the third party). The remaining 1,492,287 shares will be exercisable upon the date following the second anniversary of 22 April 2014. The shares award is for the purpose of achieving a long run cooperation strategic partnership with the Company and the amount of approximately RMB8,319,000 (HK\$10,500,000), representing the difference between closing price of the Company's share as quoted on the Stock Exchange on the acceptance date and the subscription price, is recognised as share-based payment expense for the Group.

During the year ended 31 December 2014, 22,808,704 shares were issued to the relevant Beneficiaries. No entitlement of interests in the shares of the Company under the Fixed Trust was outstanding since then.

Other than disclosed above, no shares were exercised, lapsed or forfeited under the Fixed Trust and the Discretionary Trust during the six months ended 30 June 2015.

## 22. ACQUISITION OF A BUSINESS

During the period, Mianyang Xinchun completed the acquisition of the Acquired Assets\*, the Transferred Contracts\* and the Call Option\* to BMW Brilliance Automotive as set out in the Assets Transfer Agreement\* entered into between BMW Brilliance Automotive and Mianyang Xinchun on 21 January 2015 (the "Crankshaft Acquisition").

The Crankshaft Acquisition constitutes a business combination in accordance with HKFRS 3 "Business Combinations" and as such, the acquisition has been accounted for as an acquisition of a business.

Up to the date of issue of the condensed consolidated financial statements, the valuation of the Crankshaft Acquisition is still in process. Accordingly, the fair value of the Acquired Assets, the Transferred Contracts and the Call Option are not yet finalized, the fair value of the Acquired Assets (and related tax effect) are determined provisionally and are subject to change pending finalization of the valuation of the Crankshaft Acquisition. The provisional fair value is determined based on the unaudited book value of the Acquired Assets provided by BMW Brilliance Automotive and related taxes, amounting to approximately RMB353 million, value-added tax inclusive. The provisional fair value of Transferred Contracts is assumed to be nil.

The acquisition-related costs have been recognized in the consolidated statement of comprehensive income.

\* Capitalised terms used have the same meaning as defined in the circular of the Company dated 18 February 2015



## MANAGEMENT'S DISCUSSION & ANALYSIS

### Business Review

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

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

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

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

The unaudited cost of sales amounted to approximately RMB1,413.55 million in the first half of 2015, representing an increase of approximately 21.2% compared to approximately RMB1,166.55 million for the corresponding period last year. The increase was generally in line with the increase in the Group's total unaudited revenue.

The gross profit margin of the Group decreased from approximately 19.7% in the first half of 2014 to approximately 15.5% in the first half of 2015. The decrease was mainly due to an increase in the sales of lower profit margin products.

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

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

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

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

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

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

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

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

### **Liquidity and financial resources**

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

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

### **Pledge of assets**

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

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

### **Gearing ratio**

As at 30 June 2015, the Debt-to-Equity ratio of the Group, computed by dividing total liabilities by total equity attributable to the equity owners of the Company, was approximately 0.92 (31 December 2014: approximately 0.93). The Debt-to-Equity ratio remained stable.

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

### **Contingent liabilities**

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

## **Material acquisition and disposal**

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

Details of the transaction were set out in the announcement of the Company dated 21 January 2015 and the circular of the Company dated 18 February 2015. Save as disclosed, there were no major acquisition and disposal of subsidiaries and associated companies undertaken by the Group during the six months ended 30 June 2015.

## **Capital commitments**

As at 30 June 2015, the Group had capital commitments of approximately RMB1,006.03 million (31 December 2014: approximately RMB545.31 million), of which contracted capital commitments amounted to approximately RMB229.63 million (31 December 2014: approximately RMB151.45 million), which is primarily related to the capital expenditure in respect of acquisition of property, plant and equipment, and new engine development.

## **Foreign exchange risks**

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

The Group will monitor its foreign exchange risks and may consider hedging its foreign currency exposure, if and when necessary. There were no hedging transactions outstanding as at 30 June 2015.

## **Employees and Remuneration Policy**

As at 30 June 2015, the Group had approximately 1,640 employees (30 June 2014: approximately 1,660). Employee costs amounted to approximately RMB83.52 million for the six months ended 30 June 2015 (2014: approximately RMB67.68 million). The Group will endeavor to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' remuneration is based on their performance.

## **Outlook**

In the first half of 2015, market demand for certain domestic branded vehicles installed with the Group's engines remained weak. In addition, following the imposition of stringent emission control, there was a significant decrease in the sale volume of commercial vehicles. Therefore, there was a significant decrease in the sales volume of traditional engines in the first half of 2015. Although some of the Group's customers launched or will launch new products in 2015, in light of the slowdown in industry growth and the more stringent emission standard, the market will still be very challenging for the Group's domestic branded customers in near future. The Group will monitor sale performance of vehicles equipped with the Group's engines and adjust its sale strategy and production plan based on the latest market situation. In light of unfavorable industry outlook, the Group will further strengthen costs control measures to lower its operating costs and introduce more competitive products to support the long-term development of the Group's self-branded engine business.

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

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

## **INTERIM DIVIDEND**

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

## SHARE INCENTIVE SCHEME ESTABLISHED BY LEAD IN

The share incentive scheme (the “**Incentive Scheme**”) was established in 2011 to serve as a retention tool, and to align the interests of beneficiaries (the “**Beneficiaries**”) identified by the trustees of the trusts (further described hereinafter) with that of the Company. Lead In Management Limited (“**Lead In**”) was incorporated for the purpose of holding the shares of the Company (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 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 of Hong Kong Limited (the “**Listing Rules**”) as these arrangements do not involve the grant of options by the Company to subscribe for Shares after the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

No entitlement of interests in the Shares under the Fixed Trust has been granted for the six months ended 30 June 2015.

On 17 April 2014, 2,984,575 Shares held under the Discretionary Trust were awarded to a third party at a subscription price of HK\$1.0817 per Share. 1,492,288 Shares were exercised on 23 April 2015, the date following the first anniversary of 22 April 2014 (being the date of acceptance of the award by the third party). The remaining 1,492,287 Shares will be exercisable on the date following the second anniversary of 22 April 2014. Save as disclosed, no Shares has been awarded under the Discretionary Trust for the six months ended 30 June 2015.

## SHARE OPTION SCHEME

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

The Share Option Scheme will remain in force for a period of 10 years from 13 March 2013. 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 for the six months ended 30 June 2015 and no expenses were recognised by the Group for the period under review (six months ended 30 June 2014: nil).

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

As at 30 June 2015, so far as known to the directors or chief executives of the Company, each of 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 <sup>(6)</sup>
Brilliance Investment Holdings Limited	Beneficial owner	400,000,000	31.07%
Brilliance China Automotive Holdings Limited <sup>(1)</sup>	Interest in a controlled corporation	400,000,000	31.07%
Huachen Automotive Group Holdings Company Limited <sup>(2)</sup>	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 <sup>(3)</sup>	Interest in a controlled corporation	400,000,000	31.07%
Sichuan Yibin Pushi Group Co., Ltd. <sup>(4)</sup>	Interest in a controlled corporation	400,000,000	31.07%
Sichuan Province Yibin Wuliangye Group Co., Ltd. <sup>(5)</sup>	Interest in a controlled corporation	400,000,000	31.07%

*Notes:*

- (1) Brilliance Investment Holdings Limited ("**Brilliance Investment**") is wholly-owned by Brilliance China Automotive Holdings Limited ("**Brilliance China**") 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**") 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**") 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**") 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**") 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) These percentages are calculated on the basis of 1,287,407,794 Shares in issue as at 30 June 2015.

Save as disclosed herein, as at 30 June 2015, there was no other person so far as 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 30 June 2015, 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 Issuers to be notified to the Company and the Stock Exchange, are set out below:

### *Interest in the shares of the Company*

<b>Name of Director</b>	<b>Nature of interest</b>	<b>Number and class of Shares</b>	<b>Approximate percentage of shareholding<sup>(4)</sup></b>
Mr. Wu Xiao An (also known as Ng Siu On) <sup>(1)(3)</sup>	Beneficial owner	6,656,032 ordinary	0.52%
	Trustee and interest in a controlled corporation	46,890,098 ordinary	3.64%
Mr. Wang Yunxian <sup>(2)(3)</sup>	Beneficial owner	5,176,914 ordinary	0.40%
	Trustee and interest in a controlled corporation	46,890,098 ordinary	3.64%



*Notes:*

- (1) Mr. Wu Xiao An is a trustee of the Fixed Trust and the Discretionary Trust (which in aggregate hold 46,890,098 Shares for the Beneficiaries) under the Incentive Scheme and holds 50% interests in Lead In. Accordingly, Mr. Wu is deemed or taken to be interested in approximately 3.64% of the issued share capital of the Company. Mr. Wu is entitled to 1,664,009 Shares as a Beneficiary under the Fixed Trust.
- (2) Mr. Wang Yunxian is a trustee of the Fixed Trust and the Discretionary Trust (which in aggregate hold 46,890,098 Shares for the Beneficiaries) under the Incentive Scheme and holds 50% interests in Lead In. Accordingly, Mr. Wang is deemed or taken to be interested in approximately 3.64% of the issued share capital of the Company. Mr. Wang is entitled to 1,294,229 Shares as a Beneficiary under the Fixed Trust.
- (3) The Beneficiaries of the Fixed Trust comprise certain directors of the Company including Mr. Wu Xiao An and Mr. Wang Yunxian, 49 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 30 June 2015.

Save as disclosed above, as at 30 June 2015, 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 Issuers to be notified to the Company and the Stock Exchange.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2015.

#### **DISCLOSURE UNDER RULE 13.21 OF THE LISTING RULES**

On 28 October 2014, Mianyang Xinchun (as borrower) and the Company (as guarantor) entered into a banking facility agreement with a financial institution (as lender) for a term loan facility of up to US\$60,000,000 (the "Facility Letter 2014"). Pursuant to the Facility Letter 2014, it shall be an event of default if: (1) Brilliance China holds less than 25% (directly or indirectly) of the shareholding interest in the Company in aggregate; or (2) Wuliangye holds less than 25% (directly or indirectly) of the shareholding interest in the Company in aggregate. Details of the Facility Letter 2014 were set out in the announcement of the Company dated 28 October 2014.

On 16 April 2015, Mianyang Xinchun (as borrower) and the Company (as guarantor) entered into a banking facility agreement with a financial institution (as lender) for a term loan facility of up to US\$60,000,000 (the "Facility Letter 2015"). Under the Facility Letter 2015, it shall be an event of default, amongst others, if: (1) Brilliance China holds less than 25% (directly or indirectly) of the shareholding interest in the Company in aggregate; or (2) Wuliangye holds less than 25% (directly or indirectly) of the shareholding interest in the Company in aggregate. Details of the Facility Letter 2015 were set out in the announcement of the Company dated 16 April 2015.

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to achieving and maintaining the highest standards of corporate governance, consistent with the needs and requirements of the business and its shareholders. The Company has adopted the code provisions set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules. The Company has complied with all code provisions of the CG Code throughout the six months ended 30 June 2015.

## COMPLIANCE WITH THE 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 during the six months ended 30 June 2015.

## REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2015.

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

## BOARD OF DIRECTORS

As at the date of this report, the Board comprises two executive directors: Mr. Wu Xiao An (also known as Mr. Ng Siu On) (*Chairman*) and Mr. Wang Yunxian (*Chief Executive Officer*); two non-executive directors: Mr. Qi Yumin and Mr. Tang Qiao; and four independent non-executive directors: Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin.

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

Hong Kong, 20 August 2015