

POWER XINCHEN

新 晨 动 力

XINCHEN CHINA POWER HOLDINGS LIMITED

新晨中國動力控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1148



Interim Report 2017

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 2017 together with comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Notes	Six months ended	
		30.6.2017 RMB'000 (unaudited)	30.6.2016 RMB'000 (unaudited)
Revenue	3	1,237,942	1,721,635
Cost of sales		(1,078,877)	(1,488,327)
Gross profit		159,065	233,308
Other income and gain	4	35,753	49,915
Selling and distribution expenses		(17,728)	(27,623)
Administrative expenses		(65,885)	(66,144)
Finance costs		(22,860)	(17,346)
Other expenses and losses		(2,783)	(17,141)
Share of result of a joint venture		(159)	(47)
Profit before tax	5	85,403	154,922
Income tax expense	6	(14,441)	(27,068)
Profit and total comprehensive income for the period attributable to owners of the Company		70,962	127,854
Earnings per share – Basic (RMB)	8	0.055	0.100

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2017

		30.6.2017	31.12.2016
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	2,383,668	1,982,893
Prepaid lease payments		103,718	91,614
Investment properties		215,153	218,799
Intangible assets	9	572,370	471,918
Investment in a joint venture		49,614	49,773
Deferred tax assets		8,179	8,179
Loan to a shareholder	10	27,206	28,460
		<hr/> 3,359,908	2,851,636
CURRENT ASSETS			
Inventories	11	625,033	478,039
Prepaid lease payments		2,296	2,295
Trade and other receivables	12	602,944	705,258
Amounts due from related companies	13	1,399,161	1,271,371
Pledged/restricted bank deposits	14	500,002	327,111
Bank balances and cash	14	349,005	306,014
		<hr/> 3,478,441	3,090,088
TOTAL ASSETS		<hr/> 6,838,349	5,941,724
CURRENT LIABILITIES			
Trade and other payables	15	1,814,993	1,380,663
Amounts due to related companies	16	345,223	261,446
Bank borrowings due within one year	17	877,878	781,354
Income tax payables		1,385	4,364
		<hr/> 3,039,479	2,427,827
NET CURRENT ASSETS		<hr/> 438,962	662,261
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 3,798,870	3,513,897

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

AT 30 JUNE 2017

		30.6.2017	31.12.2016
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(audited)
NON-CURRENT LIABILITIES			
Bank borrowings due after one year	17	829,682	610,801
Deferred income		33,916	38,786
		<hr/>	<hr/>
		863,598	649,587
		<hr/>	<hr/>
NET ASSETS		2,935,272	2,864,310
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Share capital	18	10,457	10,457
Reserves		2,924,815	2,853,853
		<hr/>	<hr/>
TOTAL EQUITY		2,935,272	2,864,310
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2017

	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 2016 (audited)	10,466	701,256	193,457	326,946	(11,285)	8,319	1,450,262	2,679,421
Profit and total comprehensive income for the period	-	-	-	-	-	-	127,854	127,854
Repurchase of ordinary shares	(9)	(998)	-	-	-	-	-	(1,007)
At 30 June 2016 (unaudited)	10,457	700,258	193,457	326,946	(11,285)	8,319	1,578,116	2,806,268
At 1 January 2017 (audited)	10,457	700,258	193,457	359,728	(11,285)	8,319	1,603,376	2,864,310
Profit and total comprehensive income for the period	-	-	-	-	-	-	70,962	70,962
At 30 June 2017 (unaudited)	10,457	700,258	193,457	359,728	(11,285)	8,319	1,674,338	2,935,272

Notes:

- (a) Surplus reserves comprise statutory surplus reserve and discretionary surplus reserve of Mianyang Xincheng Engine Co., Ltd.* (綿陽新晨動力機械有限公司) ("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 RMB240,861,000 as at 30 June 2017 (31 December 2016: RMB240,861,000), 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 RMB118,867,000 as at 30 June 2017 (31 December 2016: RMB118,867,000) 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 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 10.

* English name for reference only

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Six months ended	
	30.6.2017	30.6.2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
NET CASH FROM OPERATING ACTIVITIES	524,409	449,803
INVESTING ACTIVITIES		
Interest received	4,080	6,531
Purchase of property, plant and equipment	(479,717)	(350,449)
Proceeds for disposal of property, plant and equipment	–	(225)
Development costs paid	(121,586)	(72,983)
Withdrawal of pledged/restricted bank deposits	531,283	801,243
Placement of pledged/restricted bank deposits	(704,174)	(630,012)
Receipt from government grants	–	23,867
Advance to related parties	364	782
NET CASH USED IN INVESTING ACTIVITIES	(769,750)	(221,246)
FINANCING ACTIVITIES		
Interest paid	(25,734)	(24,346)
New bank borrowings raised	834,000	406,000
Repayment of bank borrowings	(518,595)	(327,428)
Repurchase of ordinary shares	–	(1,007)
Repayment to a related company	(1,339)	(1,546)
NET CASH FROM FINANCING ACTIVITIES	288,332	51,673
NET INCREASE IN CASH AND CASH EQUIVALENTS	42,991	280,230
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	306,014	288,212
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, represented by bank balances and cash	349,005	568,442

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting*.

2. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of new standards effective as of 1 January 2017. The application of these amendments to the Hong Kong Financial Reporting Standards 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.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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 by type of product and/or service. 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	
	30.6.2017	30.6.2016	30.6.2017	30.6.2016
	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Gasoline engines	889,756	1,388,478	87,393	172,381
Diesel engines	162,638	105,795	21,064	11,495
Engine components and service income	185,548	227,362	50,608	49,432
Total segment and consolidated	1,237,942	1,721,635	159,065	233,308
Unallocated income			35,753	49,915
Unallocated expenses				
Selling and distribution expenses			(17,728)	(27,623)
Administrative expenses			(65,885)	(66,144)
Finance costs			(22,860)	(17,346)
Other expenses and losses			(2,783)	(17,141)
Share of result of a joint venture			(159)	(47)
Profit before tax			85,403	154,922

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 2016 and 2017.

Segment results represent the profit earned by each segment before the allocation of selling and distribution expenses, administrative expenses, finance costs, other 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 Xincheng and its subsidiary.

4. OTHER INCOME AND GAIN

	Six months ended	
	30.6.2017 <i>RMB'000</i> (unaudited)	30.6.2016 <i>RMB'000</i> (unaudited)
Bank interest income	4,080	6,531
Government grants	4,870	31,002
Loss on disposal of property, plant and equipment	(151)	(50)
Rental income under operating lease, net outgoing expenses	10,430	12,183
Exchange gains, net	15,978	–
Others	546	249
	<hr/>	
	35,753	49,915
	<hr/>	

5. PROFIT BEFORE TAX

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

	Six months ended	
	30.6.2017 <i>RMB'000</i> (unaudited)	30.6.2016 <i>RMB'000</i> (unaudited)
Employee benefits expenses (including directors):		
– salaries and other benefits	81,925	80,766
– retirement benefit scheme contributions	15,780	14,018
	<hr/>	
Total staff costs	97,705	94,784
	<hr/>	
Depreciation of property, plant and equipment	68,773	69,711
Depreciation of investment properties	3,646	3,646
Amortisation of prepaid lease payments	1,070	1,171
Amortisation of intangible assets (included in cost of sales)	21,134	10,157
	<hr/>	
Total depreciation and amortisation	94,623	84,685
	<hr/>	
Exchange gain (losses), net (included in "other income and gain" and "other expenses and losses", respectively)	15,978	(13,299)
	<hr/>	

6. INCOME TAX EXPENSE

	Six months ended	
	30.6.2017	30.6.2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Tax expense comprises:		
Current tax expense	14,441	27,068
Deferred tax expense	—	—
	<hr/>	<hr/>
	14,441	27,068
	<hr/>	<hr/>

Mianyang Xincheng was subject to 15% enterprise income tax rate for the period ended 30 June 2017 (six months ended 30 June 2016: 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" (國家稅務總局關於深入實施西部大開發戰略有關稅收政策問題的通知), Mianyang Xincheng was registered with the local tax authority to be eligible to the reduced 15% enterprise income tax rate from 2011 to 2020. The preferential enterprise income tax rate is subject to assessment by the local tax authority on annual basis.

7. DIVIDENDS

No dividend has been paid or declared by the Company during both periods ended 30 June 2017 and 2016, nor has any dividend been proposed since the end of the reporting period.

8. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2017	30.6.2016
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company		
for the purpose of basic earnings per share (RMB'000)	70,962	127,854
	<hr/>	<hr/>
Number of shares		
Weighted average number of ordinary shares		
for the purpose of basic earnings per share	1,282,211,794	1,282,300,683
	<hr/>	<hr/>

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 RMB2,141,000 (six months ended 30 June 2016: approximately RMB122,000) 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 approximately RMB151,000 (six months ended 30 June 2016: approximately RMB275,000) without proceeds (six months ended 30 June 2016: for the proceeds of approximately RMB225,000), resulting in a loss on disposal of approximately RMB151,000 (six months ended 30 June 2016: approximately RMB50,000).

In addition, during current interim period, the Group had approximately RMB480,733,000 (six months ended 30 June 2016: approximately RMB346,205,000) addition to construction in progress, primarily for scaling up the Group's production facilities and capacity. Besides, the Group had reclassification from construction in progress to land use rights, amounting to approximately RMB13,175,000 (six months ended 30 June 2016: nil). Included in the total addition is approximately RMB2,874,000 (six months ended 30 June 2016: approximately RMB7,000,000) interests capitalised.

During the current interim period, the Group capitalised development costs of technical know-how of new automotive engines amounting to approximately RMB121,586,000 (six months ended 30 June 2016: approximately RMB72,983,000) for the purpose of expanding its products range of gasoline and diesel engines.

10. LOAN TO A SHAREHOLDER

As detailed in Note 24, the Company has two trust arrangements which entitle the beneficiaries to subscribe for shares of the Company (the "Shares") through Lead In for their services to the Group. 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 under the Discretionary Trust (see Note 24).

The Company has repaid Loans from Shareholders in October 2013, whilst the Loan to a Shareholder was renewed annually and is further extended to October 2017 in 2016.

At 30 June 2017, the management of the Company expected the Loan to a Shareholder would not be recovered within one year and the outstanding balance is classified as non-current assets. An amount of RMB420,000, representing the adjustment on revised estimate of receipts from the shareholder, is recognised in profit or loss for the period (six months ended 30 June 2016: nil).

11. INVENTORIES

During the six months ended 30 June 2017, the Group wrote down RMB771,000 (the six months ended 30 June 2016: RMB1,316,000) of inventories, which is determined with reference to the net realisable value of the inventory items. This expense is included in other expenses in the statement of profit or loss.

12. **TRADE AND OTHER RECEIVABLES**

Trade and other receivables comprise the following:

	30.6.2017 <i>RMB'000</i> (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
Trade receivables	187,386	149,760
<i>Less: Allowance for doubtful debts</i>	<i>(1,619)</i>	<i>(1,556)</i>
	<hr/>	<hr/>
Trade receivables, net	185,767	148,204
Bills receivable	136,504	356,209
	<hr/>	<hr/>
Total trade and bills receivables	322,271	504,413
Prepayments for purchase of raw materials and engine components	15,533	6,607
Other receivables*	265,140	194,238
	<hr/>	<hr/>
	602,944	705,258
	<hr/>	<hr/>

* *Included in the balance is value added tax recoverable of RMB203,597,000 (at 31 December 2016: RMB131,644,000).*

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

	30.6.2017 <i>RMB'000</i> (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
Within 1 month	111,609	77,463
Over 1 month but within 2 months	44,691	19,462
Over 2 months but within 3 months	8,361	23,084
Over 3 months but within 6 months	6,326	7,439
Over 6 months but within 1 year	4,427	6,475
Over 1 year	10,353	14,281
	<hr/>	<hr/>
	185,767	148,204
	<hr/>	<hr/>

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

	30.6.2017 <i>RMB'000</i> (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
Within 3 months	63,595	240,044
Over 3 months but within 6 months	70,880	109,242
Over 6 months but within 1 year	2,029	6,923
	<hr/>	<hr/>
	136,504	356,209
	<hr/>	<hr/>

13. AMOUNTS DUE FROM RELATED COMPANIES

Analysed as:

	30.6.2017 <i>RMB'000</i> (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
Trade related	1,398,197	1,270,043
Non-trade related	964	1,328
	<hr/> 1,399,161	<hr/> 1,271,371

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

	30.6.2017 <i>RMB'000</i> (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
Huachen Group^f		
Shenyang Brilliance Power Train Machinery Co., Ltd.* ("Shenyang Brilliance") 瀋陽華晨動力機械有限公司	729,512	560,982
Mianyang Huarui Automotive Company Limited* ("Mianyang Huarui") 綿陽華瑞汽車有限公司	116,040	89,679
Mianyang Huaxiang Machinery Manufacturing Co., Ltd* 綿陽華祥機械製造有限公司	96,277	115,399
Huachen Automotive Group Holdings Company Limited* ("Huachen Automotive") 華晨汽車集團控股有限公司	20,280	19,743
	<hr/> 962,109	<hr/> 785,803

Brilliance China Group^{ff}

Shenyang XingYuanDong Automobile Component Co., Ltd.* 瀋陽興遠東汽車零部件有限公司	304,105	279,774
BMW Brilliance Automotive Ltd.* ("BMW Brilliance Automotive") 華晨寶馬汽車有限公司	55,549	107,300
Shenyang Brilliance JinBei Automobile Co., Ltd.* 瀋陽華晨金杯汽車有限公司	68,774	97,166
Shenyang Jinbei Vehicle Manufacturing Co., Ltd.* 瀋陽金杯車輛製造有限公司	7,660	–
	<hr/> 436,088	<hr/> 484,240

30.6.2017 <i>RMB'000</i> (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
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Analysed as:

Trade receivables	1,298,902	1,222,850
Bills receivable	99,295	47,193
	<hr/> 1,398,197	<hr/> 1,270,043

13. 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 ageing analysis of trade receivables presented based on the invoice date as at the end of the reporting period:

	30.6.2017 <i>RMB'000</i> (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
Within 3 months	509,975	588,119
Over 3 months but within 6 months	378,481	222,972
Over 6 months but within 1 year	291,682	199,311
Over 1 year	118,764	212,448
	<hr/> 1,298,902	<hr/> 1,222,850

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

	30.6.2017 <i>RMB'000</i> (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
Trade related:		
Within 3 months	90,100	33,385
Over 3 months but within 6 months	9,094	12,274
Over 6 months but within 1 year	101	1,534
	<hr/> 99,295	<hr/> 47,193
Non-trade related:		
Huachen Group, Brilliance China Group and Wuliangye Group ^{***}	<hr/> 964	<hr/> 1,328

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

* *English name for reference only*

^{*} *Huachen Automotive and its subsidiaries collectively referred to as "Huachen Group"*

^{**} *Brilliance China Automotive Holdings Limited ("Brilliance China", Brilliance China and its subsidiaries collectively referred to as "Brilliance China Group")*

^{***} *Sichuan Province Yibin Wuliangye Group Co., Ltd.* 四川省宜宾五粮液集团有限公司 ("Wuliangye", Wuliangye and its subsidiaries collectively referred to as "Wuliangye Group")*

14. PLEDGED/RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

For the purpose of the interim condensed statement of cash flows, cash and cash equivalents are comprised of the following:

	30.6.2017 <i>RMB'000</i> (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
Bank balances and cash	349,005	306,014
Pledged/restricted bank deposits	500,002	327,111
	<hr/>	<hr/>
	849,007	633,125
Pledged/restricted bank deposits	(500,002)	(327,111)
	<hr/>	<hr/>
	349,005	306,014
	<hr/>	<hr/>
Balances denominated in foreign currencies:		
	30.6.2017 <i>RMB'000</i> (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
Hong Kong Dollars ("HK\$")	60,592	72,251
United States Dollars	4,079	7,394
European Dollars	342	122
	<hr/>	<hr/>

Other than bank balances shown above, all other remaining bank balances are denominated in RMB.

15. TRADE AND OTHER PAYABLES

Trade and other payables comprise the following:

	30.6.2017 <i>RMB'000</i> (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
Trade payables	816,428	523,254
Bills payable	572,565	395,759
	<hr/>	<hr/>
Total trade and bills payables	1,388,993	919,013
Accrued purchase of raw materials	265,090	289,486
Construction payables	9,401	9,118
Payroll and welfare payables	36,551	52,322
Advances from customers	4,819	3,103
Provision for warranty (<i>Note a</i>)	4,006	4,006
Retention money	19,938	26,030
Interest bearing payables (<i>Note b</i>)	50,000	50,000
Other payables	36,195	27,585
	<hr/>	<hr/>
	1,814,993	1,380,663
	<hr/>	<hr/>

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

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

	30.6.2017 RMB'000 (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
Within 3 months	495,705	418,632
Over 3 months but within 6 months	210,763	78,722
Over 6 months but within 1 year	97,979	22,388
Over 1 year but within 2 years	11,981	3,512
	<hr/>	
	816,428	523,254
	<hr/>	

Notes

- a. The balance of provision for warranty represents management's best estimate of the Group's liability under the one year warranty granted on the sale of automotive engines and automotive engine components, based on prior experience and industry average for defective products at the end of the reporting period.
- b. The payable is from a non-related party, unsecured, bearing interest at 5.5% per annum, and repayable on 27 June 2017 as stipulated in the contract. Up to the date of this report, the balance has not been repaid.

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

	30.6.2017 RMB'000 (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
Within 3 months	409,397	228,326
Over 3 months but within 6 months	163,168	167,433
	<hr/>	
	572,565	395,759
	<hr/>	

16. AMOUNTS DUE TO RELATED COMPANIES

	30.6.2017 RMB'000 (unaudited)	31.12.2016 RMB'000 (audited)
Trade related:		
Huachen Group		
Huachen Automotive	569	949
Shenyang Brilliance	16,113	16,091
Mianyang Huarui	4	4
	<hr/>	<hr/>
	16,686	17,044
	<hr/>	<hr/>
Brilliance China Group		
BMW Brilliance Automotive	90,278	10,367
Mianyang Brilliance Ruian Automotive Components Co., Ltd.* 綿陽華晨瑞安汽車零部件有限公司	41,063	31,949
Shenyang ChenFa Automobile Components Co., Ltd.* 瀋陽晨發汽車零部件有限公司	2,341	2,110
Shenyang Jinbei Vehicle Dies Manufacturing Co., Ltd.* 瀋陽金杯汽車模具製造有限公司	94	67
	<hr/>	<hr/>
	133,776	44,493
	<hr/>	<hr/>
Wuliangye Group		
Sichuan Yi Bin Pushi Automotive Components Co., Ltd* 四川省宜賓普什汽車零部件有限公司	10,788	10,174
Sichuan An Shi Ji Logistics Co., Ltd.* ("An Shi Ji") 四川安仕吉物流有限公司	738	765
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	3,649	1,877
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	175,932	181,368
Mianyang Xinhua Trading Co., Ltd.* 綿陽新華商貿有限公司	6	6
Sichuan Yi Bin Wuliangye Group An Ji Logistics Co., Ltd* 四川省宜賓五糧液集團安吉物流公司	2,486	3,218
	<hr/>	<hr/>
	193,599	197,408
	<hr/>	<hr/>
	344,061	258,945
	<hr/>	<hr/>

* English name for reference only

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

	30.6.2017 <i>RMB'000</i> (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
Non-trade related:		
Huachen Group		
Huachen Automotive	–	458
Brilliance China Group		
Brilliance China	893	850
Wuliangye Group		
Xinhua Combustion Engine	29	1,093
An Shi Ji	–	100
Mianyang Jianmen RE	240	–
	269	1,193
	1,162	2,501
	345,223	261,446
Trade related balances analysed as:		
Trade payables	204,167	95,081
Bills payable	139,894	156,029
Accrual	–	7,835
	344,061	258,945

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

The average credit period for supply of goods/raw material and provision of services is 3 to 6 months. The ageing of trade related amounts due to related companies presented based on the invoice date as at the end of the reporting period is as follows:

	30.6.2017 RMB'000 (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
Within 3 months	152,135	53,171
Over 3 months but within 6 months	19,808	11,963
Over 6 months but within 1 year	20,292	21,647
Over 1 year	11,932	8,300
	<hr/> 204,167	<hr/> 95,081

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

	30.6.2017 RMB'000 (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
Within 3 months	134,879	142,759
Over 3 months but within 6 months	5,015	13,270
	<hr/> 139,894	<hr/> 156,029

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

17. BANK BORROWINGS

During the current interim period, the Group obtained new bank borrowings amounting to RMB834,000,000 (six months ended 30 June 2016: RMB406,000,000) carrying interest ranging from 2.60% to 5.88% (six months ended 30 June 2016: 2.60% to 5.09%) per annum and are repayable by instalment throughout to November 2021. The proceeds were used to finance the acquisition and construction of new plant facilities and used for working capital and other general purposes.

18. SHARE CAPITAL

	Number of shares	Amount HK\$
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
At 1 January 2016, 30 June 2016 and 30 June 2017	8,000,000,000	80,000,000
<i>Issued and fully paid:</i>		
At 1 January 2016	1,283,211,794	12,832,118
Repurchase of shares:		
Repurchase of shares on 19 January 2016	(1,000,000)	(10,000)
At 31 December 2016 and 30 June 2017	1,282,211,794	12,822,118
	30.6.2017	31.12.2016
	RMB '000	RMB '000
	(unaudited)	(audited)
Share capital presented in the condensed consolidated statement of financial position	10,457	10,457

19. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Set out below is an overview of financial assets, other than cash and pledged/restricted bank deposits, held by the Group as at 30 June 2017 and 31 December 2016:

	30.6.2017 RMB'000 (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
<i>Financial assets at amortised cost:</i>		
Trade and other receivables*	329,454	511,478
Amount due from related parties	1,399,161	1,271,371
Loan to a shareholder	27,206	28,460
	<hr/>	
	1,755,821	1,811,309
	<hr/>	

Set out below is an overview of financial liabilities held by the Group as at 30 June 2017 and 31 December 2016:

	30.6.2017 RMB'000 (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
<i>Financial liabilities at amortised cost:</i>		
Trade and other payables**	1,806,168	1,373,554
Bank borrowings	1,707,560	1,392,155
Amount due to related parties	345,223	261,446
	<hr/>	
	3,858,951	3,027,155
	<hr/>	

* Prepayment, deposits and value added tax recoverable are excluded.

** Income tax payable, advances from customers and provision of warranty are excluded.

20. OPERATING LEASE COMMITMENTS

The Group as lessee

The minimum lease payment under operating lease in respect of office premises and production facilities amounted to RMB4,252,000 for the period ended 30 June 2017 (six months ended 30 June 2016: RMB4,378,000).

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:

	30.6.2017 <i>RMB'000</i> (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
Within one year	8,745	8,746
Between the second and fifth year inclusive	7,830	12,203
	<hr/> 16,575	<hr/> 20,949

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.

The Group as lessor

Property rental income earned was RMB14,118,000 for the period ended 30 June 2017 (six months ended 30 June 2016: RMB14,330,000).

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

	30.6.2017 <i>RMB'000</i> (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
Within one year	20,894	29,016
Between the second and fifth year inclusive	–	3,674
	<hr/> 20,894	<hr/> 32,690

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

21. CAPITAL COMMITMENTS

	30.6.2017 RMB'000 (unaudited)	31.12.2016 <i>RMB'000</i> <i>(audited)</i>
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	135,140	55,088
	<hr/>	<hr/>
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
	<hr/>	<hr/>

22. 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 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:

	30.6.2017 RMB'000 (unaudited)	31.12.2016 <i>RMB'000</i> <i>(audited)</i>
Settlement of trade and other payables	833,008	815,694
Discounted bills for raising of cash	201,578	86,680
	<hr/>	<hr/>
Outstanding endorsed and discounted bills receivable with recourse	1,034,586	902,374
	<hr/>	<hr/>
Maturity analysis of the outstanding endorsed and discounted bills receivable:		
	30.6.2017 RMB'000 (unaudited)	31.12.2016 <i>RMB'000</i> <i>(audited)</i>
Within 3 months	402,709	394,855
Over 3 months but within 6 months	631,877	507,519
	<hr/>	<hr/>
	1,034,586	902,374
	<hr/>	<hr/>

23. RELATED PARTY DISCLOSURES

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

	Six months ended	
	30.6.2017	30.6.2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Sale of goods		
Brilliance China Group	308,803	771,712
Huachen Group	505,923	555,821
Wuliangye Group	–	106
	<hr/>	<hr/>
	814,726	1,327,639
	<hr/>	<hr/>
Purchase of goods		
Brilliance China Group	111,997	431,224
Wuliangye Group	58,631	27,657
Huachen Group	1	36
	<hr/>	<hr/>
	170,629	458,917
	<hr/>	<hr/>
Purchase of productions lines and inventories		
BMW Brilliance Automotive	352,415	343,375
	<hr/>	<hr/>
Rental charged and auxiliary services		
Huachen Group	2,800	3,254
Brilliance China Group	1,452	1,862
	<hr/>	<hr/>
	4,252	5,116
	<hr/>	<hr/>
Rental income		
Brilliance China Group	14,118	14,330
	<hr/>	<hr/>
Maintenance and construction cost charged		
Wuliangye Group	1,919	5,773
Brilliance China Group	4,157	–
	<hr/>	<hr/>
	6,076	5,773
	<hr/>	<hr/>

23. RELATED PARTY DISCLOSURES (Cont'd)

	Six months ended	
	30.6.2017	30.6.2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Logistics services received		
Wuliangye Group	698	1,622
Cleaning and greening services received		
Wuliangye Group	192	186
Consulting services received		
Brilliance China Group	19,055	34,762
Wuliangye Group	10,736	–
	29,791	34,762
Water and electricity costs charged		
Brilliance China Group	3,893	3,386
Wuliangye Group	258	162
	4,151	3,548

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.

24. 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 (the "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, 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 was considered as fair value since it was determined based on the Mianyang Xinchen's 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 Dongfeng Motors Engineering Co., Ltd. (i.e. HK\$1.0817 per Share), which is an independent third party prior to its investment.

All Shares under the Fixed Trust have been awarded to the Beneficiaries. No Share had been awarded under the Discretionary Trust for the six months ended 30 June 2017. As at 30 June 2017, Lead In held 33,993,385 Shares under the Discretionary Trust.

During the six months ended 30 June 2017, no Shares were exercised, lapsed or forfeited under the Fixed Trust and the Discretionary Trust.

MANAGEMENT'S DISCUSSION & ANALYSIS

Business review

In the first half of 2017, the Group achieved total unaudited revenue of approximately RMB1,237.94 million, representing a decrease of approximately 28.1% compared to approximately RMB1,721.64 million for the corresponding period last year. The decrease in revenue was mainly due to a decrease in the sales of N20 gasoline engines. The decrease in the sales of N20 gasoline engines was caused by the discontinuation of using N20 engines for BMW vehicles in 2017.

Sales volume of engines decreased by approximately 15.7%, from approximately 141,300 units in the first half of 2016 to approximately 119,100 units in the first half of 2017, mainly due to a decrease in sales of the Group's N20 gasoline engines. Sales volume of N20 engines decreased from approximately 16,400 units in the first half of 2016 to nil unit in the first half of 2017. Sales volume of XCE branded engines decreased from approximately 124,900 units in the first half of 2016 to approximately 119,100 units in the first half of 2017, and this was mainly due to the decrease in the sales volume of gasoline engines, partially offset by an increase in the sales volume of diesel engines.

With respect to the engines business segment, the Group recorded approximately 29.6% decrease in the segment revenue, from approximately RMB1,494.27 million in the first half of 2016 to approximately RMB1,052.39 million in the first half of 2017. The decrease was mainly due to a decrease in the sales of N20 engines.

With respect to the engine components and service income segment, the Group recorded approximately 18.4% decrease in the segment revenue, from approximately RMB227.36 million in the first half of 2016 to approximately RMB185.55 million in the first half of 2017. The decrease was mainly due to a decrease in the sales of connecting rods in the first half of 2017. The Group sold approximately 372,370 units of connecting rods in the first half of 2017, representing approximately 17.0% decrease compared to approximately 448,400 units for the corresponding period of 2016. The decrease in the sales of connecting rods was mainly due to a decrease in demand for N20 connecting rods in response to the replacement of N20 engines with new engines by the Group's customer. The Group sold approximately 115,000 units of crankshaft in the first half of 2017, representing approximately 1.6% increase compared to approximately 113,200 units for the corresponding period of 2016.

The unaudited cost of sales amounted to approximately RMB1,078.88 million in the first half of 2017, representing a decrease of approximately 27.5% compared to approximately RMB1,488.33 million for the corresponding period last year. The decrease was generally in line with the decrease in the Group's total unaudited revenue.

The gross profit margin of the Group decreased from approximately 13.6% in the first half of 2016 to approximately 12.8% in the first half of 2017. The decrease was mainly due to the discontinuation of producing N20 engines.

The unaudited other income and gain decreased from approximately RMB49.92 million in the first half of 2016 to approximately RMB35.75 million in the first half of 2017, representing an decrease of approximately 28.4%. The decrease was mainly due to a decrease in government grant recognized during the period under review.

The unaudited selling and distribution expenses decreased by approximately 35.8%, from approximately RMB27.62 million in the first half of 2016 to approximately RMB17.73 million in the first half of 2017, representing approximately 1.6% and approximately 1.4% of the revenue in the first half of 2016 and 2017 respectively. The decrease in terms of value was mainly due to a decrease in delivery costs as a result of fewer engines were produced during the period under review. The percentage of selling and distribution expenses to revenue remained stable between the two periods under review.

The unaudited administrative expenses decreased by approximately 0.4%, from approximately RMB66.14 million in the first half of 2016 to approximately RMB65.89 million in the first half of 2017, representing approximately 3.8% and approximately 5.3% of the revenue in the first half of 2016 and 2017 respectively. The increase in terms of percentage was mainly due to a decrease in unaudited revenue while staff cost, depreciation and office expenses remained the same.

The unaudited finance costs increased by approximately 31.8%, from approximately RMB17.35 million in the first half of 2016 to approximately RMB22.86 million in the first half of 2017. The increase was mainly due to an increase in bank borrowing for financing the acquisitions, including crankshaft production line and more short term financing by discounting bills.

The unaudited other expenses and losses decreased by approximately 83.8%, from approximately RMB17.14 million in the first half of 2016 to approximately RMB2.78 million in the first half of 2017. It was because we recognised an unrealised foreign exchange translation gain in the first half of 2017, whilst we recognised an unrealised foreign exchange translation loss in the same period in 2016.

The Group's unaudited profit before tax decreased by approximately 44.9%, from approximately RMB154.92 million in the first half of 2016 to approximately RMB85.40 million in the first half of 2017, due to less taxable income.

The unaudited income tax expenses decreased by approximately 46.7%, from approximately RMB27.07 million in the first half of 2016 to approximately RMB14.44 million in the first half of 2017.

In the first half of 2017, the Group achieved unaudited net income attributable to the owners of the Company of approximately RMB70.96 million, representing a decrease of approximately 44.5% compared to approximately RMB127.85 million for the corresponding period of 2016.

Liquidity and financial resources

As at 30 June 2017, the Group had approximately RMB349.01 million in bank balances and cash (31 December 2016: approximately RMB306.01 million), and approximately RMB500.00 million in pledged/restricted bank deposits (31 December 2016: approximately RMB327.11 million).

As at 30 June 2017, the Group had trade and other payables of approximately RMB1,814.99 million (31 December 2016: approximately RMB1,380.66 million), bank borrowings due within one year in the amount of approximately RMB877.88 million (31 December 2016: approximately RMB781.35 million), and bank borrowings due after one year in the amount of approximately RMB829.68 million (31 December 2016: approximately RMB610.80 million).

Pledge of assets

As at 30 June 2017, the Group pledged certain of its land use rights, buildings, plant and machinery with a total value of approximately RMB127.55 million (31 December 2016: approximately RMB136.09 million) to certain banks to secure certain credit facilities granted to the Group.

As at 30 June 2017, the Group also pledged bank deposits of approximately RMB267.30 million (31 December 2016: approximately RMB90.50 million) to certain banks to secure certain credit facilities granted to the Group.

Gearing ratio

As at 30 June 2017, the Debt-to-Equity ratio of the Group, computed by dividing total liabilities by total equity attributable to the equity owners of the Company, was approximately 1.33 (31 December 2016: approximately 1.07).

As at 30 June 2017, the gearing ratio, computed by dividing bank borrowings by total equity attributable to owners of the Company, was approximately 58% (31 December 2016: approximately 49%). Both Debt-to-Equity ratio and gearing ratio increased, which were mainly due to an increase in total bank borrowings for financing 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 reputable PRC banks.

Material acquisition and disposal

On 11 April 2017, Mianyang Xinchen (including its branches) entered into the assets transfer agreement with BMW Brilliance Automotive for the acquisition of the C3 crankshaft production line, the equipment and facilities and the related contracts in connection with the expansion of the Group's crankshaft production line. The assets transfer was completed in the first half of 2017.

Details of the transaction were set out in the announcements of the Company dated 11 April 2017, 13 April 2017 and 26 May 2017 and the circular of the Company dated 26 May 2017. 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 2017.

Capital commitments

As at 30 June 2017, the Group had capital commitments of approximately RMB515.70 million (31 December 2016: approximately RMB636.24 million), of which contracted capital commitments amounted to approximately RMB210.14 million (31 December 2016: approximately RMB130.09 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 RMB. Since the Group has certain assets and liabilities, such as receivables, payables, cash and bank borrowings, 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.

Employees and remuneration policy

As at 30 June 2017, the Group had approximately 2,033 employees (30 June 2016: approximately 1,930). Employee costs amounted to approximately RMB97.71 million for the six months ended 30 June 2017 (2016: approximately RMB94.78 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 2017, the sales of the passenger vehicles segment of the automotive sector in the PRC maintained the positive momentum. According to the China Association of Automobile Manufacturers, the sales of passenger vehicles recorded a growth of 1.61% on a year-on-year basis whilst the commercial vehicles segment recorded a growth of 17.39%. Passenger vehicles accounted for about 84.3% of sales of the automotive sector. The growth of the passenger vehicles segment was mainly driven by an increase in demand for SUVs and the stimulus policy in relation to purchase tax cut by 2.5 percentage point from 10% to 7.5% in PRC which remained effective in 2017.

Regarding the Prince engine business, the Group expects that contribution from the sales of Prince engines will gradually be in place by end of 2017. Prince engines, which is considered to be more competitive engine in the PRC regarding, among others, its size, technology and fuel consumption, will be the main driver of the growth of the Group's engine business in the coming years. The Group is near the end of implementing the industrialization of Prince engines with 1.6L and 1.8L displacement. In particular, the Group intends to build up new production facilities for Prince engines in Mianyang and develop derivatives from the existing Prince engine for the purpose of building up a new engine platform. Other than the 1.6L and 1.8L displacement models, the Group has been developing 1.2L displacement engine as well. The Group has a designated team to work on the research and development of a three cylinder 1.2L displacement engine in response to the market demand of more stringent requirement for fuel consumption and emission standard. The three cylinder engine could be paired up with electric motors to cope with the increasing demand of hybrid electric vehicles. The Group expects that Prince engines will become the key driver for the Group's engine business going forward.

As for engine components business, the Group just acquired another crankshaft production line for BMW Brilliance Automotive products in the first half of 2017. BMW Brilliance Automotive achieved increased sales in 2016, it is expected that the demand of finished crankshaft for Bx8 engines will increase as new models of BMW vehicles will be put up for sales in the coming few years. Apart from this, the Group has reached an agreement with BMW AG to export of its crankshafts overseas from 2018 onwards. In addition, the Group has upgraded one connecting rod production line from N20 to Prince engine compatible, which strengthens the Group's core competence in engine parts machining.

While the Group maintains its operations for developing and manufacturing engines and engine component, it has been exploring other potential strategic opportunities for further growth and development.

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: 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 the Beneficiaries identified by the trustees of the trusts (further described hereinafter) with that of the Company. Lead In was incorporated for the purpose of holding the Shares on trust for the Beneficiaries pursuant to the Incentive Scheme.

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 **"Stock Exchange"**) (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.

Lead In is currently owned as to 50% by Mr. Wu Xiao An and as to 50% by Mr. Wang Yunxian, both 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"**.

All Shares under the Fixed Trust have been awarded to the Beneficiaries. No Share had been awarded under the Discretionary Trust for the six months ended 30 June 2017. As at 30 June 2017, Lead In held 33,993,385 Shares under the Discretionary Trust.

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 since its inception and for the six months ended 30 June 2017 and no expenses were recognised by the Group for the period under review (six months ended 30 June 2016: nil).

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

As at 30 June 2017, 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 ⁽⁶⁾
Brilliance Investment Holdings Limited	Beneficial owner	400,000,000 (L)	31.20%
Brilliance China ⁽¹⁾	Interest in a controlled corporation	400,000,000 (L)	31.20%
Huachen Automotive ⁽²⁾	Interest in a controlled corporation	400,000,000 (L)	31.20%
Xinhua Investment Holdings Limited	Beneficial owner	400,000,000 (L)	31.20%
Xinhua Combustion Engine ⁽³⁾	Interest in a controlled corporation	400,000,000 (L)	31.20%
Sichuan Yibin Pushi Group Co., Ltd. ⁽⁴⁾	Interest in a controlled corporation	400,000,000 (L)	31.20%
Wuliangye ⁽⁵⁾	Interest in a controlled corporation	400,000,000 (L)	31.20%
JPMorgan Chase & Co.	Beneficial owner	96,137,600 (L)	7.49%
		151,000 (S)	0.01%
	Custodian corporation/ approved lending agent	95,835,600 (P)	7.47%
Templeton Asset Management Ltd.	Investment Manager	89,829,000 (L)	7.01%

Notes:

- (1) Brilliance Investment Holdings Limited ("**Brilliance Investment**") is wholly-owned by Brilliance China and Brilliance China is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Brilliance Investment is interested.
- (2) Brilliance China is owned as to approximately 42.32% by Huachen Automotive and Huachen Automotive is deemed or taken to be interested in approximately 31.20% 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 Xinhua Combustion Engine and Xinhua Combustion Engine is deemed or taken to be interested in approximately 31.20% 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 31.20% of the issued share capital of the Company in which Xinhua Investment is interested.
- (5) Pushi Group is a direct wholly-owned subsidiary of Wuliangye and Wuliangye is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Xinhua Investment is interested.
- (6) These percentages are calculated on the basis of 1,282,211,794 Shares in issue as at 30 June 2017.

(L) – Long Position, (S) – Short Position, (P) – Lending Pool

Save as disclosed herein, as at 30 June 2017, 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 2017, 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

Name of director	Nature of interest	Number and class of Shares	Approximate percentage of shareholding ⁽³⁾
Mr. Wu Xiao An (also known as Ng Siu On) ⁽¹⁾	Beneficial owner	8,320,041 ordinary	0.65%
	Trustee and interest in a controlled corporation	33,993,385 ordinary	2.65%
Mr. Wang Yunxian ⁽²⁾	Beneficial owner	6,471,143 ordinary	0.50%
	Trustee and interest in a controlled corporation	33,993,385 ordinary	2.65%

Notes:

- (1) Mr. Wu Xiao An is a trustee of the Discretionary Trust (which holds 33,993,385 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 2.65% of the issued share capital of the Company.
- (2) Mr. Wang Yunxian is a trustee of the Discretionary Trust (which holds 33,993,385 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 2.65% of the issued share capital of the Company.
- (3) These percentages are calculated on the basis of 1,282,211,794 Shares in issue as at 30 June 2017.

Save as disclosed above, as at 30 June 2017, 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 2017.

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, 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 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.

On 26 September 2016, 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\$28,500,000 (the "**Facility Letter 2016**"). Under the Facility Letter 2016, it shall be an event of default, amongst others, if: (1) Brilliance China holds less than 25% (directly or indirectly) of the issued share capital of the Company; or (2) Wuliangye holds less than 25% (directly or indirectly) of the issued share capital of the Company. Details of the Facility Letter 2016 were set out in the announcement of the Company dated 26 September 2016.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to achieving and maintaining the highest standards of corporate governance, consistent with the needs and requirements of the business and its shareholders. The Company has adopted the code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Listing Rules. The Company has complied with all code provisions of the CG Code throughout the six months ended 30 June 2017.

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 of 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 2017.

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 2017.

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. Liu Tongfu and Mr. Yang Ming; and four independent non-executive directors: Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin.

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

Hong Kong, 24 August 2017