

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

2014
Interim Report



RESULTS

The board of directors (the “**Board**”) of Xincheng 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 2014 together with comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2014

		30.6.2014	31.12.2013
	<i>Notes</i>	RMB'000	<i>RMB'000</i>
		(unaudited)	(audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	877,565	349,872
Prepaid lease payments		58,721	59,441
Intangible assets	9	221,799	177,636
Investment in a joint venture		49,429	49,259
Deferred tax assets		151	151
Deposits for acquisition of property, plant and equipment and land use rights		11,654	26,693
		1,219,319	663,052
CURRENT ASSETS			
Inventories		319,906	385,051
Prepaid lease payments		1,434	1,434
Trade and other receivables	10	770,782	896,220
Amounts due from related companies	11	1,304,044	1,113,544
Loan to a shareholder	12	29,281	31,426
Pledged bank deposits		322,156	190,996
Bank balances and cash		1,055,241	1,166,366
		3,802,844	3,785,037
TOTAL ASSETS		5,022,163	4,448,089
CURRENT LIABILITIES			
Trade and other payables	13	1,742,459	1,750,005
Amounts due to related companies	14	187,336	94,125
Bank borrowings – due within one year	15	702,150	343,450
Income tax payables		19,772	40,941
		2,651,717	2,228,521
NET CURRENT ASSETS		1,151,127	1,556,516
TOTAL ASSETS LESS CURRENT LIABILITIES		2,370,446	2,219,568

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

AT 30 JUNE 2014

	30.6.2014	31.12.2013
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
NON-CURRENT LIABILITIES		
Deferred income	38,281	39,140
	<hr/> 38,281	<hr/> 39,140
NET ASSETS		
	<hr/> 2,332,165	<hr/> 2,180,428
OWNERS' EQUITY		
Share capital	<i>16</i> 10,500	10,500
Reserves	2,321,665	2,169,928
	<hr/> 2,332,165	<hr/> 2,180,428

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	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 2013 (audited)	7,693	122,388	193,457	198,699	(11,285)	–	811,549	1,322,501
Profit and total comprehensive income for the period	–	–	–	–	–	–	140,693	140,693
Issue of new share (Note 16)	2,807	623,232	–	–	–	–	–	626,039
Transaction costs attributable to issue of shares	–	(38,861)	–	–	–	–	–	(38,861)
At 30 June 2013 (unaudited)	10,500	706,759	193,457	198,699	(11,285)	–	952,242	2,050,372
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

Notes:

- (a) Surplus reserves comprise statutory surplus reserve and discretionary surplus reserve of Mianyang Xincheng Engine Co., Limited ("Mianyang Xincheng"), a major operating subsidiary of the Group and a Sino-foreign equity joint venture enterprise, which are non-distributable and the transfer to these reserves is determined according to the relevant laws in the People's Republic of China (the "PRC") and by the board of directors of Mianyang Xincheng in accordance with its Articles of Association. Statutory surplus reserve amounting to approximately RMB165,312,000 as at 30 June 2014 (31 December 2013: RMB165,312,000), 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 RMB81,092,000 as at 30 June 2014 (31 December 2013: RMB81,092,000) 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 then joint controlling shareholder of Mianyang Xincheng.
- (c) Contribution from a shareholder represents the fair value adjustments on shares awarded from Lead In Management Limited 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 2014

	Six months ended	
	30.6.2014	30.6.2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	173,957	(47,191)
INVESTING ACTIVITIES		
Interest received	3,668	7,299
Purchase of property, plant and equipment	(448,776)	(39,608)
Development cost paid capitalised in intangible assets	(47,001)	(29,810)
Withdrawal of pledged bank deposits	515,803	177,807
Placement of pledge bank deposits	(646,963)	(89,720)
Other investing cash flows	235	869
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(623,034)	26,837
FINANCING ACTIVITIES		
Interest paid	(25,450)	(8,944)
Proceeds from issuance of shares	–	626,039
Transaction costs attributable to issue of shares	–	(38,861)
New borrowings raised	570,700	143,000
Repayment of borrowings	(212,000)	(113,000)
Repayment to shareholders	–	(32,515)
Other financing cash flows	4,702	1,175
NET CASH FROM FINANCING ACTIVITIES	337,952	576,894
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(111,125)	556,540
CASH AND CASH EQUIVALENTS		
AT THE BEGINNING OF THE PERIOD	1,166,366	664,751
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, represented by bank balances and cash	1,055,241	1,221,291

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

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

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

3. REVENUE AND SEGMENT INFORMATION

Information reported to the board of directors of the Company (the "Board of Directors"), being the chief operating decision maker (the "CODM"), for the purpose of resource allocation and assessment of segment performance focuses on types of goods delivered or services provided.

Segment revenue and segment results

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

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

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

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

Revenue reported above represents revenue generated from sales of goods or service provision to external customers. There were no inter-segment sales during the six months ended 30 June 2013 and 2014.

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

Geographical information

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

4. OTHER INCOME AND GAINS

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

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

5. PROFIT BEFORE TAX

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

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

6. **TAXATION**

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

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

7. **DIVIDENDS**

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

8. **EARNINGS PER SHARE**

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

	Six months ended	
	30.6.2014	30.6.2013
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share (<i>RMB'000</i>)	<hr/> 143,418	140,693
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<hr/> 1,287,407,794	1,147,898,490
	<hr/>	<hr/>

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

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

During the current interim period, the Group acquired property, plant and equipment, other than construction in progress, amounting to approximately RMB189,298,000 (six months ended 30 June 2013: Nil) for the purpose of upgrading its manufacturing capacity of the Group.

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

During the current interim period, the Group capitalised development costs of technical know-how of new automotive engines amounting to approximately RMB47,001,000 (six months ended 30 June 2013: approximately RMB29,810,000) for the purpose of expanding its products range of gasoline and diesel engines.

10. **TRADE AND OTHER RECEIVABLES**

Trade and other receivables comprise the following:

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

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

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

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

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

11. AMOUNTS DUE FROM RELATED COMPANIES

	30.6.2014	31.12.2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Trade related:		
Huachen Group (note 1)		
Mianyang Huarui Automotive Company Limited* ("Mianyang Huarui")		
綿陽華瑞汽車有限公司	169,564	131,733
Shenyang Brilliance Power Train Machinery Co., Ltd.* ("Shenyang Brilliance")		
瀋陽華晨動力機械有限公司	369,524	416,452
Mianyang Huaxiang Machinery Manufacturing Co., Ltd*		
綿陽華祥機械製造有限公司	19,601	29,739
Huachen Automotive Group Holdings Company Limited* ("Huachen Automotive")		
華晨汽車集團控股有限公司	110,554	3,164
	<hr/>	
	669,243	581,088
	<hr/>	
Brilliance China Group (note 2)		
Shenyang XingYuanDong Automobile Component Co., Ltd.* ("XingYuanDong")		
瀋陽興遠東汽車零部件有限公司	507,967	451,072
Shenyang Brilliance JinBei Automobile Co., Ltd.*		
瀋陽華晨金杯汽車有限公司	6,618	6,121
BMW Brilliance Automotive Ltd.* ("BMW Brilliance")		
華晨寶馬汽車有限公司	33,303	-
	<hr/>	
	547,888	457,193
	<hr/>	
Wuliangye Group (note 3)		
Mianyang Xinhua Internal Combustion Engine Joint-Stock Company Limited*		
("Xinhua Combustion Engine")		
綿陽新華內燃機股份有限公司	56,801	18,024
Mianyang Jianmen Real Estate Development and Construction Limited Liability Company*		
("Mianyang Jianmen RE")		
綿陽劍門房地產開發建設有限責任公司	-	8
	<hr/>	
	56,801	18,032
	<hr/>	
Dongfeng JV		
Changzhou Dongfeng Xinchun Engine Co., Ltd.*		
常州東風新晨動力機械有限公司	26,665	56,148
	<hr/>	
	1,300,597	1,112,461
	<hr/>	

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

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

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

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

Notes:

- 1 Huachen Automotive Group Holdings Company Limited* 華晨汽車集團控股有限公司 ("Huachen", Huachen and its subsidiaries collectively referred to as "Huachen Group")
- 2 Brilliance China Automotive Holdings Limited* 華晨中國汽車控股有限公司 ("Brilliance China", Brilliance China and its subsidiaries collectively referred to as "Brilliance China Group")
- 3 Sichuan Province Yibin Wuliangye Group Co., Ltd.* 四川省宜賓五糧液集團有限公司 ("Wuliangye", Wuliangye and its subsidiaries collectively referred to as "Wuliangye Group")

* *English name for reference only*

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

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

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

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

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

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

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

12. LOAN TO A SHAREHOLDER/LOANS FROM SHAREHOLDERS

In prior years, the Company set up a share incentive scheme under two separate trust arrangements for the purpose of entitling any beneficiary identified by Lead In Management Limited ("Lead In") as a trustee of the trusts to subscribe for the shares of the Company for their services to the Group. Under two separate loan agreements both dated 18 October 2012 entered into between the Company (as borrower) and its two shareholders (as lenders), namely Brilliance Investment Holdings Limited and Xinhua Investment Holdings Limited, a loan of HK\$20,000,000 was made by each of them (both collectively referred to as "loans from shareholders"). The Company lent the aggregate amount of HK\$40,000,000 to Lead In and part of which was used by Lead In to subscribe for 36,977,960 shares of the Company under the discretionary trust detailed in Note 21.

All the loans are non-trade related, unsecured, interest-free and will be repayable by October 2014 pursuant to an extended loan agreement entered into in October 2013.

The Company repaid the loans from shareholders during the period ended 30 June 2013.

During the period ended 30 June 2014, Lead In partially repaid the Company of approximately RMB2,557,000 (HK\$3,228,000) upon subscription of 2,984,575 shares held by Lead In under discretionary trust by a third party. Details of which are set out in Note 21.

13. TRADE AND OTHER PAYABLES

Trade and other payables comprise the following:

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

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

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

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

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

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

14. AMOUNTS DUE TO RELATED COMPANIES

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

* English name for reference only

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

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

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

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

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

	30.6.2014 <i>RMB'000</i> (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
Within 3 months	40,747	11,937
Over 3 months but within 6 months	32,596	22,574
	<hr/> 73,343	<hr/> 34,511

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. BORROWINGS

During the current interim period, the Group obtained new bank borrowings amounting to approximately RMB570,700,000 (six months ended 30 June 2013: RMB143,000,000) carrying fixed interest ranging from 5.6% to 6.44% (six months ended 30 June 2013: 6.06%) per annum and are repayable throughout to June 2015. The proceeds were used to finance the acquisition and construction of new plant facilities and used for working capital and other general purposes.

16. SHARE CAPITAL

	Number of shares	Share capital HK\$
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
At date of incorporation, 1 January 2013, 30 June 2013, 1 January 2014 and 30 June 2014	8,000,000,000	80,000,000
<i>Issued and fully paid:</i>		
At 1 January 2012 and 31 December 2012	940,199,794	9,401,998
Issue of new shares on 12 March 2013	313,400,000	3,134,000
Issue of new shares on 9 April 2013	33,808,000	338,080
At 30 June 2013, 1 January 2014 and 30 June 2014 (unaudited)	1,287,407,794	12,874,078
	30.6.2014	31.12.2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Share capital presented in condensed consolidated statement of financial position	10,500	10,500

17. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payments paid under operating lease during the period:

	Six months ended	
	30.6.2014	31.12.2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Warehouse	-	50
Production facilities	2,500	1,265
Office premise	1,798	-

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

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

	30.6.2014	31.12.2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Within one year	8,597	8,313
Between second and fifth year inclusive	3,008	7,141
	11,605	15,454

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

18. OTHER COMMITMENTS

	30.6.2014 <i>RMB'000</i> (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
Capital expenditure in respect of acquisition of plant and machinery and land use rights		
– Contracted for but not provided in the condensed consolidated financial statements	41,770	114,463
– Authorised but not contracted for in the condensed consolidated financial statements	777,653	335,978
	<hr/> 819,423	<hr/> 450,441
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/> 75,000	<hr/> 75,000

19. CONTINGENT LIABILITIES

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

	30.6.2014 <i>RMB'000</i> (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
Settlement of trade and other payables	131,993	733,754
Discounted bills for raising of cash	223,668	219,079
	<hr/> 355,661	<hr/> 952,833

Maturity analysis of the outstanding endorsed and discounted bills receivable:

	30.6.2014 <i>RMB'000</i> (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
Within 3 months	89,512	345,393
Over 3 months but within 6 months	266,149	607,440
	<hr/> 355,661	<hr/> 952,833

20. RELATED PARTY DISCLOSURES

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

	Six months ended	
	30.06.2014	30.06.2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Sale of goods		
Brilliance China Group	225,837	204,275
Huachen Group	491,988	409,166
Joint venture	14,410	14,107
	732,235	627,548
Purchase of goods		
Brilliance China Group	19,597	18,075
Huachen Group	12,417	1
Wuliangye Group	68,038	56,782
	100,052	74,858
Purchase of productions lines and inventories*		
Huachen Group	394,281	-
	394,281	-
* <i>RMB37,646,000 inventories inclusive</i>		
Rental charged and auxiliary services		
Brilliance China Group	1,798	-
Huachen Group	30,440	1,265
Wuliangye Group	-	50
	32,238	1,315
Maintenance and construction cost charged		
Wuliangye Group	1,922	1,015
	1,922	1,015

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

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

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

20. RELATED PARTY DISCLOSURES (Cont'd)

Compensation of key management personnel

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

	Six months ended	
	30.06.2014	30.06.2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Short-term benefits	7,743	4,339
Post-employment benefits	17	4
	<hr/>	<hr/>
	7,760	4,343
	<hr/>	<hr/>

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

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

21. SHARE BASED PAYMENT TRANSACTION

Share Incentive Scheme

During the year ended 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 "Incentive Scheme") which contains two trust arrangements, namely a fixed trust (the "Fixed Trust") and a discretionary trust (the "Discretionary Trust"). Details of the Fixed Trust and Discretionary Trust are set out in section titled "Share Incentive Scheme Established by Lead Ir" in the Group's annual financial statements for the year ended 31 December 2013.

During the six months ended 30 June 2013, no shares were offered, exercised, lapsed or forfeited under the Fixed Trust and the Discretionary Trust.

On 17 April 2014, 2,984,575 shares held under Discretionary Trust were awarded to a third party at a subscription price of HK\$1.0817 per share and exercisable for 50% each of awarded shares at the first and second anniversary from 22 April 2014, the date of acceptance by the third party. 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 traded in the Stock Exchange on the acceptance date and the subscription price, is recognised as share-based payment expense for the Group.

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 2014.

Share Option Scheme

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

During the six months ended 30 June 2014, no share options were granted under the Share Option Scheme. In addition, as of 30 June 2014, no share options under the Share Option Scheme were outstanding.

22. EVENTS AFTER THE REPORTING PERIOD

On 23 June 2014, the Group announced to acquire the entire equity interest in CMT International Logistics Group Shenyang Co., Ltd. (中床國際物流集團瀋陽有限公司), a company established in the PRC which mainly holds land and properties in Shenyang. The acquisition was completed on 15 August 2014. Details of the transaction are set out in the announcements made by the Company dated 23 June 2014 and 15 August 2014, respectively.

MANAGEMENT'S DISCUSSION & ANALYSIS

Business Review

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

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

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

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

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

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

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

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

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

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

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

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

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

Liquidity and financial resources

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

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

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

Gearing ratio

As at 30 June 2014, the Debt-to-Equity ratio of the Group, computed by dividing total liabilities by total equity attributable to the equity owners of the Company, was approximately 1.15 (31 December 2013: approximately 1.04). The increase in Debt-to-Equity ratio was mainly due to increase in bank borrowing for the purpose of financing acquisition of certain assets.

Contingent liabilities

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

Pledge of assets

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

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

Material acquisition and disposal

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

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

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

Capital commitments

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

Foreign exchange risks

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

The Group will monitor its foreign exchange risks and may consider hedging its foreign currency exposure, if and when necessary. There were no hedging transactions outstanding as at 30 June 2014.

* *English name for reference only*

Employees and Remuneration Policy

As at 30 June, 2014, the Group had approximately 1,664 employees (30 June 2013: approximately 1,005). Employee costs amounted to approximately RMB67.68 million for the six months ended 30 June 2014 (six months ended 30 June 2013: approximately RMB41.45 million). The Group will endeavor to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' remuneration is based on their performance.

Outlook

In the first half of 2014, the production and sales volume in the auto industry in the PRC continued to grow in a steady rate. In particular, the sales growth of foreign-branded passenger vehicles remained strong and outperformed that of the local-branded passenger vehicles.

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

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

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

INTERIM DIVIDEND

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

SHARE INCENTIVE SCHEME ESTABLISHED BY LEAD IN

The share incentive scheme (the “**Incentive Scheme**”) was established in 2011 before the listing of the shares of the Company (the “**Shares**”) on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) to serve as a retention tool, and to align the interests of any beneficiary (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 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 (the “**Listing Rules**”) as these arrangements do not involve the grant of options by the Company to subscribe for Shares after the listing.

The Beneficiaries who have been awarded with the Shares under the Fixed Trust have not been changed since the publication of the annual report of the Company dated 26 March 2014.

On 17 April 2014, an offer of 2,984,575 Shares under the Discretionary Trust was made by Lead In to a third party at a consideration of HK\$1.0817 per Share for the purpose of achieving a long term cooperation strategic partnership with the Company. The interests in the first 50% of the awarded Shares will be exercisable on the first anniversary of 22 April 2014 (being the date of acceptance by the third party) and the interests in the remaining 50% will be exercisable on the second anniversary of 22 April 2014.

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 2014 and no expenses were recognized by the Group for the period under review (six months ended 30 June 2013: nil).

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

As at 30 June 2014, 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 ⁽⁷⁾
Brilliance Investment Holdings Limited	Beneficial owner	400,000,000	31.07%
Brilliance China Automotive Holdings Limited ⁽¹⁾	Interest in a controlled corporation	400,000,000	31.07%
Huachen Automotive Group Holdings Company Limited ⁽²⁾	Interest in a controlled corporation	400,000,000	31.07%
Xinhua Investment Holdings Limited	Beneficial owner	400,000,000	31.07%
Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited ⁽³⁾	Interest in a controlled corporation	400,000,000	31.07%
Sichuan Yibin Pushi Group Co., Ltd. ⁽⁴⁾	Interest in a controlled corporation	400,000,000	31.07%
Sichuan Province Yibin Wuliangye Group Co., Ltd. ⁽⁵⁾	Interest in a controlled corporation	400,000,000	31.07%
Lead In Management Limited ⁽⁶⁾	Trustee	71,191,090	5.52%

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) Lead In Management Limited ("**Lead In**") is a trustee of the fixed trust and discretionary trust under the Incentive Scheme and is deemed or taken to be interested in approximately 5.52% of the issued share capital of the Company.
- (7) These percentages are calculated on the basis of 1,287,407,794 Shares in issue as at 30 June 2014.

Save as disclosed herein, as at 30 June, 2014, 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 2014, 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⁽⁵⁾
Mr. Wu Xiao An (also known as Ng Siu On) ⁽¹⁾⁽⁴⁾	Beneficial owner	3,328,016 ordinary	0.25%
	Trustee and interest in a controlled corporation	71,191,090 ordinary	5.52%
Mr. Wang Yunxian ⁽²⁾⁽⁴⁾	Beneficial owner	2,588,457 ordinary	0.20%
	Trustee and interest in a controlled corporation	71,191,090 ordinary	5.52%
Mr. Li Peiqi ⁽³⁾⁽⁴⁾	Beneficial owner	2,588,457 ordinary	0.20%
	Beneficiary of a trust	34,213,130 ordinary	2.65%

Notes:

- (1) Mr. Wu Xiao An is a trustee of the Fixed Trust and the Discretionary Trust (which in aggregate hold 71,191,090 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 5.52% of the issued share capital of the Company. Mr. Wu is entitled to 4,992,025 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 71,191,090 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 5.52% of the issued share capital of the Company. Mr. Wang is entitled to 3,882,686 Shares as a Beneficiary under the Fixed Trust.
- (3) Mr. Li Peiqi is entitled to 3,882,686 Shares as a Beneficiary under the Fixed Trust which holds a total of 34,213,130 Shares for the Beneficiaries.
- (4) The Beneficiaries of the fixed trust comprise certain directors of the Company including Mr. Wu Xiao An, Mr. Wang Yunxian and Mr. Li Peiqi, 48 senior management and employees of the Group. The above directors of the Company are taken or deemed to be interested in their entitlement in the Shares held by Lead In.
- (5) These percentages are calculated on the basis of 1,287,407,794 Shares in issue as at 30 June 2014.

Save as disclosed above, as at 30 June 2014, 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 purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2014.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to achieving and maintaining the highest standards of corporate governance, consistent with the needs and requirements of the business and its shareholders. The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company has complied with all code provisions of the CG Code throughout the six months ended 30 June 2014.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2014.

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

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 2014.

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

Hong Kong, 18 August 2014