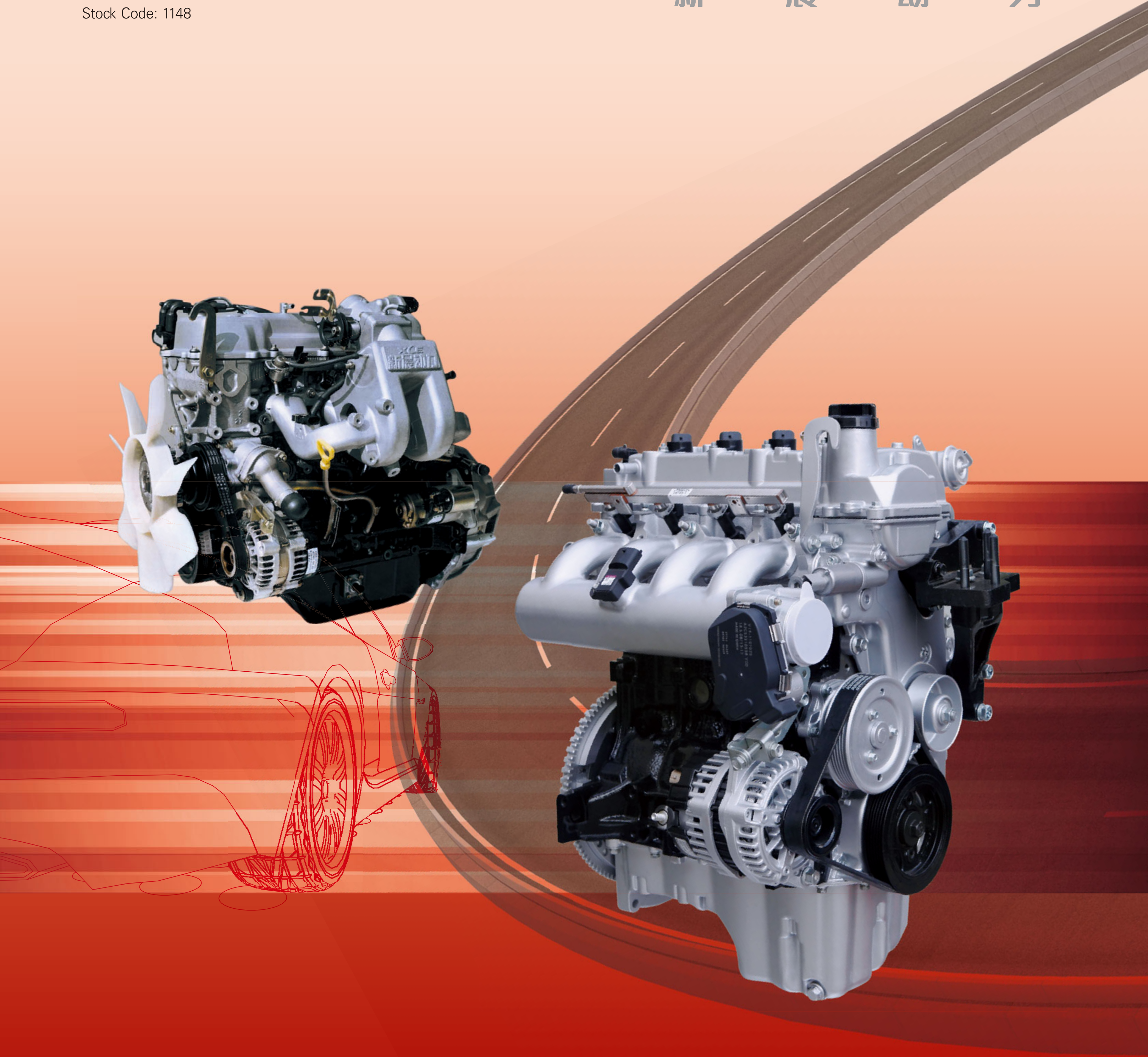
XINCHEN CHINA POWER HOLDINGS LIMITED
新晨中國動力控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1148

POWER XINCHEN
新晨动力



ANNUAL REPORT 2012

Contents

Corporate Information

BOARD OF DIRECTORS

Mr. Wu Xiao An
(also known as Mr. Ng Siu On) *(Chairman)*
Mr. Wang Yunxian *(Chief Executive Officer)*
Mr. Qi Yumin#
Mr. Li Peiqi#
Mr. Chi Guohua*
Mr. Wang Jun*
Mr. Huang Haibo*
Mr. Wang Song Lin*

\# *non-executive director*
* *independent non-executive director*

AUTHORISED REPRESENTATIVES

Mr. Wu Xiao An
Mr. Wang Yunxian

CHIEF FINANCIAL OFFICER

Mr. Xu Bingchu

COMPANY SECRETARY

Ms. Fung Sam Ming

REGISTERED OFFICE

Clifton House
75 Fort Street
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suites 1602–05
Chater House
8 Connaught Road Central
Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
35th Floor, One Pacific Place
88 Queensway
Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited,
Hong Kong Branch

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–16
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

LEGAL ADVISORS TO THE COMPANY

Appleby
Troutman Sanders

INVESTOR RELATIONS

Wonderful Sky Financial Group Holdings Limited
6th Floor, Nexxus Building
41 Connanght Road Central
Central
Hong Kong

Financial Highlights

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF XINCHEN CHINA POWER HOLDINGS LIMITED (THE "COMPANY") AND ITS SUBSIDIARIES (ALTOGETHER THE "GROUP")

(Amounts in thousands except earnings per share)

	Year Ended and as at 31st December,			
	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Statement of Comprehensive Income Data:				
Revenue	**2,572,741**	2,307,748	1,945,114	1,285,167
Profit before Income Tax Expense	**342,096**	304,639	149,822	59,511
Income Tax Expense	**(51,987)**	(44,250)	(365)	(1,234)
Profit Attributable to Owners of the Company	**290,109**	260,389	149,457	58,277
Basic Earnings per Share	**RMB0.309**	RMB0.316	RMB0.187	RMB0.073
Diluted Earnings per Share	**RMB0.309**	RMB0.316	RMB0.187	RMB0.073
Statement of Financial Position Data:				
Non-current Assets	**525,237**	398,319	318,052	287,521
Current Assets	**2,555,353**	2,365,829	1,601,674	1,224,619
Current Liabilities	**(1,717,071)**	(1,699,746)	(1,236,074)	(973,860)
Non-current Liabilities	**(41,018)**	(32,010)	(35,179)	(35,768)
Shareholders' Equity	**1,322,501**	1,032,392	648,473	502,512

Note:

The shares of the Company were listed on The Stock Exchange of Hong Kong Limited on 13th March, 2013 (the "**Listing Date**").

Chairman's Statement

Dear Honorable Shareholders,

On behalf of the board of directors, management and all staff of Xinchen, I would like to express my heartfelt gratitude to all parties for their support to our Company's development.

This is our first published annual report since our listing in March this year. In 2012, we saw a continuous growth momentum for Xinchen with total sales of RMB2,573 million, representing an increase of 11.48% as compared to 2011. Revenue from sales of gasoline engines in the amount of RMB2,059 million, revenue from sales of diesel engines in the amount of RMB470 million and revenue from sales of engine components and services in the amount of RMB43.45 million, representing an increase of 14.14%, 1.5% and 6.5% as compared to those of 2011, respectively. The Company realized a net profit of RMB290 million, up 11.54% as compared with that of last year.

The Company's leading position was further strengthened. With unremitting effort, the Company finally signed an engine assembly license agreement and related agreements with a leading European passenger vehicle manufacturer and BMW Brilliance Automotive Limited, which authorized the Company to manufacture an specific engine for that passenger vehicle manufacturer. This secures the foundation of our future growth.

Looking forward to 2013, it is expected that automotive engine industry in the PRC will continue to grow at a rate of 10% or higher. However, with increasing public awareness over energy saving and emission reduction, the automotive and engine industries will face uncertainties with respect to the regulations and rules.

Nevertheless, we are confident and delighted for the future prospects. Xinchen has successfully listed on the Main Board of the Hong Kong Stock Exchange in the first quarter. By leveraging on the opportunities arising from the listing, we aim to enhance the operation performance and efficiency through better corporate governance and incentive mechanism.

In 2013, we will continue to enhance our production capacity, product development, and the research and development ("**R&D**") build-up, as well as improving our product quality. We will fully utilize the existing product platform to increase product variety and to achieve economies of scale through consolidation. Sales force and after-sale service will be reinforced in an attempt to push sales into a new height. Meanwhile, we also consider capitalizing on our brand and capital advantages to expedite the research for upgrading our R&D and production capabilities and to carry out the feasibility studies on tapping the business of key engine spare parts segment.

We will continue to carry on the joint venture project with Dongfeng and consignment project with FAW Jinlin so as to achieve simultaneous growth in production capacity and efficiency. The project with the leading European passenger vehicle manufacturer and BMW Brilliance Automotive Limited is expected to make substantial progress.

For the new fiscal year as well as a new beginning, we are confident that under the leadership of the board of directors, Xinchen is committed to rewarding the shareholders and the public with good results in our operations.

Wu Xiao An
(also known as Ng Siu On)
Chairman
27th March, 2013

Management's Discussion & Analysis

BUSINESS REVIEW

As at 31st December, 2012, the Group achieved total annual consolidated sales of RMB2,572.7 million, representing an increase of 11.5% when compared to the corresponding period last year (RMB2,307.7 million), including revenue from sales of gasoline engines of RMB2,058.9 million, revenue from sales of diesel engines of RMB470.4 million and revenue from sales of engine components and services of RMB43.4 million, representing 80.0%, 18.3% and 1.7% of the total amount respectively.

Of all the company's engine models, the gasoline engines with displacement of 1.6L or less contribute RMB873.4 million of revenue, or 34% of the total revenue; and the gasoline engines with displacement of 1.6L–2.0L, 2.0L–2.5L, and 2.5L–3.0L contribute RMB295.3 million, RMB860.3 million and RMB29.8 million respectively, accounting for 11.5%, 33.4%, and 1.2% of the total revenue respectively. The diesel engines with displacement of 2.0L–2.5L contribute RMB470.4 million of revenue, or 18.3% of the total amount.

The annual cost of sales in 2012 amounted to RMB2,055.0 million, up by 12.2% when compared to RMB1,831.1 million recorded in the corresponding period last year, slightly exceeded the growth in revenue by 0.7%. This was mainly because the increase in sales of light-duty gasoline engines (lower than 1.6 litre) with lower profit margin increased, resulting in a decrease of 0.6% in overall profit margin (20.1% in 2012 vs 20.7% in 2011).

In 2012, we recorded other income of RMB9.862 million, representing a slight decrease when compared to RMB10.012 million in 2011, which was mainly due to the decrease in interest income after the full repayment of principal and interests owed from related companies.

The annual interest income (excluding the interest on loans to related companies) increased from last year's RMB2.257 million to RMB5.212 million in 2012, which was mainly due to an increase in net cash of the Company and the transfer from short-term demand deposit to time deposit. In addition, we issued bank notes to suppliers for payment for goods by pledging our deposit as guarantee, which resulted in an increase in interest income.

Selling and distribution expenses increased from RMB48.611 million in 2011 to RMB55.176 million in 2012, representing 2.1% and 2.1% of sales income in 2011 and 2012 respectively, which was due to an increase in revenue.

General and administrative expenses increased from RMB62.638 million in 2011 to RMB73.955 million in 2012, up by RMB11.317 million or 18.1%, which was mainly because of (i) the increased tax in respect of the Company's property and land leases accounted for 26% of the expenses as a result of the increase in related leases; (ii) the salaries of researchers and external experts increased due to the enhancement of the Company's consolidated ability of research and development, with related fees accounting for 45% of the expenses.

In 2012, finance costs amounted to RMB27.331 million, down by 27.2% when compared to RMB37.52 million of the corresponding period last year, which was attributable to the decrease in the Company's discounting cost during the year due to (i) discount rate lowered by financial institutes and (ii) a drop in discounted amount arising from the improvement of the Company's cash flow.

Other expenses in 2012 amounted to RMB29.125 million, representing a decrease of 12.3% when compared to RMB33.212 million of the corresponding period last year, which was attributable to the reduction in expenses for engineering material for research and development.

The Group's profit before tax in 2012 amounted to RMB342.096 million, representing an increase of 12.3% when compared to RMB304.639 million in 2011.

Income tax expense in 2012 amounted to RMB51.987 million, an increase of RMB7.737 million from 2011, which was the expense (net of non-deductible profits) measured based on the preferential tax rate 15% for high-tech enterprises. The Company's consolidated income tax rate was 15.2%, up by 0.7 percentage points when compared to last year's 14.5%.

As at 31st December, 2012, net earnings attributable to owners of the Group was RMB290.109 million, representing an increase of 11.4% when compared to RMB260.389 million in 2011. Basic earnings per share in 2012 was RMB0.309, representing a decrease of RMB0.007 per share when compared to RMB0.316 per share in 2011, which was due to the dilutive effect from the additional issue of shares in 2011.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2012, the Group had RMB664.8 million in cash and cash equivalents, and RMB177.8 million in pledged bank deposits. The Group had trade and other payables RMB1,337.6 million, and bank borrowings due within one year RMB195 million, but had no long-term bank borrowing outstanding as at 31st December, 2012.

CAPITAL STRUCTURE

As at 31st December, 2012, the Group's total assets was RMB3,081 million (31st December, 2011: RMB2,764 million), which was funded by the following: (1) share capital RMB7.7 million, (2) reserves RMB1,315 million, (3) debt RMB1,758 million; and the corresponding numbers as at 31st December 2011 were: RMB7.7 million, RMB1,025 million, and RMB1,732 million, respectively.

CONTINGENT LIABILITIES

During the year, the Group (i) endorsed certain bills receivable for the settlement of trade and other payables; and (ii) discounted certain bills receivable to banks for raising cash. The Group considers that the risk of 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.

PLEDGE OF ASSETS

As at 31st December, 2012, the Group pledged certain of its buildings, plant and machinery with an aggregate carrying value of approximately RMB139.4 million to certain banks to secure certain credit facilities granted to the Group.

As at 31st December, 2012, the Group also pledged bank deposits approximately RMB178 million to certain banks to secure certain credit facilities granted to the Group.

GEARING RATIO

As at 31st December, 2012, the Debt-to-Equity ratio, computed by dividing total liabilities by total equity attributable to owners of the company, was approximately 1.33 (31st December, 2011: 1.68). The decrease in the Debt-to-Equity ratio was mainly due to the increase in the reserves.

As at 31st December, 2012, the Quick ratio, computed by way of dividing current assets (deducted inventories) by current liabilities, was approximately 1.36 (31st December, 2011: 1.26). The reason for the increase in the Quick ratio was primarily that the inventory was controlled at lower level than that of one year ago (RMB215 million vs. RMB221 million), while the cash position was strengthened substantially (RMB665 million vs. RMB328 million).

NEW PRODUCT

A new model of diesel engine D20A was introduced to the market in 2012. Depending on market situation, the Group will consider introducing some new engine models to the market in the coming year.

SIGNIFICANT INVESTMENTS

During the year, the construction of the first phase production facility of Changzhou Dongfeng Xinchen Engine Co., Ltd. (Dongfeng JV) has started and a total of RMB50 million has been spent in acquiring land rights and buying machinery.

PLANS FOR CAPITAL EXPENDITURES

The Group plans a budget of RMB393.5 million in capital investments for the coming year, of which RMB166.4 million on production capacity expansion, RMB80.9 million on product development, RMB71.2 million on new R&D center, and RMB75 million on Dongfeng JV.

FOREIGN EXCHANGE RISKS

The Group considers that the effect caused by exchange rate fluctuation on the Group's financial performance is insignificant. In the future, however, the Group may consider hedging its foreign currency exposure should the need arise. As at 31st December, 2012, there were no hedging transactions outstanding.

EMPLOYEES AND REMUNERATION POLICY

As at 31st December, 2012, the Group employed approximately 1,020 employees (31st December, 2011: approximately 948). Employee costs amounted to approximately RMB76.8 million for the year ended 31st December, 2012 (31st December,2011: approximately RMB63.2 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.

Since the Company is a listed company now, it confirms that the emolument policy for the directors is recommended by the Remuneration Committee and approved by the Board, having regard to comparable market statistics.

FUTURE BUSINESS DEVELOPMENT

In the year ahead, the Group will attain good progress in its capacity expansion, research capability enhancement, and product quality and so forth. The Group will also pursue economy of scale with its enriched product portfolio on the back of the product platform currently in place. The Group will further strengthen its sales efforts and uplift its after-sales services to drive further growth in sales. Finally, the Group will also commence the research on the feasibility of those businesses involving engine key parts.

Directors, Senior Management and Company Secretary

EXECUTIVE DIRECTORS

Mr. Wu Xiao An (also known as Mr. Ng Siu On), (吳小安), aged 51, is the chairman of the Company. He was appointed as a Director on 10th March, 2011 and designated as an executive Director on 24th April, 2012. He has over 18 years of experience in the automotive industry and is primarily responsible for the overall strategic planning and business development of the Group. Since April 1998, he has been serving as a director of Southern State Investment Limited, a direct wholly-owned subsidiary of the Company. From April 1998 to September 2005, Mr. Wu had been a director of Mianyang Xinchen Engine Co., Ltd. ("**Mianyang Xinchen**"), and he was re-appointed as a director of Mianyang Xinchen in July 2011. Since February 2011, he has been a director of Brilliance Investment Holdings Limited. Since 2002, Mr. Wu has served various positions in Brilliance China Automotive Holdings Limited ("**Brilliance China**"), including the chairman of Brilliance China since June 2002, an executive director since January 1994 and vice chairman and the chief financial officer from January 1994 to June 2002. He has also been a director of Huachen Automotive Group Holdings Company Limited ("**Huachen**") since October 2002, a director of Shenyang Brilliance JinBei Automobile Co., Ltd. ("**Shenyang Jinbei**") since January 1994, and the chairman of BMW Brilliance Automotive Ltd. ("**BMW Brilliance Automotive**") since May 2003. From 1988 to 1993, he was the deputy manager of the Bank of China, New York Branch. Mr. Wu obtained a bachelor's degree of arts from Beijing Foreign Languages Institute (北京外國語學院) (now known as Beijing Foreign Studies University (北京外國語大學)) in 1985 and a master of business administration degree from Fordham University in New York in 1992.

Mr. Wang Yunxian (王運先), aged 58, is the chief executive officer of the Company. He was appointed as a Director on 10th March, 2011 and designated as an executive Director on 24th April, 2012. He has over 36 years of experience in the PRC automotive industry and is primarily responsible for the business operation of the Group. Since May 2011, he has been a director of Xinhua Investment Holdings Limited. Since 1998, Mr. Wang held various positions in Mianyang Xinchen, including a director and vice general manager from April 1998 to March 2000, a director and general manager since March 2000 and supervisor of the national enterprise technology center of Mianyang Xinchen since March 2004. Since 1976, Mr. Wang held various positions in Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited ("**Xinhua Combustion Engine**"), including director, party secretary, general manager, vice general manager, head of sales department, production supervisor and technician, and he has resigned from his positions of director and general manager in Xinhua Combustion Engine on 22nd March, 2012 and 23rd March, 2012, respectively. Since January 2005, Mr. Wang has been a director and general manager of Mianyang Huarui Automotive Company Limited. In October 2004, Mr. Wang received the special government expert allowances (engineering class) (特殊津貼(工程類)) from the State Council (國務院). In 2005, Mr. Wang received the National Model Worker Award (全國勞動模範) issued by the State Council, as well as the title of Ten Outstanding Innovative Talents of Sichuan Province (四川省十大傑出創新人才) in December 2005. He graduated from Sichuan University of Science and Technology (四川工業學院) (now merged into Xihua University (西華大學)) in July 1986, and graduated from a postgraduate course in finance from the Chinese Academy of Social Sciences (中國社會科學院) in July 1998.

NON-EXECUTIVE DIRECTORS

Mr. Qi Yumin (祁玉民), aged 53, was appointed as a Director on 16th November, 2011, and designated as a non-executive Director on 24th April, 2012. Since January 2006, Mr. Qi has served as an executive director, president and the chief executive officer of Brilliance China and as the chairman and president of Huachen since December 2005. Since 2009, he has been appointed chairman and a director of Shenyang Jinbei and two companies listed on the Shanghai Stock Exchange, namely Shenyang JinBei Automotive Company Limited (金杯汽車股份有限公司) and Shanghai Shenhua Holdings Co., Ltd. (上海申華控股股份有限公司). Mr. Qi has been a director of BMW Brilliance Automotive since November 2006. From 1982 to 2004, Mr. Qi held various positions in Dalian Heavy Industries Co., Ltd. (大連重工集團有限公司), including chairman and general manager. From October 2004 to December 2005, he was the vice mayor of Dalian municipal government. Mr. Qi graduated from Xi'an University of Technology (西安理工大學) (formerly known as Shanxi Institute of Mechanical Engineering (陝西機械學院)) Department of engineering and economics, with a major in machinery manufacturing management and engineering, in July 1982 and a master's degree in business administration from Dalian University of Technology (大連理工學院) in April 2004. He was qualified as a senior engineer (professor level) by the Personnel Department of Liaoning Province (遼寧省人事廳) in December 1992.

Mr. Li Peiqi (李培奇), aged 61, was appointed and designated as an non-executive Director on 29th August, 2012. He had been a Director from 4th July, 2011 to 24th April, 2012. Since May 2011 and October 2006, he has been serving as a director of Xinhua Investment and an executive director of Mianyang Xinchen, respectively. From 1989 to 2011, Mr. Li assumed various positions in the group of Sichuan Province Yibin Wuliangye Group Co., Ltd.. From January 2005 to November 2011, he was a director of Wuliangye. From July 2003 to September 2012, he was the chief executive officer of the Sichuan Yibin Pushi Group Co., Ltd. ("**Pushi Group**"). From May 1998 to July 2003, he served as general manager of Pushi Group. Since September 2006, he has been serving as the chairman of Xinhua Combustion Engine. Mr. Li was qualified as a senior engineer in January 2006 by the Sichuan Province Title Reform Leading Group Office (四川省職稱改革工作領導小組辦公室).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chi Guohua (池國華), aged 38, was appointed and designated as an independent non-executive Director on 22nd November, 2012. Mr. Chi is a certified public accountant (non-practicing member) in the PRC. Since March 2000, Mr. Chi has been serving as the teaching assistant, lecturer, associate professor and professor in the School of Accounting of Dongbei University of Finance and Economics (東北財經大學會計學院). Mr. Chi has been appointed as the doctoral supervisor of Financial Management Department by Dongbei University of Finance and Economics (東北財經大學) since 1st January, 2013. Since March 2010, he has been the deputy head of Internal Control Research Center of the PRC (中國內部控制研究中心). Furthermore, since April 2012, Mr. Chi has been serving as an independent director of Dalian Tianbao Green Foods Co., Ltd. (大連天寶綠色食品股份有限公司), a company listed on the Shenzhen Stock Exchange. From February 2005 to February 2006, Mr. Chi was the head of the strategic investment department of Shenyang Machine Tool (Group) Co., Ltd. (瀋陽機床(集團)有限公司); and from March 2006 to March 2007, he was the financial adviser of Shenyang Machine Tool (Group) Group Ltd. (瀋陽機床(集團)集團公司). From January 2009 to December 2010, Mr. Chi was a consultant in the Committee on Internal Control Standards of Enterprise for the Ministry of Finance of the PRC (中國財政部企業內部控制標準委員會). Mr. Chi currently also holds positions in certain academic and professional organizations, including serving as a member of the Accounting Education Committee of Accounting Society of China (中國會計會會計教育專業委員會) since 2010 and a councillor of the Finance Cost Branch of Accounting Society of China (中國會計學會財務成本分會) since August 2010. Mr. Chi was awarded Qianren-level of the "Liaoning Baiqianwan Talents Program" (遼寧省"百千萬人才工程"千人層次) in November 2007, the leading (reserve) accounting representative of the Ministry of Finance (中國財政部全國會計學術領軍(後備)人才) in October 2007, and an outstanding representative of tertiary education institution of Liaoning Province (遼寧省高等學校優秀人才) in August 2007. Mr. Chi obtained a post doctorate in Business Administration from the Xiamen University (廈門大學) in January 2008 and a doctorate in management (accounting studies) from Dongbei University of Finance and Economics (東北財經大學) in April 2005.

Mr. Wang Jun (王雋), aged 51, was appointed as an independent non-executive Director on 24th April, 2012. Mr. Wang has over 22 years of experience in the legal field, especially in corporate compliance operation, risk control, corporate law, litigation and arbitration. Since February 2009, Mr. Wang has been practising law at the Beijing Office of Dacheng Law Offices (北京市大成律師務所). From April 2000 to February 2009, he practised law at the Beijing Jian Yuan Law Offices (北京市建元律師務所). From September 1987 to March 2000, he was employed by China University of Petroleum (中國石油大學) as a teacher. From September 1983 to September 1985, he served as the cadre of the Railway Transport High Court (鐵路運輸高級法院). Mr. Wang obtained a postgraduate degree in economic law in July 1987 and a bachelor's degree in law from the department of law in July 1983, both from the China University of Political Science and Law (中國政法大學).

Mr. Huang Haibo (黃海波), aged 58, was appointed as a Director on 30th November, 2011, and designated as an independent non-executive Director on 24th April, 2012. Mr. Huang has spent over 28 years researching and applying his expertise in automotives technology. Since July 2008, he has served as the independent non-executive director of Hunan Jiangnan Red Arrow Co. Ltd. (湖南江南紅箭股份有限公司), a company listed on the Shenzhen Stock Exchange. From January 2004 to April 2012, he has held the position of the dean of the Transport and Automotives Engineering School in Xihua University (西華大學). He is also the president of the Chengdu Automotive Engineering Society (成都市汽車工程學會) since May 2002, the chairman of the Sichuan Xihua Vehicle Authentication Institution (四川西華機動車司法鑑定所) since August 2005 and a member of National Technical Committee on Operating Safe Technology and Testing Equipment of Motor Vehicles and of Standardization Administration of China (全國機動車運行安全技術檢測設備準化技術委員會) since June 2008. Mr. Huang has extensive experience in the areas of alternative fuel engines and controlled emissions, and has been recruited to lead certain government-funded research projects. He was awarded by People's Government of the Sichuan Province (四川省人民政府) two second-class Technology Progress Awards in 2007 and 2011, respectively, and three third-class Technology Progress Awards in 1989, 2006 and 2009, respectively. Mr. Huang published two books, and about 80 theses. He graduated from Chengdu Institute of Agriculture and Machinery (成都農業機械學院) (now merged into Xihua University (西華大學)) in July 1977 and received a master's degree in Beijing Institute of Agricultural Mechanization (北京農業機械化學院) (now merged into China Agriculture University (中國農業大學)) in December 1983 and a doctorate degree in Sichuan University (四川大學) in December 2004. Mr. Huang was awarded the qualification of professor by the Title Reform Leading Group of the Sichuan Province (四川省職稱改革工作領導小組) in December 1999, and was qualified as a judicial forensic authenticator by the Sichuan Judiciary in August 2005.

Mr. Wang Songlin (王松林), aged 61, was appointed as an independent non-executive Director on 24th April, 2012. Mr. Wang has over 33 years of experience in the PRC automotive industry. From 2000 to 2011, May 2005 to March 2011, August 2007 to March 2012, and July 2009 to September 2010, Mr. Wang had been serving as the chairman of each of Beijing Zhongqi Jingtian Auto Trading Co., Ltd. (北京中汽京田汽車貿易有限公司), Beijing Guoji Longsheng Automobile Co., Ltd. (北京國機隆盛汽車有限公司), Beijing Guoji Fengsheng Automobile Co., Ltd. (北京國機豐盛汽車有限公司) and Changsha Qidian Automotive Products Co., Ltd. (長沙汽電汽車零部件有限公司), respectively. Mr. Wang served as the deputy chief executive officer of China National Automotive Industry Corporation (中國汽車工業總公司) and the vice president of China National Machinery Industry Corporation (中國機械工業集團有限公司). He is also currently a director of Sinomach Automobile Co., Ltd. (國機汽車股份有限公司), a company listed on the Shanghai Stock Exchange. From June 2005 to April 2012, he served as a non-executive director of Guangzhou Automobile Group Co., Ltd. (廣州汽車集團股份有限公司), a company listed on the Stock Exchange. From June 2004 to December 2011, Mr. Wang served as the deputy general manager of China National Machinery Industry Corporation (中國機械工業集團有限公司). From August 1998 to June 2000, he was the party secretary and deputy general manager of China National Automotive Industry Import and Export Corporation (中國汽車工業進出口總公司). He is currently the vice president of China Association of Automobile Manufacturers (中國汽車工業協會), and the vice chairman of each of the Seventh Standing Council of the Society of Automotive Engineers of China (中國汽車工程學會第七屆常務理事會) and the Council of China Auto Talents Society (中國汽車人才研究會理事會). Mr. Wang obtained a professional graduation certificate in casting technology and equipment from Harbin Institute of Technology (中國汽車人才研究會理事會) in September 1978 and a postgraduate diploma in a master's course of technology and economics from Harbin Institute of Technology (哈爾濱工業大學) in April 1995.

SENIOR MANAGEMENT

Mr. Xu Bingchu (徐炳初), aged 52, is the chief financial officer and the chief financial officer of Mianyang Xinchen. Mr. Xu has over 29 years of experience in financial management and is primarily responsible for financial management of our Group. Since April 2009, he has served as the chief financial officer of Mianyang Huarui, and since May 2002, he has been the chief financial officer of Mianyang Xinchen and Mianyang Ruian. From May 2002 to July 2002, he was the chief financial officer of Xinhua Combustion Engine. From November 2000 to May 2002, Mr. Xu was the chief financial officer's assistant and the manager of finance department of Mianyang Xinchen and Mianyang Ruian concurrently. Prior to that, from September 1982 to October 2000, he assumed various positions in China State Shipbuilding Corporation (中國船舶工業總公司), including head of the financial department and financial supervisor. Mr. Xu graduated from the Shanghai Maritime University (上海海事大學) (formerly known as Shanghai Harbor College (上海港灣專科學校)) in 1982, and obtained a master's degree in financial management from Chinese Academy of Social Sciences in July 1998.

COMPANY SECRETARY

Ms. Fung Sam Ming (馮心明), is the company secretary. Ms. Fung is an associate of The Institute of Chartered Secretaries and Administrators. Ms. Fung graduated from The University of Buckingham in the United Kingdom with a Bachelor of Science (Honors) degree in Business Studies. Ms. Fung has broad experience in company secretarial and worked as company secretary, assistant company secretary and company secretarial manager for various listed companies in Hong Kong prior to joining the Company.

Report of Directors

The directors of the Company present this report together with the audited financial statements of the Group for the year ended 31st December, 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its indirect wholly-owned subsidiary, Mianyang Xinchen Engine Co., Ltd. ("**Mianyang Xinchen**"), are design, manufacture, sales and after-sales services of automotive engines in the PRC.

The listing of and the permission to deal in the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") commenced on 13th March, 2013 (the "**Listing**"). The prospectus in relation to the Listing was published on the website of the Stock Exchange and of the Company on 28th February, 2013.

FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2012 are set out in the consolidated statement of comprehensive income of the Group on page 36.

CASH FLOW POSITION

The cash flow position of the Group for the year ended 31st December, 2012 is set out and analysed in the consolidated statement of cash flows on pages 40 to 41 to the consolidated financial statements.

DIVIDEND

The directors did not recommend the payment of any dividend in respect of the year ended 31st December, 2012 (2011: Nil).

CLOSURE OF REGISTER OF MEMBERS

The Company's forthcoming annual general meeting will be held at 9:00 a.m. on Thursday, 23rd May, 2013.

The Hong Kong branch register of members of the Company will be closed from Tuesday, 21st May, 2013 to Thursday, 23rd May, 2013, both dates inclusive, during which period no transfer of shares will be registered. Only shareholders of the Company whose names appear on the register of members of the Company on Thursday, 23rd May, 2013 or their proxies or duly authorised corporate representatives are entitled to attend the annual general meeting. In order to qualify for attending the annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 20th May, 2013.

FOUR-YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past four financial years is set out on page 3.

DISTRIBUTABLE RESERVES

There is no distributable reserves of the Company as at 31st December, 2012.

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 39.

PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment of the Group for the year ended 31st December, 2012 are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital as of 31st December, 2012 are set out in note 29 to the financial statements.

SHARE INCENTIVE SCHEME ESTABLISHED BY LEAD IN

The share incentive scheme (the "**Incentive Scheme**") was established in 2011 before the Listing to serve as a retention tool, and to align the interests of certain directors, management, employees and relevant personnel of the Group (the "**Beneficiaries**") with that of the Company. Lead In Management Limited ("**Lead In**") was incorporated for the purpose of holding the shares of the Company on trust for the Beneficiaries pursuant to the Incentive Scheme.

Lead In was incorporated in the British Virgin Islands on 18th May, 2011 and 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. On 31st October, 2011, Lead In subscribed for 93,999,794 shares of the Company, representing approximately 9.998% of the then enlarged issued share capital of the Company (before completion of the Listing) at a consideration of HK$101,681,967.73, which was determined based on a valuation report of Mianyang Xinchen carried out by an independent valuer. 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 ("**Listing Rules**") as these arrangements will not involve the grant of options by the Company to subscribe for shares after the Listing.

A summary of the Beneficiaries who have been awarded with shares of the Company under the Fixed Trust is set out below:

Name of Beneficiary		Total consideration paid	Number of shares awarded	Approximate percentage of issued share capital of the Company (Note)
Directors of the Company:				
Mr. Wu Xiao An		HK$9,000,000	8,320,041	0.64%
Mr. Wang Yunxian		HK$7,000,000	6,471,143	0.50%
Mr. Li Peiqi		HK$7,000,000	6,471,143	0.50%
Director of Mianyang Xinchen:				
Mr. Zhang Zitao		HK$1,432,000	1,323,810	0.10%
Senior Management:				
Mr. He Xuzong		HK$3,300,000	3,050,681	0.23%
Mr. Song Ning		HK$2,100,000	1,941,342	0.15%
Mr. Lai Yong		HK$2,850,000	2,634,679	0.20%
Mr. Ma Li		HK$2,300,000	2,126,232	0.16%
Mr. Xu Bingchu		HK$3,350,000	3,096,904	0.24%
42 other employees		HK$23,350,000	21,585,859	1.67%
	Total:	HK$61,682,000	57,021,834	4.42%

Note: These percentages are calculated on the basis of 1,287,407,794 shares in issue immediately after completion of the Listing.

Except for Mr. Wu Xiao An, Mr. Wang Yunxian, Mr. Li Peiqi and Mr. Zhang Zitao, none of the Beneficiaries under the Fixed Trust is a connected person of the Group as defined in the Listing Rules.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 25th April, 2012, which was amended and restated on 8th February, 2013 (the "**Share Option Scheme**"). Pursuant to the Share Option Scheme, the directors of the Company may, at their absolute discretion, invite the following persons to take up options to subscribe for ordinary shares with a par value of HK$0.01 each (the "**Shares**") of the Company: (a) any eligible employee as defined in the Share Option Scheme; (b) any director (including executive, non-executive and independent non-executive directors) of the Company, any of its subsidiaries or any entity in which the Group holds any equity interest (the "**Invested Entity**"); (c) any supplier of goods or services to any member of the Group or any Invested Entity; (d) any customer of the Group or any Invested Entity; (e) any person or entity acting in their capacities as advisers or consultants that provides research, development or other technological support to the Group or any Invested Entity; (f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; (g) any other group or classes of participants from time to time determined by the directors of the Company as having contributed or may contribute to the development and growth of the Group and any Invested Entity; and (h) options may also be granted to any company wholly-owned by one or more persons belonging to any of the above classes of participants or any discretionary object of a participant which is a discretionary trust.

A consideration of HK$1.00 is payable on acceptance of the offer of grant of an option.

The maximum number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Company) to be granted under the Share Option Scheme and any other share option scheme of the Company must not in aggregate exceed 125,359,979 Shares, being 10% of the shares in issue immediately after completion of the Listing.

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Company (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of options in excess of the 1% limit shall be subject to shareholders' approval in general meeting with such participant and his associates abstaining from voting.

The subscription price per Share under the Share Option Scheme shall be a price determined by the directors of the Company, but shall not be lower than the higher of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a trading day; (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (c) the nominal value of a Share.

The Share Option Scheme will remain in force for a period of 10 years from the Listing. The period during which an option may be exercised will be determined by the directors of the Company in 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 year ended 31st December, 2012 and no expenses were recognized by the Group for 2012 (2011: nil).

DIRECTORS

The directors of the Company who held office during the year ended 31st December, 2012 and up to the date of this annual report are:

Executive directors:

Mr. Wu Xiao An *(Chairman)*
Mr. Wang Yunxian *(Chief Executive Officer)*

Non-executive directors:

Mr. Qi Yumin	
Mr. Li Peiqi	(resigned on 24th April, 2012 and re-appointed on 29th August, 2012)
Mr. Tan Chengxu	(resigned on 24th April, 2012)
Mr. Tang Qiao	(resigned on 29th August, 2012)

Independent non-executive directors:

Mr. Chi Guohua	(appointed on 22nd November,2012)
Mr. Wang Jun	
Mr. Huang Haibo	
Mr. Wang Songlin	
Mr. Yu Yangqi	(resigned on 19th November, 2012)

Pursuant to Article 108 of the Articles of Association of the Company and code provision A.4.2 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules, all of the directors of the Company will retire by rotation at the annual general meeting of the Company to be held on 23rd May, 2013.

All of the directors of the Company, being eligible, will offer themselves for re-election and the board of directors of the Company (the "**Board**") has recommended them for re-election at the forthcoming annual general meeting of the Company.

Details of the directors of the Company standing for re-election at the forthcoming annual general meeting are set out in the circular sent to the shareholders of the Company together with this annual report.

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

As at 31st December, 2012, so far as is known to the directors or chief executives of the Company, the following persons other than a director or chief executive of the Company had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (the "**SFO**"):

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

Notes:

(1) Brilliance Investment Holdings Limited ("**Brilliance Investment**") is wholly-owned by Brilliance China Automotive Holdings Limited ("**Brilliance China**") as at the date of this annual report and Brilliance China is deemed or taken to be interested in approximately 31.07% of the issued share capital of the Company in which Brilliance Investment is interested.

(2) Brilliance China is owned as to approximately 42.48% by Huachen Automotive Group Holdings Company Limited ("**Huachen**") as at the date of this annual report and Huachen is deemed or taken to be interested in approximately 31.07% of the issued share capital of the Company in which Brilliance Investment is interested.

(3) Xinhua Investment Holdings Limited ("**Xinhua Investment**") is a direct wholly-owned subsidiary of Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited ("**Xinhua Combustion Engine**") as at the date of this annual report and Xinhua Combustion Engine is deemed or taken to be interested in approximately 31.07% of the issued share capital of the Company in which Xinhua Investment is interested.

(4) Xinhua Combustion Engine is a direct non wholly-owned subsidiary of Sichuan Yibin Pushi Group Co., Ltd. ("**Pushi Group**") as at the date of this annual report and Pushi Group is deemed or taken to be interested in approximately 31.07% of the issued share capital of the Company in which Xinhua Investment is interested.

(5) Pushi Group is a direct wholly-owned subsidiary of Sichuan Province Yibin Wuliangye Group Co., Ltd. ("**Wuliangye**") as at the date of this annual report and Wuliangye is deemed or taken to be interested in approximately 31.07% of the issued share capital of the Company in which Xinhua Investment is interested.

(6) Lead In Management Limited ("**Lead In**") is a trustee of the fixed trust and discretionary trust under the Incentive Scheme and is deemed or taken to be interested in approximately 7.30% of the issued share capital of the Company.

(7) Mr. Wu Xiao An is a trustee of the fixed trust and the discretionary trust under the Incentive Scheme and holds 50% interests in Lead In. Mr. Wu Xiao An is also the beneficial owner of 8,320,041 Shares, representing approximately 0.64% of the issued share capital of the Company, held under the fixed trust. Mr. Wu Xiao An is deemed or taken to be interested in approximately 7.30% of the issued share capital of the Company.

(8) Mr. Wang Yunxian is a trustee of the fixed trust and the discretionary trust under the Incentive Scheme and holds 50% interests in Lead In. Mr. Wang Yunxian is also the beneficial owner of 6,471,143 Shares, representing approximately 0.50% of the issued share capital of the Company, held under the fixed trust. Mr. Wang Yunxian is deemed or taken to be interested in approximately 7.30% of the issued share capital of the Company.

(9) These percentages are calculated on the basis of 1,287,407,794 Shares in issue as at the date of this annual report..

Save as disclosed herein, as at 31st December, 2012, there was no other person so far known to the directors or chief executives of the Company, other than a director or chief executive of the Company as having an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31st December, 2012, the interests and short positions of each director and chief executive of the Company and their respective associates in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange, are set out below:

Interest in the shares of the Company

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

Notes:

(1) Mr. Wu Xiao An is a trustee of the fixed trust and the discretionary trust under the Incentive Scheme and holds 50% interests in Lead In. Mr. Wu Xiao An is also the beneficial owner of 8,320,041 Shares, representing approximately 0.64% of the issued share capital of the Company, held under the fixed trust. Mr. Wu Xiao An is deemed or taken to be interested in approximately 7.30% of the issued share capital of the Company.

(2) Mr. Wang Yunxian is a trustee of the fixed trust and the discretionary trust under the Incentive Scheme and holds 50% interests in Lead In. Mr. Wang Yunxian is also the beneficial owner of 6,471,143 Shares, representing approximately 0.50% of the issued share capital of the Company, held under the fixed trust. Mr. Wang Yunxian is deemed or taken to be interested in approximately 7.30% of the issued share capital of the Company.

(3) The beneficiaries of the fixed trust comprise certain directors of the Company including Mr. Wu Xiao An, Mr. Wang Yunxian and Mr. Li Peiqi, 48 senior management and employees of the Group. The above directors of the Company are taken or deemed to be interested in their entitlement in the Shares held by Lead In.

(4) These percentages are calculated on the basis of 1,287,407,794 Shares in issue as at the date of this annual report.

Save as disclosed above, as at 31st December, 2012, none of the directors and chief executives of the Company or their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year ended 31st December, 2012 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate; and none of the directors of the Company, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries or associates was a party and in which any director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company has entered into a service agreement with the Company on 26th February, 2013 (as supplemented by a second service agreement on 1 April 2013) for a term of three years commencing from the Listing Date, and such service agreements may be terminated in accordance with the terms of the service agreements.

Each of the non-executive directors and independent non-executive directors of the Company was appointed to the Board pursuant to their respective letters of appointment dated 26th February, 2013, for an initial term of three year commencing from the Listing Date, and such appointment may be terminated in accordance with the terms of the letters of appointment.

Saved as disclosed herein, no director of the Company proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with members of the Group that is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

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

The shares of the Company were listed on the Stock Exchange on the Listing Date. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities in 2012.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of Cayman Islands which oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

In 2012, the aggregate sales attributable to the Group's five largest customers represented approximately 78.5% of the Group's total turnover while the sales attributable to the Group's largest customer was approximately 25.4% of the Group's total turnover. The aggregate purchases attributable to the Group's five largest suppliers during the year represented approximately 31.9% of the Group's total purchases and the purchases attributable to the Group's largest supplier represented approximately 9.0% of the Group's total purchases.

None of the directors of the Company, their associates or any shareholders of the Company, which to the knowledge of the directors of the Company, owns more than 5% of the Company's issued share capital, has any interests in the share capital of any of the above five largest customers or suppliers of the Group.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the date of this annual report, the Company maintains the prescribed percentage of public float under the Listing Rules.

UNDERTAKING FROM HUACHEN AND BRILLIANCE AND DEED OF NON-COMPETITION

Each of Huachen and Brilliance China entered into a deed of undertaking in favour of the Company (the "**First Huachen and Brilliance China Undertaking**") on 25th February, 2013 pursuant to which each of Huachen and Brilliance China has undertaken to the Company that it will procure its respective subsidiaries (i) to first purchase products from the Group if the products offered by the Group and Shenyang Xinguang Brilliance Automobile Engine Co., Ltd. ("**Shenyang Xinguang Brilliance**") are of similar quality, specifications and price; and (ii) to maintain or increase the purchases of the products mentioned in (i) above from the Group going forward. Shenyang Xinguang Brilliance is owned as to 50% by Brilliance China and 50% by China Aerospace Motors Co., Ltd.

Each of Huachen and Brilliance China entered into a deed of undertaking in favour of the Company (the "**Second Huachen and Brilliance China Undertaking**") on 25th February, 2013 pursuant to which each of Huachen and Brilliance China has undertaken to the Company that it shall abstain from voting in the event that there are discussions on matters that involve both Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd. ("**Aerospace Mitsubishi**") and the Group during Aerospace Mitsubishi's board meetings and that it will procure its respective subsidiaries (i) to first purchase products from the Group if the products offered by the Group and Aerospace Mitsubishi are of similar quality, specifications and price; and (ii) to maintain or increase the purchases of the products mentioned in (i) above from the Group going forward. Brilliance China has an effective equity interest of 14.43% in Aerospace Mitsubishi.

On 25th February, 2013, Brilliance Investment, Brilliance China, Xinhua Investment, Xinhua Combustion Engine, Pushi Group and Wuliangye (collectively the "**Controlling Shareholders**") and Huachen entered into a deed of non-competition (the "**Deed of Non-competition**") in favour of the Company, pursuant to which each of the Controlling Shareholders and Huachen has undertaken and covenanted with the Company that it would not, directly or indirectly, carry on, participate or be interested or engaged in any business activity which competes or is likely to compete with the business of the Group.

An annual declaration was received from each of the Controlling Shareholders and Huachen on compliance with each of their respective undertaking under the Deed of Non-competition

The directors of the Company (including the independent non-executive directors) have reviewed the compliance with the Deed of Non-competition by the Controlling Shareholders and Huachen, the First Huachen and Brilliance China Undertaking and the Second Huachen and Brilliance China Undertaking by Huachen and Brilliance China and confirmed that they are fully complied and duly enforced since the Listing Date.

An amount bearing interest at 3% per annum and repayable in October 2013 and secured by all assets of Xinhua Investment was due from Xinhua Investment to Brilliance China.

CONTINUING CONNECTED TRANSACTIONS

In 2012, the Group entered into various transactions which constituted continuing connected transactions under Chapter 14A of the Listing Rules and are continuing after the Listing. All the continuing connected transactions during the year that need to be disclosed herein are in compliance with the Listing Rules. The actual monetary value of the continuing connected transactions of the Group for the financial year ended 31st December, 2012 is set out below:

	Connected Person	Nature of Transaction	Actual monetary value for the financial year ended 31st December, 2012 RMB'000
Exempt continuing connected transactions			
1.	Xinhua Combustion Engine	License of trademark to Mianyang Xinchen from Xinhua Combustion Engine	–
2.	Xinhua Combustion Engine	Sale of our engine components to Xinhua Combustion Engine	233
3.	Xinhua Combustion Engine	Procurement of equipment maintenance and repair services from Xinhua Combustion Engine	484
4.	Mianyang Huarui	Procurement of engine components from Mianyang Huarui	10
Continuing connected transactions exempt from the independent shareholders' approval requirements			
5.	Mianyang Ruian	Purchase of engine components from Mianyang Ruian	48,939
6.	Mianyang Jianmen Real Estate	Procurement of construction and building maintenance services from Mianyang Jianmen Real Estate	6,846
Non-exempt continuing connected transactions			
A.	***Transactions with Brilliance China Group***		
7.	Shenyang Jinbei and Xing Yuan Dong	Sale of our engines and engine components to Shenyang Jinbei, and our engines to Xing Yuan Dong	500,065
B.	***Transactions with Wuliangye Group***		
8.	Sichuan Pushi and Xinhua Combustion Engine	Purchase of crankshafts from Sichuan Pushi, and engine components from Xinhua Combustion Engine	154,283
C.	***Transactions with Wuliangye Group***		
9.	Huachen, Mianyang Huarui, Mianyang Huaxiang and Shenyang Brilliance Power	Sale of our engines and engine components to Huachen, Mianyang Huarui, Mianyang Huaxiang, and sale of our engines to Shenyang Brilliance Power	654,409

Further information on transactions 5 to 9 are provided as follows:

Transaction 5: Mianyang Brilliance Ruian Automotive Components Co., Ltd. ("**Mianyang Ruian**") is a wholly-owned subsidiary of Brilliance China, a substantial shareholder of the Company. The principal business activities of Mianyang Ruian include (i) the resale of automotive engines purchased from the Group to subsidiaries of Brilliance China; and (ii) the manufacture and sale of engine components to the Group and third parties. The engine components purchased by the Group from Mianyang Ruian are either for the production of the Group's products or sold by the Group to its customers, including but not limited to Brilliance China Group, for repair and maintenance of the Group's products.

On 25th February, 2013, the Company entered into a purchase agreement with Brilliance China (the "**Brilliance China Purchase Agreement**"), pursuant to which the Company will continue to purchase various types of engine components from Brilliance China group companies for an initial period commencing from the Listing Date until 31st December, 2015. Unless such agreement is terminated prior to its expiry date, the Brilliance China Purchase Agreement is renewable for additional terms of three years.

It is expected that our total purchases from Mianyang Ruian for the three years ending 31st December, 2015 will not exceed RMB55.8 million, RMB65.6 million and RMB78.0 million respectively.

Transaction 6: Mianyang Jianmen Real Estate Development and Construction Co., Ltd. ("**Mianyang Jianmen Real Estate**") is a wholly-owned subsidiary of Xinhua Combustion Engine, a substantial shareholder of the Company, the ultimate holding company of which is Wuliangye. The principal business activities of Mianyang Jianmen Real Estate are development of real estate and civil construction and services.

The Group procured construction services for the real properties at its production site, including roads and walls, as well as the maintenance of the same from Mianyang Jianmen Real Estate. Commencing from 2012, the Company has also been procuring from Mianyang Jianmen Real Estate construction and maintenance services in respect of its real properties at the Company's new production site in the Mianyang High-Tech Development Zone in Sichuan Province.

On 25th February, 2013, the Company entered into a procurement framework agreement with Wuliangye (the "**Wuliangye Procurement Agreement**"), pursuant to which the Company agreed to procure construction and maintenance services from Wuliangye group companies for an initial period commencing from the Listing Date until 31st December, 2015. Unless such agreement is terminated prior to its expiry date, the Wuliangye Procurement Agreement is renewable for additional terms of three years.

It is expected that the total procurement from Mianyang Jianmen Real Estate for the three years ending 31st December, 2015 will not exceed RMB12.7 million, RMB10.8 million and RMB10.8 million, respectively.

Transaction 7: Shenyang Brilliance JinBei Automobile Co., Ltd. ("**Shenyang Jinbei**") is a non wholly-owned subsidiary of Brilliance China, a substantial shareholder of the Company. The principal business activities of Shenyang Jinbei include the manufacture and sale of minibuses and the provision of after-sale services. Shenyang Jinbei does not engage in the manufacture and sale of automotive engines. The automotive components produced by Shenyang Jinbei are solely for its own consumption.

Shenyang XingYuanDong Automobile Component Co., Ltd. ("**Xing Yuan Dong**") is a wholly-owned subsidiary of Brilliance China, a substantial shareholder of the Company. The principal business activities of Xing Yuan Dong include the manufacture and sale of engine components and the sale of power trains. It mainly purchases automotive engines from the Group and assembles them with additional automotive components, such as gear box, purchased from third parties and sells the end products directly to a subsidiary of Brilliance China. Mianyang Ruian, which used to purchase automotive engines from the Group and resell to the subsidiaries of Brilliance China, transferred its trading operations to Xing Yuan Dong in 2012.

On 25th February, 2013, the Company entered into a sale framework agreement with Brilliance China (the "**Brilliance China Sale Agreement**"), pursuant to which the Company agreed to sell engine components and engines to Brilliance China group companies for an initial period commencing from the Listing Date until 31st December, 2015. Unless such agreement is terminated prior to its expiry date, the Brilliance China Sale Agreement is renewable for additional terms of three years.

It is expected that the total sales to Shenyang Jinbei and Xing Yuan Dong for each of the three years ending 31st December, 2015 in aggregate will not exceed RMB501.0 million, RMB574.9 million and RMB667.6 million, respectively.

Transaction 8: Sichuan Yibin Pushi Automotive Components Co., Ltd. ("**Sichuan Pushi**") is a direct wholly-owned subsidiary of Pushi Group which owns approximately 93% of Xinhua Combustion Engine, a substantial shareholder of the Company, the ultimate holding company of which is Wuliangye. The principal business activities of Sichuan Pushi are the process and sale of automotive components and engine components. Xinhua Combustion Engine is a connected person of the Company as set out in transaction 2 above.

The Company purchased crankshafts from Sichuan Pushi and various gasoline and diesel engine components such as crankshafts, exhaust manifolds, cylinder chambers and cylinder heads from Xinhua Combustion Engine.

On 25th February, 2013, the Company entered into a purchase framework agreement with Wuliangye (the "**Wuliangye Purchase Agreement**"), pursuant to which the Company agreed to purchase various gasoline and diesel engine components such as crankshafts, exhaust manifolds, cylinder chambers and cylinder heads from Wuliangye group companies for an initial period commencing from the Listing Date until 31st December, 2015. Unless such agreement is terminated prior to its expiry date, the Wuliangye Purchase Agreement is renewable for additional terms of three years.

It is expected that the total purchases from Sichuan Pushi and Xinhua Combustion Engine for the three years ending 31st December, 2015 will not exceed RMB192.9 million, RMB231.8 million and RMB268.7 million, respectively.

Transaction 9: Huachen, which owns approximately 42.48% of Brilliance China as at the date of this annual report, is deemed as a connected person of the Company. Mianyang Huarui Automotive Company Limited ("**Mianyang Huarui**") is a wholly-owned subsidiary of Huachen. Mianyang Huaxiang Machinery Manufacturing Co., Ltd. ("**Mianyang Huaxiang**") is an indirect wholly-owned subsidiary of Huachen. Shenyang Brilliance Power Train Machinery Co., Ltd. ("**Shenyang Brilliance Power**") is a company owned as to 51% by Huachen and 49% by Brilliance China.

The Group supplied (i) our gasoline engines with less than 1.6L displacement to Shenyang Brilliance Power and Mianyang Huaxiang; (ii) 1.6L-3.0L gasoline engines to Mianyang Huarui; and (iii) 2.0-2.5L gasoline engines to Huachen. The Group also supplied engine components to Huachen, Mianyang Huarui and Mianyang Huaxiang.

On 25th February, 2013, the Company entered into a sale framework agreement with Huachen (the "**Huachen Sale Agreement**"), pursuant to which the Company agreed to sell engines and engine components to Huachen group companies for an initial period commencing from the Listing Date until 31st December, 2015. Unless such agreement is terminated prior to its expiry date, the Huachen Sale Agreement is renewable for additional terms of three years.

It is expected that the total sales to Huachen, Mianyang Huarui, Mianyang Huaxiang and Shenyang Brilliance Power for each of the three years ending 31st December, 2015 in aggregate will not exceed RMB774.1 million, RMB868.6 million and RMB1,044.3 million, respectively.

The independent non-executive directors of the Company confirmed that the above continuing connected transactions 5, 6, 7, 8 and 9 have been entered into in the ordinary and usual course of business of the Group on normal commercial terms or on terms no less favourable to the Company than those available to or from (as appropriate) independent third parties, and are fair and reasonable and in the interests of the Company and its shareholders as a whole. The independent non-executive directors of the Company further confirmed that the proposed annual caps in respect of the above continuing connected transactions 5, 6, 7, 8 and 9 as disclosed in the prospectus of the Company dated 28th February, 2013 are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The auditors of the Company have reviewed the continuing connected transactions and confirmed to the directors of the Company that the continuing connected transactions:

1. have received the approval of the directors of the Company;

2. are in accordance with the pricing policies of the Group; and

3. have been entered into in accordance with the relevant agreements governing the transactions.

Anticipated Future Continuing Connected Transactions

Pursuant to the engine assembly license agreement dated 12th December, 2012 entered into among a leading European passenger vehicle manufacturer ("**PVM**"), BMW Brilliance Automotive Ltd. ("**BMW Brilliance Automotive**") and the Company, and related agreements, the Company will procure related engine parts and components from BMW Brilliance Automotive and BMW Brilliance Automotive will provide technical consulting and advisory services to the Company. The engine assembled from such parts and components will then be supplied by the Group to Shenyang Jinbei for installation into a Jinbei multi-purpose vehicles model.

Shenyang Jinbei is a connected person of the Company as set out in transaction 7 above. BMW Brilliance Automotive is a connected person of the Company since it is an associate of Brilliance China, a substantial shareholder of the Company. The above transactions between the Company and each of Shenyang Jinbei and BMW Brilliance Automotive will constitute continuing connected transactions for the Company when each of them commences. Since the entire arrangement is preliminary at this stage, further details of each of the above transactions are yet to be finalized. As this is a tentative project the Company has undertaken with PVM, the Company is currently not able to assess the expected transaction values. The Company will however undertake to comply with all the relevant requirements under Chapter 14A of the Listing Rules as and when appropriate, including disclosure and obtain prior independent shareholders' approval if the relevant percentage threshold has been exceeded.

The above continuing connected transactions 1 to 9 are also regarded as "related party transactions" under the applicable accounting standards. Details of these transactions are further disclosed in note 36 to the consolidated financial statements of this annual report, except the sale of goods to a jointly controlled entity which did not constitute a connected transaction to the Group.

Save as disclosed above, in the opinion of the directors of the Company, there are no related party transactions in note 36 to the financial statements which constituted connected transactions or continuing connected transactions of the Group.

AUDITORS

Deloitte Touche Tohmatsu, the auditors of the Company, will retire at the conclusion of the forthcoming annual general meeting of the Company and be eligible to offer themselves for re-appointment. A resolution will be submitted to the annual general meeting to be held on 23rd May, 2013 to seek shareholders' approval on the appointment of Deloitte Touche Tohmatsu as the Company's auditors until the conclusion of the next annual general meeting and to authorise the Board to fix their remuneration.

By order of the Board

Wu Xiao An
(also known as Ng Siu On)
Chairman

Hong Kong,
27th March, 2013

Corporate Governance Report

CORPORATE GOVERNANCE

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 as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules. The corporate governance principles of the Company emphasize a quality board, sound internal controls, and transparency and accountability to all shareholders.

The Group has complied with all the code provisions from the Listing Date and up to the date of this annual report.

A. DIRECTORS

A.1 The Board

We are governed by the Board which assumes the responsibility for leadership and control of the Company. Our directors are collectively responsible for promoting the success of the Company by developing the strategic direction of the Group and directing and supervising the affairs of the Company.

The Board has a fiduciary duty and statutory responsibility towards the Group and is directly accountable to the shareholders.

The Board is responsible for the management of the business and affairs of the Group with the objective of enhancing shareholder value and presenting a balanced, clear and understandable assessment of the Company's performance, position and prospects in its annual and interim reports, other inside information announcements, other financial disclosures as required under the Listing Rules, reports to regulators, and information required to be disclosed pursuant to statutory requirements. The Board is also required to approve acquisitions or disposals that require shareholders' notification or approval under the Listing Rules.

Daily management and administration functions are delegated to the management. The responsibilities and matters reserved to the Board are set out in paragraph D below.

The Board meets regularly, normally four times each year with a meeting scheduled at approximately three-month intervals and additional meetings would be arranged if and when necessary. The dates of regular Board meetings for each year are normally made available to all directors at the beginning of the year to provide sufficient notice to give all directors an opportunity to attend. Special Board meetings will be held when necessary. Matters on transactions where directors are considered having a conflict of interest or material interests would not be dealt with by way of written resolutions and a separate Board meeting shall be held where independent non-executive directors who have no material interests should be present at the meeting. Directors having a conflict of interest or material interests in a transaction before the meeting of the Board will declare his interest therein in accordance with the Articles of Association of the Company, shall abstain from voting on the resolution and shall not be counted in the quorum present at such Board meeting. Such declaration of interests will be duly noted in the minutes of the relevant Board meeting.

Notices are given to all the directors for attending regular Board meetings approximately fourteen (14) days before the meetings. For other Board meetings, reasonable notices are generally given.

Board meetings involve the active participation, either in person or through other electronic means of communication, by all of the directors present. The company secretary assists the Chairman in preparing the meeting agenda, and each director may request the inclusion of items in the agenda. Directors are also consulted to suggest matters to be included in the agenda for all regular meetings of the Board.

Minutes of the Board meetings are recorded in detail and draft minutes are circulated within a reasonable time after the meeting to all directors for their review and comments before being approved by the Board. All the minutes of the meetings are properly kept by the company secretary and are available for inspection by the directors during normal office hours.

The Board held one formal meeting in 2012. Participation of individual directors at the Board meetings in 2012 is as follows:

Number of meetings		**1**
	Attendance by director	**Attendance Rate**
Executive directors:		
Mr. Wu Xiao An *(Chairman)*	1/1	100%
Mr. Wang Yunxian *(Chief Executive Officer)*	1/1	100%
Non-executive Directors:		
Mr. Qi Yumin	1/1	100%
Mr. Li Peiqi *(Note)*	–	–
Independent Non-executive Directors:		
Mr. Chi Guohua *(Note)*	–	–
Mr. Wang Jun	1/1	100%
Mr. Huang Haibo	1/1	100%
Mr. Wang Songlin	1/1	100%
Average attendance rate		100%

Note: The Board meeting was held prior to the appointment of Mr. Li Peiqi and Mr. Chi Guohua as director of the Company.

During 2012, apart from the meeting of the Board, consent/approval from the Board had also been obtained by written resolutions on a number of matters.

A.2 Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Company has segregated the roles of Chairman of the Board and Chief Executive Officer. Mr. Wu Xiao An is the Chairman of the Board and Mr. Wang Yunxian is the Chief Executive Officer. On 25th April, 2012, the Board adopted a set of clear guidelines (and amended and restated on 8th February, 2013) regarding the power and duties of each of the Chairman and the Chief Executive Officer.

A.3 Board composition

Currently, the Board comprises eight directors: two executive directors, two non-executive directors and four independent non-executive directors. The current composition of the Board is as follows:

	Membership of Board Committee(s)
Executive directors:	
Mr. Wu Xiao An *(Chairman)*	Member of Remuneration Committee Member of Nomination Committee
Mr. Wang Yunxian *(Chief Executive Officer)*	–
Non-executive Directors:	
Mr. Qi Yumin	–
Mr. Li Peiqi	–
Independent Non-executive Directors:	
Mr. Chi Quohua	Chairman of Audit Committee
Mr. Wang Jun	Chairman of Nomination Committee Member of Audit Committee Member of Remuneration Committee
Mr. Huang Haibo	Chairman of Remuneration Committee Member of Audit Committee Member of Nomination Committee
Mr. Wang Songlin	Member of Audit Committee Member of Remuneration Committee Member of Nomination Committee

Pursuant to the Listing Rules, every listed issuer is required to have such number of independent non-executive directors representing at least one-third of the Board, and at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. Mr. Chi Guohua is a certified public accountant (non-practicing member) in the PRC. Mr. Chi has over ten years of experience in financial, internal control and strategic investment in the PRC. He currently also holds positions in certain academic and professional organizations in the PRC.

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Board has assessed the independence of all the independent non-executive directors and considered that all the independent non-executive directors are independent.

The Board members do not have any family, financial or business relations with each other.

The biographies of our directors are set out on pages 9 to 11 of this annual report.

The list of directors has been published on the website of the Company and the website of the Stock Exchange, and is disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

A.4 Appointment, re-election and removal of directors

Code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Code provision A.4.2 of the CG Code stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Pursuant to Article 112 of the Articles of Association of the Company, a director appointed by the Board to fill a casual vacancy shall hold office until the next following general meeting while a director appointed by the Board as an addition to the Board shall hold office until the next following annual general meeting.

Each of the executive directors were appointed to the Board pursuant to their respective service agreements and each of the non-executive and independent non-executive directors was appointed to the Board pursuant to their respective letters of appointment for a term of three (3) years commencing from the Listing Date and their appointments are subject to the retirement by rotation provisions in the Articles of Association of the Company. At every annual general meeting, one-third of the directors for the time being, or if their number is not three or a multiple of three, the number nearest to but not greater than one-third, shall retire from office by rotation according to Article 108(a) of the Articles of Association of the Company. All directors of the Company are subject to the retirement by rotation provision in the Articles of Association of the Company and are subject to the retirement by rotation at least once every three years pursuant to code provision A.4.2 of the CG Code.

To comply with code provision A.4.2 of the CG Code and in accordance with Article 108 of the Articles of Association of the Company, all of the directors of the Company will retire by rotation at the forthcoming annual general meeting of the Company to be held on 23rd May, 2013 and have offered themselves for re-election at that annual general meeting.

A.5 Responsibilities of directors

Each newly appointed director is provided with a package of orientation materials setting out the required duties and responsibilities of directors under the Listing Rules and other relevant statutory requirements of Hong Kong. An orientation as to a director's duties and obligations under the Listing Rules and relevant legislations will be arranged for all newly appointed directors. Our directors are kept informed from time to time on the latest development of any changes to the regulatory requirements and the progress of compliance of applicable rules and regulations by the Company. Our directors will also be updated from time to time on the business development and operation plans of the Company.

In compliance with code provision A.6.5 of the CG Code, the Company will arrange for, and provide fund for, all the directors of the Company to participate in continuous professional development organized in the form of in-house training, seminars or other appropriate courses to keep them refresh of their knowledge, skill and understanding of the Group and its business or to update their skills and knowledge on the latest development or changes in the relevant statutes, the Listing Rules and corporate governance practices. The Company will also update the directors of any material changes in the Listing Rules and corporate governance practices from time to time. Directors are provided with reading materials summarizing the duties and responsibilities in acting as directors from time to time to keep the directors abreast of such duties and responsibilities.

The functions of non-executive directors include the functions as specified in code provision A.6.2(a) to (d) of the CG Code.

Every director is aware that he should give sufficient time and attention to the affairs of the Company.

The Company has adopted the standard set out in Appendix 10 – Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") of the Listing Rules, in relation to the dealings in securities of the Company by the directors.

Having made specific enquiry of all directors, each director of the Company has confirmed that he has complied with the standards set out in the Model Code since the Listing Date and up to the date of this annual report.

A.6 Supply of and access to information

With respect to regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying board papers are sent in full to all directors in a timely manner as permitted under the circumstances. Notices are given to all the directors for attending regular Board meetings fourteen (14) days before the meetings. For other Board meetings, reasonable notices are generally given. It has been the practice of the Board and accepted by all members of the Board that relevant information of Board meetings will be sent to all directors three (3) days in advance of the relevant meetings or any reasonable time before such meetings where it is not practicable to send out the information three (3) days in advance.

Members of the management have been reminded that they have an obligation to supply the Board and the Board committees with adequate information on a timely basis to enable each of them to make informed decisions. The Board and each director have separate and independent access to the Group's senior management.

All directors are entitled to have access to board papers, minutes and related materials.

A.7 Non-executive Directors

Pursuant to code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term and subject to re-election. Each of the non-executive directors of the Company has entered into a letter of appointment with the Company for an initial term of three years commencing from the Listing Date.

B. BOARD COMMITTEES

B.1 Nomination Committee

The Board used to follow a formal, considered and transparent procedure for the appointment of new directors to the Board. The appointment of a new director has been a collective decision of the Board, taking into consideration the candidate's qualification, expertise, experience, integrity and commitment to his/her responsibilities within the Group. In addition, all candidates to be selected and appointed as a director must be able to meet the standards set out in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an independent non-executive director must also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

The Nomination Committee of the Company was established on 25th April, 2012 with specific written terms of reference for reviewing the Board composition, developing the relevant procedures for nomination and appointment of directors and assessing the independence of the independent non-executive directors to ensure that the Board has a balance of expertise, skills and experience and formulating succession plans for executive directors and senior executives. The existing members of the Nomination Committee include Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin, all are independent non-executive directors, and Mr. Wu Xiao An, an executive director. Mr. Wang Jun is the chairman of the Nomination Committee.

During 2012, no meeting of the Nomination Committee was held.

Full minutes of the Nomination Committee meetings are kept by the company secretary. Draft and final versions of the minutes of the Nomination Committee meetings are sent to all members of the Nomination Committee for comments and approval and all decisions of the Nomination Committee are reported to the Board subject to applicable restriction.

The terms of reference of the Nomination Committee are available on the website of the Company and the website of the Stock Exchange.

B.2 Remuneration Committee

The Remuneration Committee of the Company was established on 25th April, 2012 with specific written terms of reference. The existing members of the Remuneration Committee include Mr. Huang Haibo, Mr. Wang Jun and Mr. Wang Songlin, all are independent non-executive directors, and Mr. Wu Xiao An, an executive director. Mr. Huang Haibo is the chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee are adopted with reference to the CG Code, including the specific duties set out in code provision B.1.2(a) to (h) of the CG Code.

During 2012, no meeting of the Remuneration Committee was held.

The Remuneration Committee is responsible for making recommendations to the Board regarding the Group's policy and structure for all remuneration of directors and senior management and approving the remuneration package of the individual executive directors. The Remuneration Committee is authorised to seek any information it requires from any employee of the Group and has the power to request the executive directors and other persons to attend its meetings. The Remuneration Committee is also authorised to obtain outside professional advice and to secure the attendance of other persons with relevant experience and expertise if it considers as necessary, and the Company will provide sufficient resources to the Remuneration Committee for performance of its duties.

Full minutes of the Remuneration Committee meeting are kept by the company secretary. Draft and final versions of the minutes of the Remuneration Committee meetings are sent to all members of the Remuneration Committee for comments and approval and all decisions of the Remuneration Committee are reported to the Board subject to applicable restriction.

The terms of reference of the Remuneration Committee are available on the website of the Company and the website of the Stock Exchange.

B.3 Audit Committee

The Audit Committee of the Company was established on 25th April, 2012 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants. The terms of reference of the Audit Committee include the duties set out in code provision C.3.3(a) to (n) of the CG Code. The existing members of the Audit Committee comprise 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. The Audit Committee does not have any former partner of the Group's existing audit firm as a member. The Company has adopted policy for hiring of employees and former employees of its external auditors on 25th April, 2012 to ensure judgment or independence for the audit of the Group will not be impaired.

During 2012, no meeting of the Audit Committee was held.

The principal duties of the Audit Committee include reviewing the Company's financial controls, internal controls and risk management system, annual report, accounts and half-yearly report. The Audit Committee is also authorised to obtain outside professional advice and to seek information from employees, and the Company will provide sufficient resources to the Audit Committee for performance of its duties.

Full minutes of the Audit Committee meetings are kept by the company secretary. Draft and final versions of the minutes of the Audit Committee meetings are sent to all members of the Audit Committee for comments and approval and all decisions of the Audit Committee are reported to the Board subject to applicable restriction.

The terms of reference of the Audit Committee are available on the website of the Company and the website of the Stock Exchange.

This annual report has been reviewed by the Audit Committee.

B.4 Corporate Governance Function

The Company has adopted the terms of reference for the corporate governance function on 25th April, 2012 (and amended and restated on 8th February, 2013) in compliance with code provision D.3 of the CG Code. Pursuant to the terms of reference of the corporate governance function, the Board shall be responsible for developing, reviewing and/or monitoring the policies and practices on corporate governance of the Company; training and continuous professional development of directors and senior management; and compliance with legal and regulatory requirements of the Company. This corporate governance report has been reviewed by the Board in discharge of its corporate governance function.

C. ACCOUNTABILITY AND AUDIT

C.1 Financial reporting

Management shall provide such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other matters put before the Board for approval.

The directors are responsible for overseeing all financial aspects of the Company and for keeping proper accounting records and preparing financial statements for each financial period, that give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31st December, 2012, the directors have:

– approved the adoption of all applicable Hong Kong Financial Reporting Standards which are issued by the Hong Kong Institute of Certified Public Accountants;

– selected and applied consistently appropriate accounting policies;

– made judgments and estimates that are prudent and reasonable; and

– prepared the accounts on a going concern basis.

The Board is accountable to its shareholders for a clear and balanced assessment of the Company's financial position and prospects. In this regard, the directors' responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other inside information announcements and other financial disclosures required under the Listing Rules, reports to regulators, and information required to be disclosed pursuant to statutory requirements.

Financial results of the Group are announced in a timely manner in accordance with all statutory requirements, particularly the timeframe stipulated in Rule 13.49(1) and (6) of the Listing Rules.

All directors acknowledge their responsibility for preparing the financial statements for the year ended 31st December, 2012.

Currently, the Company's external auditors are Deloitte Touche Tohmatsu (the "**Auditors**").

For the year ended 31st December, 2012, the audit and non-audit service fees paid or payable by the Company amounted to approximately HK$350,000 and HK$3,070,000, respectively, The non-audit services mainly included services performed in relation to initial public offering of the Company.

The statement of the Auditors about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on pages 34 to 35 of this annual report.

C.2 Internal controls

The Board is entrusted with an overall responsibility of devising the Company's system of internal controls and conducting an annual review of its effectiveness. This ensures that the Board oversees and monitors the Group's overall financial position so that the interests of the shareholders are well protected and covered. The system of internal controls covers the areas of financial, accounting, operational, compliance and risk management of the Group's business.

In addition, the Board and the Audit Committee have reviewed the effectiveness of the internal control system on all major operations of the Group and noted that recommendations on certain areas of improvement identified in previous years have been properly followed up and implemented. The Board and the Audit Committee will continue to improve the effectiveness of the internal control systems of the Group and to monitor the systems and the progress of improvements. The Board and the Audit Committee considered that the key areas of the Group's internal control systems are reasonably implemented and the Group has fully complied with the relevant code provisions set out in the CG Code regarding internal control system generally.

D. DELEGATION BY THE BOARD

Management functions

In general, the Board oversees the Company's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group's strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management. The Board is entrusted with the following reserved powers:

1. *Business strategy*

   - approval of strategic objectives, annual plans and performance targets for the Group;
   - approval of proposals for expansion or closures other than those which have been specifically approved in the strategic objectives and/or annual plans of the Group;
   - approval of budgets;
   - approval of performance indicators.

2. *Appointment*

   - appointment of any person as director to fill a casual vacancy or as an additional director;
   - appointment of the chairman and chief executive officer;
   - appointment of senior executives;
   - fixing of auditor's remuneration;
   - selection, appointment and dismissal of company secretary;
   - formation of board committees and approval of the membership and terms of reference of the board committees.

3. *Board and senior management*

   - delegation of authority to the chairman, chief executive officer, management and board committee(s);
   - approval of remuneration and incentive policies;
   - approval of Group benefit policies;
   - approval of remuneration of directors and senior management;
   - assessment of the performance of the Company and the Board.

4. *Relations with the shareholders*

   - arrangements for the annual general meeting and any other shareholders' meetings;
   - disclosing matters as required by the applicable law and regulations;
   - formation of shareholders' communication policy.

5. *Financial matters*

   - approval of annual accounts and directors' reports;
   - approval of accounting policies;
   - approval of any substantial change in the policies of the Company for statements of financial position management including but without limitation capital adequacy, credit, liquidity, debt maturity profile, interest rate and exchange rate risks and asset concentration both geographically and by sector;
   - approval of internal audit plan;
   - approval of internal control policy and procedures;
   - acceptance of auditor's reports including management letters;
   - declaration of interim dividends and making recommendations on final dividends.

6. *Capital expenditures*

   - approval of the capital expenditure budget;
   - approval of capital commitment, whether or not the same has been provided for in the capital expenditure budget and/or annual budget;
   - approval of priorities.

7. Any transaction that constitutes notifiable transaction or connected transaction for the Company under the Listing Rules (as amended from time to time).

8. To assess the likely impact of unexpected and significant events and other events which can affect price and market activity of the shares of the Company and to decide whether the relevant information would be price-sensitive and need to be disclosed.

9. *Risk management*

   - risk assessment and insurance;
   - risk management policies.

10. *Internal controls and reporting system*

    - approval and establishment of any effective procedures for monitoring and control of operations including internal procedures for audit and compliance.

11. Use of the company seal(s).

12. Donations and sponsorships (if any) above approved limits.

E. COMPANY SECRETARY

Ms. Fung Sam Ming, the company secretary appointed by the Board and an employee of the Company, in the opinion of the Board, possesses the necessary qualification and experience, capable of performance of the functions of the company secretary and the Company will provide fund for Ms. Fung to take not less than 15 hours of appropriate professional training in each financial year as required under Rule 3.29 of the Listing Rules.

F. COMMUNICATION WITH SHAREHOLDERS

F.1 Effective communication

The Company attaches great importance to communications with shareholders. Information on the Group's activities, business, strategies and developments is provided in the Company's annual reports and interim reports. Shareholders of the Company are encouraged to attend the annual general meetings of the Company which offer a valuable forum for dialogue and interaction with management.

In line with the practice of the Company, in respect of each matter to be considered at the annual general meetings and special general meetings, including the re-election of directors, a separate resolution will be proposed by the Chairman.

Pursuant to code provision E.1.2 set out in the CG Code, the Chairman of the Board, the chairmen of the Audit Committee, Remuneration Committee and Nomination Committee, or in their absence, another member of the relevant committee or an appointed representative, will attend the forthcoming annual general meeting to answer questions of shareholders.

Pursuant to code provision E.1.2 set out in the CG Code, the Company will invite representatives of the Auditors to attend the forthcoming annual general meeting to answer shareholders' questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

The Company has adopted a shareholders' communication policy which is available on the website of the Company.

F.2 Shareholders' Right

Pursuant to Article 64 of the Articles of Association of the Company, extraordinary general meetings shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

The Company has adopted a set of clear guidelines on procedures for shareholders to propose a person for election as a director of the Company which is available on the website of the Company. To bring it in line with the requirements of the Listing Rules, the Company will revise the guidelines to include procedures for putting forward proposals at a general meeting and procedure for directing shareholders' enquiries to the Board.

F.3 Constitutional Documents

Pursuant to a special resolution of the shareholders of the Company passed on 25th April, 2012, the amended and restated memorandum and articles of association of the Company were adopted with effect from the Listing Date. Save as disclosed above, during the year ended 31st December, 2012, there was no significant change in the memorandum and articles of association of the Company.

The amended and restated memorandum and articles of association of the Company are available on the website of the Stock Exchange and the website of the Company.

F.4 Voting by poll

At the forthcoming annual general meeting of the Company, the Chairman will provide an explanation of the procedures for conducting a poll at the commencement of the meeting. Poll results will be posted on the website of the Stock Exchange and the website of the Company on the day of the holding the meeting.

Independent Auditors' Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF
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)

We have audited the consolidated financial statements of Xinchen China Power Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 92, which comprise the consolidated and company statements of financial position as at 31st December, 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of the engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report (Cont'd)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27th March, 2013

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2012

	Notes	2012 RMB'000	2011 RMB'000
Revenue	6	**2,572,741**	2,307,748
Cost of sales		**(2,054,954)**	(1,831,140)
Gross profit		**517,787**	476,608
Other income	7	**9,862**	10,012
Selling and distribution expenses		**(55,176)**	(48,611)
General and administrative expenses		**(73,955)**	(62,638)
Finance costs	8	**(27,331)**	(37,520)
Other expenses	10	**(29,125)**	(33,212)
Share of result of a jointly controlled entity	17	**34**	–
Profit before tax		**342,096**	304,639
Income tax expense	9	**(51,987)**	(44,250)
Profit and total comprehensive income for the year attributable to owners of the Company	10	**290,109**	260,389
Earnings per share			
– Basic (RMB)	13	**0.309**	0.316

Consolidated Statement of Financial Position

As at 31st December, 2012

	Notes	**2012 RMB'000**	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**319,642**	278,262
Prepaid lease payments	15	**60,882**	62,323
Intangible assets	16	**88,153**	43,695
Investment in a jointly controlled entity	17	**49,441**	–
Deferred tax assets	28	**552**	1,030
Deposits for acquisition of property, plant and equipment and prepaid lease payments		**6,567**	13,009
		525,237	398,319
CURRENT ASSETS			
Inventories	19	**214,728**	221,202
Prepaid lease payments	15	**1,434**	1,434
Trade and other receivables	20	**660,114**	497,706
Amounts due from related companies	21	**804,004**	1,061,910
Loan to a shareholder	18	**32,515**	32,771
Pledged bank deposits	22	**177,807**	223,059
Bank balances and cash	22	**664,751**	327,747
		2,555,353	2,365,829
CURRENT LIABILITIES			
Trade and other payables	23	**1,337,637**	1,312,341
Amounts due to related companies	24	**43,067**	116,698
Loans from shareholders	18	**32,515**	32,771
Bank borrowings due within one year	25	**194,950**	163,950
Other loan	26	**4,000**	–
Other tax payables		**54,444**	43,300
Income tax payables		**50,458**	30,686
		1,717,071	1,699,746
NET CURRENT ASSETS		**838,282**	666,083
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,363,519**	1,064,402
NON-CURRENT LIABILITIES			
Other loan	26	**–**	4,000
Deferred income	27	**41,018**	28,010
		41,018	32,010
NET ASSETS		**1,322,501**	1,032,392
CAPITAL AND RESERVES			
Share capital	29	**7,693**	7,693
Reserves		**1,314,808**	1,024,699
TOTAL EQUITY		**1,322,501**	1,032,392

The consolidated financial statements on pages 36 to 92 were approved and authorized for issue by the Board of Directors on 27th March, 2013 and are signed on its behalf by:

Wu Xiao An
(Also known as **Ng Siu On**)
Director

Wang Yunxian
Director

Statement of Financial Position

As at 31st December, 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSET			
Investment in a subsidiary	40	**354,654**	354,654
CURRENT ASSETS			
Other receivables		**4,700**	3,000
Amount due from a subsidiary	21	**4**	–
Loan to a shareholder	18	**32,515**	32,771
Bank balances and cash	22	**105,831**	113,390
		143,050	149,161
CURRENT LIABILITIES			
Trade and other payables	23	**7,836**	95
Amounts due to related companies	24	**819**	826
Loans from shareholders	18	**32,515**	32,771
		41,170	33,692
NET CURRENT ASSETS		**101,880**	115,469
NET ASSETS		**456,534**	470,123
CAPITAL AND RESERVES			
Share capital	29	**7,693**	7,693
Reserves	30	**448,841**	462,430
TOTAL EQUITY		**456,534**	470,123

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2012

	Paid-in capital/ Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Surplus reserves RMB'000 *(Note a)*	Deemed distribution to a shareholder RMB'000 *(Note b)*	Retained profits RMB'000	Total RMB'000
At 1st January, 2011	200,008	–	–	113,316	(11,285)	346,434	648,473
Profit and total comprehensive income for the year	–	–	–	–	–	260,389	260,389
Arising from group reorganization *(Note c)*	(200,008)	–	200,008	–	–	–	–
Capitalization issue *(see Note 29)*	6,551	–	(6,551)	–	–	–	–
Issuance of new shares *(see Note 29)*	1,142	122,388	–	–	–	–	123,530
Transfer	–	–	–	39,070	–	(39,070)	–
At 31st December, 2011	7,693	122,388	193,457	152,386	(11,285)	567,753	1,032,392
Profit and total comprehensive income for the year	–	–	–	–	–	**290,109**	**290,109**
Transfer	–	–	–	**46,313**	–	**(46,313)**	–
At 31st December, 2012	**7,693**	**122,388**	**193,457**	**198,699**	**(11,285)**	**811,549**	**1,322,501**

Notes:

(a) Surplus reserves comprise statutory surplus reserve and discretionary surplus reserve of Mianyang Xinchen (as defined in Note 2), a major operating subsidiary of the Group and a Sino-foreign equity joint venture enterprise, which are non-distributable and the transfer to these reserves is determined according to the relevant laws in the People's Republic of China (the "PRC") and by the board of directors of Mianyang Xinchen in accordance with its Articles of Association. Statutory surplus reserve amounting to approximately RMB133,508,000 as at 31st December, 2012 (2011: RMB102,632,000), can be used to make up for previous year's losses or convert into additional capital of Mianyang Xinchen. Discretionary surplus reserve amounting to approximately RMB65,191,000 as at 31st December, 2012 (2011: RMB49,754,000), can be used to expand the existing operations of Mianyang Xinchen.

(b) Deemed distribution to a shareholder represents the fair value adjustments on interest-free loan to a subsidiary of a joint controlling shareholder of Mianyang Xinchen.

(c) Amount represents the difference between paid-in capital of Mianyang Xinchen and issued share capital of the Company arising from Group Reorganization (see Note 2).

Consolidated Statement of Cash Flows

For the year ended 31st December, 2012

	2012 RMB'000	2011 RMB'000
Operating activities		
Profit before tax	**342,096**	304,639
Adjustments for:		
Interest expenses	**27,331**	37,520
Interest income	**(5,212)**	(4,228)
Depreciation and amortization	**35,389**	42,083
Amortization of government grants	**(3,957)**	(3,569)
Provision for warranty, net of reversal	**12,469**	8,149
Reversal of provision of inventories	**(347)**	(5,042)
Share of result of a jointly controlled entity	**(34)**	–
Unrealized profit on sales to a jointly controlled entity	**593**	–
Allowance for (reversal of) doubtful debts	**113**	(7)
(Gain) loss on disposal of property, plant and equipment	**(267)**	232
Operating cash flows before movements in working capital	**408,174**	379,777
Decrease in inventories	**6,821**	35,208
Increase in trade and other receivables	**(164,021)**	(327,193)
Increase in trade and other payables and other tax payables	**6,193**	383,668
Decrease (increase) in amounts due from related companies	**257,906**	(236,310)
(Decrease) increase in amounts due to related companies	**(72,355)**	46,298
Cash generated from operations	**442,718**	281,448
Income tax paid	**(31,737)**	(13,785)
Net cash from operating activities	**410,981**	267,663
Investing activities		
Repayment from a related company	**–**	80,000
Interest received	**5,212**	2,257
Receipt from government grants	**16,965**	400
Purchase of property, plant and equipment	**(32,113)**	(58,639)
Deposits paid for acquisition of property, plant and equipment and prepaid lease payments	**(2,699)**	(6,928)
Proceeds for disposal of property, plant and equipment	**801**	81
Investment in a jointly controlled entity	**(57,000)**	–
Development costs paid	**57,345**	(26,772)
Withdrawal of pledged bank deposits	**487,148**	617,332
Placement of pledged bank deposits	**(441,896)**	(633,230)
Net cash used in investing activities	**(73,927)**	(25,499)

Consolidated Statement of Cash Flows (Cont'd)

For the year ended 31st December, 2012

	2012 RMB'000	2011 RMB'000
Financing activities		
Interest paid	**(29,774)**	(46,951)
New bank borrowings raised	**194,950**	213,950
Issuance of shares	**–**	123,530
Repayment of bank borrowings	**(163,950)**	(226,950)
Advances from shareholders	**–**	32,771
Advance to a shareholder	**–**	(32,771)
Advance from a related company	**512**	1,570
Repayment to a related company	**(1,788)**	(46,342)
Net cash (used in) from financing activities	**(50)**	18,807
Net increase in cash and cash equivalents	**337,004**	260,971
Cash and cash equivalents at beginning of the year	**327,747**	66,776
Cash and cash equivalents at end of the year, represented by bank balances and cash	**664,751**	327,747

1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (2010 Revision) of the Cayman Islands on 10th March, 2011. In March 2013, the Company completed the initial listing of its shares (the "Listing") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and the principal place of business of the Company are disclosed in corporate information section to the annual report.

The principal activities of the Company and Southern State Investment Limited (南邦投資有限公司) ("Southern State") are investment holding. The principal activity of Mianyang Xinchen Engine Co., Ltd* (綿陽新晨動力機械有限公司) ("Mianyang Xinchen") is the development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles in the PRC.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

Mianyang Xinchen was established as a Sino-foreign equity joint venture enterprise in the PRC in 1998 by two shareholders, namely Southern State, a then wholly owned subsidiary of Brilliance China Automotive Holdings Limited ("Brilliance China", Brilliance China and its subsidiaries collectively referred to as "Brilliance China Group"), a company listed on the Stock Exchange, and Mianyang Xinhua Internal Combustion Engine Joint-Stock Company Limited* 綿陽新華內燃機股份有限公司 ("Xinhua Combustion Engine"), a state-owned company established in the PRC, which held their interests in Mianyang Xinchen in equal shares. The directors of the Company consider the ultimate holding company of Xinhua Combustion Engine to be 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"), which is a state-owned enterprise established in the PRC. Brilliance China is an associate of 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"), which is also a state-owned enterprise established in the PRC.

The key reorganization steps that Mianyang Xinchen underwent include: (1) the incorporation of the following offshore entities: (a) Brilliance Investment Holdings Limited ("Brilliance Investment") was incorporated in the British Virgin Islands ("BVI") on 28th February, 2011 with the sole shareholder of Brilliance Investment being Brilliance China; (b) the Company was incorporated in the Cayman Islands on 10th March, 2011 with the sole shareholder of the Company being Brilliance Investment; and (c) Xinhua Investment Holdings Limited ("Xinhua Investment") was incorporated in the BVI on 19th May, 2011 with the sole shareholder of Xinhua Investment being Xinhua Combustion Engine; (2) Brilliance China and the Company entered into an instrument of transfer on 1st July, 2011, pursuant to which Brilliance China transferred the entire issued share capital of Southern State to the Company at the consideration of US$1; (3) Southern State acquired a 50% equity interest in Mianyang Xinchen from Xinhua Combustion Engine through an auction for a consideration of approximately RMB354,654,000, as determined based on a valuation report of Mianyang Xinchen prepared by Beijing Zhongqihua Asset Valuation Co., Ltd.* 北京中企華資產評估有限責任公司, an independent and recognized business valuer with its principal place of business at Room 901, FanLi Place, Chao Yang Men Wai Street, Beijing ("Mianyang Xinchen Valuation Report"), which was completed on 29th August, 2011; and (4) the Company issued and allotted new shares to Xinhua Investment on 29th August, 2011, which was equal to 50% of the Company's enlarged issued share capital (the "Group Reorganization").

The Group Reorganization was completed on 29th August, 2011. The Group Reorganization mainly involved the insertion of investment holding companies between the two shareholders of Mianyang Xinchen and Mianyang Xinchen. Mianyang Xinchen was indirectly beneficially owned by Brilliance China Group and Wuliangye Group in equal shares before and upon the completion of the Group Reorganization. Accordingly, the consolidated financial statements of the Group have been prepared as if the Company had always been the holding company of Mianyang Xinchen.

* English name for reference only.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the consolidated financial statements, the Group has consistently adopted the Hong Kong Accounting Standards ("HKASs"), HKFRSs, amendments and Interpretations ("HK(IFRIC)-Int"), which are effective for the accounting period beginning on 1st January, 2012.

The Group has not early adopted these standards, amendments and interpretation that have been issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") but are not yet effective.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle[1]
Amendments to HKFRS 1	Government Loans[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[2]
Amendments to HKFRS10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[4]
HKFRS 9	Financial Instruments[2]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[3]
HKAS 19 (Revised in 2011)	Employee Benefits[1]
HKAS 27 (Revised in 2011)	Separate Financial Statements[1]
HKAS 28 (Revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[4]
HK (IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

1 Effective for annual periods beginning on or after 1st January, 2013.
2 Effective for annual periods beginning on or after 1st January, 2015.
3 Effective for annual periods beginning on or after 1st July, 2012.
4 Effective for annual periods beginning on or after 1st January, 2014.

The directors of the Company anticipate that the application of these new and revised standards, amendments and interpretations will have no material impact on the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Jointly controlled entities (Cont'd)

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognized in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business net of discounts and sales related taxes.

Revenue from the sale of goods is recognized when goods are delivered to and accepted by the customers. Advances received from customers prior to meeting the criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

Service income is recognized when services are provided.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

4. **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

Prepaid lease payments

Payments for obtaining land use rights are accounted for as prepaid lease payments and are charged to profit or loss on a straight-line basis over the lease terms as stated in the relevant land use rights certificates granted for usage by the Group in the PRC or the remaining terms of the operating licence of the PRC entity, whichever is the shorter. Prepaid lease payments which are to be charged to profit or loss in the next twelve months are classified as current assets.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

The benefit of a government loan received at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Retirement benefit costs

Payments to the state-managed retirement benefit scheme are recognized as expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and a jointly controlled entity, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognized in other comprehensive income or directly in equity respectively.

Intangible assets

Research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are measured at cost less accumulated amortization and accumulated impairment losses (if any).

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sales.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related companies, loan to a shareholder, pledged bank deposits and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (Cont'd)

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, or an observable change in local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

Financial liabilities

Financial liabilities, including trade and other payables, amounts due to related companies, bank borrowings, loans from shareholders and other loan, are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Derecognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Provision for warranty claims

Provision for warranty claims is recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions for warranty claims are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision for warranty claims is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of tangible and intangible assets (Cont'd)

Recoverable amount is the higher of fair values less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Share-based payment transactions

Restricted shares

Share-based compensation expense related to restricted shares issued pursuant to the Group's share incentive plan is generally determined based on the fair value of the shares issued on the business day immediately prior to the date of grant. Subsequent to the date of grant, compensation expense is amortized to profit or loss over the corresponding vesting period, if any.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation and impairment of property, plant and equipment

The Group's management determines the estimated useful lives, residual value and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are expected to be shorter than previously estimated, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned or sold. Change in these estimations may have a material impact on the results of the Group.

The Group tests whether property, plant and equipment has suffered any impairment in accordance with its accounting policy whenever there is any indication that the assets may have been impaired. The recoverable amounts of property, plant and equipment have been determined based on the discounted cash flow method. The directors consider that the recoverable amount exceeded the carrying amount of the property, plant and equipment and, therefore, no impairment was recognized during the year.

At as 31st December, 2012, the carrying amount of property, plant and equipment is approximately RMB319,642,000 (2011: RMB278,262,000).

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

Amortization and impairment of intangible assets

The Group's management determines the estimated useful lives and related amortization charges for its intangible assets. This estimate is based on the historical experience of the actual useful lives of intangible assets of similar nature and functions. Management will increase the amortization charge where useful lives are expected to be shorter than previously estimated, or it will write-off or write down obsolete or non-strategic assets that have been abandoned or sold.

The Group tests whether intangible assets have suffered any impairment in accordance with its accounting policy whenever there is any indication that the assets may have been impaired. The recoverable amounts of intangible assets have been determined based on the discounted cash flow method. The directors consider that the recoverable amount exceeded the carrying amount of the intangible assets and, therefore, no impairment was recognized during the year.

As at 31 December, 2012, the carrying amount of intangible assets is approximately RMB88,153,000 (2011: RMB43,695,000).

Provision of inventories

The Group records inventories at the lower of cost and net realisable value. Net realisable value is the estimated selling price for inventories, less all the estimated costs of completion and costs necessary to make the sales. Operational procedures have been in place to monitor this risk as a significant proportion of the Group's working capital is devoted to inventories. The management reviews the inventory aging listing on a periodic basis for those aged inventories. This involves acomparison of carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made in the financial statements for any obsolete and slow moving items. Although the Group carries out periodic review on the net realisable value of inventory, the actual realisable value of inventory is not known until the sale is concluded.

As at 31st December, 2012, the carrying amount of inventories is approximately RMB214,728,000 (2011: RMB221,202,000).

Estimated impairment of trade receivables and amounts due from related companies

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2012, the carrying amount of trade receivables is approximately RMB389,428,000 (2011: RMB245,437,000) (net of allowance for doubtful debts of RMB156,000 (2011: RMB43,000)). As at 31st December, 2012, the carrying amount of amounts due from related companies which are trade receivables is approximately RMB736,134,000 (2011: RMB892,816,000).

Provision for warranty claims

Provision for warranty is made based on the possible claims on the products by customers with reference to the warranty coverage period and the percentage of warranty expenses incurred over total sales amounts during the year. Where the actual claims are greater than expected, a material increase in warranty expenses may arise, which would be recognized in profit or loss for the period in which such a claim takes place. As at 31st December, 2012, the carrying amount of provision for warranty claims is approximately RMB5,084,000 (2011: RMB5,280,000).

6. REVENUE AND SEGMENT INFORMATION

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

(1) Gasoline engines;

(2) Diesel engines; and

(3) Engine components and service income.

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

For the year ended 31st December, 2012

	Gasoline engines RMB'000	Diesel engines RMB'000	Engine components and service income RMB'000	Total RMB'000
Segment revenue – external	2,058,889	470,405	43,447	2,572,741
Segment results	386,537	115,924	15,326	517,787
Unallocated income				9,862
Unallocated expenses				
Selling and distribution expenses				(55,176)
General and administrative expenses				(73,955)
Finance costs				(27,331)
Other expenses				(29,125)
Share of result of a jointly controlled entity				34
Profit before tax				342,096

Other segment information included in the measurement of segment results:

	Gasoline engines RMB'000	Diesel engines RMB'000	Engine components and service income RMB'000	Total RMB'000
Depreciation and amortization	22,990	4,006	–	26,996
(Reversal of provision) provision of inventories	(577)	230	–	(347)

6. REVENUE AND SEGMENT INFORMATION (Cont'd)

Segment revenue and segment results (Cont'd)

For the year ended 31st December, 2011

	Gasoline engines RMB'000	Diesel engines RMB'000	Engine components and service income RMB'000	Total RMB'000
Segment revenue – external	1,803,574	463,365	40,809	2,307,748
Segment results	344,313	118,931	13,364	476,608
Unallocated income				10,012
Unallocated expenses				
Selling and distribution expenses				(48,611)
General and administrative expenses				(62,638)
Finance costs				(37,520)
Other expenses				(33,212)
Profit before tax				304,639

Other segment information included in the measurement of segment results:

	Gasoline engines RMB'000	Diesel engines RMB'000	Engine components and service income RMB'000	Total RMB'000
Depreciation and amortization	16,880	16,862	–	33,742
Reversal of provision of inventories	(4,969)	(73)	–	(5,042)

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment results represents the profit earned by each segment without allocation of selling and distribution expenses, general and administrative expenses, finance costs, other expenses and share of result of a jointly controlled entity. This is the measure reported to the directors for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The assets and liabilities of the Group are regularly reviewed by the Board of Directors of the Company 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

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

6. REVENUE AND SEGMENT INFORMATION (Cont'd)

Information about major customers

Revenue from customers contributing over 10% of the total sales in all reportable segments of the Group are as follows:

	2012 **RMB'000**	2011 RMB'000
Brilliance China Group	**500,065**	416,192
Subsidiaries of Dongfeng Automobile Co., Ltd.* 東風汽車股份有限公司 ("Dongfeng")	**654,294**	651,790
Huachen Group	**654,409**	661,627

7. OTHER INCOME

	2012 **RMB'000**	2011 RMB'000
Bank interest income	**5,212**	2,257
Government grants *(see Note 27)*	**4,257**	5,062
Imputed interest on loan to a related company	**–**	1,971
Gain on disposal of property, plant and equipment	**267**	–
Others	**126**	722
	9,862	10,012

8. FINANCE COSTS

	2012 **RMB'000**	2011 RMB'000
Interest on borrowings wholly repayable within five years:		
Bank loans	**13,023**	10,097
Loans from related companies	**–**	1,900
Discounted bills	**16,751**	34,954
	29,774	46,951
Less: amounts capitalized	**(2,443)**	(9,431)
	27,331	37,520

Borrowing costs capitalized during the year ended 31st December, 2012 arose on the general borrowing pool and were calculated by applying a capitalization rate of 6.5% (2011: 8.9%) per annum to expenditure on qualifying assets incurred during that year.

* English name for reference only.

9. INCOME TAX EXPENSE

	2012 RMB'000	2011 RMB'000
PRC Enterprise Income Tax		
Current tax	**52,659**	44,471
Overprovision in prior year	**(1,150)**	–
	51,509	44,471
Deferred tax expense (credit) *(see Note 28)*	**478**	(221)
	51,987	44,250

Mianyang Xinchen enjoyed preferential enterprise income tax rates which were lower than the standard tax rate during both years as approved by the relevant tax authorities in the PRC.

Mianyang Xinchen was accredited as a "High and New Technology Enterprise" by the Science and Technology Bureau of Sichuan Province and relevant authorities in December 2008 for a term of three years, and was registered with the local tax authority to be eligible to the reduced 15% enterprise income tax rate from 2009 to 2011. The High and New Technology Enterprise qualification has been renewed in 2011, which entitles Mianyang Xinchen to enjoy such reduced tax rate for another three years until 31st December, 2014. Accordingly, Mianyang Xinchen is subject to 15% enterprise income tax rate for the year ended 31st December, 2012 and 2011.

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

The Group is subject to PRC dividend withholding tax on the dividends paid by Mianyang Xinchen as it is a tax resident in the PRC but Southern State, the immediate holding company of Mianyang Xinchen, is a non-PRC tax resident. As a result, the Group will be subject to the PRC dividend withholding tax of 10% when and if undistributed earnings of Mianyang Xinchen are declared to be paid as dividends out of profits that arose on or after 1st January, 2008. Deferred tax has not been provided for in the consolidated financial statements in respect of the tax effect of temporary differences attributable to accumulated undistributed earnings of Mianyang Xinchen as at 31st December, 2012 arising since 1st January, 2008 amounting to approximately RMB76,617,000 (2011: RMB45,742,000), as the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The directors of Mianyang Xinchen plan to set aside such undistributed profits of Mianyang Xinchen for investment purpose.

The tax expense for the year can be reconciled to the profit before tax per consolidated statement of comprehensive income as follows:

	2012 RMB'000	2011 RMB'000
Profit before tax	**342,096**	304,639
Tax at PRC Tax rate of 15%	**51,315**	45,696
Tax effect of expenses not deductible for tax purpose	**4,723**	1,925
Tax effect of deductible temporary differences not recognized	**5,628**	5,589
Utilization of deductible temporary differences previously not recognized	**(5,589)**	(5,302)
Overprovision in prior year	**(1,150)**	–
Tax incentives on eligible expenditures *(Note)*	**(2,940)**	(3,658)
Income tax expense	**51,987**	44,250

Note: The eligible expenditures represent research and development costs charged to profit or loss for the year, which is subject to an additional 50% tax deduction in the calculation of income tax expense.

10. PROFIT FOR THE YEAR

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

	2012 RMB'000	2011 RMB'000
Directors' remuneration *(see Note 11)*	**1,377**	846
Other staff costs	**66,567**	56,825
Contributions to retirement benefits scheme	**8,847**	5,514
Total staff costs	**76,791**	63,185
Depreciation of property, plant and equipment	**31,988**	30,646
Amortization of prepaid lease payments	**1,441**	1,401
Amortization of intangible assets (included in cost of sales)	**1,960**	10,036
Total depreciation and amortization	**35,389**	42,083
Research expenses (included in other expenses)	**15,661**	19,783
Amortization of capitalized development costs (included in total depreciation and amortization)	**1,960**	10,036
Total research and development costs	**17,621**	29,819
Auditors' remuneration	**505**	227
Exchange loss (gain), net	**889**	(666)
Allowance for (reversal of) doubtful debts	**113**	(7)
Included in cost of sales:		
Cost of inventories recognized as expense	**2,054,954**	1,831,140
Reversal of provision of inventories *(see Note 19)*	**(347)**	(5,042)
Provision for warranty, net *(see Note 23)*	**12,469**	8,149
Included in other expenses:		
Loss on disposal of property, plant and equipment	**–**	232
Factory reallocation expenses *(Note a)*	**–**	2,276
Initial public offering expenses	**13,464**	10,879

Note: (a) Factory reallocation expenses mainly represents transportation costs for moving the plant and machineries to the new production site.

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATION

Directors' and chief executive's emoluments

Details of the emoluments paid to the directors and chief executive of the Company during the year are as follows:

	2012 **RMB'000**	2011 RMB'000
Fees	–	–
Salaries and allowances	**977**	234
Discretionary bonus	**400**	612
Contributions to retirement benefits scheme	–	–
	1,377	846

Details of the emoluments paid to each of the directors and chief executive of the Company are as follows:

Year ended 31st December, 2012

	Fees **RMB'000**	**Discretionary bonus** **RMB'000**	**Salaries and allowances** **RMB'000**	**Contributions to retirement benefit scheme** **RMB'000**	**Total** **RMB'000**
Executive Directors					
Wu Xiao An 吳小安	–	–	100	–	100
Wang Yunxian 王運先*	–	400	877	–	1,277
Non-executive Directors					
Qi Yumin 祁玉民	–	–	–	–	–
Li Peiqi 李培奇 (Resigned on 24th April, 2012 and reappointed on 29th August, 2012)	–	–	–	–	–
Tang Qiao 唐橋 (Resigned on 29th August, 2012)	–	–	–	–	–
Tan Chengxu (譚成旭) (Resigned on 24th April, 2012)	–	–	–	–	–
Independent non-executive Directors					
Huang Haibo 黃海波	–	–	–	–	–
Wang Jun 王雋	–	–	–	–	–
Yu Yanqi 于延琦 (Resigned on 19th November, 2012)	–	–	–	–	–
Wang Songlin 王松林	–	–	–	–	–
Chi Guohua 池國華 (Appointed on 22nd November, 2011)	–	–	–	–	–
	–	400	977	–	1,377

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATION (Cont'd)

Directors' and chief executive's emoluments (Cont'd)

Year ended 31st December, 2011

	Fees RMB'000	Discretionary bonus RMB'000	Salaries and allowances RMB'000	Contributions to retirement benefit scheme RMB'000	Total RMB'000
Executive Directors					
Wu Xiao An 吳小安	–	–	–	–	–
Wang Yunxian 王運先*	–	612	234	–	846
Non-executive Directors					
Qi Yumin 祁玉民	–	–	–	–	–
Li Peiqi 李培奇	–	–	–	–	–
Tang Qiao 唐橋	–	–	–	–	–
Tan Chengxu (譚成旭)	–	–	–	–	–
Lei Xiaoyang 雷小陽 (Resigned on 16th November, 2011)	–	–	–	–	–
Independent non-executive Directors					
Huang Haibo 黃海波	–	–	–	–	–
Wang Jun 王雋	–	–	–	–	–
Yu Yanqi 于延琦	–	–	–	–	–
Wang Songlin 王松林	–	–	–	–	–
Chi Guohua 池國華	–	–	–	–	–
	–	612	234	–	846

* Wang Yunxian is also the Chief Executive of the Company and his emoluments disclosed above included those for services rendered by him as the Chief Executive.

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATION (Cont'd)

Employees' remuneration

Of the five highest paid individuals of the Group, one (2011: one) is director of the Company whose emoluments are included above during the year ended 31st December, 2012. The remunerations of the remaining four (2011: four) individuals are as follows:

	2012	2011
	RMB'000	RMB'000
Salaries and allowances	**2,137**	376
Discretionary bonus	**1,600**	1,501
Contributions to retirement benefits scheme	**–**	–
	3,737	1,877

The discretionary bonus is determined by reference to the individual performance of the directors and employees and approved by shareholders annually.

The directors and certain senior management have also been employed by Brilliance China Group and Wuliangye Group and the payment of their contributions to retirement benefits scheme was centralized and made by Brilliance China Group and Wuliangye Group for both years in which the amounts are considered as insignificant.

The five highest paid individuals were within the following bands:

	2012	2011
	No. of employees	No. of employees
RMB500,000 to RMB1,000,000	**4**	5
RMB1,000,000 to RMB1,500,000	**1**	–

During the years ended 31st December, 2012 and 2011, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Senior Management's remuneration

There are 5 senior executives in the Group (excluding directors) and their remuneration by band for the year ended 31 December 2012 and 2011 is set out below:

	2012	2011
	No. of employees	No. of employees
RMB Nil to RMB500,000	**–**	1
RMB500,000 to RMB1,000,000	**5**	4

12. DIVIDENDS

No dividend has been paid or declared by the Company during both years ended 31st December 2012, and 2011, nor has any dividend been proposed since the end of the reporting period.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the profit for the year attributable to owners of the Company and weighted average number of shares of 940,199,794 (2011: 823,815,000) for the year ended 31st December, 2012. The weighted average number of shares for the year ended 31st December, 2011 has been adjusted for the capital injection for that year.

No diluted earnings per share is presented as there was no potential dilutive ordinary share in issue.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment and others RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1st January, 2011	54,285	310,220	22,693	7,866	49,210	444,274
Additions	8,397	–	1,209	1,631	66,182	77,419
Transfer	78,951	6,201	–	–	(85,152)	–
Disposals	–	(829)	(727)	(852)	–	(2,408)
At 31st December, 2011	141,633	315,592	23,175	8,645	30,240	519,285
Additions	–	522	451	2,393	70,536	73,902
Transfer	46,347	23,735	–	–	(70,082)	–
Disposals	–	(106)	(157)	(1,792)	–	(2,055)
At 31st December, 2012	**187,980**	**339,743**	**23,469**	**9,246**	**30,694**	**591,132**
DEPRECIATION						
At 1st January, 2011	35,891	159,203	12,716	4,662	–	212,472
Provided for the year	5,379	21,452	3,011	804	–	30,646
Eliminated on disposals	–	(720)	(663)	(712)	–	(2,095)
At 31st December, 2011	41,270	179,935	15,064	4,754	–	241,023
Provided for the year	7,651	20,798	2,590	949	–	31,988
Eliminated on disposals	–	(95)	(142)	(1,284)	–	(1,521)
At 31st December, 2012	**48,921**	**200,638**	**17,512**	**4,419**	**–**	**271,490**
CARRYING VALUES						
At 31st December, 2012	**139,059**	**139,105**	**5,957**	**4,827**	**30,694**	**319,642**
At 31st December, 2011	100,363	135,657	8,111	3,891	30,240	278,262

14. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The above items of property, plant and equipment (other than construction in progress) are depreciated on a straight-line basis at the following rates per annum after taking into account the residual values:

Buildings for old factory premises	Remaining useful life of 3 years from 2009 (reassessed to 2 years from January 2011)
Buildings for new factory premises	30 years
Buildings for staff quarter	50 years
Plant and machinery	10 years
Office equipment and others	5 years
Motor vehicles	6 years

The buildings are located in the PRC and the carrying amount of the buildings amounting to RMB112,506,000 as at 31st December, 2012 (2011: RMB84,982,000) is in the process of obtaining the property ownership certificate.

The estimated economic life of old factory premises was originally determined at 30 years. The Wenchuan earthquake on 12th May, 2008 (the "Earthquake") resulted in damage to the production premise and have been properly repaired. The production lines continued to be used and with no material suspension after the Earthquake. As a result, the management did not consider there to be an impairment indicator of the existing production premise.

In late 2008, the local government of Mianyang City started a plan for reconstruction and urban redevelopment after the Earthquake. Meanwhile, the board of directors of Mianyang Xinchen approved to relocate the production site for the expansion of its production capacity, following with the implementation of the relevant policies to encourage the automobile business by the central government.

In 2009, the Group accepted an offer of parcels of land located in the National High-Tech Industry Development Zone of Mianyang, Sichuan Province to reconstruct a new production facility considering that the parcels of land offered would allow for future business expansion. The phase I of the new production facility has been completed and commenced to operate in the year ended 31st December, 2010.

In the beginning of 2011, the Group reassessed the remaining useful life of the existing buildings, taking into account the delay in completion of the phase II of the new production facility. Since the remaining useful life of the existing buildings was expected to be longer than originally estimated, useful life has been revised to extend for one year up to the end of 2012. This change in useful life has decreased the depreciation charge for the year ended 31st December, 2011 by approximately RMB4,153,000 and increased the depreciation charge for year ended 31st December, 2012 by approximately RMB4,153,000.

The Group's buildings are located in the PRC.

The Group has pledged property, plant and equipment having the following carrying values to secure general banking facilities granted to the Group.

	2012	2011
	RMB'000	RMB'000
Buildings	**3,564**	6,672
Plant and machinery	**135,789**	120,578
	139,353	127,250

15. PREPAID LEASE PAYMENTS

	RMB'000
CARRYING VALUES	
At 1st January, 2011	65,158
Released to profit or loss	(1,401)
At 31st December, 2011	63,757
Released to profit or loss	(1,441)
At 31st December, 2012	**62,316**

	2012 **RMB'000**	2011 RMB'000
Analysed for reporting purpose:		
Current assets	**1,434**	1,434
Non-current assets	**60,882**	62,323
	62,316	63,757

The Group's prepaid lease payments comprise leasehold lands in the PRC under medium-term leases. Land use rights are released to profit or loss over the lease terms ranging from 42 to 50 years.

The Group has pledged land use rights having carrying values of approximately RMB62,316,000 as at 31st December, 2012 (2011: RMB63,757,000), to secure general banking facilities granted to the Group.

16. INTANGIBLE ASSETS

	Completed development costs RMB'000	Development costs in progress RMB'000	Total RMB'000
COST			
At 1st January, 2011	36,386	–	36,386
Additions	–	42,134	42,134
At 31st December, 2011	36,386	42,134	78,520
Additions	–	46,418	46,418
Transfer	17,330	(17,330)	–
At 31st December, 2012	**53,716**	**71,222**	**124,938**
AMORTIZATION			
At 1st January, 2011	24,789	–	24,789
Charge for the year	10,036	–	10,036
At 31st December, 2011	34,825	–	34,825
Charge for the year	1,960	–	1,960
At 31st December, 2012	**36,785**	**–**	**36,785**
CARRYING VALUES			
At 31st December, 2012	**16,931**	**71,222**	**88,153**
At 31st December, 2011	1,561	42,134	43,695

Development costs of technical know-how of new automotive engines are both internally-generated and externally-generated and have finite useful lives and are amortized based on units sold over the expected saleable units of the new automotive engines.

17. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	RMB'000
Cost of unlisted investment in a jointly controlled entity	50,000
Share of result and other comprehensive income	34
Unrealized profit	(593)
	49,441

Pursuant to a joint venture agreement entered into between Mianyang Xinchen and Dongfeng in December 2011, Changzhou Dongfeng Xinchen Engine Co., Ltd ("Dongfeng JV") was established on 9th January, 2012 with registered capital of RMB250 million, which is owned as to 50% by Mianyang Xinchen and 50% by Dongfeng. The purpose of establishing Dongfeng JV is to construct an engine production facility with a planned production capacity of 200,000 units per annum to manufacture the joint venture branded engines for Dongfeng's light-duty vehicles. Mianyang Xinchen's estimated portion of the capital injection in relation to the Dongfeng JV is approximately RMB125 million, of which RMB50 million has been paid during the year ended 31st December, 2012.

Summarized financial information in respect of the Group's interests in the jointly controlled entity which are accounted for using equity method is set out below.

	RMB'000
Current assets	59,827
Non-current assets	24,664
Current liabilities	(21,311)
Non-current liabilities	(13,146)
The Group's share of net assets	50,034
Unrealized profit on sale of engines to Dongfeng JV	(593)
	49,441

	RMB'000
Income recognized in profit or loss	38,767
Expenses recognized in profit or loss	(38,733)
Other comprehensive income	–
The Group's share of result for the year	34

18. LOAN TO A SHAREHOLDER/LOANS FROM SHAREHOLDERS

The Group and the Company

As detailed in Note 38, the Company has two trust arrangements to entitle the Group's employees to subscribe for shares of the Company through Lead In Management Limited ("Lead In") for their services to the Group. Under loan agreements dated 18th October, 2011, each of the two shareholders of the Company, namely Brilliance Investment and Xinhua Investment, advanced loans in equal amounts of HK$20,000,000 to the Company (collectively, the "Loans from Shareholders"). In return, (i) the Company lent an aggregate amount of HK$40,000,000, equal to the Loans from Shareholders, to Lead In (the "Loan to a shareholder") and (ii) Lead In used the funding obtained from the Company to subscribe for 36,977,960 shares of the Company under the Discretionary Trust (see Note 38).

All the loans are non-trade related, unsecured, interest free and will be repayable within one year from the date of loan agreements by the Company and Lead In and, accordingly, they are classified as current assets and current liabilities, respectively. In October 2012, the loans have been further extended to October 2013.

19. INVENTORIES

	2012	2011
	RMB'000	RMB'000
Raw material and components	**116,707**	93,159
Work-in-progress	**19,131**	20,648
Finished goods	**78,890**	107,395
	214,728	221,202

The inventories are net of provision of RMB536,000 as at 31st December, 2012 (2011: RMB883,000), which is determined with reference to the net realisable value of the inventory items. The reversal of provision of inventories for the year ended 31st December, 2012 is RMB347,000 (2011: RMB5,042,000).

20. TRADE AND OTHER RECEIVABLES

The Group

Trade and other receivables comprise the following:

	2012	2011
	RMB'000	RMB'000
Trade receivables	**389,584**	245,480
Less: Allowance for doubtful debts	**(156)**	(43)
Trade receivables, net	**389,428**	245,437
Bills receivable	**257,642**	241,542
Total trade and bills receivables	**647,070**	486,979
Prepayments for purchase of raw materials and engine components	**1,953**	3,059
Other receivables	**11,091**	7,668
	660,114	497,706

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

	2012	2011
	RMB'000	RMB'000
Within 1 month	**167,808**	178,905
Over 1 month but within 2 months	**26,339**	39,838
Over 2 months but within 3 months	**26,229**	21,809
Over 3 months but within 6 months	**83,672**	4,726
Over 6 months but within 1 year	**84,915**	2
Over 1 year	**465**	157
	389,428	245,437

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

	2012	2011
	RMB'000	RMB'000
Within 3 months	**124,613**	172,836
Over 3 months but within 6 months	**133,029**	68,706
	257,642	241,542

20. TRADE AND OTHER RECEIVABLES (Cont'd)

The Group (Cont'd)

Before accepting any new customers, the Group assesses the potential customer's credit quality and defines its credit limit based on the reputation of the customers in the industry. Limits attributed to customers are reviewed regularly.

In determining the recoverability of trade and bills receivables, the Group considers any change in the credit quality of the trade and bills receivables from the date credit was initially granted up to the end of the reporting period. In the opinion of directors of the Company, the trade receivables not past due nor impaired at the end of each reporting period are of good credit quality.

Included in the Group's trade receivables balances are debtors with aggregate carrying amount of approximately RMB200,995,000 at 31st December, 2012 (2011: RMB43,513,000), which are past due as at the reporting date. Considering the high credibility of these customers, good track record with the Group and subsequent settlement, the management believes that no impairment allowance is necessary in respect of the remaining unsettled balances. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired:

	2012 **RMB'000**	2011 RMB'000
Within 1 month	**3,544**	–
Over 1 month but within 2 months	**2,170**	16,820
Over 2 months but within 3 months	**26,229**	21,808
Over 3 months but within 6 months	**83,672**	4,726
Over 6 months but within 1 year	**84,915**	2
Over 1 year	**465**	157
	200,995	43,513

Movement in the allowance for doubtful debts:

	2012 **RMB'000**	2011 RMB'000
At beginning of year	**43**	50
Impairment losses recognized on receivables	**113**	–
Amounts recovered during the year	**–**	(7)
At end of year	**156**	43

21. AMOUNTS DUE FROM RELATED COMPANIES

The Group

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

	2012 RMB'000	2011 RMB'000
Huachen Group		
Mianyang Huarui Automotive Co., Ltd.* 綿陽華瑞汽車有限公司	171,638	226,120
Shenyang Brilliance Power Train Machinery Co., Ltd 瀋陽華晨動力機械有限公司	192,125	474,311
Mianyang Huaxiang Machinery Manufacturing Co., Ltd* 綿陽華祥機械製造有限公司	11,877	68,685
Mianyang Huaxin Automobile Co., Ltd* 綿陽華鑫汽車有限公司	–	4,903
Huachen	4,604	6,446
	380,244	780,465
Brilliance China Group		
Mianyang Brilliance Ruian Automotive Components Co., Ltd* 綿陽華晨瑞安汽車零部件有限公司(“Mianyang Ruian”)	–	272,745
Shenyang XingYuanDong Automobile Component Co., Ltd 瀋陽興遠東汽車零部件有限公司	377,746	3,535
Shenyang ChenFa Automobile Component Co., Ltd 瀋陽晨發汽車零部件有限公司	–	1,262
Shenyang Brilliance JinBei Automobile Co., Ltd. 瀋陽華晨金杯汽車有限公司	7,378	3,817
	385,124	281,359
Wuliangye Group		
Sichuan Yi Bin Pushen Heavy Machinery Co., Ltd.* 四川省宜賓普什重機有限公司	–	86
Jointly controlled entity	38,636	–
	804,004	1,061,910

* English name for reference only.

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

The Group (Cont'd)

Analysed as:

	2012 RMB'000	2011 RMB'000
Trade receivables	**736,134**	892,816
Bills receivable	**67,870**	169,094
	804,004	1,061,910

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

	2012 RMB'000	2011 RMB'000
Within 3 months	**374,753**	473,345
Over 3 months but within 6 months	**241,056**	182,851
Over 6 months but within 1 year	**120,070**	232,406
Over 1 year	**255**	4,214
	736,134	892,816

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

	2012 RMB'000	2011 RMB'000
Within 3 months	**65,500**	159,962
Over 3 months but within 6 months	**2,370**	9,132
	67,870	169,094

The Group's credit policy is that the credit is offered to related companies following financial assessment and an established payment record.

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

The Group (Cont'd)

Included above are trade receivables due from related companies with aggregate carrying amounts of approximately RMB361,381,000 at 31st December, 2012 (2011: RMB419,471,000), which is past due as at the reporting date. The management of the Group has assessed these related companies to be financially sound and taking into consideration of the gradual and frequent repayments from those related companies, no impairment allowance is considered necessary in respect of these balances. In the opinion of the directors of the Company, the amounts due from related companies not past due nor impaired at the end of each reporting period are of good credit quality. The Group does not hold any collateral over these balances.

The aging of amounts due from related companies that are past due but not impaired is as follows:

	2012	2011
	RMB'000	RMB'000
Over 3 months but within 6 months	**241,056**	182,851
Over 6 months but within 1 year	**120,070**	232,406
Over 1 year	**255**	4,214
	361,381	419,471

The Company

The amount due from a subsidiary is unsecured, interest free and repayable on demand.

22. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The Group

Bank balances and pledged bank deposits carry interest at market rates as follows:

	Bank balances	**Pledged bank deposits**
At 31st December, 2012	**0.01% – 0.35%**	**2.60% – 2.80%**
At 31st December, 2011	0.01% – 0.50%	3.10% – 3.30%

Pledged bank deposits represent deposits pledged to banks to secure bills payable issued to suppliers of the Group for the purchase of raw materials.

The Company

Bank balances carry interest rates at 0.01% at 31st December, 2012 (2011: 0.01%).

23. TRADE AND OTHER PAYABLES

The Group

	2012 RMB'000	2011 RMB'000
Trade payables	**346,874**	559,447
Bills payable	**385,419**	413,158
Total trade and bills payables	**732,293**	972,605
Accrued purchase of raw materials	**496,231**	255,479
Construction payables	**41,477**	11,272
Payroll and welfare payables	**37,521**	37,257
Advances from customers	**4,752**	4,732
Provision for warranty *(Note)*	**5,084**	5,280
Other payables	**20,279**	25,716
	1,337,637	1,312,341

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:

	2012 RMB'000	2011 RMB'000
Within 3 months	**200,568**	440,911
Over 3 months but within 6 months	**100,334**	98,943
Over 6 months but within 1 year	**45,972**	19,593
	346,874	559,447

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

	2012 RMB'000	2011 RMB'000
Within 3 months	**146,434**	74,833
Over 3 months but within 6 months	**238,985**	338,325
	385,419	413,158

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 averages for defective products at the end of each reporting period.

23. TRADE AND OTHER PAYABLES (Cont'd)

The Group (Cont'd)

The movement of warranty provision are as follows.

	2012 RMB'000	2011 RMB'000
At beginning of year	**5,280**	7,442
Warranty provision charged to profit or loss	**12,469**	12,938
Reversal of warranty provision	**–**	(4,789)
Warranty claimed by customers	**(12,665)**	(10,311)
At end of year	**5,084**	5,280

Included in warranty provision as at 1st January, 2011 was specific provision of RMB7 million related to claims for two new engine models which were reported by customers in 2010. After the investigation, it was noted that the claims involve emission of black smoke, which was caused by improper use and the wear and tear of combustion chamber, which was caused by the use of wrong type of fuel. Accordingly, the specific provision of RMB2.2 million was utilized and the remaining RMB4.8 million was reversed to profit or loss for the year ended 31st December, 2011.

THE COMPANY

The trade and other payables of the Company represents accrued service fees.

24. AMOUNTS DUE TO RELATED COMPANIES

The Group

Details of amounts due to related companies are as follows:

	2012 RMB'000	2011 RMB'000
Trade related:		
Brilliance China Group		
Mianyang Ruian	**10,743**	–
Wuliangye Group		
Xinhua Combustion Engine	**24,653**	101,871
Sichuan Yi Bin Pushen Auto Parts Co., Ltd* 四川省宜賓普什汽車零部件有限公司	**6,592**	12,472
	41,988	114,343
Non-trade related:		
Brilliance China Group		
Brilliance China	**309**	28
Wuliangye Group		
Mianyang Jianmen Real Estate Development and Construction Limited Liability Company* 綿陽劍門房地產開發建設有限責任公司	**770**	2,327
	1,079	2,355
	43,067	116,698

The trade related amounts are analysed as:

	2012 RMB'000	2011 RMB'000
Trade payables	**19,295**	82,789
Bills payable	**22,693**	31,554
	41,988	114,343

* English name for reference only.

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

The Group (Cont'd)

The non-trade related amounts are analysed as:

	2012 **RMB'000**	2011 RMB'000
Bills payable	–	1,788
Other payables	**1,079**	567
	1,079	2,355

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

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

	2012 **RMB'000**	2011 RMB'000
Within 3 months	**15,396**	69,857
Over 3 months but within 6 months	**2,957**	7,754
Over 6 months but within 1 year	**326**	5,061
Over 1 year	**616**	117
	19,295	82,789

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.

	2012 **RMB'000**	2011 RMB'000
Within 3 months	**12,744**	120
Over 3 months but within 6 months	**9,949**	31,434
	22,693	31,554

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

The Company

The amounts due to related companies represent amounts due to Brilliance China and Mianyang Xinchen. Such amounts are non-trade related, interest-free, unsecured and repayable on demand.

25. BANK BORROWINGS

	2012 RMB'000	2011 RMB'000
Bank borrowings repayable within one year shown under current liabilities	**194,950**	163,950
Secured	**152,950**	121,950
Unsecured	**42,000**	42,000
	194,950	163,950

All bank borrowings are denominated in RMB.

The ranges of effective interest rates (which are also equal to contractual interest rates) on the Group's bank borrowings are as follows:

	2012	2011
Fixed-rate borrowings	**6.00% to 6.56%**	5.05% to 6.56%
Variable-rate borrowings	**Benchmark rate# x 110%**	Benchmark rate# x 110%

People's Bank of China one-year RMB Lending Rate

The bank borrowings are secured by property, plant and equipment and land use rights as set out in Notes 14 and 15.

26. OTHER LOAN

The other loan is an unsecured, interest-free loan of RMB4,000,000 received from Sichuan Development Holding Co., Ltd* 四川發展(控股)有限責任公司, a state-owned entity, for a term of 3 years and repayable in July 2013. The loan is used to finance the relocation of the new production plant after the Earthquake in the PRC.

* English name for reference only.

27. DEFERRED INCOME

	2012	2011
	RMB'000	RMB'000
Amounts credited to profit or loss during the year:		
Subsidies related to research activities *(Note a)*	**300**	1,350
Subsidies related to property, plant and equipment *(Note b)*	**3,957**	3,569
Other incentive subsidies *(Note c)*	**–**	143
	4,257	5,062

The movement of deferred income is as follows.

	2012	2011
	RMB'000	RMB'000
At beginning of year	**28,010**	31,179
Receipt of subsidies related to property, plant and equipment	**16,965**	400
Amount credited to profit or loss during the year	**(3,957)**	(3,569)
At end of year	**41,018**	28,010

Notes:

(a) The Group received government subsidies for research and development activities to enhance the competitiveness in the industry and to promote new products. The subsidies related to expensed research and development activities are recognized in profit or loss as the relevant expenses were incurred.

(b) The Group received government subsidies for the compensation of capital expenditures incurred for the plant and machinery. The amounts are deferred and amortized over the estimated useful lives of the respective assets.

(c) The Group received other incentive subsidies for improvement of working capital and immediate financial assistance to the operating activities of the Group. The amount also includes grants for compensation of expenses already incurred such as interest subsidies.

There are no unfulfilled conditions or other contingencies attached to the grants. The subsidies were granted on a discretionary basis to the Group during the year.

28. DEFERRED TAX

The following are the major deferred tax assets (liabilities) recognized and movements thereon during the current and prior years:

	Temporary difference on				
	Receivables RMB'000	Property, plant and equipment RMB'000	Development costs RMB'000	Inventories RMB'000	Total RMB'000
At 1st January, 2011	73	145	–	591	809
(Charge) credit to profit or loss	(1)	–	681	(459)	221
At 31st December, 2011	72	145	681	132	1,030
Charge to profit or loss	(72)	(145)	(209)	(52)	(478)
At 31st December, 2012	–	–	472	80	552

29. SHARE CAPITAL

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

	Number of shares	Amount HK$
Ordinary shares of HK$0.01 each		
Authorized:		
At date of incorporation, 31st December, 2011 and 2012	8,000,000,000	80,000,000
Issued and fully paid:		
Issue of new shares at date of incorporation	1,000	10
Issue of new shares on 29th August, 2011	1,000	10
Capitalization issue on 25th October, 2011	799,998,000	7,999,980
Issue of new shares on 31st October, 2011	46,200,000	462,000
Issue of new shares on 31st October, 2011	93,999,794	939,998
At 31st December, 2011 and 2012	940,199,794	9,401,998

	2012 and 2011 RMB'000
Presented in financial statements	7,693

At the date of its incorporation on 10th March, 2011, the authorized share capital of the Company was HK$80,000,000 divided into 8,000,000,000 ordinary shares of HK$0.01 each. On the same day, 1,000 ordinary shares were allotted and issued at HK$0.01 each by the Company to Brilliance Investment for cash.

29. SHARE CAPITAL (Cont'd)

In order to complete the Group Reorganization on 29th August, 2011, the Company issued 1,000 ordinary shares of HK$0.01 each to Xinhua Investment by waive of loans repayable to Xinhua Investment of HK$433,000,000 (equivalent to RMB354,654,000).

On 25th October, 2011, the Company issued and allotted 399,999,000 ordinary shares of the Company of HK$0.01 each, to each of Brilliance Investment and Xinhua Investment, by way of capitalization of the sum of HK$7,999,980 (equivalent to RMB6,551,000) out of the special reserve account of the Company (the "Capitalization Issue"). Upon completion of the Capitalization Issue, each of Brilliance Investment and Xinhua Investment held 400,000,000 Shares, representing 50% of the then issued share capital of the Company.

On 31st October, 2011, Dong Feng Motors Engineering Co., Limited 東風汽車工程有限公司("Dongfeng Motors Engineering"), a subsidiary of Dongfeng, entered into a subscription agreement ("Subscription Agreement") with the Company, pursuant to which Dongfeng Motors Engineering subscribed for 46,200,000 ordinary shares of the Company, representing approximately 4.914% of the enlarged issued share capital of the Company at a consideration of approximately HK$1.0817 per share, totalling approximately HK$49,976,000 (equivalent to RMB40,707,000), as determined by the Mianyang Xinchen Valuation Report. Pursuant to the Subscription Agreement and a supplementary agreement entered into with and a clarification confirmation letter signed by Dongfeng Motors Engineering subsequent to the Subscription Agreement, if the Listing (as defined below) is not completed by 31st December, 2013, Dongfeng Motors Engineering may, after obtaining prior written consent from the Company, require the Company to buy back all of the Company's shares subscribed by Dongfeng Motors Engineering at the original subscription price (the "Put Option").

The Company has listed on the Stock Exchange on 13th March, 2013, accordingly, the Put Option has been lapsed on the same day.

On 31st October, 2011, Lead In, incorporated in the BVI on 18th May, 2011, subscribed for 93,999,794 ordinary shares of the Company, representing approximately 9.998% of the enlarged issued share capital of the Company ("Lead In Subscribed Shares") at a consideration of approximately HK$1.0817 per share, totalling approximately HK$101,682,000 (equivalent to RMB82,823,000), as determined based on the Mianyang Xinchen Valuation Report. The lead in Subscribed Shares are held in trust for the beneficiaries under two separate trust arrangements.

The new shares rank pari passu with the existing shares in all aspects.

30. RESERVES

The Company

	Share premium RMB'000	Special reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At date of incorporation	–	–	–	–
Arising from group reorganization	–	354,654	–	354,654
Capitalization issue *(see Note 29)*	–	(6,551)	–	(6,551)
Issuance of new shares *(see Note 29)*	122,388	–	–	122,388
Loss and total comprehensive expense for the year	–	–	(8,061)	(8,061)
At 31st December, 2011	122,388	348,103	(8,061)	462,430
Loss and total comprehensive expense for the year	–	–	(13,589)	(13,589)
At 31st December, 2012	122,388	348,103	(21,650)	448,841

31. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimization of the debt and equity balances. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts (which include bank borrowings, non trade-related amounts due to related companies and other loan), net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, retained profits and other reserves.

The management of the Group reviews the capital structure periodically. As part of this review, the management considers the cost of capital and the risks associated with the capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends and raising of new capital as well as the issue of new debt or the redemption of existing debt.

32. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The Group

	2012	2011
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**2,332,037**	2,136,631
Financial liabilities		
At amortized cost	**1,592,904**	1,618,785

The Company

	2012	2011
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**138,350**	146,161
Financial liabilities		
At amortized cost	**33,334**	33,692

(b) Financial risk management objectives and policies

The management monitors and manages the financial risks relating to the operations of the Group through internal risk assessment which analyses exposures by degree and magnitude of risks. The risks included market risk (including interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

32. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies (Cont'd)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to cash flow interest rate risk on the variable rate of interest earned on the pledged bank deposits and bank balances and variable rate of interest incurred on bank borrowings. The Group is also exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and loans from related companies. It is the Group's policy to maintain an appropriate level between its fixed-rate and variable-rate borrowings so as to minimise the fair value and cash flow interest rate risk. The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. The following sensitivity analysis represents management's assessment of the reasonably possible change in interest rates.

Variable-rate borrowings

If interest rates of the variable-rate borrowings had been 50 basis points higher/lower than the lending benchmark interest rate stipulated by the People's Bank of China and all other variables were held constant, the Group's profit for the year ended 31st December, 2012 would decrease/increase by approximately RMB302,000 (2011: RMB170,000).

Variable-rate bank balances

If interest rate of variable-rate bank balances had been 10 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31st December, 2012 would increase/decrease by approximately RMB475,000 (2011: RMB155,000).

Credit risk

At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position and outstanding endorsed and discounted bills receivable as disclosed in Note 35.

In order to minimise the credit risk, the management of the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

The credit risk on bills receivable, including endorsed and discounted, is considered as minimal as such amounts are to be settled by or placed with banks with good reputation.

32. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies (Cont'd)

Credit risk (Cont'd)

The Group has concentration of credit risk as 78% (2011: 87%) of the Group's total trade receivables and amounts due from related companies (trade related) as at 31st December, 2012 was due from the five largest customers. Those five largest customers are with good creditworthiness based on historical settlement record. In order to minimise the concentration of credit risk, the management has delegated staff responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure follow-up action is taken to recover overdue debts. The management also performs periodic evaluations and customer visits to ensure the Group's exposure to bad debts is not significant and adequate impairment losses are made for irrecoverable amount. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Liquidity risk

In the management of the liquidity risk, the Group closely monitors its cash position resulting from its operations and maintains a level of cash and cash equivalents deemed adequate by the management to meet in full its financial obligations as they fall due for the foreseeable future. The management also monitors the utilization of bank and other borrowings.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms as at 31st December, 2012 and 2011. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from the interest rate at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis for outstanding endorsed and discounted bills receivable. The tables have been drawn up based on the undiscounted contractual net cash outflows on endorsed and discounted bills receivable that could be required to be paid if the relevant bank defaults on payment. The liquidity analysis for the Group's endorsed and discounted bills receivable are prepared based on the contractual maturities as the management considers that the contractual maturities are essential for an understanding of the timing of the cash flows of endorsed and discounted bills receivable.

32. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies (Cont'd)

Liquidity and interest risk tables

The Group

	Weighted average interest rate %	Repayable on demand or within 3 months RMB'000	3-6 months RMB'000	6 months to 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31st December, 2012							
Trade and other payables	–	**395,373**	**339,319**	**87,449**	–	**822,141**	**822,141**
Amounts due to related companies	–	**28,450**	**13,505**	**1,112**	–	**43,067**	**43,067**
Accrued purchase of raw material	–	**496,231**	–	–	–	**496,231**	**496,231**
Loans from shareholders	–	–	–	**32,515**	–	**32,515**	**32,515**
Bank borrowings							
–Fixed rate	**6.21**	**43,924**	**1,236**	**83,299**	–	**128,459**	**123,950**
–Variable rate	**6.85**	**71,880**	–	–	–	**71,880**	**71,000**
Other loan	–	–	–	**4,000**	–	**4,000**	**4,000**
Outstanding endorsed and discounted bills receivable		**186,073**	**514,335**	–	–	**700,408**	–
		1,221,931	**868,395**	**208,375**	–	**2,298,701**	**1,592,904**
At 31st December, 2011							
Trade and other payables	–	580,574	438,199	27,114	–	1,045,887	1,045,887
Amounts due to related companies	–	70,523	40,975	5,200	–	116,698	116,698
Accrued purchase of raw material	–	255,479	–	–	–	255,479	255,479
Loans from shareholders	–	–	–	32,771	–	32,771	32,771
Bank borrowings							
– Fixed rate	6.05	1,874	93,494	32,525	–	127,893	123,950
– Variable rate	6.94	694	694	40,925	–	42,313	40,000
Other loan	–	–	–	–	4,000	4,000	4,000
Outstanding endorsed and discounted bills receivable		242,544	436,313	–	–	678,857	–
		1,151,688	1,009,675	138,535	4,000	2,303,898	1,618,785

32. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies (Cont'd)

Liquidity and interest risk tables (Cont'd)

The Company

	Weighted average interest rate %	Repayable on demand or within 3 months RMB'000	3-6 months RMB'000	6 months to 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31st December, 2012							
Amounts due to related companies	–	**819**	–	–	–	**819**	**819**
Loans from shareholders	–	–	–	**32,515**	–	**32,515**	**32,515**
		819	–	**32,515**	–	**33,334**	**33,334**
At 31st December, 2011							
Trade and other payables	–	95	–	–	–	95	95
Amounts due to related companies	–	826	–	–	–	826	826
Loans from shareholders	–	–	–	32,771	–	32,771	32,771
		921	–	32,771	–	33,692	33,692

The amounts included above for outstanding endorsed and discounted bills receivable are the maximum amounts the Group could be required to settle under the arrangement for the bills for the full guaranteed amount if that amount is defaulted by the counterparties to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, the estimate is subject to change depending on the probability of the default of the counterparties under the arrangement which is a function of the likelihood that the financial receivables held by the counterparties suffer credit losses.

(c) Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market conditions.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values.

33. OPERATING LEASE

The Group as lessee

Minimum lease payments paid under operating lease during the year:

	2012	2011
	RMB'000	RMB'000
Warehouse	**100**	100

Operating lease payments represent rental payable by the Group for warehouse. Lease is negotiated and rental is fixed for an average of 1 year.

The Group had no commitments for future minimum lease payments under non-cancellable operating lease as lease is paid in full at initial date.

34. CAPITAL COMMITMENTS

	2012	2011
	RMB'000	RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment, prepaid lease payments and intangible assets:		
– contracted for but not provided in the consolidated financial statements	**18,706**	52,357
– authorized but not contracted for in the consolidated financial statements	**797,083**	95,542
	815,789	147,899
Capital expenditure in respect of investment in a jointly controlled entity		
– contracted for but not provided in the consolidated financial statements	**75,000**	125,000

35. CONTINGENT LIABILITIES

During the year, the Group (i) endorsed certain bills receivable for the settlement of trade and other payables; and (ii) discounted certain bills receivable to banks for raising 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 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:

	2012	2011
	RMB'000	RMB'000
Settlement of trade and other payables	**583,732**	170,974
Discounted bills for raising of cash	**116,676**	507,883
Outstanding endorsed and discounted bills receivable with recourse	**700,408**	678,857

Maturity analysis of the outstanding endorsed and discounted bills receivable:

	2012	2011
	RMB'000	RMB'000
Within 3 months	**186,073**	242,544
Over 3 months but within 6 months	**514,335**	436,313
	700,408	678,857

The directors of the Company consider that the carrying amounts of the endorsed and discounted bills receivable approximate their fair values.

36. RELATED PARTY DISCLOSURES

During the year, the Group entered into the following transactions with related parties:

	2012 RMB'000	2011 RMB'000
Sale of goods		
Brilliance China Group	500,065	416,192
Huachen Group	654,409	661,627
Wuliangye Group	233	–
Jointly controlled entity	83,648	–
	1,238,355	1,077,819
Purchase of goods		
Brilliance China Group	48,939	39,274
Huachen Group	10	7
Wuliangye Group	154,283	154,639
	203,232	193,920
Rental charged		
Wuliangye Group	100	100
Maintenance and construction cost charged		
Wuliangye Group	7,330	5,547
Interest expense charged		
Brilliance China Group	–	900
Wuliangye Group	–	1,000
	–	1,900

The above transactions were carried out in the ordinary course of business and conducted in accordance with the terms and conditions mutually agreed by both parties.

Brilliance China Group, Huachen Group and Wuliangye Group are also the connected persons of the company under Chapter 14A of the Listing Rules.

Balances with Brilliance China Group, Huachen Group and Wuliangye Group are disclosed in Notes 18, 21 and 24.

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.

36. RELATED PARTY DISCLOSURES (Cont'd)

Compensation of key management personnel

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

	2012 RMB'000	2011 RMB'000
Short-term benefits	**4,450**	4,767
Post-employment benefits	**–**	–
	4,450	4,767

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 centralized and made by the Brilliance China Group and Wuliangye Group for the year, and such amounts are considered as insignificant.

37. RETIREMENT BENEFIT PLAN

The employees of the Group are members of the state-managed retirement benefit scheme operated by the PRC government. Mianyang Xinchen is required to contribute a certain percentage of basic payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

38. SHARE-BASED PAYMENT TRANSACTIONS

Share Incentive Scheme

During the year ended 31st December, 2011, the Company established a share incentive scheme to provide an incentive to directors, management, employees and relevant personnel of the Group who have contributed or will make contributions to the development and growth of the Group ("Beneficiaries") (the "Incentive Scheme") which contains two trust arrangements, namely a fixed trust (the "Fixed Trust") and a discretionary trust (the "Discretionary Trust"). On 31st October, 2011, the Company issued 93,999,794 shares of the Company, representing approximately 9.998% of the 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 (see Note 29). The subscription price of HK$1.0817 per share is considered as fair value since it was determined based on the Mianyang Xinchen Valuation Report, which was issued by an independent valuer for the purpose of Group Reorganization (see Note 2) and it was also used to determine the consideration for the shares issued to Dongfeng Motors Engineering (i.e. HK$1.0817 per Share), which is an independent third party prior to its investment.

38. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

Share Incentive Scheme (Cont'd)

Under the Fixed Trust, on 31st October, 2011, the relevant Beneficiaries subscribed for 57,021,834 shares of the Company at HK$1.0817 per share, which represented a price approximated fair value of each share at the date of issuance. Therefore, those shares granted under the Fixed Trust have not resulted in share-based payment expense for the Group.

The following table discloses the movements in the number of outstanding shares awarded during the year under the Fixed Trust:

	Number of shares awarded during the year end at 31st December, 2011 and 2012	Vesting period
Directors	5,916,474	(a)
	5,916,474	(b)
	2,958,236	(c)
Employees	16,892,260	(a)
	16,892,260	(b)
	8,446,130	(c)
	57,021,834	
Exercisable at the end of the year	–	

The shares of the Company under the Fixed Trust are subject to three vesting periods: (a) from the listing date of the Company until the expiry date of the six-month period from the listing date (the "Lock-up Period") (vesting period "a"); (b) the date following the first anniversary from the expiry date of the Lock-up Period (vesting period "b"); and (c) the date following the second anniversary from the expiry date of the Lock-up Period (vesting period "c"). The Fixed Trust will be terminated on (i) the date which is 10 years from the date of the trust deed (i.e. 25th October, 2011); or (ii) the date on which the transfer of all the trust assets to the relevant Beneficiaries under the Fixed Trust is completed, whichever is earlier.

To the extent that Lead In receives any dividends from the Company prior to the transfer, Lead In will retain such dividends for the sole purpose of future subscriptions of the shares of the Company to award future Beneficiaries.

Under the Discretionary Trust, the relevant Beneficiaries will be entitled to subscribe for shares of the Company at the same subscription price paid by Lead In of HK$1.0817 per share. During the year ended 31st December, 2011, Lead In subscribed for 36,977,960 shares in the Company at HK$1.0817 per share for the purpose of granting shares to the relevant Beneficiaries for services rendered or to be rendered to the Group. However, during the years ended 31st December, 2012 and 2011, the Beneficiaries under the Discretionary Trust have not been identified and no shares of the Company held under the Discretionary Trust have been granted. Therefore, no share-based payment expenses have been recognized for both years.

38. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

Share Option Scheme

The Company has conditionally adopted a share option scheme on 25th April, 2012 (amended and restated on 8th February, 2013) to provide incentives or rewards to participants for their contribution to the Group and/or to enable the management of the Group to recruit and retain employees that are valuable to the Group.

The maximum number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the share option scheme must not in aggregate exceed 30% of the issued share capital of the Company from time to time.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the share option scheme (including both exercised or outstanding Options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being (the "Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant, shall be subject to shareholders' approval in general meeting of the Company with such participant and his associates abstaining from voting.

Any grant of options under the share option scheme to a director, chief executive (other than a proposed director or a proposed chief executive of the Company) or substantial shareholder of the Company, or any of their respective associates, must be approved by independent non-executive directors.

The exercise price is determined by the directors of the Company, but shall not be lower than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's share. Without prejudice to the generality of the foregoing, the directors may grant options in respect of which the exercise price is fixed at different prices for each different period during the option period provided that the exercise price per share for each of the different periods shall not be less than the exercise price determined in the aforesaid manner.

An offer of grant of an option may be accepted by a participant within 21 days from the date of the offer of grant of the option. A consideration of HK$1 is payable on acceptance of the offer of grant of an option.

An option may be exercised in accordance with the terms of the share option scheme at any time during a period to be determined and notified by the directors to each grantee, which period may commence on the date of grant of the options but shall end in any event not later than 10 years from the date of grant of the options subject to the provisions for early termination thereof.

No share options have been granted by the Company during the year ended 31st December, 2012.

39. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 31st December, 2012, the Group had the following significant events:

In February 2013, Brilliance Investment, Brilliance China, Xinhua Investment, Xinhua Combustion Engine, Sichuan Yibin Pushi Group Co., Ltd. and Wuliangye entered into a deed of indemnity in favor of the Group in respect of, amongst others, (i) taxation resulting from income, profits or gains earned, accrued or received as well as any claim to which the Group may be subject on or before the date on which the Listing becomes unconditional (the "Effective Date") which might be payable by the Group; (ii) Hong Kong estate duty which might be payable by the Group, by reason of any transfer of property (within the meaning of Section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong, as amended by the Revenue (Abolition of Estate Duty) Ordinance) to the Group on or before the Effective Date; and (iii) all claims, liabilities and expenses incurred by the Group in connection with the failure to obtain state-owned land use right certificates from the relevant competent governmental authorities in the PRC in relation to any of the properties owned by the Group in the PRC.

In March 2013, the Company completed the Listing on the Stock Exchange with the issue of 313,400,000 new shares of the Company at HK$2.23 each to public shareholders. The Company intends to use the net proceeds to fund the expansion of production capacity, new product development activities and construction of a research and development centre.

40. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation or establishment/ operation	Issued and fully paid share/ registered capital	Proportion of issued share/ registered capital held by the Company Directly	Proportion of issued share/ registered capital held by the Company Indirectly	Principal activities
Southern State	British Virgin Islands/ Hong Kong	US$1 Ordinary share	100%	–	Investment holding
Mianyang Xinchen#	PRC	US$24,120,000 Registered capital	–	100%	Development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles

There is no loan capital issued by its subsidiaries during the year and up to the date of this report.

The subsidiary is a sino-foreign equity joint venture enterprise.