***This summary provides an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the prospectus in its entirety, including our financial statements and the accompanying notes, before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used in this section are defined in "Definitions" and "Glossary of Technical Terms" in this prospectus.***

## OVERVIEW

We are one of the leading automotive engine manufacturers in the independent branded segment of the PRC passenger vehicle, or PV, and light commercial vehicle, or LCV, engine market in terms of sales volume in 2011. We develop, manufacture and sell light-duty gasoline and diesel engines used by various local and foreign-invested PV and LCV manufacturers in the PRC. We were the largest independent branded engine manufacturer of small bus engines in China in 2011 in terms of sales volume according to the Frost & Sullivan Report. According to the Frost & Sullivan Report, in terms of sales volume in 2011, we accounted for 9.4% of the independent branded segment of the PV and LCV engine market in China, and independent brands accounted for approximately 13.8% of the PV and LCV engine market in China. Our target PV and LCV engine market in China has experienced rapid growth in recent years. According to the Frost & Sullivan Report, the total sales volume of PV and LCV engines in China had grown from 7.9 million units in 2007 to 17.1 million units in 2011. We believe our brand "XCE 新晨動力" enjoys high brand recognition in the PRC automotive industry and it was named as one of the "Top 10 Brands for Diesel Engines" by the China Internal Combustion Engine Industry Association and China Automotive News in 2010. We believe that we are one of the few local light-duty gasoline and diesel engine manufacturers in China with the research and development capabilities to independently develop automotive engines. Our Directors confirm that to their best knowledge, our market position in the nine months ended September 30, 2012 has not materially deteriorated from 2011.

## PRODUCTS

During the Track Record Period, our main products were light-duty gasoline and diesel engines which have displacement ranging from 1.0L to 2.7L and engine power ranging from 38.5kW to 120.0kW. As of the Latest Practicable Date, we manufacture and sell 36 models of automotive engines, installed in a wide range of PVs and LCVs, including sedans, SUVs, MPVs, small buses and minibuses, small and light-duty trucks. We focus on producing high quality and high performance/price ratio automotive engines with low fuel consumption, emissions and noise that target the mid to low end automotive markets. All vehicles installed with our engines meet the current mandatory National Emission Limits (National III and IV) and Phase II of the Fuel Consumption Limits, or the equivalent overseas standards, and some vehicles installed with our engines meet Phase III of the PV Fuel Consumption Limits. These emissions and fuel consumption limits apply to vehicles but their compliance is directly related to the performance of the engines. Our engines have received numerous awards in recognition of their quality and performance. For example, China Internal Combustion Engine Industry Association and China Automotive News awarded our D20A light-duty diesel engine with a "2011 Fuel Efficiency Award" in 2011, our 4A13 and 4A15 light-duty gasoline engines with a "2010 Efficient Fuel Consumption Gold Award" in 2010 and our ZD25TCR light-duty diesel engine as one of the "Top 10 Chinese Engines" in 2008, with the other nine engines all being gasoline engines. In addition to engine sales, we also generate a small portion of our revenue from the manufacture and sale of engine components and providing testing services to external customers. For further details of our products, see "Business — Our Products" in this prospectus.

The following table sets forth the sales volume and revenue of our engines by fuel type and displacement range for the periods indicated:

| | Year ended December 31, | | | | | | Nine months ended September 30, | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | | 2010 | | 2011 | | 2012 | |
| | Sales Volume (Unit) | Revenue (RMB million) | Sales Volume (Unit) | Revenue (RMB million) | Sales Volume (Unit) | Revenue (RMB million) | Sales Volume (Unit) | Revenue (RMB million) |
| **Light-duty Gasoline Engines** | | | | | | | | |
| ≤1.6L | 32,292 | 265.8 | 74,182 | 589.9 | 80,326 | 622.3 | 86,564 | 650.5 |
| >1.6L — 2.0L | 37,227 | 261.7 | 46,534 | 321.7 | 40,320 | 290.5 | 34,011 | 236.7 |
| >2.0L — 2.5L | 49,983 | 446.3 | 69,890 | 635.5 | 88,238 | 856.9 | 65,127 | 646.3 |
| >2.5L — 3.0L | 438 | 9.9 | 478 | 10.7 | 1,676 | 33.8 | 1,402 | 26.4 |
| Sub-total | 119,940 | 983.7 | 190,084 | 1,557.8 | 210,560 | 1,803.5 | 187,104 | 1,559.9 |
| **Light-duty Diesel Engines** | | | | | | | | |
| >2.0L — 2.5L | 10,768 | 275.2 | 14,817 | 352.2 | 19,694 | 463.4 | 16,543 | 358.6 |
| **Total** | 130,708 | 1,258.9 | 205,901 | 1,910.0 | 230,254 | 2,266.9 | 203,647 | 1,918.5 |

The following table sets forth the gross profit and gross profit margin of our engines by fuel type and displacement range for the periods indicated:

| | Year ended December 31, | | | | | | Nine months ended September 30, | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | | 2010 | | 2011 | | 2012 | |
| | RMB million | % | RMB million | % | RMB million | % | RMB million | % |
| **Light-duty Gasoline Engines** | | | | | | | | |
| ≤1.6L | 15.1 | 5.7 | 56.1 | 9.5 | 80.7 | 13.0 | 90.0 | 13.8 |
| >1.6L — 2.0L | 32.3 | 12.3 | 38.8 | 12.0 | 65.6 | 22.6 | 49.9 | 21.1 |
| >2.0L — 2.5L | 74.9 | 16.8 | 123.7 | 19.5 | 183.6 | 21.4 | 141.7 | 21.9 |
| >2.5L — 3.0L | 2.3 | 23.2 | 5.1 | 47.7 | 14.4 | 42.6 | 10.5 | 40.0 |
| Sub-total | 124.6 | 12.7 | 223.7 | 14.4 | 344.3 | 19.1 | 292.1 | 18.7 |
| **Light-duty Diesel Engines** | | | | | | | | |
| >2.0L — 2.5L | 39.0 | 14.2 | 70.1 | 19.9 | 118.9 | 25.7 | 89.7 | 25.0 |
| Total | 163.6 | 13.0 | 293.8 | 15.4 | 463.2 | 20.4 | 381.8 | 19.9 |

The following table sets forth the average unit price of our engines by fuel type and displacement range for the periods indicated:

| | Year ended December 31, | | | Nine months ended September 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | Average Unit Price (RMB) | Average Unit Price (RMB) | Average Unit Price (RMB) | Average Unit Price (RMB) |
| **Light-duty Gasoline Engines** | | | | |
| ≤1.6L | 8,231 | 7,952 | 7,748 | 7,515 |
| >1.6L — 2.0L | 7,030 | 6,913 | 7,206 | 6,961 |
| >2.0L — 2.5L | 8,929 | 9,093 | 9,712 | 9,924 |
| >2.5L — 3.0L | 22,603 | 22,447 | 20,145 | 18,789 |
| **Light-duty Diesel Engines** | | | | |
| >2.0L — 2.5L | 25,557 | 23,770 | 23,528 | 21,677 |

As an independent branded engine supplier, generally our products are designed to fit different models of vehicles manufactured by different automotive manufacturers. We perform thorough market analysis and feasibility studies before commencing any product research and development project and focus on engines that have the potential to gain widespread market acceptance or become the best among similar classes of products on the market. We reach out to potential customers as early as their product development stage and communicate with our customers on a regular basis to understand their needs. From time to time, we design engines that are compatible with their specific vehicle models through entering into joint development contracts with our customers and third parties. This allows us to secure target customers at the research and development stage. The intellectual property resulting from such joint research and development may belong to us or our customers, and our customers may bear part or all of the development costs. However, there is no significant difference in the cost, time and effort involved in developing a new engine model independently or jointly with our customers, as in either case we need to pass a customer approval process before entering into supply contracts with them, which may take months and during which we are required to submit our sample engines and related specifications and qualifications to our potential customers, who will conduct a series of tests to determine whether the functionality, compatibility and quality of our engines are in compliance with their requirements. This approval process may be carried out in conjunction with joint product development by our customers and us. During the Track Record Period, we did not fail to pass any existing customer's approval process for a new product or fail to maintain existing customer approvals due to our product quality. Our lead-time for development of a new engine model is typically not more than two years. The pricing and marketing strategies for independently and jointly developed engines are the same.

## SALES AND CUSTOMERS

Our customers include local and foreign-invested automotive manufacturers and automotive components companies in China. Our top customers during the Track Record Period include well-known automotive manufacturers in China, such as Brilliance China Group, Huachen Group, Zhengzhou Nissan, Xiamen Golden Dragon and GAC Changfeng. For the three years ended December 31, 2011 and the nine months ended September 30, 2012, our top five customers, on an entity basis, accounted for 82.9%, 77.8%, 76.0% and 75.3% of our revenue, respectively. As of December 31, 2009, 2010 and 2011 and September 30, 2012, apart from our Controlling Shareholders and Huachen, we had 24, 26, 24 and 31 customers, respectively. We provide before and after-sales services to our customers through a wide sales network covering all major regions of China.

We recognize revenue from the sale of our products when the products are delivered to and accepted by our customers. At the end of each month, we will reconcile the amounts of sales with customers to ensure the revenue and the corresponding account receivables are properly recorded in that month. We generally extend a credit period of 30 to 60 days to our non-related customers and three months to our related customers, both with a further three to six months for payment by promissory notes issued by banks and financial institutions. We may further extend the credit period if the customer has a good track record with us and low credit risk.

We intend to continue to secure future demand for our products and strengthen our relationships with our major customers through strategic alliances. During the Track Record Period, aggregate sales to Brilliance China, Huachen and Wuliangye, each on a group basis amounted to RMB663.5 million, RMB1,075.6 million, RMB1,077.8 million and RMB867.4 million, which accounted for 51.6%, 55.3%, 46.7% and 44.6% of our revenue for the same periods, respectively, and total sales to Brilliance China, on a group basis accounted for 48.8%, 41.4%, 18.0% and 19.6% of our revenue for the same periods, respectively. We believe that our close relationship with Brilliance China has provided and will continue to provide us with a competitive edge in our industry. We entered into a non-binding strategic alliance agreement with Dongfeng in January 2007 to jointly develop engines suitable for Dongfeng's vehicles. To solidify this alliance, we entered into a binding joint venture agreement with Dongfeng in December 2011 and established the Dongfeng JV in January 2012 to manufacture the JV-branded engines for Dongfeng's light-duty vehicles. In addition, we entered into a strategic alliance agreement with Zhengzhou Nissan in February 2007 to jointly pursue the research and development and production of engines for Zhengzhou Nissan's SUVs and pickups. We entered into a cooperation agreement in August 2011 and a subsequent engine production line management agreement in November 2011 with FAW Jilin, pursuant to which we will manage and operate one of their engine production lines to manufacture our engines exclusively for their vehicles.

## PRODUCTION, RAW MATERIAL AND ENGINE COMPONENTS AND SUPPLIERS

We carry out all our manufacturing activities at our production facilities currently located in Mianyang, Sichuan Province. As of the Latest Practicable Date, we had 15 production lines.

Our production involves one principle raw material and over 200 kinds of engine components. Our principal raw material is aluminum ingots and our engine components include cylinder casting, electronic fuel injection systems, crankshafts and other parts and components. We do not have a single raw material or engine component that accounted for more than 10% of our total costs of raw material and engine components during the Track Record Period. We mainly source aluminum ingots and engine components from various independent third-party suppliers in the PRC, and to a lesser extent, from our related companies. We procure aluminum ingots and engine components from our list of pre-approved suppliers that meet our quality standards. We normally enter into supply contracts with our suppliers on a yearly basis. Although we do not enter into long-term supply contracts with our suppliers, we believe that we are able to maintain long-term business relationships with most of our suppliers. We have on average 11 years of relationships with our top five suppliers. Our economies of scale helps us, in many cases, to negotiate and secure favorable pricing terms with our suppliers. We believe that these favorable pricing terms allowed us to achieve low production costs. We also enter into strategic arrangements with some of our suppliers to secure competitive pricing terms and ensure stable and quality supplies.

## PRODUCTION CAPACITY

The following table sets forth the designed engine production capacity, actual engine production volume and utilization rate of our Mianyang production facilities for the periods indicated:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| Designed engine production capacity(1) (Units) | 139,200 | 200,000 | 220,800 | 255,000 |
| Actual engine production volume (Units) | 140,323 | 212,200 | 220,013 | 265,321 |
| Utilization rate (%)(2) | 100.8(3) | 106.1(3) | 99.6 | 104.0(3) |

(1) Our designed engine production capacity is calculated based on 251 working days per year and two workshifts of eight hours each per day and is the weighted average of the production capacity based on the month of the year in which the production capacity was realized.

(2) Our utilization rate is calculated based on our actual engine production volume divided by our designed engine production capacity.

(3) Over 100% utilization rate is due to the addition of a third workshift during the period.

## PRODUCTION CAPACITY EXPANSION

To meet the increasing demand for our products and to increase our revenue, we plan to expand our current production capacity through the construction of new production facilities, improving our production technologies and the purchase of new production equipment. Since the end of 2010, we have begun to transition all of our production to our new production facilities that are currently under construction in the Mianyang High-Tech Development Zone in Sichuan Province. We have obtained all land use rights and construction permits necessary for this project. We expect our new production facilities to commence full commercial production by September 30, 2013. We also established the Dongfeng JV jointly-controlled by us and Dongfeng in Jiangsu Province to manufacture engines for Dongfeng's light-duty vehicles and plan to manage an engine production line owned by FAW Jilin in Jilin Province to manufacture our engines exclusively for their vehicles. Our total capital expenditure in relation to the Dongfeng JV is RMB125 million, of which RMB50.0 million has been incurred during the nine months ended September 30, 2012. We have no capital expenditure commitment to FAW Jilin, because the production line is owned by them and managed by us. These two operations are currently in the construction and production preparation stage, respectively. Furthermore, we expect to build a new production line to manufacture engines specifically for Shenyang Jinbei. This is pursuant to an engine assembly license agreement and related agreements that we entered into with a leading European passenger vehicle manufacturer, PVM, and BMW Brilliance Automotive, which authorizes us to manufacture a specific PVM engine model primarily for supply to Shenyang Jinbei for installation into a Jinbei MPV model. Under this agreement, PVM will grant us a non-exclusive license of its technology to enable us to manufacture the PVM engines, and provide us with relevant technical consulting services in relation to the installation of a production line at our production facilities and training of our employees in the production of the engines. In consideration, we will pay royalties to PVM and relevant remuneration and expenses. The following table sets forth a summary of our production capacity expansion plan. For further details, see "Business — Production" in this prospectus.

| Production Facilities | Production Capacity as of the Latest Practicable Date | Planned Expanded Production Capacity |
|---|---|---|
| New production facilities located at Mianyang, Sichuan | 255,000 units/year | 300,000 units/year, upon full commercial production by September 30, 2013 |
| Dongfeng JV located at Changzhou, Jiangsu | Nil (Construction of this facility commenced in July 2012) | 100,000 units/year upon completion of phase one by June 2013 and 200,000 units/year upon completion of phase two |
| FAW Jilin's production facilities located at Jilin, Jilin | 40,000 units/year (Operation has not commenced at this facility yet) | 40,000 units/year, upon commencement of operation by September 30, 2013 |
| Production line of engines for Shenyang Jinbei | Nil (Construction of this production line to commence in early 2014) | 50,000 units/year, upon full commercial production by June 2014 |

## CAPITAL EXPENDITURES

The following table sets forth our estimated capital expenditures and sources of capital for 2013 and beyond. For further details, see "Financial Information — Capital Expenditures."

| | 2013 | 2014 | 2015 | 2016 | Total |
|---|---|---|---|---|---|
| | (RMB million) | (RMB million) | (RMB million) | (RMB million) | (RMB million) |
| **Production capacity expansion at Mianyang** | | | | | |
| Proceeds from the Global Offering | 118.0 | 88.0 | 39.7 | 39.7 | 285.4 |
| Working capital | 28.3 | — | — | — | 28.3 |
| **Construction of Chengdu research and development center** | | | | | |
| Proceeds from the Global Offering | 65.3 | — | — | — | 65.3 |
| Working capital | 6.0 | 44.0 | — | — | 50.0 |
| **New products development** | | | | | |
| Proceeds from the Global Offering | 68.0 | 27.4 | 27.4 | 19.7 | 142.5 |
| Working capital | 12.9 | 25.8 | 12.2 | 9.2 | 60.1 |
| **Dongfeng JV capital contribution** | | | | | |
| Proceeds from the Global Offering | — | — | — | — | — |
| Working capital | 75.0 | — | — | — | 75.0 |
| **Production line of engines for Shenyang Jinbei** | | | | | |
| Proceeds from Global Offering | 20.1 | 40.2 | 30.2 | 10.1 | 100.6 |
| Working capital | — | — | — | — | — |
| **Total** | 393.6 | 225.4 | 109.5 | 78.7 | 807.2 |

## RESEARCH AND DEVELOPMENT

We focus on designing and developing new models of automotive engines based on market demands and trends as well as improving the performance and functionality of our existing engine models. Our research and development team consists of over 160 personnel who have on average over 12 years of automotive engine industry experience. As we undertake substantially all of our research and development activities in-house, we believe we are able to quickly respond to market demands and changes in market trends. Our research and development capabilities allow us to independently develop our products, which we believe sets us apart from our competitors in China. We plan to bring five engine models to the market between 2013 and 2014. In addition, we plan to establish a new research and development center in Chengdu in Sichuan Province to further strengthen our research and development capabilities. We plan to gradually relocate our current research and development facilities and activities to the Chengdu research and development center once it is completed. For further details of our research and development activities, see "Business — Research and Development" in this prospectus.

## INDUSTRY AND COMPETITION LANDSCAPE

We target the PV and LCV engine market in China, which we consider to be fast growing yet highly competitive. The competition among existing market players is intense in terms of product quality, pricing, performance, reliability, timeliness of delivery, product development capabilities, customer service and overall management. Our key competitors consist of local automotive engine manufacturers as well as large foreign-invested automotive engine manufacturers in China. Furthermore, there is a direct correlation between our business and the automotive production and sales volumes of our customers in the PRC, which are in turn dependent on economic policies and market sentiment and demand. We have benefited from the fast-growing production of automotives in China during the Track Record Period due to various factors, including the continued growth of China's economy, government incentive policies, increases in consumer purchasing power and a historically low rate of automotive ownership. We expect to continue to be affected by these factors in the future. For details about and risks associated with the industry and competitive landscape that we operate in, see "Risk Factors — We operate in a competitive industry and face intense competition from our competitors", "Industry Overview" and "Business — Competition" in this prospectus.

## TRADE AND OTHER RECEIVABLES WITH OUR RELATED AND NON-RELATED COMPANIES

Our trade and other receivables primarily consist of trade receivables, bills receivable, prepayments for the purchase of raw material and engine components and other receivables. Our trade receivables primarily consist of account receivables with our related and non-related customers in connection with the sale of our products. Our bills receivable primarily consist of promissory notes issued by banks and financial institutions delivered by our related and non-related customers in lieu of cash payment for purchases. Our trade and other receivables with our related customers are accounted for on our consolidated statements of financial position as "Amounts due from related companies."

The following table sets forth our trade and bills receivables with our related and non-related companies and the amounts that were past due but not impaired as of the dates indicated:

| | As of December 31, | | | As of September 30, 2012 | As of January 31, 2013 | Subsequent settlement of September 30, 2012 balance as of January 31, 2013[4] |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | | | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | (%) |
| With non-related companies | | | | | | |
| Trade receivables[1] | 51,923 | 33,136 | 245,437 | 380,321 | 355,559 | 63 |
| Bills receivable[2] | 40,853 | 134,332 | 241,542 | 265,649 | 323,454 | 73 |
| Total | 92,776 | 167,468 | 486,979 | 645,970 | 679,013 | |
| Past due but not impaired | 6,723 | 2,631 | 43,513 | 202,200 | 167,858 | 70 |
| With related companies | | | | | | |
| Trade receivables[1] | 458,105 | 701,400 | 892,816 | 942,549 | 697,893 | 73 |
| Bills receivable[2] | 74,100 | 125,000 | 169,094 | 11,760[3] | 175,870 | 100 |
| Total | 532,205 | 826,400 | 1,061,910 | 954,309 | 873,763 | |
| Past due but not impaired | 145,660 | 266,131 | 419,471 | 471,550 | 408,576 | 100 |

(1) The increases of our trade receivables with related and non-related companies during the Track Record Period were primarily due to the increase in our sales and prolonged payment cycles by some of them.

(2) The increases of our bills receivables with related and non-related companies during the Track Record Period were primarily due to the PRC Government's tightened credit policy starting in 2010 and continuing through 2011 and 2012, which increased pressure on their cash flow.
(3) The substantial decrease in our bills receivable with related companies in the nine months ended September 30, 2012 was primarily due to a significant amount of bills maturing and being paid in cash by the issuing banks and financial institutions, and the increase in the endorsement and discounting by us of bills receivable for payment to our suppliers or for cash.
(4) The subsequent settlement of September 30, 2012 balance as of January 31, 2013 represents the percentage of balances of the trade and bills receivables as of September 30, 2012 that has been settled through cash and promissory notes issued by banks and financial institutions which mature within three to six months as of January 31, 2013.

As of the Latest Practicable Date, all the amounts due from our related companies that were past due as of September 30, 2012 have been settled nil by cash and RMB471.6 million by promissory notes issued by banks and financial institutions which mature within three to six months.

We generally extend our non-related customers a credit period of 30 to 60 days, and related customers a credit period of three months, from the date of issuance of the invoice, and further extend the credit period by three to six months if at any point during the credit period the customer chooses to pay by promissory notes issued by banks and financial institutions, although such terms may vary based on our historical relationships with, and assessment of creditworthiness of, each customer. Accepting promissory notes issued by banks and financial institutions, which mature within three to six months, in lieu of cash payment has the effect of increasing our bills receivable turnover days and increasing pressure on our cash flow and working capital needs. As our key customers are generally creditworthy and have demonstrated a good track record of timely payments, and the promissory notes are issued by reputable banks and financial institutions in the PRC, we generally consider the default risks relating to our trade and bills receivables to be relatively low.

To the extent necessary in light of the prolonged credit periods we may extend to our customers, we supplement our working capital needs through bank borrowings, discounting bills receivable for cash and endorsing promissory notes issued by banks and financial institutions to purchase raw materials and engine component parts from our suppliers in addition to cash generated from our operations, which has the effect of reducing our bills receivable but increasing our finance costs. We believe that settlement by promissory notes issued by banks and financial institutions is a customary practice in our industry. We believe our trade and bills receivables turnover days are comparable to the industry average, and we strive to maintain effective internal management and reduce our trade and bills receivables related risks by maintaining frequent communication with our customers, performing periodic evaluations of the overdue receivables and customer visits to ensure our exposure to bad debts is not significant and adequate impairment losses are made for irrecoverable amounts. We have also included a receivables collection rate as one of the standards to evaluate the performance of our sales personnel to encourage them to collect amounts due from our customers.

For risks related to our increased trade and bills receivables during the Track Record Period, see "Risk Factors — Our trade and bills receivables with related and non-related companies increased significantly during the Track Record Period" and "Risk Factors — We face risks related to discounting and endorsing bills receivable."

## LIQUIDITY AND CAPITAL RESOURCES

To maintain an adequate level of liquidity, we review and analyze our inventory, accounts payable and receivable and cash and cash equivalents on a regular basis and obtain bank borrowings when necessary. During the Track Record Period, our working capital position improved over time, with net current assets of RMB250.8 million, RMB365.6 million, RMB666.1 million and RMB768.8 million as of December 31, 2009, 2010 and 2011 and September 30, 2012, respectively.

However, we recorded negative operating cash flows of RMB9.6 million in 2010, primarily due to increases in both the amounts due from our related companies and the number of turnover days associated with these amounts, mainly caused by delayed payments by them, in particular, Brilliance China Group and Huachen Group, when their own cash flows were affected by the launching of their new products and the tightened credit policy by the PRC Government to control inflation in 2010. We did not hold any collateral over these balances because these were trade related receivables and our management assessed these related companies to be financially sound, taking into consideration the gradual and frequent repayments from these related companies. We aim to enhance our liquidity management and collect the payments by our related companies prudently. See "Business — Inventory Management", "Financial Information — Liquidity and Capital Resources" and "Financial Information — Description of Certain Items from Our Consolidated Statements of Financial Position" for more details regarding our inventory management, liquidity and capital resources and accounts payable and receivable, and "Risk Factors — We recorded negative operating cash flows in 2010, primarily due to increased amounts due from our related companies. There can be no assurance that we will record positive operating cash flows in the future", "Risk Factors — The global financial crisis, economic downturn and uncertainty may have a material and adverse effect on our business, financial condition and results of operations" and "Risk Factors — Changes in interest rates may affect our financing costs" for the impacts of the PRC's tightened credit policy in 2010 and 2011 on our business and results of operations.

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS AND HUACHEN

Our Controlling Shareholders consist of Brilliance Investment, Brilliance China, Xinhua Investment, Xinhua Combustion Engine, Pushi Group and Wuliangye. Huachen is a controlling shareholder of Brilliance China, but Brilliance China is not a subsidiary of Huachen. Huachen is deemed by the Stock Exchange as a connected person of our Company but is not a controlling shareholder of our Company.

We have full control over our assets to continue our business independently of our Controlling Shareholders and Huachen. We do not rely on our Controlling Shareholders or Huachen for our operations, technology, product development, production, staffing or marketing, save as certain sale and purchase transactions with our Controlling Shareholders and Huachen and/or their respective associates disclosed in this prospectus. Our Directors and senior management conduct our business with established systems and arrangements in place. Our organizational structure is made up of functional departments, each with specific areas of responsibility. We have also established a set of internal controls to facilitate the effective operation of our business.

During the Track Record Period, we have entered into certain sale and/or purchase transactions with our Controlling Shareholders and Huachen and/or their respective associates which are expected to continue after the Listing. These transactions are governed by agreements entered into in the ordinary course of our business and on terms which we believe are fair and reasonable, and we are entitled to choose third parties who can provide the relevant products or services to us upon comparable terms.

Brilliance China has shareholdings in certain automotive engine businesses (namely, Shenyang Xinguang Brilliance and Aerospace Mitsubishi) that are not included in, and may compete with the business of, our Group.

Each of Huachen and Brilliance China has entered into an undertaking in favor of our Company with regard to the above-mentioned automotive engine businesses with our Group. In addition, our Controlling Shareholders and Huachen entered into a deed of non-competition on February 25, 2013 in favor of our Company in relation to the non-participation in certain business activities which may compete with our business. For further details, see "Relationship with our Controlling Shareholders and Huachen" in this prospectus.

## TRANSACTIONS WITH OUR CONNECTED PERSONS

We sell a substantial portion of our engines to our connected persons. For the three years ended December 31, 2011 and the nine months ended September 30, 2012, our sales to Brilliance China Group accounted for approximately 48.8%, 41.4%, 18.0% and 19.6% of our revenue, respectively. For the same period, our sales to Huachen Group accounted for approximately 2.8%, 13.9%, 28.7% and 25.0% of our revenue, respectively. We also procured various engine components from our connected persons during the Track Record Period. For the three years ended December 31, 2011 and the nine months ended September 30, 2012, our purchases from Brilliance China Group accounted for approximately 2.2%, 2.2%, 2.1% and 2.3% of our cost of sales, respectively. For the same period, our purchases from Wuliangye Group accounted for approximately 9.8%, 9.9%, 8.4% and 6.9% of our cost of sales, respectively. The key terms of the sales or supply agreements with our connected persons are comparable to those contained in the sales or supply agreements we enter into with our non-connected customers or suppliers, except that the credit periods we extend to our connected customers are longer than those extended to our non-connected customers. We believe that our close relationships with our Controlling Shareholders and Huachen have provided and will continue to provide us with a competitive edge in our industry. For further details about our connected transactions which will continue after Listing, see "Connected Transactions" in this prospectus.

## PRE-IPO INVESTMENT BY DONGFENG MOTORS ENGINEERING

On October 31, 2011, Dongfeng Motors Engineering and our Company entered into a subscription agreement (as amended and supplemented on December 16, 2012), pursuant to which Dongfeng Motors Engineering subscribed for 46,200,000 Shares at a consideration of HK$49,975,714.94, representing approximately 4.914% of the then issued share capital of our Company and approximately 3.685% of the issued share capital of our Company upon completion of the Global Offering (assuming the Over-allotment Option is not exercised). We believe that Dongfeng Motors Engineering's investment in our Company further strengthens our relationship with Dongfeng Group, demonstrates their confidence in our Group's operation and recognizes the past contribution and performance of our Group.

## INCENTIVE SCHEME ESTABLISHED BY LEAD IN

We established the Incentive Scheme in 2011 to serve as a retention tool, and to align the interests of the Beneficiaries with that of our Company. Lead In was incorporated in 2011 for the purpose of holding the Lead In Subscribed Shares on trust for the Beneficiaries under the Discretionary Trust and the Fixed Trust. On October 31, 2011, Lead In Subscribed for 93,999,794 Shares at a consideration of HK$101,681,967.73, representing approximately 9.998% of the then issued share capital of our Company and approximately 7.498% of the issued share capital of our Company upon completion of the Global Offering (assuming the Over-allotment Option is not exercised). Under the Discretionary Trust, Lead In agreed to hold approximately 3.933% of the then issued share capital of our Company on trust for the future benefit of certain Beneficiaries to be jointly determined by the board of directors of Lead In and the Board of our Company after Listing. Under the Fixed Trust, Lead In agreed to hold approximately 6.065% of the then issued share capital of our Company on trust for certain Directors, senior management and employees of our Group. For details of the above arrangements, see "History and Reorganization — Incentive Scheme Established by Lead In" in this prospectus.

## OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths have contributed and will continue to contribute to our success:

- we are one of the leading automotive engine manufacturers in the independent branded segment of the fast-growing PV and LCV engine market in China;
- we offer a diversified product portfolio of light-duty engines for a broad range of vehicles;
- we have strong research and development capabilities;
- we have stable and long-term customer relationships; and
- we have a dedicated and experienced management team.

See “Business — Our Competitive Strengths” in this prospectus for a detailed discussion of these strengths.

## OUR STRATEGIES

We aim to strengthen our leading position in the independent branded segment of the PRC PV and LCV engine market and to become the supplier of choice for local and international automotive manufacturers through the following strategies:

- further enhance our research and development capabilities and strengthen our technologies;
- expand our product offerings to cater to evolving market demand;
- expand our production capacity to meet the increasing demand for our products; and
- increase our market share by strengthening relationships with our existing customers and developing new customer relationships.

Please see “Business — Our Strategies” in this prospectus for a detailed discussion of these strategies.

## SUMMARY OF HISTORICAL FINANCIAL INFORMATION

We have experienced rapid growth during the Track Record Period. The following consolidated statements of comprehensive income for the three years ended December 31, 2011 and the nine months ended September 30, 2011 and 2012, and the selected consolidated statements of financial position as of December 31, 2009, 2010 and 2011 and September 30, 2012 are derived from, should be read in conjunction with and are qualified in their entirely by reference to, our Financial Information, including the notes thereto, included in the Accountants' Report set forth in Appendix I to this prospectus.

### Consolidated Statements of Comprehensive Income

| | Year ended December 31, | | | Nine months ended September 30, | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| Revenue | 1,285,167 | 1,945,114 | 2,307,748 | 1,499,996 | 1,946,268 |
| Cost of sales | (1,114,759) | (1,643,824) | (1,831,140) | (1,197,205) | (1,556,276) |
| Gross profit | 170,408 | 301,290 | 476,608 | 302,791 | 389,992 |
| Other income | 10,197 | 11,144 | 10,012 | 6,643 | 6,361 |
| Selling and distribution expenses | (52,018) | (65,845) | (48,611) | (29,737) | (40,214) |
| Administrative expenses | (44,378) | (55,419) | (62,638) | (46,772) | (49,891) |
| Finance costs | (11,130) | (17,753) | (37,520) | (22,872) | (21,555) |
| Other expenses | (13,568) | (23,595) | (33,212) | (16,962) | (24,577) |
| Share of result of a jointly controlled entity | — | — | — | — | 281 |
| Profit before tax | 59,511 | 149,822 | 304,639 | 193,091 | 260,397 |
| Income tax expense | (1,234) | (365) | (44,250) | (28,524) | (36,628) |
| Profit and total comprehensive income for the year/period | 58,277 | 149,457 | 260,389 | 164,567 | 223,769 |
| Earnings per share — Basic (RMB) | 0.073 | 0.187 | 0.316 | 0.206 | 0.238 |

### Selected Consolidated Statements of Financial Position

| | As of December 31, | | | As of September 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Total non-current assets | 287,521 | 318,052 | 398,319 | 514,134 |
| Total current assets | 1,224,619 | 1,601,674 | 2,365,829 | 2,515,663 |
| Total current liabilities | 973,860 | 1,236,074 | 1,699,746 | 1,746,893 |
| Net current assets | 250,759 | 365,600 | 666,083 | 768,770 |
| Total assets less current liabilities | 538,280 | 683,652 | 1,064,402 | 1,282,904 |
| Total non-current liabilities | 35,768 | 35,179 | 32,010 | 26,743 |
| Net assets | 502,512 | 648,473 | 1,032,392 | 1,256,161 |
| Paid-in capital/share capital | 200,008 | 200,008 | 7,693 | 7,693 |
| Reserves | 302,504 | 448,465 | 1,024,699 | 1,248,468 |
| Total equity | 502,512 | 648,473 | 1,032,392 | 1,256,161 |

## RECENT DEVELOPMENTS

As far as we are aware, there has been no material change in the general economic and market conditions in China or the industry in which we operate that materially and adversely affected our business operations or financial condition since September 30, 2012 and up to the Latest Practicable Date. Compared with the same period in 2011, for the three months ended December 31, 2012, our engine production volume and sales volume decreased, primarily due to certain customers reducing their orders for our 1.6L to 2.0L gasoline, 2.0L to 2.5L gasoline and 2.0L to 2.5L diesel engines to temporarily reduce their inventories in the fourth quarter of 2012 as part of their destocking efforts and, to a lesser extent, reduced orders from one customer for our less than 1.6L gasoline engines as it started to use some engines manufactured by itself. During the same period, the prices of our engines remained relatively stable. As a result, compared with the same period in 2011, our revenue and net profit for the three months ended December 31, 2012, which remain subject to the completion of the audit for the year ended December 31, 2012 by our reporting accountant, are estimated to decrease by approximately 21% to 24% and 30% to 34%, respectively. Although we currently believe that our actual results for the three months ended December 31, 2012 will be within the estimated ranges, they may not be within these ranges due to, among others, the completion of the audit and final adjustments. Our profit estimate for the financial year ended December 31, 2012 has already taken the above into account.

In recent months, boycotts of Japanese brand cars by Chinese consumers over the controversy regarding ownership of Diaoyu islands in the East China Sea has impacted some automotive manufacturers in China, including our largest customer, Zhengzhou Nissan, which caused decreased sales of their "Nissan" branded cars and suspensions of their production to a certain degree. However, as we do not currently supply our engines to be installed in their "Nissan" branded cars, the recent boycott incidents surrounding the Diaoyu islands dispute did not have any material, adverse impact on our business or operations, and we do not expect to supply any engine to Zhengzhou Nissan to be installed in their "Nissan" branded cars in the near future.

We expect our total listing expenses, which are non-recurring in nature, to amount to approximately RMB62.1 million, out of which we have incurred and recognized approximately RMB23.0 million during the Track Record Period. For the remaining amount of approximately RMB39.1 million, we expect to recognize approximately RMB1.3 million and RMB14.6 million in the consolidated statements of comprehensive income for the three months ended December 31, 2012 and the year ending December 31, 2013, respectively, and approximately RMB23.2 million will be deducted from the Group's capital.

Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in the financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since September 30, 2012, the date of the latest audited consolidated financial statements of our Group.

## PROFIT ESTIMATE FOR THE YEAR ENDED DECEMBER 31, 2012

| | |
|---|---|
| Estimated consolidated profit for the year ended December 31, 2012[(1)] . . . . . . . . . . . . . . . . . . . . . | Not less than RMB290.1 million (equivalent to approximately HK$357.7 million)[(3)] |
| Unaudited pro forma estimated earnings per Share for the year ended December 31, 2012[(2)] . . . . . . | Not less than RMB0.23 (equivalent to approximately HK$0.29)[(3)] |

(1) The bases on which the above profit estimate for the year ended December 31, 2012 have been prepared are summarized in the section headed "Profit Estimate" in Appendix III to the prospectus. The unaudited pro forma estimated earnings and estimated consolidated profit of the Group in RMB are converted into HK$ at an exchange rate at RMB0.8110 to

HK$1, which was the average rate prevailing on January 4, 2012 and December 31, 2012 as set by the PBOC. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.

(2) The calculation of the unaudited pro forma estimated earnings per Share is based on the unaudited estimated consolidated profit attributable to owners of the Company for the year ended December 31, 2012 and a total of 1,253,599,794 Shares in issue, assuming that the Global Offering had been completed on January 1, 2012. It does not takes into account of any Shares which may be issued upon the exercise of the Over-allotment Option, any Shares which may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme, or any Shares which may be issued or repurchased pursuant to the Company's general mandate.

(3) The unaudited pro forma estimated earnings per Share and estimated consolidated profit of the Group in RMB are converted into HK$ at an exchange rate at RMB0.8110 to HK$1, which was the average rate prevailing on January 4, 2012 and December 31, 2012 as set by the PBOC. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.

## OFFER STATISTICS(1)

| | **Based on Offer Price of HK$2.20** | **Based on Offer Price of HK$2.80** |
|---|---|---|
| Market capitalization of our Shares(2) | HK$2,757.9 million | HK$3,510.1 million |
| Prospective price/earnings multiple | | |
| (a) pro forma fully diluted(3) | 7.71 times | 9.81 times |
| (b) weighted average(4) | 7.71 times | 9.81 times |
| Adjusted net tangible asset value per Share(5) | HK$1.67 | HK$1.82 |

(1) All statistics in this table have been calculated on the assumption that the Over-allotment Option is not exercised.

(2) The market capitalization has been calculated on the basis that 1,253,599,794 Shares are expected to be in issue immediately after completion of the Global Offering.

(3) The calculation of the prospective price/earnings multiple on a pro forma fully diluted basis is based on the estimated earnings per Share for the year ended December 31, 2012 on a pro forma fully diluted basis at the respective Offer Prices of HK$2.20 and HK$2.80.

(4) The calculation of the prospective price/earnings multiple on a weighted average basis is based on the estimated earnings per Share on a weighted average basis at the respective Offer Prices of HK$2.20 and HK$2.80.

(5) The adjusted net tangible asset value per Share is based on 1,253,599,794 Shares expected to be in issue immediately after completion of the Global Offering.

If the Over-allotment Option is exercised in full, assuming an Offer Price of HK$2.20 and HK$2.80, respectively, the adjusted net tangible asset value per Share will be HK$1.69 per Share and HK$1.85 per Share, respectively. If the Over-allotment Option is exercised in full, the earnings per Share on a pro forma fully diluted basis and on a weighted average basis will be diluted correspondingly to HK$0.28 and HK$0.28, respectively.

## USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK$733.1 million (assuming an Offer Price of HK$2.50 per Share, being the mid-point of the Offer Price range stated in this prospectus), after deducting the underwriting commissions, the sponsor fee and estimated offering expenses payable by us in relation to the Global Offering and assuming the Over-allotment Option is not exercised. We intend to use the net proceeds from the Global Offering as follows:

- approximately HK$476.5 million (or approximately 65% of the net proceeds), to fund the expansion of our production capacity;
- approximately HK$175.9 million (or approximately 24% of the net proceeds), for new product development activities; and
- approximately HK$80.6 million (or approximately 11% of the net proceeds), for the construction of the research and development center in Chengdu.

In the event that the Offer Price is set at the high-end or low-end of the Offer Price range and the Over-allotment Option is not exercised at all, the net proceeds of the Global Offering will increase or decrease by approximately HK$90.7 million. Under such circumstances we will adjust our allocation of the net proceeds for the above purposes on a pro rata basis to the extent achievable.

## RISK FACTORS

Investing in our Shares involves substantial risks and our ability to successfully operate our business is subject to numerous risks, including those that are generally associated with our industry and operating in China. For example:

- We rely on a limited number of customers with which we have no long-term contracts for a significant portion of our revenue.
- We may face increases in the prices of raw material and engine components.
- Our profitability could be negatively affected by downward pricing trends of our products.
- Our trade and bills receivables with related and non-related companies increased significantly during the Track Record Period.
- We recorded negative operating cash flows in 2010, primarily due to increased amounts due from our related companies. There can be no assurance that we will record positive operating cash flows in the future.

You should carefully consider all of the information set forth in this prospectus and, in particular, should evaluate the specific factors set forth under "Risk Factors" in this prospectus in deciding whether to invest in our Shares.