The following discussion and analysis of our business, financial condition and results of operations is based on and should be read in conjunction with our audited consolidated financial statements as of and for each of the three years ended December 31, 2011 and as of and for the nine months ended September 30, 2012, including the notes thereto, as set forth in ''Appendix I — Accountants' Report'' and other financial information appearing elsewhere in this prospectus. Our financial statements have been prepared in accordance with HKFRS, which may differ in material respects from generally accepted accounting principles in other jurisdictions, including the United States. Historical results are not indicative of future performance and results for interim periods are not indicative of results for the full year. You should read the accountants' report included as Appendix I to this prospectus and not rely merely on the information contained in this section.

This discussion contains forward-looking statements that involve risks and uncertainties. We caution you that our business and financial performance are subject to substantial risks and uncertainties including, but not limited to, those factors included under the sections ''Risk Factors'' and "Business" in this prospectus. Our future results could differ materially from those projected in forward-looking statements. See "Forward-looking Statements" in this prospectus.

For the purposes of this section, unless the context otherwise requires, references to 2009, 2010 and 2011 refer to our financial year ended December 31 of such year. Unless indicated otherwise, financial information described in this section is described on a consolidated basis.

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 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.

Our light-duty gasoline and diesel engines have displacements ranging from 1.0L to 2.7L and engine power ranging from 38.5kW to 120.0kW. As of the Latest Practicable Date, we currently manufacture and sell 36 models of automotive engines, including 28 models of light-duty gasoline engines, which include 15 models under 1.6L, three models between 1.6L to 2.0L, eight models between 2.0L to 2.5L and two models between 2.5L to 3.0L; and eight models of light-duty diesel engines between 2.0L to 2.5L. All 36 models have obtained regulatory clearance, including 30 models in mass production, and six models pending the launch of the compatible vehicles. Our engines are installed in a wide range of passenger and light-duty commercial vehicles, including light-duty vehicles, small buses and minibuses, and small and light-duty trucks. All vehicles installed with our engines meet the National Emission Limits (National III and IV) and Phase II of the Fuel Consumption Limits, or the equivalent overseas standards, and some of vehicles installed with our engines meet Phase III of the PV Fuel Consumption Limits.

Our customers include local and foreign-invested automotive manufacturers and automotive components companies in China. We have established stable and long-term relationships with our major customers through joint product development and by providing high quality products and services. We provide before and after-sales services to our customers through a wide sales network covering all major regions of China. Our independent branding strategy allows us to sell our engines to multiple automotive manufacturers in the fast-growing PV and LCV engine segment of the automotive industry in China, such as SUVs, minibuses, small trucks, sedans and MPVs.

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 consolidated statements of financial position as of December 31, 2009, 2010 and 2011 and September 30, 2012 are derived from, and should be read in conjunction with, 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

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
Non-current assets				
Property, plant and equipment	220,915	231,802	278,262	323,650
Prepaid lease payments	14,736	63,724	62,323	61,243
Intangible assets	23,768	11,597	43,695	72,978
Investment in a jointly controlled entity	—	—	—	49,633
Deferred tax assets	1,174	809	1,030	1,162
Deposits for acquisition of property, plant and equipment and prepaid lease payments	26,928	10,120	13,009	5,468
	287,521	318,052	398,319	514,134
Current assets				
Inventories	208,635	251,368	221,202	238,332
Prepaid lease payments	422	1,434	1,434	1,434
Trade and other receivables	99,804	170,506	497,706	660,975
Amounts due from related companies	532,205	826,400	1,061,910	954,309
Loan to a related company	77,625	78,029	—	—
Loan to a Shareholder	—	—	32,771	32,595
Pledged bank deposits	268,811	207,161	223,059	76,022
Bank balances and cash	37,117	66,776	327,747	551,996
	1,224,619	1,601,674	2,365,829	2,515,663
Current liabilities				
Trade and other payables	787,318	923,893	1,312,341	1,325,111
Amounts due to related companies	47,512	75,971	116,698	101,056
Loans from related companies	40,000	40,000	—	—
Loans from Shareholders	—	—	32,771	32,595
Bank borrowings due within one year	93,000	176,950	163,950	194,950
Other loan	—	—	—	4,000
Other tax payables	6,030	19,260	43,300	53,271
Income tax payables	—	—	30,686	35,910
	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
Non-current liabilities				
Bank borrowings due after one year	32,000	—	—	—
Other loan	—	4,000	4,000	—
Deferred income	3,768	31,179	28,010	26,743
	35,768	35,179	32,010	26,743
Net assets	502,512	648,473	1,032,392	1,256,161
Capital and reserves				
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

BASIS OF PRESENTATION

Our PRC operating entity Mianyang Xinchen was jointly established as a Sino-foreign equity joint venture in the PRC in 1998 by two shareholders, Southern State, a then wholly-owned subsidiary of Brilliance China, and Xinhua Combustion Engine, which held their interests in equal proportions.

Our Company was incorporated in the Cayman Islands on March 10, 2011 as part of the Reorganization in preparation of the Global Offering. Pursuant to the Reorganization, our Company became the holding company of the entities comprising our Group on August 29, 2011. For more details of the Reorganization, see "History and Reorganization" in this prospectus. The consolidated financial information of our Group for each of the three years ended December 31, 2011 and the nine months ended September 30, 2012 (the "Financial Information") has been prepared on the basis as if our Company had always been the holding company of the companies now comprising our Group throughout the Track Record Period. All intra-group transactions, balances, income and expenses have been eliminated on consolidation.

For more information on the basis of presentation of our Financial Information included herein, see Note 2 of the Accountants' Report included as Appendix I to this prospectus

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations and financial condition as well as the comparability of results of operations between periods are affected by a number of internal and external factors, some of which are beyond our control, including those set out below.

Macro-Economic Conditions in the PRC

The demand for our products is generally affected by the macro-economic conditions in the PRC, including consumer spending and the sales volume of automobiles. Growth in urban population and disposable income, which has risen in line with the growth of the PRC economy, has resulted in increased demand for automobiles and indirectly, increased demand for our products. The PRC economy has experienced sustained and rapid growth over the last two decades. In 2009, due to the PRC Government's incentive fiscal policies and moderate monetary policies, including a stimulus package to reduce the negative impact from the global financial crisis, China's real GDP grew 9.2% from 2008. As a result, our engine sales were not materially affected by the global financial crisis and increased as the domestic demand for automobiles increased. However, since 2010, the PRC Government has tightened its credit policy to control rising inflation through raising the RMB benchmark deposit and loan interest rates. This macro-economic policy change increased the financing costs of our customers and placed pressure on their cash flows. As a result, in 2010 and 2011, our trade and other receivables and amounts due from related companies increased significantly partially due to customers prolonging their payment cycle or increasingly using promissory notes issued by banks and financial institutions, which mature within three to six months, for payment. According to our knowledge, the abilities of our customers to obtain promissory notes issued by banks and financial institutions, supported by actual transactions and secured by deposits with the issuing banks and financial institutions, have not been significantly affected by the tightened credit policy in the PRC. Furthermore, according to a speech delivered by China's Premier Wen Jiaobao at the annual meeting of the National People's Congress in Beijing on March 5, 2012, China's GDP growth is targeted at 7.5% for the year 2012. Going forward, according to the 12th Five-Year Plan, the PRC Government expects to achieve an average of 7.0% annual GDP growth during the period from 2011 to 2015. This expected slowed growth of the PRC economy may have an impact on our business and results of operations in the future.

Demand for Light-duty Automotive Engines

Our results of operations are affected by the level of demand for our engines in the automotive engine industry in the PRC, particularly in the OEM market. Demand for our engines is primarily driven by the general demand for LCVs and PVs in the PRC, which, in recent years, has been driven by a number of factors, including growth of the PRC economy, industrialization and improved highway networks in the PRC, macro-economic policies of the PRC Government and PRC automotive industry regulations. The PRC Government may impose restrictions or provide stimuli that affect the demands for and sales of the LCVs and PVs in the PRC, which could, in turn, affect the demand for our engines. Demand for our engines is also directly driven by government policies encouraging the research and development of low emission and fuel-efficient engines. Such policies include, for example, the Notice of Promotion and Implementation Rules on "Energy-saving Products and People-benefiting Projects" regarding Fuel-efficient Vehicles (Passenger Vehicles with Displacement of 1.6L or below). These and other factors will continue to affect the market demand for our engines. Fluctuations in the demand for LCVs and PVs in the PRC market and changes in the government policies in the PRC will affect our results of operations and financial condition. See "Risk Factors — Risks Relating to Our Industry — Changes in automotive industry policies and regulations may adversely affect our business, financial condition and results of operations" in this prospectus.

Ability to Develop and Launch Technologically Advanced Automotive Engines

Our results of operations and future growth depend on our ability to continue to develop and launch technologically advanced engines. As of the Latest Practicable Date, we are in the process of upgrading 11 existing engine models and developing four new engine models, which are in various stages of product development by our in-house research and development team. We currently aim to bring five engine models to the market between 2012 and 2014. We also seek to continue to optimize the performance of our existing engines through our research and development efforts. As our customers' needs evolve, the engine specifications they require change as well. Our ability to design and develop new engines that meet these changing requirements has been and will continue to be critical to our ability to maintain and increase our total sales volume and profitability. As a result, we expect to continue to make significant investments in research and development, particularly with respect to designing and developing more technologically advanced and cost-competitive engines.

Customer Concentration

Substantially all of our products are sold directly to a limited number of automotive manufacturers in the PRC. For the three years ended December 31, 2011 and the nine months ended September 30, 2012, sales to our top five customers, two of which are our connected parties, accounted for 82.9%, 77.8%, 76.0% and 75.3% of our revenue, respectively, and sales to our top five customers on a group basis accounted for 86.8%, 86.1%, 84.9% and 81.7% of our revenue, respectively. For the same periods, sales to Brilliance China Group on a group basis accounted for 48.8%, 41.4%, 18.0% and 19.6% of our revenue, respectively, and sales to Huachen Group on a group basis accounted for 2.8%, 13.9%, 28.7% and 25.0%, respectively. We enter into supply agreements with our connected parties on an arm's length basis. For details of these connected transactions, see "Connected Transactions" in this prospectus. Although sales to our connected parties have reduced proportionally during the Track Record Period, our Directors believe that sales to Brilliance China Group will continue to contribute a significant portion of our revenue in the near future and our results of operations are closely related to the performance of Brilliance China Group and our other connected parties. We plan to strengthen the relationships with our existing customers and develop new customer relationships to gain more market share, increase our revenue and reduce our reliance on sales to Brilliance China Group and other connected parties.

Cost of Materials

The cost of materials, consisting of cost of aluminum ingots and engine components, represents the largest component of our cost of sales. For the three years ended December 31, 2011 and the nine months ended September 30, 2012, cost of materials accounted for 91.4%, 92.0%, 93.4% and 94.0% of our total cost of sales, respectively. We purchase aluminum ingots as a main raw material in manufacturing our engine cylinder heads. Our suppliers purchase other metals such as iron as raw materials in manufacturing our engine components and parts. Therefore, we are subject to the risks of fluctuations in the price of aluminum ingots, and indirectly the prices of iron and other metals. The cost of engine components accounted for 88.6%, 89.1%, 90.5% and 91.6% of our total cost of sales for the three years ended December 31, 2011 and the nine months ended September 30, 2012 and the cost of aluminum ingots accounted for 2.8%, 2.9%, 2.9% and 2.4% of our total cost of sales for the same periods, respectively. Changes in the availability and price of aluminum ingots or any of our major engine components could have a significant impact on our operating costs and results of operations, although during the Track Record Period, the changes of prices of aluminum ingots and engine components did not have any significant adverse effect on our operating costs and results of operations. For major engine components that are subject to volatile price changes, we have a general understanding with some of our suppliers based on industry practice that if the prices of raw materials used in manufacturing the engine components change significantly, we may adjust our procurement prices based on good faith negotiation. We generally set the prices of our products based on our production costs and estimated profit margin at the beginning of the year, and we generally need to negotiate any price adjustments with our customers before we are able to pass on our increased material costs to them. Therefore, we may not be able to pass on significant increases in our material costs to our customers to reflect material cost changes in the market on a timely manner. As we increase our production in accordance with our capacity expansion plans, we expect that our demand for aluminum ingots and engine components will increase. Although we believe that we benefit from economies of scale in our procurement efforts and can obtain favorable pricing terms from our suppliers, fluctuations in the prices of aluminum ingots and engine components will continue to have an impact on our results of operations. See "Risk Factors — Risks relating to our business — We may face increases in the prices of raw material and engine components" in this prospectus.

Production Capacity

Our results of operations have been and are expected to continue to be affected by our production capacity. In 2008, our production capacity and production activities were affected by the Wenchuan Earthquake as our production facilities were damaged and production was halted temporarily. By the end of 2009, our production capacity had substantially recovered to the pre-earthquake level. Our current production capacity has reached 255,000 units per annum. The market demand for our products in the PRC has increased significantly in recent years. As a result, we intend to increase our production capacity in order to meet and take advantage of the increased market demand for our products. Our expansion plans include the construction of and relocation to a new production base located in Mianyang High-Tech Development Zone, Sichuan Province, which is expected to commence full commercial operation by September 30, 2013, the establishment of the Dongfeng JV with Dongfeng and the management of an engine production line for FAW Jilin. We believe that increasing our production capacity will help us to gain market share and increase our revenue. However, if we over-expand our production capacity beyond the demand for our products, our results of operations may be adversely affected as the production facilities are not fully utilized. For details of our production capacity expansion plan, see "Business — Production" in this prospectus.

Tax

Our results of operations are affected by changes in tax rates, particularly the applicable tax rates in the PRC, where we carry out our operations and derive all our revenue and profits. The enterprise income tax generally applicable in the PRC has been 25% since January 1, 2008. We enjoyed certain preferential enterprise income tax rates during the Track Record Period as a result of several government policies, including a 15% enterprise income tax rate under the Western China Development Plan, an exemption from the enterprise income tax for the two years ended December 31, 2010 as a result of Wenchuan Earthquake relief and a 15% enterprise income tax rate as a High and New Technology Enterprise from 2009 to 2011. The High and New Technology Enterprise qualification was renewed in 2011, which entitled us to enjoy such reduced tax rate for another three years until December 31, 2014. See "Description of key income statement items — Income tax expense" in this section. We may not be able to continue to enjoy such preferential enterprise income tax rates if we cannot renew our High and New Technology Enterprise qualification upon expiration in the future.

Competition

We face competition in the PRC light-duty automotive engine market primarily from other independent branded competitors. We believe the factors that are critical to our competitiveness in this market include production capacity, marketing and distribution channels, breadth and quality of product offerings, competitive pricing, brand recognition, after-sales services and research and development capabilities. We believe that we have enjoyed certain competitive advantages as a result of our strong research and development capabilities, breadth and quality of our product offerings at competitive prices, strong relationships with our customers, extensive sales, marketing and services network and a high level of brand recognition, among other factors. See "Business — Our Competitive Strengths" in this prospectus for additional details. However, increased competition or our inability to sustain our competitive advantage could adversely affect our results of operations. For example, we experienced downward pressure on our product prices during the Track Record Period due to a combination of factors, including competition. In the event that we have to reduce our product prices to remain competitive but fail to offset such reductions by increasing our sales volume, reducing our costs and expenses or by introducing new competitive products, our profitability may be materially and adversely affected. See "Business — Competition," "Risk Factors — Risks relating to our business — Our profitability could be negatively affected by downward pricing trends of our products" and "Risk Factors — Risks Relating to Our Industry — We operate in a competitive industry and face intense competition from our competitors." in this prospectus.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies and estimates are those accounting policies and estimates that involve significant judgments and uncertainties and potentially yield materially different results under different assumptions and conditions. Our consolidated financial statements have been prepared in accordance with HKFRS, which requires that we adopt accounting policies and make estimates that, we believe, are the most appropriate in the circumstances for the purposes of giving a true and fair view of our results of operations and financial condition. Estimates and judgments are based on historical experience, prevailing market conditions and rules and regulations, and are reviewed on a continual basis taking into account the changing environment and circumstances. For more details, see Note 4 and Note 5 to the Accountants' Report set forth in Appendix I to this prospectus.

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 our business, net of discounts and sales related taxes. We recognize revenue from the sale of products when products are delivered to and accepted by the customers. We generally issue invoices upon the receipt of customers' acceptance of the products and the corresponding invoices are recorded on or before the respective month end. At the end of each month, we will reconcile the amounts of sales with major customers to ensure the revenue and the corresponding account receivables are properly recorded in that month. In certain circumstances, we may require our customers to make a deposit with us before we deliver our products. Advances received from our customers prior to meeting the criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities. We recognize service income when services are provided. Our product return policy only allows products to be returned due to product defects as assessed and agreed by our quality control team. We recognize interest income from a financial asset when it is probable that the economic benefits will flow to the Group and the amount of revenue 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.

Taxes

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

The tax currently payable by us is based on taxable profit for the year/period. 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. Our liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

We recognize deferred tax 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 other 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, except where we are 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 utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 rate (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 we expect, 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.

Land use rights

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 to us in the PRC and the remaining terms of the business license 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.

Property, plant and equipment

Property, plant and equipment, including land and buildings held for use in our production or supply of goods, or for administrative purposes (other than construction in progress as described below), are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. We recognize depreciation so as to write off the cost of items of property, plant and equipment other than properties under construction 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 our 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.

Government grants

We do not recognize government grants until there is reasonable assurance that we will comply with the conditions attaching to them and that the grants will be received.

We recognize government grants in profit or loss on a systematic basis over the periods in which we recognize as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that we 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 our 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 on initial recognition based on prevailing market interest rates.

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

Our 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. Our 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 our results.

We test 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. Our directors consider that the recoverable amount exceeded the carrying amount of the property, plant and equipment and, therefore, no impairment was recognized during the Track Record Period.

As of December 31, 2009, 2010 and 2011 and September 30, 2012, the carrying amounts of property, plant and equipment were approximately RMB220.9 million, RMB231.8 million, RMB278.3 million and RMB323.7 million, respectively.

Amortization and impairment of intangible assets

Our 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. Our 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.

We test 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. Our directors consider that the recoverable amount exceeded the carrying amount of the intangible assets and, therefore, no impairment was recognized during the Track Record Period.

As of December 31, 2009, 2010 and 2011 and September 30, 2012, the carrying amounts of intangible assets were approximately RMB23.8 million, RMB11.6 million, RMB43.7 million and RMB73.0 million, respectively.

Estimated impairment of trade receivables and amounts due from related companies and loan to a related company

When there is objective evidence of impairment loss, we take 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 of December 31, 2009, 2010 and 2011 and September 30, 2012, the carrying amounts of our trade receivables with our non-related customers were RMB51.9 million, RMB33.1 million, RMB245.4 million and RMB380.4 million, respectively (net of allowance for doubtful debts of RMB322,000, RMB50,000, RMB43,000 and RMB98,000 as of December 31, 2009, 2010 and 2011 and September 30, 2012, respectively). As of December 31, 2009, 2010 and 2011 and September 30, 2012, the carrying amounts of amounts due from related companies, which are trade receivables, were RMB458.1 million, RMB701.4 million, RMB892.8 million and RMB942.5 million, respectively. As of December 31, 2009, 2010 and 2011 and September 30, 2012, the carrying amount of loan to a related company was RMB77.6 million, RMB78.0 million, nil and nil, respectively.

Provision of inventories

We record inventories at the lower of cost and net realizable value. Net realizable value is the estimated selling price for inventories, less all the estimated costs of completion and costs necessary to make the sales. We have operational procedures in place to monitor this risk as a significant proportion of our working capital is devoted to inventories. Our management reviews the inventory aging listing on a periodical basis for those aged inventories. This involves comparison of carrying value of the aged inventory items with the respective net realizable 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 we carry out periodic review of the net realizable value of inventory, the actual realizable value of inventory is not known until the sale is concluded.

Provision for warranty claims

We make provision for warranty based on the possible claims on our products by customers with reference to the warranty coverage period and the percentage of warranty expenses incurred over total sales amounts during the Track Record Period. In case 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 of December 31, 2009, 2010 and 2011 and September 30, 2012, the carrying amount of our provision for warranty claims was approximately RMB0.05 million, RMB7.4 million, RMB5.3 million and RMB5.1 million, respectively.

Description of Key Income Statement Items

Revenue

We derive our revenue primarily from sales of automotive engines and we generate a small portion of our revenue from sales of engine components and providing testing services to external customers. The following table sets forth a breakdown of our revenue and percentage of revenue contribution for the periods indicated:

	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										
Light-duty gasoline engines	983,650	76.5	1,557,768	80.1	1,803,574	78.2	1,145,302	76.3	1,559,926	80.2
Light-duty diesel engines	275,220	21.4	352,208	18.1	463,365	20.0	319,292	21.3	358,602	18.4
	1,258,870	97.9	1,909,976	98.2	2,266,939	98.2	1,464,594	97.6	1,918,528	98.6
Engine components and service income	26,297	2.1	35,138	1.8	40,809	1.8	35,402	2.4	27,740	1.4
Total	1,285,167	100	1,945,114	100	2,307,748	100	1,499,996	100	1,946,268	100

In particular, our sales of automotive engines include sales of light-duty gasoline engines and light-duty diesel engines. Our other income includes income from sales of engine components and providing testing services as our laboratory is one of the government-accredited engine testing centers. The following tables set forth the revenue, sales volume and average unit price of our automotive engines by fuel type and displacement range for the periods indicated:

	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										
Light-duty Gasoline Engines										
≤1.6L	265,820	21.1	589,872	30.9	622,333	27.5	380,928	26.0	650,549	33.9
>1.6L – 2.0L	261,668	20.8	321,716	16.8	290,550	12.8	187,101	12.8	236,749	12.3
>2.0L – 2.5L	446,292	35.4	635,450	33.3	856,929	37.8	547,776	37.4	646,286	33.7
>2.5L – 3.0L	9,870	0.8	10,730	0.6	33,762	1.5	29,497	2.0	26,342	1.4
Sub-total	983,650	78.1	1,557,768	81.6	1,803,574	79.6	1,145,302	78.2	1,559,926	81.3
Light-duty Diesel Engines										
>2.0L – 2.5L	275,220	21.9	352,208	18.4	463,365	20.4	319,292	21.8	358,602	18.7
Total	1,258,870	100	1,909,976	100	2,266,939	100	1,464,595	100	1,918,528	100

	Year ended December 31,			Nine months ended September 30,	
	2009	2010	2011	2011	2012
	Sales Volume (Unit)	Sales Volume (Unit)	Sales Volume (Unit)	Sales Volume (Unit)	Sales Volume (Unit)
				(unaudited)	
Light-duty Gasoline Engines					
≤1.6L	32,292	74,182[(1)]	80,326	47,902	86,564[(4)]
>1.6L — 2.0L	37,227	46,534	40,320[(2)]	26,005	34,011
>2.0L — 2.5L	49,983	69,890	88,238	55,124	65,127
>2.5L — 3.0L	438	478	1,676[(3)]	1,402	1,402
Subtotal	119,940	191,084	210,560	130,433	187,104
Light-duty Diesel Engines					
>2.0L — 2.5L	10,768	14,817	19,694	13,313	16,543
Total	130,708	205,901	230,254	143,746	203,647

(1) The increase of 41,890 units, or 129.7%, from 2009 to 2010 was primarily due to launch of new products in the second half of 2009 whose production and sales volume further increased in 2010.

(2) The decrease of 6,214 units, or 13.4%, from 2010 to 2011 was primarily due to reduced sales of National III Emission Limits compatible engines as a result of the adoption of higher National IV Emission Limits in several major cities in 2011.

(3) The increase of 1,198 units, or 250.6% from 2010 to 2011 was primarily due to increased demands from our customers.

(4) The increase of 38,662 units, or 80.7%, from the nine months ended September 30, 2011 to the nine months ended September 30, 2012 was primarily due to increased demand from existing customers and sales to new customers.

	Year ended December 31,			Nine months ended September 30,	
	2009	2010	2011	2011	2012
	Average Unit Price (RMB)	Average Unit Price (RMB)	Average Unit Price (RMB)	Average Unit Price (RMB)	Average Unit Price (RMB)
				(unaudited)	
Light-duty Gasoline Engines					
≤1.6L	8,232	7,952	7,748	7,952	7,515(4)
>1.6L — 2.0L	7,029	6,914	7,206	7,195	6,961
>2.0L — 2.5L	8,929	9,093	9,712(1)	9,937	9,924
>2.5L — 3.0L	22,603	22,447	20,145(2)	21,039	18,789(5)
Light-duty Diesel Engines					
>2.0L — 2.5L	25,559	23,771(3)	23,528	23,984	21,677(6)

(1) The increase of RMB619 per unit, or 6.8%, from 2010 to 2011 was primarily due to change in product mix of this displacement range where the portion of higher margin engines increased in 2011.

(2) The decrease of RMB2,302 per unit, or 10.3%, from 2010 to 2011 was primarily due to lowered product prices as a result of price adjustment to expand our market and attract new customers in 2011.

(3) The decrease of RMB1,797 per unit, or 7.5%, from 2009 to 2010 was primarily due to lowered product prices as a result of price adjustment to expand our market and attract new customers in 2010.

(4) The decrease of RMB437 per unit, or 5.5%, from the nine months ended September 30, 2011 to the nine months ended September 30, 2012 was primarily due to lower product prices and certain customers choosing to have less spare parts sold with the engines to reduce their production costs.

(5) The decrease of RMB2,250, or 10.7%, from the nine months ended September 30, 2011 to the nine months ended September 30, 2012 was primarily due to lower product prices as a result of price adjustments at the demand of a customer who increased the number of engines purchased in the period.

(6) The decrease of RMB2,307, or 9.6%, from the nine months ended September 30, 2011 to the nine months ended September 30, 2012 was primarily due to a change in product mix within this displacement range where we introduced a new lower priced engine model.

The increases in our revenue during the Track Record Period were mainly due to increases in the sales volumes of our engines. The average unit prices of our engines during the Track Record Period may not accurately reflect the actual prices of our engines. Each displacement range of each fuel type includes multiple engine models. The product mix within each displacement range changed from year to year during the Track Record Period due to the retirement of old engine models, launching of new engine models and changes in engine specifications at the request of our customers. Prices of different engines, even within the same displacement range, may vary significantly in the same year, because of different costs of materials and manufacturing, supply and demand and other factors. As such, we consider a 5% year-on-year fluctuation in the average unit price as normal. We may price our products at a premium for our reputation and product quality when competing with other local engine manufacturers. For products facing intense competition, we price our products competitive against comparable products in the market to obtain new market share. During the Track Record Period, we have experienced downward pressure on our product prices as our competitors lower their product prices and at the request of our customers as part of their cost control efforts. As a result, overall, some of our engines may have displaced a slight decreasing pricing trend. See "Risk Factors — Our profitability could be negatively affected by downward pricing trends of our products."

Cost of sales

Our cost of sales consists primarily of costs of raw material and engine components, direct labor, energy and fuel and overhead. Costs of raw material and engine components mainly include costs for aluminum ingots, structural parts, generators and electric control systems and other engine components and parts. Labor costs include wages and salaries for our workers directly involved in our production processes and in the provision of sales and after-sales services. Energy and fuel costs include costs for energy and fuel consumed in our production processes. Overhead includes maintenance of production equipment and utility costs. The following table sets forth a breakdown of our cost of sales and percentage of cost of sales contribution for the periods indicated:

	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	%
Cost of Sales										
Raw material and engine components	1,018,415	91.4	1,512,520	92.0	1,710,960	93.4	1,103,841	92.2	1,463,537	94.0
Labor cost	19,604	1.8	31,572	1.9	27,538	1.5	10,238	0.9	22,848	1.5
Depreciation expense	29,799	2.7	31,566	1.9	23,706	1.3	19,854	1.7	19,221	1.2
Amortization of development costs	11,411	1.0	12,171	0.7	10,037	0.5	6,957	0.6	1,561	0.1
Other overhead expenses	35,530	3.1	55,995	3.5	58,899	3.3	56,315	4.6	49,109	3.2
Total	1,114,759	100	1,643,824	100	1,831,140	100	1,197,205	100	1,556,276	100

During the Track Record Period, the purchase prices of our engine components generally decreased gradually as we were able to reduce the purchase prices of some engine components through negotiations with our suppliers as a result of our improved economies of scale. However, in the past, we have experienced some level of price fluctuations of aluminum ingots and certain engine components. Our aluminum ingot unit purchase prices increased by 5.4% from 2009 to 2010 and increased by 6.0% from 2010 to 2011, but decreased by 2.3% for the nine months ended September 30, 2012. Cost of aluminum ingots accounted for 2.8%, 2.9%, 2.9% and 2.4% of our total cost of sales for the three years ended December 31, 2011 and the nine months ended September 30, 2012. As such, our cost of sales was not materially affected by the fluctuations of the aluminum ingots purchase prices during the Track Record Period. The cost of engine components accounted for 88.6%, 89.1%, 90.5% and 91.6% of our total cost of sales for the three years ended December 31, 2011 and the nine months ended September 30, 2012. Out of over 200 kinds of engine components we procure and use in our production, we do not have a single engine component that accounted for more than 10% of our total costs of raw material and engine components during the Track Record Period, and we did not experience significant purchase price fluctuation of any engine component during the Track Record Period. Furthermore, some of our sales contracts provide that in case our raw material and engine components costs increase significantly beyond normal market standard, we may adjust our product prices through good faith negotiations with our customers. As such, the changes in the purchase prices of aluminum ingots and engine components during the Track Record Period did not significantly affect our gross profit margin.

Gross profit and gross profit margin

Our gross profit is derived primarily from the manufacture and sale of our light-duty engines. For the three years ended December 31, 2011 and the nine months ended September 30, 2012, our overall gross profit margin for the sale of light-duty engines was 13.0%, 15.4%, 20.4% and 19.9%, respectively. Our overall gross profit margins were primarily affected by product mix as the gross profit margins of different products by fuel type and displacement range may vary significantly in a given period. The gross profit margin of each product category was affected by a combination of factors, including sales volume, product prices, cost of sales, product mix and labor efficiency. The following tables set forth the gross profit and gross profit margin of our automotive engines by fuel type and displacement range for the periods indicated:

	Year ended December 31,			Nine months ended September 30,	
	2009	2010	2011	2011	2012
	RMB million	RMB million	RMB million	RMB million (unaudited)	RMB million
Gross Profit					
Light-duty Gasoline Engines					
≤1.6L	15.1	56.1	80.7	49.6	90.0
1.6L – 2.0L	32.3	38.8	65.6	39.5	49.9
>2.0L – 2.5L	74.9	123.7	183.6	112.7	141.7
>2.5L – 3.0L	2.3	5.1	14.4	12.6	10.5
Sub-total	124.6	223.7	344.3	214.4	292.1
Light-duty Diesel Engines					
>2.0L – 2.5L	39.0	70.1	118.9	80.2	89.7
Total	163.6	293.8	463.2	294.6	381.8

	Year ended December 31,			Nine months ended September 30,	
	2009	2010	2011	2011	2012
	%	%	%	% (unaudited)	%
Gross Profit Margin					
Light-duty Gasoline Engines					
≤1.6L	5.7	9.5	13.0	13.0	13.8
1.6L – 2.0L	12.3	12.0	22.6	21.1	21.1
>2.0L – 2.5L	16.8	19.5	21.4	20.6	21.9
>2.5L – 3.0L	23.2	47.7	42.6	42.9	40.0
Sub-total	12.7	14.4	19.1	18.7	18.7
Light-duty Diesel Engines					
>2.0L – 2.5L	14.2	19.9	25.7	25.1	25.0
Total	13.0	15.4	20.4	20.1	19.9

The gross profit margin of our less than 1.6L gasoline engines increased from 5.7% for 2009 to 9.5% for 2010, primarily due to lower product development costs and decreased engine component costs compared with 2009. It increased to 13.0% for 2011, primarily due to changes in the product mix of this displacement range where the portion of higher margin engines increased. It increased slightly to 13.8% for the nine months ended September 30, 2012, primarily due to decreased engine component costs.

The gross profit margin of our 1.6L to 2.0L gasoline engines decreased slightly from 12.3% for 2009 to 12.0% for 2010, primarily due to decreasing product prices to maintain our competitiveness and to increase the market share of our products, which was offset by slightly decreased engine component costs. It increased to 22.5% for 2011, primarily due to decreased cost of production and increasing use of advanced VVT technology to satisfy high emission standards at the request of our customers, which commanded higher sale prices of our engines. It decreased slightly to 21.1% for the nine months ended September 30, 2012, primarily due to decreased product prices partially offset by decreased cost of production.

The gross profit margin of our 2.0L to 2.5L gasoline engines increased from 16.8% for 2009 to 19.5% for 2010, primarily due to increasing product prices and decreased engine component costs. It increased to 21.4% for 2011, primarily due to changes in the product mix of this displacement range where the portion of higher margin engines increased. It increased slightly to 21.9% for the nine months ended September 30, 2012, primarily due to decreases in certain engine component prices and decreased cost of production.

The gross profit margin of our 2.5L to 3.0L gasoline engines increased significantly from 23.2% for 2009 to 47.7% for 2010, primarily due to the full localization of our parts procurement for this displacement range, which significantly reduced our cost of materials in 2010. It decreased to 42.6% for 2011, primarily due to lower engine sales prices as a result of price adjustments to expand our market and attract new customers. It decreased to 40.0% for the nine months ended September 30, 2012, primarily due to decreased product prices as a result of our effort to increase our market share in this displacement range.

The gross profit margin of our 2.0L to 2.5L diesel engines increased from 14.2% for 2009 to 19.9% for 2010, primarily due to decreased parts procurement costs in 2010 as the sales volume increased and economics of scale in procurement were realized. It increased to 25.6% for 2011, primarily due to further decreased engine component procurement prices as the sales volume increased. It decreased to 25.0% for the nine months ended September 30, 2012, primarily due to decreased product prices partially offsetting the decreased cost of production.

Other income

Our other income consists primarily of bank interest income, government grants and imputed interest on loan to related company and others.

	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
Other income					
Bank interest income	3,619	4,330	2,257	1,691	2,838
Government grants	1,962	2,607	5,062	2,920	3,117
Imputed interest on loan to a related company	3,895	3,900	1,971	1,971	—
Gain on disposal of property, plant and equipment	—	—	—	—	261
Others	721	307	722	61	145
	10,197	11,144	10,012	6,643	6,361

During the Track Record Period, we received subsidies from various authorities within the PRC Government to enhance our research and development capabilities and improve our new products. During the Track Record Period, from time to time, we also received other incentive subsidies for improvement of working capital and immediate financial assistance to our operating activities from local and state government authorities. There are no unfulfilled conditions and other contingencies attached to the grants. The subsidies were granted on a discretionary basis to us and non-recurring in nature.

Selling and distribution expenses

Our selling and distribution expenses consist primarily of the costs associated with selling and distributing our products such as sales staff salaries and welfare, advertising and promotion, transportation and others. The following table sets forth our selling and distribution expenses for the periods indicated:

	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
Selling and distribution expenses					
Salaries	8,958	7,722	6,183	3,926	4,336
Travel expenses	2,047	2,453	2,686	1,890	2,406
Marketing expenses	5,461	7,586	6,010	4,681	6,411
Transportation expenses	19,927	33,344	19,038	11,739	20,544
Packaging expenses	11,855	10,027	10,167	4,549	3,086
Others	3,770	4,713	4,527	2,952	3,431
Total	52,018	65,845	48,611	29,737	40,214

Administrative expenses

Administrative expenses consist primarily of expenses for salaries and welfare for administrative staff, depreciation, entertainment, miscellaneous tax expenses, traveling and communication, office expenses, insurance and other miscellaneous expenses. The following table sets forth our administrative expenses for the periods indicated:

	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
Administrative expenses					
Salaries	20,620	23,863	23,351	15,719	16,805
Depreciation	5,899	8,961	6,612	5,225	5,035
Entertainment	4,188	6,093	4,165	3,080	2,847
Taxes	1,173	4,030	14,735	8,043	11,900
Others	12,498	12,472	13,775	14,705	13,304
Total	44,378	55,419	62,638	46,772	49,891

Other expenses

Other expenses consist primarily of research expenses, loss resulting from scrapped fixed assets, loss resulting from scrapped assets caused by the Wenchuan Earthquake, factory relocation costs and initial public offering expenses. The following table sets forth our other expenses for the periods indicated:

	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
Other expenses					
Loss resulting from disposal of property, plant and equipment	314	64	232	204	—
Research expenses	13,254	19,355	19,783	9,467	12,415
Factory relocation expense	—	4,176	2,276	1,810	—
Initial public offering expenses	—	—	10,879	5,439	12,162
Others	—	—	42	42	—
Total	13,568	23,595	33,212	16,962	24,577

Finance costs

Finance costs consist primarily of interest expenses on our bank and other borrowings, and discounted bills, net of capitalized interest expenses.

During the Track Record Period, we discounted certain bills receivable to banks for cash in connection with our increased cash flow needs as our business expanded. For the three years ended December 31, 2011 and the nine months ended September 30, 2012, the finance costs related to discounted bills were RMB3.6 million, RMB7.6 million, RMB35.0 million and RMB14.0 million, respectively. The average discount rate for each of the three years ended December 31, 2011 and the nine months ended September 30, 2012 (calculated by using the finance costs related to discounted bills for the year/period divided by the aggregate amount of discounted bills for the year/period) was 0.7%, 1.4%, 4.1% and 3.0%, respectively. The increases in the average discount rate from 2009 to 2011 were primarily due to the increasing portion of bills discounted bearing a higher interest rate and the overall increase in interest rate caused by the tightened credit policy of the PRC Government in 2010 and 2011. The decrease in the average discount rate in the nine months ended September 30, 2012 was primarily due to the decrease in interest rate as a result of the relaxed credit policy by the PRC Government in late 2012.

Income tax expense

According to the provisions promulgated by the SAT and the Sichuan Administration of Taxation in 2001 and 2002 in relation to the implementation of the development of the China Western Region, Mianyang Xinchen enjoyed a preferential enterprise income tax rate of 15% from 2001 to 2010. Pursuant to Cai Shui No.104 [2008] Notice in relation to Taxation Policies in support of Recovery and Reconstruction after the Wenchuan Earthquake (《關於支持汶川地震災後恢復重建有關稅收政策問題的通知》) promulgated by the MOF the General Administration of Customs and the SAT, Mianyang Xinchen is an affected entity located in the Wenchuan Earthquake affected area and was exempted from the enterprise income tax for the year ended December 31, 2008. Further, pursuant to Cai Shui No.131 [2009] Notice in Relation to Extension of Taxation Favorable Treatment Period (《關於延長部份稅收優惠政策執行期限的的通知》) promulgated by the MOF and the SAT, Mianyang Xinchen was approved to extend the tax exemption from the enterprise income tax for the years ended

December 31, 2009 and 2010. Mianyang Xinchen was accredited as a "High and New Technology Enterprise" by the Sichuan Province branch of MST and other authorities in December 2008 for a term of three years, and was therefore further registered with the local tax authority to be eligible for the reduced 15% enterprise income tax rate from 2009 to 2011. Accordingly, Mianyang Xinchen was subject to a 15% enterprise income tax rate for the year ended December 31, 2011. Our qualification as a High and New Technology Enterprise was renewed in 2011 for another three years, which entitles us to enjoy such reduced tax rate for another three years until December 31, 2014.

We recorded income tax expense in the amount of RMB1.2 million, RMB0.4 million, RMB44.3 million and RMB36.6 million for the three years ended December 31, 2011 and the nine months ended September 30, 2012, respectively. Our effective income tax rates for the three years ended December 31, 2011 and the nine months ended September 30, 2012 were 2.1%, 0.2%, 14.5% and 14.1%, respectively. The changes in our effective income tax rate were a result of the above-mentioned changes in applicable tax rates and tax benefits and our generally increased revenue for the relevant period. The low effective income tax rates in 2009 and 2010 were mainly a result of the enterprise income tax exemption related to the Wenchuan Earthquake, and the increase to 14.5% for 2011 was a result of the termination of such enterprise income tax exemption in 2011 and the application of the reduced 15% enterprise income tax rate based on our renewed High and New Technology Enterprise status. The discontinuation of any of the above-mentioned preferential tax treatments available to us will cause our effective tax rate to increase. See "Risk Factors — We are subject to potential changes or discontinuation of the preferential tax treatments and government subsidies in the PRC currently available to us."

No Hong Kong profits tax has been paid as our income neither arises in, nor is derived from Hong Kong.

Our subsidiary that is a tax resident in the PRC is subject to PRC dividend withholding tax of 10% when and if undistributed earnings are declared to be paid to its non-PRC resident immediate holding company registered in the BVI as dividends out of profits that arose on or after January 1, 2008.

We plan to set aside the undistributed profits of Mianyang Xinchen for reinvestment purpose. If such amounts exceed the reinvestment plan, deferred tax liabilities will be recognized in respect of the withholding tax on the then undistributed profits.

RESULTS OF OPERATIONS

The following table sets forth our consolidated results of operations for the periods indicated:

	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

Nine months ended September 30, 2012 compared to nine months ended September 30, 2011

Revenue

Our revenue was RMB1,946.3 million for the nine months ended September 30, 2012, representing an increase of RMB446.3 million, or 29.8%, from RMB1,500.0 million for the nine months ended September 30, 2011. In particular, revenue from our gasoline engines sales increased from RMB1,145.3 million for the nine months ended September 30, 2011, or by 36.2%, to RMB1,559.9 million for the nine months ended September 30, 2012. Revenue from our diesel engines sales increased from RMB319.3 million for the nine months ended September 30, 2011, or by 12.3%, to RMB358.6 million for the nine months ended September 30, 2012. The overall increases were primarily due to increased demand for our products mainly as a result of the growth of the automotive industry in the PRC, in particular the increase in sales of our less than 1.6L gasoline engines due to increased demand from existing customers and the addition of new customers, and an increase in market recognition of our products.

Revenue from sales of gasoline engines with displacement of less than 1.6L was RMB650.5 million for the nine months ended September 30, 2012, representing an increase of 70.8% from RMB380.9 million for the nine months ended September 30, 2011, primarily due to an increase of units sold from 47,902 units for the nine months ended September 30, 2011 to 86,564 units for the nine months ended September 30, 2012, offset by a 5.8% decrease of average unit price.

Revenue from sales of gasoline engines with displacement of between 1.6L and 2.0L (incl.) was RMB236.7 million for the nine months ended September 30, 2012, representing an increase of 26.5% from RMB187.1 million for the nine months ended September 30, 2011, primarily due to an increase of units sold from 26,005 units for the nine months ended September 30, 2011 to 34,011 units for the nine months ended September 30, 2012, offset by a 3.3% decrease of average unit price.

Revenue from sales of gasoline engines with displacement of between 2.0L and 2.5L (incl.) was RMB646.3 million for the nine months ended September 30, 2012, representing an increase of 18.0% from RMB547.8 million for the nine months ended September 30, 2011, primarily due to an increase of units sold from 55,124 units for the nine months ended September 30, 2011 to 65,127 units for the nine months ended September 30, 2012.

Revenue from sales of gasoline engines with displacement of between 2.5L and 3.0L (incl.) was RMB26.4 million for the nine months ended September 30, 2012, representing a decrease of 10.5% from RMB29.5 million for the nine months ended September 30, 2011, primarily due to 10.6% decrease of average unit price.

Revenue from sales of diesel engines with displacement of between 2.0L and 2.5L (incl.) was RMB358.6 million for the nine months ended September 30, 2012, representing an increase of 12.3% from RMB319.3 million for the nine months ended September 30, 2011, primarily due to an increase of units sold from 13,313 units for the nine months ended September 30, 2011 to 16,543 units for the nine months ended September 30, 2012, offset by a 10.6% decrease of average unit price.

Cost of sales

Our cost of sales were RMB1,556.3 million for the nine months ended September 30, 2012, representing an increase of 30.0%, from RMB1,197 million for the nine months ended September 30, 2011. In particular, cost of sales for our gasoline engines sales increased from RMB930.9 million for the nine months ended September 30, 2011, or by 36.2%, to RMB1,267.9 million for the nine months ended September 30, 2012. Cost of sales for our diesel engines sales increased from RMB239.1 million for the nine months ended September 30, 2011, or by 12.5%, to RMB268.9 million for the nine months ended September 30, 2012. Such increases were in line with the corresponding increases in revenue from these products during this period.

Gross profit

As a result of the foregoing, our gross profit was RMB390.0 million for the nine months ended September 30, 2012, representing an increase of 26.7% from RMB302.8 million for the nine months ended September 30, 2011. Our gross profit margin was 20.0% for the nine months ended September 30, 2012 as compared with 20.2% for the nine months ended September 30, 2011, primarily due to decreased average unit prices of less than 1.6L and 2.5L-3.0L gasoline engines and 2.0L-2.5L diesel engines to increase our competitiveness, offset by decreased cost of overall engine components and change of product mix in general where the portion of less than 1.6L gasoline engines with higher margin increased. In particular, gross profit from our gasoline engine sales increased from RMB214.4 million for the nine months ended September 30, 2011, or by 36.2%, to RMB292.1 million for the nine months ended September 30, 2012. Gross profit from our diesel engine sales increased from RMB80.2 million for the nine months ended September 30, 2011, or by 11.8%, to RMB89.7 million for the nine months ended September 30, 2012. The gross profit margin for our gasoline engines was 18.7% for the nine months ended September 30, 2012 compared to 18.7% for the nine months ended September 30, 2011. The gross profit margin for our diesel engines was 25.0% for the nine months ended September 30, 2012 compared to 25.1% for the nine months ended September 30, 2011.

Other income

We had other income of RMB6.4 million for the nine months ended September 30, 2012, representing a decrease of RMB0.2 million, or 3.0%, from RMB6.6 million for the nine months ended September 30, 2011. The decrease was primarily due to a RMB2.0 million decrease in imputed interest on a loan to a related company, partially offset by (i) a RMB0.2 million increase in government grants in relation to our research activities and (ii) a RMB1.1 million increase in bank interest income.

Selling and distribution expenses

Our selling and distribution expenses were RMB40.2 million for the nine months ended September 30, 2012, representing an increase of RMB10.5 million, or 35.4%, from RMB29.7 million for the nine months ended September 30, 2011. The increase was primarily due to (i) a RMB8.8 million increase in transportation expenses related to increased engine sales, (ii) a RMB0.4 million increase in salaries and welfare of our sales staff, and (iii) a RMB1.7 million increase in marketing expenses due to scaled-up marketing activities, offset by a RMB1.5 million decrease in packaging expenses primarily due to our usage of recycled packaging materials in 2012.

Administrative expenses

Our administrative expenses were RMB49.9 million for the nine months ended September 30, 2012, representing an increase of RMB3.1 million, or 6.6%, from RMB46.8 million for the nine months ended September 30, 2011. The increase was primarily due to (i) a RMB1.3 million increase in salaries and welfare of our administrative staff and (ii) a RMB3.9 million increase in miscellaneous tax payments, partially offset by decreases in other administrative expenses.

Other expenses

Our other expenses were RMB24.6 million for the nine months ended September 30, 2012, representing an increase of RMB7.6 million, or 44.7%, from RMB17.0 million for the nine months ended September 30, 2011. The increase was primarily due to (i) RMB6.7 million in initial public offering expenses related to this Global Offering and (ii) a RMB2.9 million increase in research expenses.

Finance costs

Our finance costs were RMB21.6 million for the nine months ended September 30, 2012, representing a decrease of RMB1.3 million, or 5.8%, from RMB22.9 million for the nine months ended September 30, 2011. The decrease was primarily due to (i) a RMB1.5 million decrease in interest expenses related to loans from related companies and (ii) a RMB1.7 million decrease in our interest expenses related to our use of discounted bills, offset by a RMB1.9 million increase in our interest expenses in connection with our increased interest rates on bank borrowings.

Income tax expense

Our income tax expense was RMB36.6 million for the nine months ended September 30, 2012, representing an increase of RMB8.1 million, from RMB28.5 million for the nine months ended September 30, 2011. The increase was primarily due to the increase in our taxable income. Our effective income tax rate for the nine months ended September 30, 2011 and 2012 was 14.8% and 14.1%, respectively.

Profit for the period

As a result of the foregoing, our profit for the period was RMB223.8 million for the nine months ended September 30, 2012, representing an increase of RMB59.2 million, or 36.0%, from RMB164.6 million for the nine months ended September 30, 2011. Our earnings per share for the period was RMB0.238 for the nine months ended September 30, 2012, representing an increase of RMB0.032, or 15.5%, from RMB0.206 for the nine months ended September 30, 2011.

Year ended December 31, 2011 compared to year ended December 31, 2010

Revenue

Our revenue was RMB2,307.7 million in 2011, representing an increase of RMB362.6 million, or 18.6%, from RMB1,945.1 million in 2010. In particular, revenue from our gasoline engines sales increased from RMB1,557.8 million in 2010, or 15.8%, to RMB1,803.6 million in 2011. Revenue from our diesel engines sales increased from RMB352.2 million in 2010, or 31.6%, to RMB463.4 million in 2011. The overall increase was primarily due to (i) increased demand for our products mainly as a result of the growth of the automotive industry in the PRC, in particular the increase in purchases of our less than 1.6L and 2.0L-2.5L gasoline engines and 2.0L-2.5L diesel engines by our major customer Zhengzhou Nissan, whose purchases accounted for 19.2% and 27.9% of our revenue for the year ended December 31, 2010 and 2011, respectively, and (ii) increased market recognition of our products.

Revenue from sales of gasoline engines with displacement of not greater than 1.6L was RMB622.3 million in 2011, representing an increase of 5.5% from RMB589.9 million in 2010, primarily due to an increase of units sold from 74,182 units in 2010 to 80,326 units in 2011, offset by a 2.6% decrease of average unit price.

Revenue from sales of gasoline engines with displacement of between 1.6L and 2.0L (incl.) was RMB290.6 million in 2011, representing a decrease of 9.7% from RMB321.7 million in 2010, primarily due to a decrease of units sold from 46,534 units in 2010 to 40,320 units in 2011, offset by a 4.2% increase of average unit price.

Revenue from sales of gasoline engines with displacement of between 2.0L and 2.5L (incl.) was RMB856.9 million in 2011, representing a significant increase of 34.8% from RMB635.5 million in 2010, primarily due to a significant increase of units sold from 69,890 units in 2010 to 88,238 units in 2011 and a 6.8% increase of average unit price.

Revenue from sales of gasoline engines with displacement of between 2.5L and 3.0L (incl.) was RMB33.8 million in 2011, representing a significant increase of 214.7% from RMB10.7 million in 2010, primarily due to an increase of units sold from 478 units in 2010 to 1,676 units in 2011, offset by a 10.3% decrease of average unit price.

Revenue from sales of diesel engines with displacement of between 2.0L and 2.5L (incl.) was RMB463.4 million in 2011, representing a significant increase of 31.6% from RMB352.2 million in 2010, primarily due to a significant increase of units sold from 14,817 units in 2010 to 19,694 units in 2011, offset by a 1.0% decrease of average unit price.

Cost of sales

Our cost of sales were RMB1,831.1 million in 2011, representing an increase of RMB187.3 million, or 11.4%, from RMB1,643.8 million in 2010. In particular, cost of sales for our gasoline engines sales increased from RMB1,334.0 million in 2010, or 9.4%, to RMB1,459.3 million in 2011. Cost of sales for our diesel engines sales increased from RMB282.1 million in 2010, or 22.1%, to RMB344.4 million in 2011. Such increases were in line with the corresponding increases in revenue from these products during this period and were affected by the increased unit purchase price of aluminum ingots, and were partially offset by the decreases in the purchase prices of some of our engine components mainly through negotiation with our suppliers as a result of our improved economies of scale.

Gross profit

As a result of the foregoing, our gross profit was RMB476.6 million in 2011, representing an increase of 58.2% from RMB301.3 million in 2010. Our gross profit margin was 20.7% in 2011 as compared with 15.5% in 2010, primarily due to increased average unit prices of 2.0L-2.5L gasoline engines, decreased cost of engine components for 2.0L-2.5L gasoline engines due to increased purchase volume and change of product mix in general where the portion of 2.0L-2.5L gasoline engines and 2.0L-2.5L diesel engines with higher margin increased due to increased sales to Zhengzhou Nissan. In particular, gross profit from our gasoline engine sales increased from RMB223.7 million in 2010, or 53.9%, to RMB344.3 million in 2011. Gross profit from our diesel engine sales increased 69.6% from RMB70.1 million in 2010 to RMB118.9 million in 2011. The gross profit margin for our gasoline engines was 19.1% in 2011 compared to 14.4% in 2010. The gross profit margin for our diesel engines was 25.7% in 2011 compared to 19.9% in 2010.

Other income

We had other income of RMB10.0 million in 2011, representing a decrease of RMB1.1 million, or 9.9%, from RMB11.1 million in 2010. The decrease was primarily due to (i) a RMB1.9 million decrease in imputed interest on loan to a related company and (ii) a RMB2.1 million decrease in bank interest income, partially offset by a RMB0.4 million increase in other income, and a RMB2.5 million increase in government grant.

Selling and distribution expenses

Our selling and distribution expenses were RMB48.6 million in 2011, representing a decrease of RMB17.2 million, or 26.2%, from RMB65.8 million in 2010. The decrease was primarily due to (i) a RMB14.3 million decrease in transportation expenses as our customer Zhengzhou Nissan chose to bear the transportation expenses for engines sold to them as a result of commercial negotiation with us in exchange for us agreeing not to raise product prices to reflect the increased manufacturing cost in 2011, (ii) a RMB1.5 million decrease in salaries and welfare of our sales staff due to reduced numbers of regional sales staff to improve their efficiency, and (iii) a RMB1.6 million decrease in marketing expenses due to a scale-back of advertising activities in light of the demand for our products exceeding our production capacity in 2011.

Administrative expenses

Our administrative expenses were RMB62.6 million in 2011, representing an increase of RMB7.2 million, or 13%, from RMB55.4 million in 2010. The increase was primarily due to (i) a RMB10.7 million increase in tax payment due to the new city maintenance and construction tax and surcharge for education that became applicable to us in 2011, and (ii) a RMB1.1 million increase in social welfare expenses as our business grew, partially offset by a RMB2.3 million decrease in depreciation, a RMB1.9 million decrease in entertainment expenses, a RMB0.2 million decrease in bank commissions and a RMB0.6 million decrease in board meeting expenses.

Other expenses

Our other expenses were RMB33.2 million in 2011, representing an increase of RMB9.6 million, or 40.7%, from RMB23.6 million in 2010. The increase was primarily due to (i) a RMB10.9 million initial public offering expenses related to this Global Offering and (ii) a RMB0.4 million increase in research expenses, partially offset by a decrease of RMB1.9 million in factory relocation expense.

Finance costs

Our finance costs were RMB37.5 million in 2011, representing an increase of RMB19.7 million, or 110.7%, from RMB17.8 million in 2010. The increase was primarily due to (i) a RMB1.9 million increase in our interest expenses in connection with our increased interest rates on bank borrowings and (ii) a RMB27.4 million increase in our interest expenses related to our increased use of discounted bills in connection with our increased cash flow needs as our business expanded, offset by a RMB0.1 million decrease in interest expenses related to loans from related companies and a RMB9.4 million increase in capitalized interest.

Income tax expense

Our income tax expense was RMB44.3 million in 2011, representing an increase of RMB43.9 million, from RMB0.4 million in 2010. The significant increase was due to the expiration of the tax exemption for 2009 and 2010 in support of recovery and reconstruction after the Wenchuan Earthquake and the application of 15% enterprise income tax rate from 2011 as Mianyang Xinchen was accredited as a High and New Technology Enterprise. Our effective income tax rates for 2010 and 2011 were 0.2% and 14.5%, respectively.

Profit for the year

As a result of the foregoing, our profit for the year was RMB260.4 million in 2011, representing an increase of RMB110.9 million, or 74.2%, from RMB149.5 million in 2010. Our earnings per share for the year was RMB0.316 in 2011, representing an increase of RMB0.129, or 69.0%, from RMB0.187 in 2010.

Year ended December 31, 2010 compared to year ended December 31, 2009

Revenue

Our revenue was RMB1,945.1 million in 2010, representing an increase of RMB659.9 million, or 51.3%, from RMB1,285.2 million in 2009. In particular, revenue from our gasoline engines sales increased from RMB983.7 million in 2009, or 58.4%, to RMB1,557.8 million in 2010. Revenue from our diesel engines sales increased from RMB275.2 million in 2009, or 28.0%, to RMB352.2 million in 2010. The overall increase was primarily due to (i) increased demand for our products mainly as a result of the growth of the automotive industry in the PRC, in particular the significant increase in sales of our less than 1.6L gasoline engines and 2.0L to 2.5L gasoline engines as a result of favorable government policies for low emission engines and increased market recognition of our products and (ii) a RMB8.8 million increase in sales of engine components and service income incidental to the increased engine sales.

Revenue from sales of gasoline engines with displacement of not greater than 1.6L was RMB589.9 million in 2010, representing a significant increase of 121.9% from RMB265.8 million in 2009, primarily due to a significant increase of units sold from 32,292 units in 2009 to 74,182 units in 2010, offset by a 3.4% decrease of average unit price.

Revenue from sales of gasoline engines with displacement of between 1.6L and 2.0L (incl.) was RMB321.7 million in 2010, representing a 23% increase from RMB261.7 million in 2009, primarily due to a 25% increase of units sold from 37,227 units in 2009 to 46,534 units in 2010, offset by a 1.7% decrease of average unit price.

Revenue from sales of gasoline engines with displacement of between 2.0L and 2.5L (incl.) was RMB635.5 million in 2010, representing a 42.4% increase from RMB446.3 million in 2009, primarily due to a 39.8% increase of units sold from 49,983 units in 2009 to 69,890 units in 2010 and a 1.8% increase of average unit price.

Revenue from sales of gasoline engines with displacement of between 2.5L and 3.0L (incl.) was RMB10.7 million in 2010, representing a 8.1% increase from RMB9.9 million in 2009, primarily due to an increase of units sold from 438 units in 2009 to 478 units in 2010, offset by a 0.7% decrease of average unit price.

Revenue from sales of diesel engines with displacement of between 2.0L and 2.5L (incl.) was RMB352.2 million in 2010, representing a 28.0% increase from RMB275.2 million in 2009, primarily due to a 37.6% increase of units sold from 10,768 units in 2009 to 14,817 units in 2010, offset by a 7.0% decrease of average unit price.

Cost of sales

Our cost of sales were RMB1,643.8 million in 2010, representing an increase of RMB529.0 million, or 47.5%, from RMB1,114.8 million in 2009. In particular, cost of sales for our gasoline engines sales increased from RMB859.0 million in 2009, or 55.3%, to RMB1,334.0 million in 2010. Cost of sales for our diesel engines sales increased from RMB236.2 million in 2009, or 19.4%, to RMB282.1 million in 2010. Such increases were in line with the corresponding increases in revenue from these products during this period and were affected by the increased unit purchase price of aluminum ingots, and were partially offset by decreases in the purchase prices of some of our engine components mainly through negotiation with our suppliers as a result of our improved economies of scale.

Gross profit

As a result of the foregoing, our gross profit was RMB301.3 million in 2010, representing an increase of RMB130.9 million, or 76.8%, from RMB170.4 million in 2009. Our gross profit margin was 15.5% in 2010 as compared with 13.3% in 2009, primarily due to decreased cost of overall engine components due to increased purchase volume, offset by decreased average unit prices of less than 1.6L gasoline engines due to increased sales volume and change in product mix in general where the portion of one new model of less than 1.6L gasoline engines with lower margin increased. In particular, gross profit from our gasoline engines sales increased from RMB124.6 million in 2009, or 79.5%, to RMB223.7 million in 2010. Gross profit from our diesel engines sales increased from RMB39.0 million in 2009, or 79.7%, to RMB70.1 million in 2010. The gross profit margin for our gasoline engines was 14.4% in 2010 compared to 12.7% in 2009. The gross profit margin for our diesel engines was 19.9% in 2010 compared to 14.2% in 2009.

Other income

Our other income was RMB11.1 million in 2010, representing an increase of RMB0.9 million, or 8.8%, from RMB10.2 million in 2009. The increase was primarily due to (i) a RMB0.71 million increase in bank interest income and (ii) a RMB0.65 million increase in government subsidies for research and development activities to enhance our research and development capabilities.

Selling and distribution expenses

Our selling and distribution expenses were RMB65.8 million in 2010, representing an increase of RMB13.8 million, or 26.5%, from RMB52.0 million in 2009. The increase was primarily due to (i) a RMB13.4 million increase in transportation expenses related to our increased product sales and (ii) a RMB2.1 million increase in marketing expenses related to the marketing and promotion of our engines, partially offset by a decrease in the compensation paid to our sales staff as a result of the one-time bonus paid in 2009 and a decrease in packaging expenses as we began using new, less expensive packaging materials in 2010.

Administrative expenses

Our administrative expenses were RMB55.4 million in 2010, representing an increase of RMB11.0 million, or 24.8%, from RMB44.4 million in 2009. The increase was primarily due to (i) a

RMB3.2 million increase in salaries for our administrative and management staff as our business grew, (ii) a RMB3.1 million increase in depreciation costs and (iii) a RMB2.9 million increase in stamp duty and land use tax mainly due to the acquisition of the land use rights for the new production facilities in Mianyang.

Other expenses

Our other expenses were RMB23.6 million in 2010, representing an increase of RMB10.0 million, or 73.5%, from RMB13.6 million in 2009. The increase was primarily due to (i) a RMB6.1 million increase in research expenses and (ii) RMB4.2 million increase in expenses incurred as a result of the relocation of our production equipment to the new production site located in the Mianyang High-Tech Development Zone in 2010.

Finance costs

Our finance costs were RMB17.8 million in 2010, representing an increase of RMB6.7 million, or 60.4%, from RMB11.1 million in 2009. The increase was primarily due to (i) a RMB2.6 million increase in our interest expenses in connection with our increased bank borrowings and (ii) a RMB4.0 million increase in discounted bills in connection with our increased cash flow needs as our business expanded.

Income tax expense

Our income tax expense was RMB0.4 million in 2010, representing a decrease of RMB0.8 million, or 66.7%, from RMB1.2 million in 2009. Our effective income tax rates for 2009 and 2010 were 2.1% and 0.2%, respectively.

Profit for the year

As a result of the foregoing, our profit for the year was RMB149.5 million in 2010, representing an increase of RMB91.2 million, or 156.4%, from RMB58.3 million in 2009. Our earnings per share for the year was RMB0.187 in 2010, representing an increase of RMB0.114, or 156.2%, from RMB0.073 in 2009.

Description of Certain Items from Our Consolidated Statements of Financial Position

The following table sets forth selected data from our consolidated statements of financial position as of the dates presented, which have been derived from, and should be read in conjunction with, our Financial Information, including the notes thereto, included in the Accountants' Report set forth in Appendix I to this prospectus.

	As of December 31,			As of September 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	220,915	231,802	278,262	323,650
Prepaid lease payments	14,736	63,724	62,323	61,243
Intangible assets	23,768	11,597	43,695	72,978
Investment in a jointly controlled entity	—	—	—	49,633
Deferred tax assets	1,174	809	1,030	1,162
Deposits for acquisition of property, plant and equipment and prepaid lease payments	26,928	10,120	13,009	5,468
	287,521	318,052	398,319	514,134
Current assets				
Inventories	208,635	251,368	221,202	238,332
Prepaid lease payments	422	1,434	1,434	1,434
Trade and other receivables	99,804	170,506	497,706	659,795
Amounts due from related companies	532,205	826,400	1,061,910	955,489
Loans to a related company	77,625	78,029	—	—
Loan to a Shareholder	—	—	32,771	32,595
Pledged bank deposits	268,811	207,161	223,059	76,022
Bank balances and cash	37,117	66,776	327,747	551,996
	1,224,619	1,601,674	2,365,829	2,515,663
Current liabilities				
Trade and other payables	787,318	923,893	1,312,341	1,325,111
Amounts due to related companies	47,512	75,971	116,698	101,056
Loan from related companies	40,000	40,000	—	—
Loans from Shareholders	—	—	32,771	32,595
Bank borrowings due within one year	93,000	176,950	163,950	194,950
Other loan	—	—	—	4,000
Other tax payables	6,030	19,260	43,300	53,271
Income tax payables	—	—	30,686	35,910
	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
Non-current liabilities				
Bank borrowings due after one year	32,000	—	—	—
Other loan	—	4,000	4,000	—
Deferred income	3,768	31,179	28,010	26,743
	35,768	35,179	32,010	26,743
Net assets	502,512	648,473	1,032,392	1,256,161
Capital and reserves				
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

Property, Plant and Equipment

Our property, plant and equipment consist of buildings, plants and machinery, office equipment and other facilities, motor vehicles and properties under development. As of December 31, 2009, 2010 and 2011 and September 30, 2012, property, plant and equipment amounted to RMB220.9 million, RMB231.8 million, RMB278.3 million and RMB323.7 million, respectively. The increases were primarily due to the acquisition of equipment and machinery in line with the growth in our product sales, the construction of new production facilities and office buildings and the relocation of our production facilities to the new production site. For details, see "Business — Properties" in this prospectus.

Intangible assets

Our intangible assets consist of capitalized development costs of new engines. Our intangible assets decreased from RMB23.8 million as of December 31, 2009 to RMB11.6 million as of December 31, 2010, primarily due to the amortization of the development costs. Our intangible assets increased from RMB11.6 million as of December 31, 2010 to RMB43.7 million as of December 31, 2011, primarily due to the increased development costs for our new products and models such as D22, V22, 3TZ and 4A15T, which were partially offset by the amortization. Due to the same reason, it further increased to RMB73.0 million as of September 30, 2012.

Inventories

Our inventories consist of raw material and engine components, work-in-progress and finished goods. The following table sets forth a summary of our inventory balances at the end of each period indicated:

	As of December 31,			As of September 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Raw material and engine components	52,330	50,150	93,159	136,652
Work-in-progress	18,640	26,676	20,648	20,869
Finished goods	137,665	174,542	107,395	80,811
Total	208,635	251,368	221,202	238,332

Our raw material and engine components decreased from RMB52.3 million as of December 31, 2009 to RMB50.1 million as of December 31, 2010, primarily due to increased production activities in 2010. Our raw material and engine components increased from RMB50.1 million as of December 31, 2010 to RMB93.2 million as of December 31, 2011, primarily due to increased raw material and engine components reserved in preparation of the relocation of our production facilities to the new location in the Mianyang High-Tech Development Zone to reduce the risk of insufficient supplies during the transition period. It increased to RMB136.7 million as of September 30, 2012, primarily due to increased purchase of certain engine components at lower prices by us.

Our work-in-progress primarily consists of products in the process of being manufactured. Our work-in-progress increased from RMB18.6 million as of December 31, 2009 to RMB26.7 million as of December 31, 2010, primarily due to increased production to meet the growth in demand for our products. Our work-in-progress decreased from RMB26.7 million as of December 31, 2010 to RMB20.6 million as of December 31, 2011, primarily due to increased efficiency of our production lines driven by increasing demands for our products. It remained relatively stable for the nine months ended September 30, 2012.

Our finished goods primarily consist of products that are stored in our warehouses pending delivery. Our finished goods increased from RMB137.7 million as of December 31, 2009 to RMB174.5 million as of December 31, 2010, primarily due to increased production and sales of our products. Our finished goods decreased from RMB174.5 million as of December 31, 2010 to RMB107.4 million as of December 31, 2011, primarily due to increased sales volume that surpassed our production volume. Due to the same reason, it further decreased to RMB80.8 million as of September 30, 2012.

Our inventories are net of provision of RMB6.1 million, RMB5.9 million, RMB0.9 million and RMB1.0 million, as of December 31, 2009, 2010 and 2011 and September 30, 2012, respectively, which is determined with reference to the net realizable value of the inventories items.

The following table sets forth the turnover days of our inventory for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2009	2010	2011	2012
Inventory turnover days[(1)]	61	51	47	40

(1) Inventory turnover days equal average inventory (net of provision) divided by cost of sales and multiplied by 365 for each of the three years ended December 31, 2011 and by 274 for the nine months ended September 30, 2012.

Our turnover days of inventory (net of provision) decreased from 61 days in 2009 to 51 days in 2010 and to 47 days in 2011, primarily due to our improved inventory management and increased sales. It decreased to 40 days for the nine months ended September 30, 2012, primarily due to further increased sales. Our turnover days of inventory (net of provision) are relatively low, mainly because we strive to maintain lean and efficient production processes and adopt effective internal inventory management practices to reduce our inventory risks. See "Business — Inventory Management" and "Business — Logistics" of this prospectus for a discussion of our inventory management and logistics practices.

Trade and other receivables

Our trade and other receivables primarily consist of trade receivables, bills receivable, prepayments for purchase of raw material and engine components and other receivables. Our trade receivables primarily consist of account receivables with our 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 non-related customers in lieu of cash payment for purchases. Our prepayments primarily consist of deposit payments made to suppliers for the procurement of raw material and engine components, which we believe is consistent with general industry practice in the PRC. Other receivables mostly consist of advances to employees and to-be-received government subsidies.

For a description of our trade and other receivables with our related customers, which are accounted for on our consolidated statements of financial position as "Amounts due from related companies," please see "— Description of Certain Items from Our Consolidated Statements of Financial Position — Amounts due from related companies."

The following table sets forth a breakdown of our trade and other receivables as of the dates indicated:

	As of December 31,			As of September 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	52,245	33,186	245,480	380,419
Less: Allowance for doubtful debts	(322)	(50)	(43)	(98)
Trade receivables, net	51,923	33,136	245,437	380,321
Bills receivable	40,853	134,332	241,542	265,649
Total trade and bills receivables	92,776	167,468	486,979	645,970
Prepayments for purchase of raw material and engine components	5,076	1,337	3,059	4,727
Other receivables	1,952	1,701	7,668	10,278
	99,804	170,506	497,706	660,975

Our trade and bills receivables increased from RMB92.8 million as of December 31, 2009 to RMB167.5 million as of December 31, 2010, to RMB487.0 million as of December 31, 2011, and to RMB646.0 million as of September 30, 2012, primarily due to the increase in our sales. In particular, our trade receivables decreased from RMB52.2 million as of December 31, 2009 to RMB33.2 million as of December 31, 2010, primarily due to timely payments by our customers in 2010, and increased significantly from RMB33.2 million as of December 31, 2010 to RMB245.5 million as of December 31, 2011 and further to RMB380.4 million as of September 30, 2012, due to, in addition to increased sales, the PRC Government tightening credit policy starting in 2010 and continuing in 2011 and 2012 to control inflation which increased pressure on our customers' cash flows who subsequently prolonged their payment cycle. For the same reason, our bills receivable also increased substantially during the Track Record Period, as customers increasingly used promissory notes issued by banks and financial institutions which mature within three to six months in lieu of cash for payment.

We generally extend our non-related customers a credit period of 30 to 60 days from the date of issuance of 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, and our financial position and working capital needs. Accordingly, it is possible for non-related customers to be extended a credit period of up to 240 days. We believe that settlement by promissory notes issued by banks and financial institutions is generally a customary practice in our industry. The promissory notes we receive are issued by reputable PRC banks and financial institutions, so we generally consider the risk of default is relatively low. We receive cash payment from the issuing banks and financial institutions when the promissory notes mature, unless we endorse or discount them.

Before accepting any new customer, we assess its credit quality and define its credit limit based on its reputation in the industry. We review the limits granted to our customers regularly. As our key customers are generally creditworthy and have demonstrated a good track record of timely payments, we generally consider the credit 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 non-related 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. When we discount bills receivable to banks in exchange for cash, we incur finance costs as a result of the discount. There is no additional cost (for example, discounts or additional charges) of endorsing bills receivable to settle trade payables.

As of December 31, 2009, 2010 and 2011 and September 30, 2012, our allowance for doubtful debts was RMB0.3 million, RMB0.05 million, RMB0.04 million and RMB0.1 million, respectively, which our management considered was sufficient. On the same dates, trade receivables of RMB6.7 million, RMB2.6 million, RMB43.5 million and RMB202.2 million were past due but not impaired. As of September 30, 2012, these receivables past due were mainly attributable to FAW Jilin, which accounted for RMB48.3 million, Chongqing Xinyuan Automotive Company Limited ("Chongqing Xinyuan"), which accounted for RMB22.9 million, and Zhengzhou Nissan, which accounted for RMB95.5 million. We still maintain normal business contacts and transaction records with these customers. As of January 31, 2013, RMB141.5 million of our trade receivables that were past due as of September 30, 2012 have been settled by promissory notes issued by banks and financial institutions, which mature within three to six months and we believe have relatively low default risk. Among the remaining balance of RMB60.7 million, RMB48.3 million was attributable to FAW Jilin, RMB2.7 million was attributable to Chongqing Xinyuan, and nil was attributable to Zhengzhou Nissan, respectively.

Although we face increased pressure on our cash flow and risks related to non-payment of these past due receivables, we believe, considering the high credibility of these customers, their good track record with us and the subsequent settlement by cash or promissory notes issued by reputable PRC banks and financial institutions, no impairment allowance is necessary in respect of the remaining unsettled balances and our overall risks are controllable. We do not hold any collateral over these balances because we expect to be able to collect all these receivables in the future.

Substantially all of our trade and bills receivables at the end of the relevant report periods were due within six months.

The following is an aged analysis of our trade receivables, net of allowance for doubtful debts, presented based on the invoice date at the end of the reporting period.

	At December 31,			At September 30,
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	28,408	27,688	178,905	92,378
Over 1 month but within 2 months	15,739	1,764	39,838	142,006
Over 2 months but within 3 months	6,669	1,987	21,809	86,325
Over 3 months but within 6 months	1,107	586	4,726	59,432
Over 6 months but within 1 year	—	1,044	2	160
Over 1 year	—	67	157	20
	51,923	33,136	245,437	380,321

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

	At December 31,			At September 30,
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	40,073	77,247	172,836	155,019
Over 3 months but within 6 months	780	57,085	68,706	110,630
	40,853	134,332	241,542	265,649

Up to January 31, 2013, we have subsequently settled a portion of the outstanding trade and bills receivables at September 30, 2012, amounting to RMB195.2 million by cash and RMB239.4 million by promissory notes issued by banks and financial institutions.

The following table sets forth the turnover days of our trade and bills receivables for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2009	2010	2011	2012
Trade and bills receivables turnover days(1)	53	55	97	150

(1) Trade and bills receivables turnover days equal average trade and bills receivables (net of allowance of doubtful debts), divided by revenue from non-related third parties and multiplied by 365 for each of the three years ended December 31, 2011 and by 274 days for the nine months ended September 30, 2012.

Our trade and bills receivables turnover days increased from 53 days in 2009 to 55 days in 2010, primarily because we offered extended payment period to new customers to expand our sales in 2010. Our trade and bills receivables turnover days increased from 55 days in 2010 to 97 days in 2011 primarily because some of our customers delayed their payments to us or increasingly chose to pay by promissory notes issued by banks and financial institutions due to the tightened credit policy by the PRC Government in 2011, which increased pressure on their cash flows. It further increased to 150 days in the nine months ended September 30, 2012, primarily due to a combination of increased sales, customers prolonging their payments and/or continuing to pay by promissory notes issued by banks and financial institutions. These customers include Zhengzhou Nissan and GAC Changfeng, who contributed to 27.9% and 5.4% of our revenue in 2011. 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 performing periodic evaluations of the overdue balances 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 receivables collection rates as one of the standards to evaluate the performance of our sales personnel to encourage them to collect amounts due from our customers.

Our prepayments to our suppliers decreased from RMB5.1 million as of December 31, 2009 to RMB1.3 million as of December 31, 2010, primarily due to better credit terms granted to us by our suppliers as our procurement amounts increased with our business growth. Our prepayments to our suppliers increased from RMB1.3 million as of December 31, 2010 to RMB3.1 million as of December 31, 2011, primarily due to our ramped up production to meet increasing demands for our products which led to increased prepayments to secure supplies. It further increased to RMB4.7 million as of September 30, 2012, primarily due to the same reason.

Amounts due from related companies

During the Track Record Period, we had trade balances with related companies generated from engines and engine parts sold to our related companies, including Huachen Group, Brilliance China Group and Wuliangye Group. Our trade receivables from related companies primarily consist of account receivables with our related customers in connection with the sale of our products. Our bills receivable from related companies primarily consist of promissory notes issued by banks and financial institutions which mature within three to six months delivered by our related customers in lieu of cash payment for purchases. For details of our transactions with related companies, see "Relationship with our Controlling Shareholders and Huachen", "Connected Transactions" and Note 23 of the Accountants' Report as set forth in Appendix I to this prospectus. The increases in the amounts due from related companies primarily reflect the increased sales of our products to our related companies during the Track Record Period.

For the Track Record Period, all the amounts due from our related companies are trade-related.

The following table sets forth the analysis of the amounts due from related companies as of the dates indicated:

	As of December 31,			As of September 30,
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from related companies				
Trade receivables	458,105	701,400	892,816	942,549
Bills receivable	74,100	125,000	169,094	11,760
Total	532,205	826,400	1,061,910	954,309

As of September 30, 2012, the amounts due from Huachen Group and Brilliance China Group accounted for 34.5% and 21.7% of our total trade and bills receivables from our related and non-related companies, respectively. The following table sets forth the amounts due from Huachen Group and Brilliance China Group as of the dates indicated:

	As of December 31,			As of September 30,
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from				
Huachen Group	61,323	312,058	780,645	552,721
Brilliance China Group	470,882	514,256	281,359	346,849

Amounts due from our related companies are unsecured, interest free and with credit periods of three months from the invoice dates and a further three to six months for bills receivable. The following is an aging analysis of our amounts due from related companies presented based on the invoice dates at the end of the reporting period:

	As of December 31,			As of September 30,
	2009	**2010**	**2011**	**2012**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Within 3 months	312,445	435,269	473,345	470,999
Over 3 months but within 6 months	99,432	144,231	182,851	347,800
Over 6 months but within 1 year	17,653	105,435	232,406[(1)]	122,816[(2)]
Over 1 year	28,575	16,465	4,214	934
	458,105	701,400	892,816	942,549

(1) The increase in 2011 was primarily due to the delayed payment by some of our related customers, mainly Shenyang Brilliance Power, caused by the tightened credit policy by the PRC Government in 2011, which increased pressure on their cash flows.

(2) The decrease for the nine months ended September 30, 2012 was primarily due to our collection of a significant portion of the amounts due from our related companies.

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

	As of December 31,			As of September 30,
	2009	**2010**	**2011**	**2012**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Within 3 months	74,100	100,000	159,962	10,710
Over 3 months but within 6 months	—	25,000	9,132	2,230
	74,100	125,000	169,094	12,940[(1)]

(1) The decrease for the nine months ended September 30, 2012 was primarily because a significant amount of bills matured and were paid in cash by the issuing banks and financial institutions, and we increasingly endorsed and discounted bills receivable from our related companies for cash or payment to our suppliers.

The following table sets forth the turnover days of our trade and bills receivables due from our related companies for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2009	**2010**	**2011**	**2012**
Amounts due from related companies turnover days[(1)]	186	231	320	302

(1) Amounts due from related companies turnover days equal average amounts due from related companies divided by revenue from related companies and multiplied by 365 for each of the three years ended December 31, 2011 and by 274 days for the nine months ended September 30, 2012.

The turnover days of our amounts due from related companies increased from 186 days in 2009 to 231 days in 2010 and to 320 days in 2011, primarily because they delayed their payments to us and, to a lessor extent, increasingly chose to pay by promissory notes issued by banks and financial institutions due to the tightened credit policy by the PRC Government in 2010 and 2011, which increased pressure on their cash flows. It decreased to 302 days for the nine months ended September 30, 2012, primarily because we settled a portion of the trade and bills receivables due from our related companies.

Our credit policy is that credit is offered to our related companies following a financial assessment of their business and an established payment record. In determining the recoverability of amounts due from related companies, we consider that if our related companies are financially sound, no impairment should be necessary. Our customer credit policy sets out certain criteria which a customer, either related or non-related, needs to fulfill before we grant a longer credit period. These criteria include history of business relationship with us, payment history, prospects and market shares of the customers and competitiveness of their new products. Moreover, we consider that the risk of non-payment by related customers are relatively lower than non-related customers given their long business relationship with us. Having made reference to the credit period offered by other automotive engine suppliers in the PRC and having consulted with our customers with regard to the credit terms offered to these customers by other automotive engine suppliers in the PRC, we believe that the credit period offered to our related customers is in line with industry practice.

Included in the amounts due from our related companies are aggregate carrying amounts of RMB145.7 million, RMB266.1 million, RMB419.5 million and RMB471.6 million as of December 31, 2009, 2010 and 2011 and September 30, 2012, respectively, which were past due and for which we had not provided for impairment loss. The amounts past due were mainly caused by delayed payment by our related companies, in particular, Brilliance China Group and Huachen Group, when their cash flows were affected by the launching of their new automotive models and tightened credit policy by the PRC Government to control inflation in 2010 and 2011. As of September 30, 2012, out of the RMB471.6 million that were past due, RMB266.2 million and RMB192.9 million were due from Huachen Group and Brilliance China Group.

We allowed a significant portion of the related companies balance to become overdue and without holding any collateral over these balances because our management assessed these related companies to be credible customers who have long-term relationships with us and who our management believe to be financially sound, and we believe that these balances will ultimately be settled. We perform periodic evaluations of the overdue balances and customer visits to ensure our exposure to bad debts is not significant and adequate impairment losses are made for irrecoverable amounts. Taking into consideration the gradual and frequent repayments from these related companies, we did not consider impairment allowance to be necessary in respect of these balances. Although in reality we allowed a significant portion of the balance to be overdue, which deviated from our credit policy, we do not plan to change our currently allowed credit periods. We intend to continue to enforce our credit policy by rigorously requesting the relevant customers to pay, including calling and visiting them in person, once any receivables are past due according to such allowed credit period.

Up to January 31, 2013, we had subsequently settled a portion of the outstanding amounts due from related companies at September 30, 2012, amounting to RMB11.8 million by cash and RMB684.8 million by promissory notes issued by banks and financial institutions. As of January 31, 2013, all of the amounts due from our related companies that were past due as of September 30, 2012 have been settled by promissory notes issued by banks and financial institutions, which we believe are of relatively low default risk. Among the settled balance as of January 31, 2013, RMB266.0 million was by Huachen Group, RMB192.8 million was by Brilliance China Group and RMB12.5 million was by Dongfeng JV.

After Listing, we expect to continue to have amounts due from our related companies generated from the ongoing engine sales to our related companies. We intend to strive to reduce the level of past due balances from our related companies through frequent negotiations and communications with them and by more strictly enforcing our credit policy. For further details, please see “Relationship with our Controlling Shareholders and Huachen” and “Connected Transactions” in this prospectus.

Trade and other receivables analysis by top five customers

The following table sets forth the trade and bills receivables due from our top five customers, including our related and non-related companies, for the periods indicated:

	As of December 31,			As of September 30,	Subsequently settled amount up to January 31,
	2009	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	415,203	637,145	973,138	1,059,371	767,636
Bills receivables	102,998	201,350	305,570	253,188	182,758
Total trade and bills receivables	518,201	838,495	1,278,708	1,312,559	950,394

The following table sets forth the turnover days of our trade receivables, bills receivables and total trade and bills receivables due from our top five customers for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2009	2010	2011	2012
Trade receivables turnover days[(1)]	80	127	144	104
Bills receivables turnover days[(1)]	30	37	48	26
Total trade and bills receivables turnover days[(1)]	110	164	192	130

(1) The turnover days equal average amounts due from top five customers (net of allowance of doubtful debts) divided by total sales to top five customers and multiplied by 365 for each of the three years ended December 31, 2011 and by 274 days for the nine months ended September 30, 2012.

Up to January 31, 2013, we have subsequently settled a portion of outstanding trade and bills receivables from our top five customers, amounting to RMB182.8 million by cash and RMB767.6 million by promissory notes issued by banks and financial institutions, which together accounted for 69% of our trade and bills receivables from our top five customers as at September 30, 2012.

Trade and other payables

Our trade and other payables primarily consist of trade and bills payables for purchases of raw material and engine components from various suppliers, accrued purchase of raw material and engine components, amounts payable for construction of our production facilities, payroll and welfare payables and provision for warranty. Our suppliers typically grant us a credit period of three months with a further three to six months extension if we pay by promissory notes issued by banks and financial institutions.

For a description of our trade and other payables with our related customers, which are accounted for on our consolidated statements of financial position as "Amounts due to related companies," please see "— Description of Certain Items from Our Consolidated Statements of Financial Position — Amounts due to related companies."

Our trade and other payables increased from RMB787.3 million as of December 31, 2009 to RMB923.9 million as of December 31, 2010, primarily due to increases in the procurement of raw material and engine components for our production activities in line with the overall growth of our operations. Our trade and other payables increased from RMB923.9 million as of December 31, 2010 to RMB1,312.3 million as of December 31, 2011, primarily due to increases in the procurement of raw material and engine components in line with our business growth and longer credit periods extended by our suppliers to us as we increased our purchase volumes from them. It increased to RMB1,325.1 million as of September 30, 2012, primarily due to increases in the procurement of raw material and engine component in line with our business growth.

In particular, our accrued purchase of raw material and engine components, which are raw material and engine components that have already been consumed in our production but for which we have not been invoiced yet, decreased slightly from RMB167.3 million as of December 31, 2009 to RMB165.4 million as of December 31, 2010, primarily due to changes in the composition of our raw material and engine components consumption. Our accrued purchase of raw material and engine components increased from RMB165.4 million as of December 31, 2010 to RMB255.5 million as of December 31, 2011, primarily due to our increased sales volume and changes in the composition of our raw material and engine components consumption. It further increased to RMB372.5 million as of September 30, 2012, primarily due to the same reason. We generally receive invoices for the raw material and engine components from our suppliers one month after their consumption in our production. We believe this practice is line with the engine manufacturing industry practice in the PRC.

Furthermore, our provisions for warranty increased from RMB0.05 million as of December 31, 2009 to RMB7.4 million as of December 31, 2010, primarily due to provisions made for two new product models for which our customers reported minor quality issues in 2010. The provisions were made based on our prudent financial policy and before the cause of the issues was determined. It was later determined, in 2011, that one minor quality issue involves emission of black smoke, which was caused by improper use and the other minor quality issue was related to the wear and tear of combustion chamber, which was caused by the use of the wrong type of fuel. Our provisions for warranty decreased from RMB7.4 million as of December 31, 2010 to RMB5.3 million as of December 31, 2011, primarily due to the decrease in warranty provisions for the two new product models after the cause of the issues was determined in 2011 and due to our further improved product quality. It decreased to RMB5.1 million as of September 30, 2012, primarily due to our further improved product quality.

The credit period of our trade payables and bills payable is normally within three months and three to six months, respectively. Substantially all of our trade and other payables at the end of the relevant report periods were due within six months.

The following table sets forth the aging analysis of our trade payables presented based on the invoice date and bills payables presented based on the bills issue date, as of the dates indicated:

	As of December 31,			As of September 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	363,572	481,297	515,744	593,011
Over 3 months but within 6 months	192,620	195,976	437,268	229,491
Over 6 months but within 1 year	1,269	6,096	19,593	37,239
Over 1 year	3,298	4,858	—	—
	560,759	688,227	972,605	859,741

The following table sets forth the turnover days of our trade and bills payables for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2009	2010	2011	2012
Trade and bills payables turnover days[(1)]	169	174	207	217

(1) Trade and bills payables turnover days equal average trade and bills payables and accrued purchase of raw materials divided by cost of sales from non-related third parties and multiplied by 365 for each of the three years ended December 31, 2011 and by 274 days for the nine months ended September 30, 2012.

Our trade and bills payables turnover days increased from 169 days in 2009 to 174 days in 2010, to 207 days in 2011 and to 217 days for the nine months ended September 30, 2012, primarily due to (i) longer credit periods extended by our suppliers to us as we increased our purchase volumes from them and (ii) our increased use of promissory notes issued by banks and financial institutions as payment method to reduce pressure on our cash flow, which have a longer credit period. Our trade and bills payables turnover days are relatively high mainly because our payment terms usually allow us to make payment within three to six months with reasonable extensions.

Amounts due to related companies

During the Track Record Period, we had trade balances with related companies generated from engine components sourced from our related companies, including Brilliance China Group and Wuliangye Group, and non-trade related balances generated from property maintenance and construction and tax rebate to shareholders. For details of our transactions with related companies, see "Connected Transactions" and Note 26 of the Accountants' Report as set forth in Appendix I to this prospectus. The increases in our amounts due to related companies primarily reflect the increased procurement of engine components from our related companies during the Track Record Period.

The following table sets forth our trade and non-trade related amounts due to our related companies as of the dates indicated:

	As of December 31,			As of September 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due to related companies				
Trade related	39,308	68,849	114,343	100,310
Non-trade related	8,204	7,122	2,355	746
	47,512	75,971	116,698	101,056

The trade related amounts are interest free, unsecured and with a credit period of three to six months with a further three to six months extension if we pay by promissory notes issued by banks and financial institutions. The non-trade related amounts are interest free, unsecured and repayable on demand.

The trade related amounts consist of both trade payables and bills payables. The following table sets forth an aging analysis of trade payables (trade related) presented based on the invoice date as of the dates indicated:

	As of December 31,			As of September 30,
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	25,561	36,848	69,857	50,413
Over 3 months but within 6 months	917	7,391	7,754	14,593
Over 6 months but within 1 year	20	345	5,061	4,026
Over 1 year	—	—	117	—
	26,498	44,584	82,789	69,032

Our bills payable (trade related) are guaranteed by banks in the PRC and have maturities of three to six months. The following table sets forth an aging analysis of bills payable (trade related) presented based on the bills issuance date as of the dates indicated:

	As of December 31,			As of September 30,
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	5,426	3,243	120	7,480
Over 3 months but within 6 months	7,384	21,022	31,434	23,798
	12,810	24,265	31,554	31,278

The following table sets forth the turnover days of our amounts due to our related companies for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2009	2010	2011	2012
Amounts due to related companies turnover days(1)	81	99	172	206

(1) Amounts due to related companies turnover days equal average amounts due to related companies (trade related) divided by purchase from related companies and multiplied by 365 for each of the three years ended December 31, 2011 and by 274 day for the nine months ended September 30, 2012.

The turnover days of our amounts due to related companies increased from 81 days in 2009 to 99 days in 2010, to 172 days in 2011 and to 206 days for the nine months ended September 30, 2012, primarily due to (i) longer credit periods extended by our suppliers to us as we increased our purchase volumes from them and (ii) our increased use of promissory notes issued by banks and financial institutions as payment method, which mature within three to six months.

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have financed our working capital, capital expenditure and other capital requirements primarily through cash generated from our operations, short-term borrowings from banks and related companies and capital contributions from Shareholders. Our loan agreements do not contain any major or unusual restrictive covenants or cross-default provisions which may materially affect our liquidity and capital resources by limiting our potential business operations or strategies.

Our future cash requirements will depend on many factors, including our operating income, terms of trade, costs to build additional production capacities and other changing business conditions and future developments. Generally, we extend a credit period of three months to our related customers and 30 to 60 days to our non-related customers with a further three to six months extension for payment by promissory notes issued by banks and financial institutions and our suppliers grant us a credit period of three months with a further three to six months extension if we pay by promissory notes issued by banks and financial institutions. As such, we strive to match the credit terms extended by our suppliers to us with those extended by us to our customers to maintain balanced cash flows. However, during the Track Record Period, we occasionally extended longer credit period to our customers who were behind on their payments. We gave extended credit period only to customers who we deem have good track record with us, high credibility and low operational risks. We expect to improve our credit management by allowing less extended credit period to our customers. During the Track Record Period, we experienced negative cash flows from our operating activities in 2010, primarily due to increased trade receivables caused by delayed payments by our related customers, when their cash flows were affected by the launching of their new automobile models and tightened credit policy by the PRC Government. Occasionally, we also extended longer credit period in favor of new customers who we expect to have growth potential. We started to enhance our liquidity management in late 2011, in particular with regard to related companies, by extending less credit period beyond our normal credit policy and improving collection of amounts past due from our related companies. We have also included 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. As a result, as of the Latest Practicable Date, all amounts due from our related companies that are past due as of September 30, 2012 had been settled. For risks related to the PRC Government tightened credit policy, see "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".

In the future, if industry practice shifts away from our current practice and our trade terms with customers and suppliers change accordingly, we may need to fund our working capital needs with increasing bank or other borrowings, which will increase our finance costs. We may require additional cash to repay existing debt obligations or to re-finance our existing debts or due to changing business conditions or other future developments. We may seek to sell additional equity or debt securities or borrow from lending institutions. We cannot assure you that financing will be available in the amounts we need or on terms acceptable to us, if at all. The sale of additional equity securities, including convertible debt securities, would dilute our existing Shareholders. If we are unable to obtain additional equity or debt financing as required, our business operations and prospects may suffer.

We expect to fund our future capital expenditure, working capital and other cash requirements from cash generated from our operations, the net proceeds from the Global Offering and, when necessary, bank and other borrowings.

Cash Flows

The following table sets forth selected cash flow data from our consolidated statements of cash flows for the periods indicated:

	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
Net cash from (used in) operating activities	150,280	(9,622)	267,663	(38,072)	196,412
Net cash (used in) from investing activities	(196,011)	2,166	(25,499)	51,696	21,826
Net cash from (used in) financing activities	64,182	37,115	18,807	(77,711)	6,012
Net increase (decrease) in cash and cash equivalents	18,451	29,659	260,971	(58,649)	224,249
Cash and cash equivalents at beginning of the year/period	18,666	37,117	66,776	66,776	327,747
Cash and cash equivalents at end of the year/ period	37,117	66,776	327,747	8,127	551,996

Cash flows from (used in) operating activities

We derive our cash flows from operating activities primarily from the receipt of payment for sales of products. Our cash used in operating activities primarily consists of payment for purchases of raw material and engine components.

For the nine months ended September 30, 2012, we had net cash from operating activities of RMB196.4 million. The amount primarily reflected our profit before tax of RMB260.4 million, as adjusted by income statement items with non-operating cash effect and the following factors: (i) a decrease in amounts due from related companies of RMB107.6 million as a result of collection, (ii) a increase in trade and other payables and other tax payables of RMB2.0 million, offset by (iii) a decrease in amounts due to related companies of RMB14.0 million as our procurement of engine components increased, (iv) an increase in inventories of RMB17.3 million, (v) an increase in trade and other receivables of RMB161.8 million due to increased sales, and (vi) an income tax paid of RMB31.5 million.

For the year ended December 31, 2011, we had net cash from operating activities of RMB267.7 million. The amount primarily reflected our profit before tax of RMB304.6 million, as adjusted by income statement items with non-operating cash effect and the following factors: (i) an increase in trade and other payables and other tax payables of RMB383.7 million as our procurement of raw material and engine components increased, (ii) an increase in amounts due to related companies of RMB46.3 million as our procurement of engine components increased, (iii) a decrease in inventories of RMB35.2 million, offset by (iv) an increase in trade and other receivables and other tax recoverables of RMB327.2 million due to increased sales as well as the tightened credit policy by the PRC Government in 2011 which increased pressure on our customers' cash flows who prolonged their payment cycle and increased the use of promissory notes issued by banks and financial institutions which mature within three to six months for payment, (v) an increase in amounts due from related companies of RMB236.3 million, mainly caused by delayed payments by our related companies, whose own cash flows were also affected by the tightened credit policy of the PRC Government in 2011, and (vi) an income tax paid of RMB13.8 million in 2011.

For the year ended December 31, 2010, we had net cash used in operating activities of RMB9.6 million. The amount primarily reflected our profit before tax of RMB149.8 million, as adjusted by income statement items with non-operating cash effect and the following factors: (i) an increase in amounts due from related companies of RMB294.2 million mainly caused by delayed payments by our related companies, in particular, Brilliance China Group and Huachen Group, when their own cash flows were affected by launching of their new products and tightened credit policy by the PRC Government, (ii) an increase in trade and other receivables of RMB70.4 million as our sales increased, (iii) increase in inventories of RMB42.6 million, offset by (iv) an increase in trade and other payables and other tax payables of RMB143.7 million as our procurement of raw material and engine components increased, and (v) an increase in amounts due to related companies of RMB29.5 million.

For the year ended December 31, 2009, we had net cash from operating activities of RMB150.3 million. The amount primarily reflected our profit before tax of RMB59.5 million, as adjusted by income statement items with non-operating cash effect and the following factors: (i) an increase in trade and other payables and other tax payables of RMB441.0 million as our procurement of raw material and engine components increased in line with the overall growth of our operations, (ii) an increase in amounts due to related companies of RMB19.2 million, (iii) a decrease in trade and other receivables and other tax recoverables of RMB8.3 million, offset by (iv) an increase in amounts due from related companies of RMB386.7 million, and (v) an increase in inventories of RMB46.6 million.

Cash flows (used in) from investing activities

For the nine months ended September 30, 2012, we had net cash from investing activities of RMB21.8 million, primarily reflecting (i) a net decrease in pledged bank deposits of RMB147.0 million, (ii) an interest received of RMB2.8 million from our bank deposits, and (iii) receipt from government grants of RMB1.6 million related to purchase of production facilities and equipment, offset by (iv) investment in Dongfeng JV of RMB50.0 million, (v) development costs related to development of new products of RMB47.1 million, and (vi) payment of RMB32.0 million for purchase of property, plant and equipment.

For the year ended December 31, 2011, we had net cash used in investing activities of RMB25.5 million, primarily reflecting (i) repayment from a related company of RMB80.0 million related to business operations, (ii) payment of RMB58.6 million for purchase of property, plant and equipment, (iii) development costs related to development of new products of RMB26.8 million, (iv) a net increase in pledged bank deposits of RMB15.9 million, (v) deposits paid for acquisition of property, plant and equipment and prepaid lease payments of RMB6.9 million, (vi) interest received of RMB2.3 million from our bank deposits, and (vii) receipt from government grants of RMB0.4 million related to purchase of production facilities and equipment.

For the year ended December 31, 2010, we had net cash from investing activities of RMB2.2 million, primarily reflecting (i) a net decrease in pledged bank deposits of RMB61.7 million, (ii) payment of RMB31.9 million for purchase of property, plant and equipment, (iii) payment of RMB9.6 million for purchase of prepaid lease payments, (iv) deposits paid for acquisition of property, plant and equipment and prepaid lease payments of RMB9.6 million, (v) receipt from government grants of RMB28.1 million related to purchase of production facilities and equipment, and (vi) interest received of RMB4.3 million from our bank deposits.

For the year ended December 31, 2009, we had net cash used in investing activities of RMB196.0 million, primarily reflecting (i) a net increase in pledged bank deposits of RMB164.4 million, (ii) deposits paid for acquisition of property, plant and equipment and prepaid lease payments of RMB24.2 million, (iii) payment of RMB10.8 million for purchase of property, plant and equipment, (iv) development costs related to development of new products of RMB2.1 million, (v) interest received of RMB3.6 million from our bank deposits, and (vi) receipt from government grants of RMB1.1 million related to purchase of production facilities and equipment.

Cash flows from (used in) financing activities

For the nine months ended September 30, 2012, we had net cash from financing activities of RMB6.0 million, primarily reflecting (i) new bank borrowings of RMB135.0 million, (ii) repayment of bank borrowings of RMB104.0 million, (iii) interest paid of RMB23.4 million, and (iv) repayment to a related party of RMB1.8 million.

For the year ended December 31, 2011, we had net cash from financing activities of RMB18.8 million, primarily reflecting (i) new bank borrowings of RMB214.0 million, (ii) proceeds from issuance of shares of RMB123.5 million related to Reorganization, (iii) repayment of bank borrowings of RMB227.0 million, (iv) interest paid of RMB47.0 million, and (v) repayment to a related company of RMB46.3 million.

For the year ended December 31, 2010, we had net cash from financing activities of RMB37.1 million, primarily reflecting (i) new bank borrowings of RMB145.0 million, (ii) repayment of bank borrowing of RMB93.0 million, and (iii) interest paid of RMB17.8 million.

For the year ended December 31, 2009, we had net cash from financing activities of RMB64.2 million, primarily reflecting (i) new bank borrowings of RMB100.0 million, (ii) repayment of bank borrowing of RMB25.0 million, and (iii) interest paid of RMB11.1 million.

Working Capital

The following table sets forth the details of our current assets and liabilities as of the dates indicated:

	As of December 31,			As of September 30,	As of January 31,
	2009	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Current Assets					
Inventories	208,635	251,368	221,202	238,332	206,655
Prepaid lease payments	422	1,434	1,434	1,434	1,434
Trade and other receivables	99,804	170,506	497,706	660,975	696,603
Amounts due from related companies	532,205	826,400	1,061,910	954,309	873,763
Loan to a related company	77,625	78,029	—	—	—
Loan to a Shareholder	—	—	32,771	32,595	32,394
Pledged bank deposits	268,811	207,161	223,059	76,022	126,748
Bank balances and cash	37,117	66,776	327,747	551,996	556,125
Total current assets	1,224,619	1,601,674	2,365,829	2,515,663	2,493,722
Current Liabilities					
Trade and other payables	787,318	923,893	1,312,341	1,325,111	1,232,732
Amounts due to related companies	47,512	75,971	116,698	101,056	74,818
Loans from related companies	40,000	40,000	—	—	—
Loans from Shareholders	—	—	32,771	32,595	32,394
Bank borrowings due within one year	93,000	176,950	163,950	194,950	194,950
Other loan	—	—	—	4,000	4,000
Other tax payables	6,030	19,260	43,300	53,271	55,269
Income tax payables	—	—	30,686	35,910	52,866
Total current liabilities	973,860	1,236,074	1,699,746	1,746,893	1,647,029
Net Current Assets	250,759	365,600	666,083	768,770	846,693

During the Track Record Period, our working capital position improved over time. We recorded 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. The increase was primarily attributable to the continuous improvement in business performance and cash inflow of our Group as reflected in the continuous increases in the trade and other receivables, amounts due from related companies and cash and bank balances. We did not have any material defaults in payment of trade and non-trade payables and bank borrowings, or breaches of the finance covenants during the Track Record Period and up to the Latest Practicable Date.

As of September 30, 2012, we had RMB552.0 million of cash and bank balances and RMB135.1 million of available and unutilized borrowing capacity under our loan agreements. The recent global financial market volatility and credit tightening in the PRC did not, and we do not foresee in the near future that will, affect our ability to obtain external financing when necessary. We maintain a relatively high level of cash balance mainly for expected capital expenditure related to our production capacity expansion and new product development, and repayment of our bank loans if our liquidity allows. For the nine months ended September 30, 2012, we had net cash from operating activities of RMB196.4 million. Our total estimated capital expenditure for the year ending December 31, 2013 is approximately RMB393.6 million. We estimate that we will receive net proceeds from the Global Offering of approximately HK$733.1 million, or RMB593.9 million, assuming the Over-allotment Option is not exercised. Taking into account the financial resources available to us including cash flows from operations, available credit facilities and the net proceeds from the Global Offering, our Directors believe that we have sufficient working capital for our present requirements for at least the next 12 months from the date of this prospectus.

CAPITAL EXPENDITURES

During the Track Record Period, our capital expenditures were primarily related to the acquisition of land use rights and property, plant and equipment relating to the construction, expansion and upgrade of our production facilities and expanding our production capacity. For the three years ended December 31, 2011 and the nine months ended September 30, 2012, our capital expenditure amounted to RMB48.7 million, RMB102.8 million, RMB119.6 million and RMB101.2 million, respectively.

The following table sets forth our estimated capital expenditure and sources of capital for 2013 and beyond:

	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

No assurance can be given that any of these planned capital expenditures will proceed as planned. We may adjust our capital expenditure plan based on our future results of operations, cash flows and overall financial condition, financial costs, the condition of financial markets in general and other relevant factors. We expect to fund the capital expenditures described above principally through the net proceeds of the Global Offering, cash flow from our operations and bank borrowings. In the future, we may consider additional debt or equity financing, depending on market conditions, our financial performance and other relevant factors. No assurance can be given that we will able to raise additional capital, should that become necessary, on terms acceptable to us or at all. With respect to our plans for the use of proceeds from the Global Offering, please see "Future Plans and Use of Proceeds — Use of Proceeds".

INDEBTEDNESS

As of December 31, 2009, 2010 and 2011, September 30, 2012 and January 31, 2013, being the latest practicable date for the purpose of determining the indebtedness of our Group, we had the following unguaranteed bank and other borrowings:

	As of December 31,			As of September 30,	As of January 31, 2013
	2009	2010	2011	2012	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings					
Repayable within one year	93,000	176,950	163,950	194,950	194,950
Repayable more than one year, but not exceeding two years	32,000	—	—	—	—
	125,000	176,950	163,950	194,950	194,950
Amounts due to related companies (non-trade and unsecured)	8,204	7,122	2,355	746	760
Loans from related companies	40,000	40,000	—	—	—
Loans from shareholders (unsecured)	—	—	32,771	32,595	32,394
Other loan (unsecured)	—	—	4,000	4,000	4,000
Total	173,204	224,072	203,076	232,291	232,104
Bank borrowings are analyzed as:					
Secured	125,000	134,950	121,950	152,950	152,950
Unsecured	—	42,000	42,000	42,000	42,000
	125,000	176,950	163,950	194,950	194,950

As of January 31, 2013, we had RMB367.1 million of unutilized borrowing capacity under our loan agreements.

Our short-term bank borrowings increased during the Track Record Period, as the increased production and sales of our products required additional working capital.

As of December 31, 2009 and 2010, we also had loans from related companies in the amount of RMB40 million, which were used for funding the development of our new products and technical know-how. These loans were unsecured, bore interest at 5% per annum and had 2-year term repayable in 2010. These loans have been repaid in full. Our PRC legal adviser, Jingtian & Gongcheng, has advised us that according to the PRC Lending General Provisions (《貸款通則》), inter-company loans are not permitted and a penalty of an amount equal to one to five times the interest income generated from such lending may be imposed on the lender and that we, as the borrower, would not be subject to any penalties or claims for such loans borrowed from related companies.

We received an interest-free loan of RMB4 million from a state-owned entity related to the Sichuan Province government in 2010 as a form of government support to finance the relocation of our production facilities. The loan has a term of three years, is repayable in July 2013. The loan is a one-time discretionary loan and is not recurrent in nature. There is no unfulfilled condition for us to use the loan.

We received an interest-free loan of RMB32.8 million (HK$40 million) in 2011 payable by the end of 2012 from our Shareholders, namely, Brilliance Investment and Xinhua Investment, to fund a loan provided by us to Lead In for the Lead In Subscribed Shares in relation to the Reorganization. In

October 2012, the loans were further extended to October 2013. For further details of the loans, see "Relationship with our Controlling Shareholders and Huachen — Financial Independence" in this prospectus.

As of September 30, 2012, RMB153.0 million of our bank loans were secured by property, plant and equipment and land use rights. The bank loans carried weighted average interest rates of 5.5%, 5.4%, 6.3% and 6.49% as of December 31, 2009, 2010 and 2011 and September 30, 2012, respectively.

Save as disclosed above and the contingent liabilities in respect of outstanding endorsed and discounted bills receivable with recourse as at January 31, 2013 of RMB807.4 million as disclosed below, we did not have material outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as of January 31, 2013.

LISTING EXPENSES

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.

CAPITAL COMMITMENTS

The following table summarizes our capital commitments as of the dates indicated:

	As of December 31,			As of September 30,	As of January 31,
	2009	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Capital expenditure in respect of the acquisition of property, plant and equipment, prepaid lease payments and intangible assets					
— contracted for but not provided in financial information	5,999	57,098	52,357	19,241	15,038
— authorized but not contracted for in financial information	178,795	194,550	95,542	812,407	794,593
	184,794	251,648	147,899	831,648	809,631
Capital expenditure in respect of investment in a jointly controlled entity					
— contracted for but not provided in financial information	—	—	125,000	75,000	75,000

OPERATING LEASE ARRANGEMENT

Operating lease payments represent rental payable by us for warehouses. Leases are negotiated and rentals are fixed for an average of one year. We had no commitments for future minimum lease payments under non-cancellable operating leases as the lease agreements are entered into for a one-year period. The following table sets out our operating lease commitments as of the dates indicated:

	As of December 31,			Nine months ended September 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Warehouse	120	100	100	75	75

CONTINGENT LIABILITIES

During the Track Record Period, we received certain promissory notes issued by banks and financial institutions with payment terms of three to six months from a related party for the settlement of a loan receivable from that related party. As a result, for recording purpose, we recognized note receivable from the bank and derecognized the loan receivable from that related party. For cash flow management, we settled accounts payable to certain suppliers by endorsing the above-mentioned promissory notes issued by banks and financial institutions with recourse to those suppliers in lieu of cash payment. As a result, for recording purpose, we derecognized accounts payable to the suppliers and the note receivable from the bank. The overall effect of these transactions resulted in the settlement of a loan receivable from a related party and the derecognition of certain accounts payable to certain suppliers.

During the Track Record Period, there has been no default in the payment of the endorsed and discounted bills.

Despite the fact that the promissory notes issued by banks and financial institutions endorsed to the suppliers are with recourse in nature, in the opinion of our Directors, the obligations to the corresponding suppliers were discharged in accordance with the commercial practice in the PRC as we have transferred substantially all the risks and rewards of ownership of the promissory notes issued by banks and financial institutions to the suppliers 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 guaranteed by reputable PRC banks. Nevertheless, we chose to disclose the above-mentioned transactions as a contingent liability to our Group so as to quantify the maximum exposure to our Group that may result from the default of those promissory notes issued by banks and financial institutions. The maximum possible exposure of our Group from the default of these endorsed and discounted bills receivable at the end of each of reporting period was as follows:

	As of December 31,			As of September 30, 2012	As of January 31, 2013
	2009	2010	2011		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Outstanding endorsed and discounted bills receivable with recourse	353,039	627,225	678,857	583,521	807,357

As of January 31, 2013, being the latest practicable date for the purpose of this statement, we had material contingent liabilities in the amount of RMB807.4 million. Except as disclosed above, we did not have any other material contingent liabilities outstanding as of January 31, 2013.

All the acceptance of promissory notes issued by banks and financial institutions for the settlement of our loan receivables and the endorsement of our bills receivable for the settlement of trade and other payables to our suppliers were backed by underlying transactions or creditor-debtor relationship between relevant parties, and all these promissory notes are examined and issued by commercial banks in accordance with the PRC Negotiable Instruments Law. Our PRC legal adviser, Jingtian & Gongcheng, has advised us that, this practice is in compliance with applicable PRC laws, rules and regulations, in particular, the PRC Negotiable Instruments Law (《中華人民共和國票據法》). We expect to continue this practice of endorsing bills receivable for the settlement of other balances after Listing.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we did not have any off-balance sheet arrangements.

FINANCIAL RATIOS

The following table sets forth certain financial ratios of our Group as at the dates and for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2009	2010	2011	2012
Return on equity(1)	11.6%	23.0%	25.2%	23.8%
Return on assets(2)	3.9%	7.8%	9.4%	9.8%
Interest coverage(3)	6.3	9.4	9.1	13.1

	As at December 31,			As at September 30,
	2009	2010	2011	2012
Current ratio(4)	1.3	1.3	1.4	1.4
Quick ratio(5)	1.0	1.1	1.3	1.3
Gearing ratio(6)	32.8%	33.5%	15.9%	15.5%
Net debt to equity ratio(7)	25.4%	23.2%	Net cash	Net cash

(1) Return on equity represents net profit or annualized profit for the period divided by total equity as at the end of the period.
(2) Return on assets represents net profit or annualized profit for the period divided by total assets as at the end of the period.
(3) Interest coverage represents profit before tax and finance costs divided by finance costs for the period.
(4) Current ratio represents total current assets divided by total current liabilities as at the end of the period.
(5) Quick ratio represents total current assets less inventories divided by total current liabilities as at the end of the period.
(6) Gearing ratio represents total bank borrowings and loans from related companies divided by total equity as at the end of the period.
(7) Net debt to equity ratio represents total bank borrowings and loans from related companies less cash and cash equivalents divided by total equity as at the end of the period.

Return on equity

For the three years ended December 31, 2011 and the nine months ended September 30, 2012, our return on equity was 11.6%, 23.0%, 25.2% and 23.8%, respectively. Return on equity increased substantially from 11.6% for 2009 to 23.0% for 2010, mainly due to the increase in net profit. The ratio remained relatively stable from 2010 to 2011 and to the nine months ended September 30, 2012.

Return on assets

For the three years ended December 31, 2011 and the nine months ended September 30, 2012, our return on assets was 3.9%, 7.8%, 9.4% and 9.8%, respectively. Return on assets increased substantially from 3.9% for 2009 to 7.8% for 2010 and to 9.4% for 2011, mainly due to the increase in net profit. The ratio remained relatively stable from 2011 to the nine months ended September 30, 2012.

Interest coverage

For the three years ended December 31, 2011 and the nine months ended September 30, 2012, our interest coverage was 6.3, 9.4, 9.1 and 13.1, respectively. The interest coverage generally increased during the Track Record Period, mainly as a result of growth of our profit before finance costs and tax during the Track Record Period. It decreased from 9.4 for 2010 to 9.1 for 2011, mainly due to higher finance costs primarily resulting from increased use of discounted bills. It further increased to 13.1 for the nine months ended September 30, 2012, mainly due to the growth of our profit before finance costs and tax during the period while the financial costs decreased.

Current ratio

As at December 31, 2009, 2010 and 2011 and September 30, 2012, our current ratio was 1.3, 1.3, 1.4 and 1.4, respectively. Our current ratio during the Track Record Period remained relatively stable.

Quick ratio

As at December 31, 2009, 2010 and 2011 and September 30, 2012, our quick ratio was 1.0, 1.1, 1.3 and 1.3, respectively. Our quick ratio increased from 1.1 as at December 31, 2010 to 1.3 as at December 31, 2011, mainly because inventories decreased from RMB251.4 million as at December 31, 2010 to RMB221.2 million as at December 31, 2011, primarily as a result of a decrease in finished goods inventory due to increased sales volume that surpassed our production volume.

Gearing ratio

As at December 31, 2009, 2010 and 2011 and September 30, 2012, our gearing ratio was 32.8%, 33.5%, 15.9% and 15.5%, respectively. Our gearing ratio decreased from 33.5% as at December 31, 2010 to 15.9% as at December 31, 2011, mainly because bank borrowings decreased from RMB177.0 million as at December 31, 2010 to RMB164.0 million as at December 31, 2011 and loans from related companies decreased from RMB40.0 million as at December 31, 2010 to RMB32.8 million as at December 31, 2011, and total equity increased from RMB648.5 million as at December 31, 2010 to RMB1,032.4 million as at December 31, 2011, primarily as a result of an increase in retained profits in 2011, an increase in equity arising from the Reorganization and the issuance of new equity to Dongfeng Motors Engineering and Lead In.

Net debt to equity ratio

Our net debt to equity ratio was 25.4% and 23.2% as at December 31, 2009 and 2010, respectively. We were in a net cash position as at December 31, 2011 and September 30, 2012, mainly because of larger amount of cash and cash equivalents as at December 31, 2011 and September 30, 2012 as our cash flow from operating activities improved.

MARKET RISKS

We are exposed to various types of market risks, including commodities risk, interest rate risk, credit risk and liquidity risk in the normal course of our business. As our Group's functional currency is RMB and substantially all of our transactions are made and settled in RMB, we do not believe we are exposed to any significant exchange rate risk.

Commodities Risk

We are exposed to fluctuations in the prices of raw material and engine components, as well as the price of energy used in the manufacturing process, which are influenced by local as well as national supply and demand conditions. We currently do not hedge against commodity risk, which we believe is in line with the PRC automotive industry practice. We purchase most of our raw material, engine components and energy at market prices and such purchase costs are generally accounted for as part of the cost of sale. Accordingly, rising prices for raw material, engine components and energy, to the extent that we cannot pass on such increases to our customers, could adversely affect our results of operations. For further details, please refer to "Risk Factors — Risks Relating to Our Business — We may face increases in the prices of raw material and engine components" in this prospectus.

Interest Rate Risk

Our income and operating cash flows are substantially independent of fluctuations in market interest rates as we do not have significant interest-bearing assets. We are 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. Our exposure to market risks for changes in interest rates with respect to our borrowings is also limited because our borrowings have fixed interest rates. However, borrowings issued at fixed rates expose us to fair value interest rate risk. Please see Note 35 to the Accountants' Report included in Appendix I to this prospectus for further details, including a sensitivity analysis with respect to our interest rate risks.

Credit Risk

Our exposure to credit risk is primarily related to our trade receivables. In order to minimize the credit risk, our management 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, our management considers that our credit risk is significantly reduced.

Our exposure to credit risk on liquid funds is limited because our counterparties are banks with high credit ratings.

We have concentration of credit risk, as 83%, 88%, 87% and 80% of our total trade receivables and amounts due from related companies (trade related) as of December 31, 2009, 2010 and 2011 and September 30, 2012, respectively, were due from our top five customers. These top five customers have demonstrated creditworthiness based on their track record of timely payments. In order to minimize the concentration of credit risk, our 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. Our management also performs periodic evaluations and customer visits to ensure our exposure to bad debts is not significant and adequate impairment losses are made for irrecoverable amounts.

Liquidity Risk

In the management of the liquidity risk, we closely monitor our cash position resulting from our operations and maintain a level of cash and cash equivalents deemed adequate by our management to meet in full our financial obligations as they fall due for the foreseeable future. Our management also monitors the utilization of our bank borrowings. For details of our remaining contractual maturity for our financial liabilities based on the agreed repayment terms as of December 31, 2009, 2010 and 2011 and September 30, 2012, please see Note 35 to the Accountants' Report included in Appendix I to this prospectus.

Foreign Exchange Fluctuations

Our functional currency is RMB as substantially all of our transactions are settled in RMB. In addition, conversion of RMB to foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC Government. On July 21, 2005, the PRC Government changed its policy of pegging the value of the RMB to the U.S. dollar. Under this policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. The PRC Government may take further actions that could cause future exchange rates to vary significantly from current or historical exchange rates.

A depreciation in the RMB would adversely affect the value of any dividends we pay to our Shareholders outside the PRC. An appreciation in the RMB, however, would adversely affect the value of the proceeds we will receive from the Global Offering or any capital contribution in foreign currency if they are not converted to RMB in a timely manner. Historically we have not used any financial instruments to hedge against foreign exchange risks.

DISTRIBUTABLE RESERVES

As of September 30, 2012, the distributable reserves of our Company was RMB nil.

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.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma statement of our adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purposes only, and is set out to illustrate the effect of the Global Offering on our net tangible assets as of September 30, 2012 as if it had taken place on September 30, 2012.

The following statement of our unaudited pro forma adjusted net tangible assets is based on the audited consolidated net tangible assets of our Company as of September 30, 2012, as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and adjusted as follows:

	Audited consolidated net tangible assets of the Group as at September 30, 2012(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted consolidated net tangible assets of the Group	Unaudited pro forma adjusted consolidated net tangible assets of the Group per Share(3)	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$(4)*
Based on a minimum Offer Price of HK$2.20 per Share	1,183,183	533,901	1,717,084	1.37	1.67
Based on a maximum Offer Price of HK$2.80 per Share	1,183,183	682,298	1,865,481	1.49	1.82

(1) The audited consolidated net tangible assets of the Group as at September 30, 2012 is RMB1,183,183,000, as derived from the Accountants' Report on the financial information of the Group for the three years ended December 31, 2011 and the nine months ended September 30, 2012 which is set out in Appendix I to this prospectus after adjusting for intangible assets of RMB72,978,000.

(2) The estimated net proceeds from the Global Offering are based on 313,400,000 Shares to be issued at an indicative Offering Price of HK$2.20 (equivalent to RMB1.80) or HK$2.80 (equivalent to RMB2.29) per Share, respectively, after deduction of the estimated underwriting fees and related expenses expected to be incurred by the Group subsequent to September 30, 2012 and does not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at an exchange rate of RMB0.8178 to HK$1, which was the rate prevailing on September 28, 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.

(3) The unaudited pro forma adjusted net tangible assets of the Group per Share is arrived at after the making the adjustments referred to in note (2) above and on the basis of 1,253,599,794 Shares in total, assuming that 313,400,000 Shares were in issue pursuant to the Global Offering had been completed on September 30, 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.

(4) The unaudited pro forma adjusted consolidated net tangible assets of the Group per Share amounts in RMB are converted into HK$ at an exchange rate at RMB0.8178 to HK$1, which was the rate prevailing on September 28, 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.

DIVIDENDS AND DIVIDEND POLICY

We currently do not have a fixed dividend policy. The declaration, payment and amount of dividends in the future will be subject to the discretion of the Board and will depend on our results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that our Directors may consider relevant. Holders of our Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The declaration, payment, and amount of dividends will be subject to the discretion of the Directors.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

DISCLOSURE UNDER THE LISTING RULES

Our Directors have confirmed that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that 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.

WAIVER AND EXEMPTION

An application was made to the SFC for a certificate of exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report for the full year ended December 31, 2012 in this prospectus and a certificate of exemption has been granted by the SFC in this regard. Further, an application was made to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules in relation to the inclusion of the accountants' report for the full year ended December 31, 2012 in this prospectus, and such waiver has been granted by the Stock Exchange. For details, see "Waivers and Exemption from Strict Compliance with the Listing Rules and the Companies Ordinance — Rule 4.04(1) of the Listing Rules and Paragraph 27 of Part I and Paragraph 31 of Part II of the Third Schedule to the Companies Ordinance" in this prospectus.