*The following is the text of a report, prepared for inclusion in this prospectus, received from the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.*

Deloitte.
德勤

February 28, 2013

The Directors
Xinchen China Power Holdings Limited

Merrill Lynch Far East Limited

Dear Sirs,

We set out below our report on the financial information relating to Xinchen China Power Holdings Limited 新晨中國動力控股有限公司 (the "Company", formerly known as Xinchen China Power Holdings Ltd.) and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended December 31, 2011 and the nine months ended September 30, 2012 (the "Track Record Period") (the "Financial Information") for inclusion in the prospectus of the Company dated February 28, 2013 (the "Prospectus") in connection with the initial listing of the shares of the Company (the "Listing") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands on March 10, 2011. Pursuant to a group reorganization, as more fully explained in the section headed "History and Reorganization" in the Prospectus (the "Group Reorganization"), the Company became the holding company of the entities comprising the Group which are principally engaged in the development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles in the People's Republic of China (the "PRC") on August 29, 2011.

As at the date of this report, the Company has equity interests in the following subsidiaries:

| Name of subsidiary | Place and date of incorporation/ establishment | Issued and fully paid share/ registered capital | Equity interest attributable to the Group | Principal activities |
|---|---|---|---|---|
| Southern State Investment Limited 南邦投資有限公司 ("Southern State") (Note a) | British Virgin Islands ("BVI") September 30, 1997 | US$1 | 100% | Investment holding |
| Mianyang Xinchen Engine Co., Ltd.* 綿陽新晨動力機械有限公司 ("Mianyang Xinchen") (Note b) | PRC March 23, 1998 | US$24,120,000 | 100% | Development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles |

* English name for reference only.

*Notes:*

(a) Southern State was a 50% shareholder of Mianyang Xinchen prior to the Group Reorganization. On August 29, 2011, Mianyang Xinchen became a wholly owned subsidiary of Southern State, which is 100% owned by the Company upon the completion of the Group Reorganization. Details of the Group Reorganization are set out in Note 2.

(b) Mianyang Xinchen is the major operating subsidiary of the Group and a Sino-foreign equity joint venture enterprise.

The financial year-end date of all the entities now comprising the Group is December 31.

The statutory financial statements of Mianyang Xinchen for each of the three years ended December 31, 2011 were prepared in accordance with relevant accounting principles and financial regulations applicable to enterprises established in the PRC (the "PRC GAAP") and were audited by Sichuan Huaxin (Group) CPA Firm (四川華信(集團)會計師事務所), certified public accountants registered in the PRC.

No audited statutory financial statements have been prepared for the Company and Southern State since their dates of incorporation, as they were incorporated in jurisdictions where there is no statutory audit requirement. For the purpose of this report, we have, however, reviewed all the relevant transactions of the Company for each of the three years ended December 31, 2011 and the nine months ended September 30, 2012, or since the date of incorporation to the date of this report and carried out such procedures as we considered necessary for inclusion of the Financial Information relating to the Company and the Group.

For the purpose of this report, the directors of the Company have prepared consolidated financial statements of the Group for the Track Record Period (collectively referred to as the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have carried out an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by HKICPA.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Group for the Track Record Period as set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in Note 2 to the Financial Information. No adjustments are considered necessary to the Underlying Financial Statements in the preparation of this report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company. The directors of the Company are also responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in Note 2 to the Financial Information, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at December 31, 2009, 2010 and 2011 and September 30, 2012 and of the Company as at December 31, 2011 and September 30, 2012 and of the results and cash flows of the Group for the Track Record Period.

The comparative consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity of the Group for the nine months ended September 30, 2011 together with the notes thereon have been extracted from the Group's unaudited consolidated financial information for the same period (the "September 2011 Financial Information") which were prepared by the directors of the Company solely for the purpose of this report. We conducted our review on the September 2011 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the September 2011 Financial Information consists of making enquiries, primarily of persons responsible for the financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the September 2011 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the September 2011 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

## A. FINANCIAL INFORMATION

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | NOTES | Year ended December 31, 2009 | Year ended December 31, 2010 | Year ended December 31, 2011 | Nine months ended September 30, 2011 | Nine months ended September 30, 2012 |
|---|---|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Revenue | 6 | 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 | 7 | 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 | 8 | (11,130) | (17,753) | (37,520) | (22,872) | (21,555) |
| Other expenses | 10 | (13,568) | (23,595) | (33,212) | (16,962) | (24,577) |
| Share of result of a jointly controlled entity | 18 | — | — | — | — | 281 |
| Profit before tax | | 59,511 | 149,822 | 304,639 | 193,091 | 260,397 |
| Income tax expense | 9 | (1,234) | (365) | (44,250) | (28,524) | (36,628) |
| Profit and total comprehensive income for the year/period attributable to owners of the Company | 10 | 58,277 | 149,457 | 260,389 | 164,567 | 223,769 |
| Earnings per share—Basic (RMB) | 13 | 0.073 | 0.187 | 0.316 | 0.206 | 0.238 |

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | NOTES | At December 31, 2009 | At December 31, 2010 | At December 31, 2011 | At September 30, 2012 |
|---|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| NON-CURRENT ASSETS | | | | | |
| Property, plant and equipment | 14 | 220,915 | 231,802 | 278,262 | 323,650 |
| Prepaid lease payments | 15 | 14,736 | 63,724 | 62,323 | 61,243 |
| Intangible assets | 16 | 23,768 | 11,597 | 43,695 | 72,978 |
| Investment in a jointly controlled entity | 18 | — | — | — | 49,633 |
| Deferred tax assets | 31 | 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 | 21 | 208,635 | 251,368 | 221,202 | 238,332 |
| Prepaid lease payments | 15 | 422 | 1,434 | 1,434 | 1,434 |
| Trade and other receivables | 22 | 99,804 | 170,506 | 497,706 | 660,975 |
| Amounts due from related companies | 23 | 532,205 | 826,400 | 1,061,910 | 954,309 |
| Loan to a related company | 19 | 77,625 | 78,029 | — | — |
| Loan to a shareholder | 20 | — | — | 32,771 | 32,595 |
| Pledged bank deposits | 24 | 268,811 | 207,161 | 223,059 | 76,022 |
| Bank balances and cash | 24 | 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 | 25 | 787,318 | 923,893 | 1,312,341 | 1,325,111 |
| Amounts due to related companies | 26 | 47,512 | 75,971 | 116,698 | 101,056 |
| Loans from related companies | 27 | 40,000 | 40,000 | — | — |
| Loans from shareholders | 20 | — | — | 32,771 | 32,595 |
| Bank borrowings due within one year | 28 | 93,000 | 176,950 | 163,950 | 194,950 |
| Other loan | 29 | — | — | — | 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 | 28 | 32,000 | — | — | — |
| Other loan | 29 | — | 4,000 | 4,000 | — |
| Deferred income | 30 | 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 | 32 | 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 |

**STATEMENTS OF FINANCIAL POSITION**

| | NOTES | At December 31, 2011 | At September 30, 2012 |
|---|---|---|---|
| | | *RMB'000* | *RMB'000* |
| NON-CURRENT ASSETS | | | |
| Investment in a subsidiary | 17 | 354,654 | 354,654 |
| CURRENT ASSETS | | | |
| Other receivables | 22 | 3,000 | 3,000 |
| Amount due from a subsidiary | 23 | — | 4 |
| Loan to a shareholder | 20 | 32,771 | 32,595 |
| Bank balances and cash | 24 | 113,390 | 112,150 |
| | | 149,161 | 147,749 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 25 | 95 | — |
| Amounts due to related companies | 26 | 826 | 821 |
| Loans from shareholders | 20 | 32,771 | 32,595 |
| | | 33,692 | 33,416 |
| NET CURRENT ASSETS | | 115,469 | 114,333 |
| NET ASSETS | | 470,123 | 468,987 |
| CAPITAL AND RESERVES | | | |
| Share capital | 32 | 7,693 | 7,693 |
| Reserves | 33 | 462,430 | 461,294 |
| TOTAL EQUITY | | 470,123 | 468,987 |

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Paid-in capital/ Share capital | Share premium | Special reserve | Surplus reserves | Deemed distribution to a shareholder | Retained profits | Total |
|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Note a) | *RMB'000* (Note b) | *RMB'000* | *RMB'000* |
| At January 1, 2009 | 200,008 | — | — | 83,781 | (3,894) | 168,235 | 448,130 |
| Profit and total comprehensive income for the year | — | — | — | — | — | 58,277 | 58,277 |
| Fair value adjustment on interest-free loan to a related company | — | — | — | — | (3,895) | — | (3,895) |
| Transfer | — | — | — | 6,555 | — | (6,555) | — |
| At December 31, 2009 | 200,008 | — | — | 90,336 | (7,789) | 219,957 | 502,512 |
| Profit and total comprehensive income for the year | — | — | — | — | — | 149,457 | 149,457 |
| Fair value adjustment on interest-free loan to a related company | — | — | — | — | (3,496) | — | (3,496) |
| Transfer | — | — | — | 22,980 | — | (22,980) | — |
| At December 31, 2010 | 200,008 | — | — | 113,316 | (11,285) | 346,434 | 648,473 |
| Profit and total comprehensive income for the year | — | — | — | — | — | 260,389 | 260,389 |
| Arising from group reorganization (Note c) | (200,008) | — | 200,008 | — | — | — | — |
| Capitalization issue (see Note 32) | 6,551 | — | (6,551) | — | — | — | — |
| Issuance of new shares (see Note 32) | 1,142 | 122,388 | — | — | — | — | 123,530 |
| Transfer | — | — | — | 39,070 | — | (39,070) | — |
| At December 31, 2011 | 7,693 | 122,388 | 193,457 | 152,386 | (11,285) | 567,753 | 1,032,392 |
| Profit and total comprehensive income for the period | — | — | — | — | — | 223,769 | 223,769 |
| At September 30, 2012 | 7,693 | 122,388 | 193,457 | 152,386 | (11,285) | 791,522 | 1,256,161 |
| At January 1, 2011 | 200,008 | — | — | 113,316 | (11,285) | 346,434 | 648,473 |
| Profit and total comprehensive income for the period (unaudited) | — | — | — | — | — | 164,567 | 164,567 |
| Arising from group reorganization (Note c) | (200,008) | — | 200,008 | — | — | — | — |
| At September 30, 2011 (unaudited) | — | — | 200,008 | 113,316 | (11,285) | 511,001 | 813,040 |

*Notes:*

(a) Surplus reserves comprise statutory surplus reserve and discretionary surplus reserve of Mianyang Xinchen, which are non-distributable and the transfer to these reserves is determined according to the relevant laws in the PRC and by the board of directors of Mianyang Xinchen in accordance with its Articles of Association. Statutory surplus reserve amounting to approximately RMB61,266,000, RMB76,586,000, RMB102,632,000 and RMB102,632,000 as at December 31, 2009, 2010 and 2011 and September 30, 2012, respectively can be used to make up for previous year's losses or convert into additional capital of Mianyang Xinchen. Discretionary surplus reserve amounting to approximately RMB29,070,000, RMB36,730,000, RMB49,754,000 and RMB49,754,000 as at December 31, 2009, 2010 and 2011 and September 30, 2012, respectively can be used to expand the existing operations of Mianyang Xinchen.

(b) Deemed distribution to a shareholder represents the fair value adjustments on interest-free loan to a subsidiary of a joint controlling shareholder of Mianyang Xinchen (see Note 19).

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | 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* |
| OPERATING ACTIVITIES | | | | | |
| Profit before tax | 59,511 | 149,822 | 304,639 | 193,091 | 260,397 |
| Adjustments for: | | | | | |
| Interest expenses | 11,130 | 17,753 | 37,520 | 22,872 | 21,555 |
| Interest income | (7,514) | (8,230) | (4,228) | (3,662) | (2,838) |
| Depreciation and amortization | 48,027 | 53,795 | 42,083 | 33,340 | 27,093 |
| Amortization of government grants | (333) | (680) | (3,569) | (2,670) | (2,817) |
| Provision for warranty | 4,497 | 12,272 | 8,149 | 7,855 | 7,760 |
| (Reversal of provision) provision of inventories | (805) | (176) | (5,042) | 219 | 143 |
| Share of result of a jointly controlled entity | — | — | — | — | (281) |
| Unrealized profit on sale to a jointly controlled entity | — | — | — | — | 648 |
| Allowance for (reversal of) doubtful debts | 322 | (272) | (7) | (7) | 55 |
| Loss (gain) on disposal of property, plant and equipment | 314 | 64 | 232 | 204 | (261) |
| Operating cash flows before movements in working capital | 115,149 | 224,348 | 379,777 | 251,242 | 311,454 |
| (Increase) decrease in inventories | (46,600) | (42,557) | 35,208 | (6,396) | (17,273) |
| Decrease (increase) in trade and other receivables | 8,276 | (70,430) | (327,193) | (260,499) | (161,824) |
| Increase in trade and other payables and other tax payables | 440,972 | 143,671 | 383,668 | 334,498 | 2,023 |
| (Increase) decrease in amounts due from related companies | (386,681) | (294,195) | (236,310) | (333,834) | 107,601 |
| Increase (decrease) in amounts due to related companies | 19,164 | 29,541 | 46,298 | (3,910) | (14,033) |
| Cash generated from (used in) operations | 150,280 | (9,622) | 281,448 | (18,899) | 227,948 |
| Income tax paid | — | — | (13,785) | (13,735) | (31,536) |
| NET CASH FROM (USED IN) OPERATING ACTIVITIES | 150,280 | (9,622) | 267,663 | (32,634) | 196,412 |
| INVESTING ACTIVITIES | | | | | |
| Repayment from a related company | — | — | 80,000 | 80,000 | — |
| Interest received | 3,619 | 4,330 | 2,257 | 1,691 | 2,838 |
| Receipt from government grants | 1,101 | 28,091 | 400 | 400 | 1,550 |
| Purchase of property, plant and equipment | (10,841) | (31,866) | (58,639) | (47,038) | (32,049) |
| Deposits paid for acquisition of property, plant and equipment and prepaid lease payments | (24,240) | (9,590) | (6,928) | (5,295) | (1,205) |
| Proceeds for disposal of property, plant and equipment | 841 | 183 | 81 | — | 791 |
| Purchase of leasehold land | — | (50,632) | — | — | — |
| Investment in a jointly controlled entity | — | — | — | — | (50,000) |
| Development costs paid | (2,127) | — | (26,772) | — | (47,136) |
| Withdrawal of pledged bank deposits | 284,244 | 455,769 | 617,332 | 445,367 | 443,270 |
| Placement of pledged bank deposits | (448,608) | (394,119) | (633,230) | (423,429) | (296,233) |
| NET CASH (USED IN) FROM INVESTING ACTIVITIES | (196,011) | 2,166 | (25,499) | 51,696 | 21,826 |
| FINANCING ACTIVITIES | | | | | |
| Interest paid | (11,130) | (17,753) | (46,951) | (24,711) | (23,380) |
| New bank borrowings raised | 100,000 | 144,950 | 213,950 | 153,950 | 134,950 |
| Issuance of shares | — | — | 123,530 | — | — |
| Repayment of bank borrowings | (25,000) | (93,000) | (226,950) | (166,950) | (103,950) |
| Advances from shareholders | — | — | 32,771 | — | — |
| Advance to a shareholder | — | — | (32,771) | — | — |
| Advance from a related company | 1,115 | — | 1,570 | — | 179 |
| Repayment to a related company | (803) | (1,082) | (46,342) | (40,000) | (1,788) |
| Other loan raised | — | 4,000 | — | — | — |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES | 64,182 | 37,115 | 18,807 | (77,711) | 6,011 |
| 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, represented by bank balances and cash | 37,117 | 66,776 | 327,747 | 8,127 | 551,996 |

## NOTES TO THE FINANCIAL INFORMATION

### 1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (2010 Revision) of the Cayman Islands on March 10, 2011. The addresses of the registered office and the principal place of business of the Company are set out in Corporate Information section of the Prospectus.

The principal activities of the Company and Southern State are investment holding. The principal activity of Mianyang Xinchen is the development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles in the PRC.

### 2. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Mianyang Xinchen was established as a Sino-foreign equity joint venture enterprise in the PRC in 1998 by two shareholders, namely Southern State, a then wholly owned subsidiary of Brilliance China Automotive Holdings Limited ("Brilliance China", Brilliance China and its subsidiaries collectively referred to as "Brilliance China Group"), a company listed on the Stock Exchange, and Mianyang Xinhua Internal Combustion Engine Joint-Stock Company Limited* 綿陽新華內燃機股份有限公司 ("Xinhua Combustion Engine"), a state-owned company established in the PRC, which held their interests in Mianyang Xinchen in equal shares. The directors of the Company consider the ultimate holding company of Xinhua Combustion Engine to be Sichuan Province Yibin Wuliangye Group Co., Ltd.* 四川省宜賓五糧液集團有限公司 ("Wuliangye", Wuliangye and its subsidiaries collectively referred to as "Wuliangye Group"), which is a state-owned enterprise established in the PRC. Brilliance China is an associate of Huachen Automotive Group Holdings Company Limited* 華晨汽車集團控股有限公司 ("Huachen", Huachen and its subsidiaries collectively referred to as "Huachen Group"), which is also a state-owned enterprise established in the PRC.

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

The Group Reorganization was completed on August 29, 2011. The Group Reorganization mainly involved the insertion of investment holding companies between the two shareholders of Mianyang Xinchen and Mianyang Xinchen. Mianyang Xinchen was indirectly beneficially owned by Brilliance China Group and Wuliangye Group in equal shares before and upon the completion of the Group

* English name for reference only.

Reorganization. Accordingly, the Financial Information of the Group for the Track Record Period has been prepared as if the Company had always been the holding company of Mianyang Xinchen throughout the Track Record Period. Prior to completion of the Group Reorganization, the financial impact of the investment holding companies was insignificant. As a result, the consolidated financial statements of the Group for the period prior to the completion of the Group Reorganization mainly reflects the financial information of Mianyang Xinchen.

The Financial Information is presented in Renminbi ("RMB"), which is same as the functional currency of the Company and its subsidiaries.

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information of the Track Record Period, the Group has consistently adopted the Hong Kong Accounting Standards ("HKASs"), HKFRSs, amendments and Interpretations ("HK(IFRIC)-Int"), which are effective for the accounting period beginning on January 1, 2012 throughout the Track Record Period.

At the date of this report, the HKICPA has issued the following new and revised standards, amendments and interpretations which are not yet effective. The Group has not early adopted these standards, amendments and interpretation in the preparation of the Financial Information for the Track Record Period.

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with the HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

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

The principal accounting policies are set out below.

***Basis of consolidation***

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

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

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

***Jointly controlled entities***

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

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

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

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

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

***Revenue recognition***

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

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

Service income is recognized when services are provided.

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

***Property, plant and equipment***

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

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

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

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

***Prepaid lease payments***

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

***Leasing***

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

*The Group as lessee*

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

***Foreign currencies***

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

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

***Borrowing costs***

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

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

***Government grants***

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

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

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

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

***Retirement benefit costs***

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

***Taxation***

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

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

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

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

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

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

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

***Intangible assets***

*Research and development expenditure*

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

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

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

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

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

***Inventories***

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

***Financial instruments***

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

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

*Financial assets*

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

*Effective interest method*

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

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

*Loans and receivables*

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

*Impairment of financial assets*

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

Objective evidence of impairment could include:

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

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

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

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

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

*Financial liabilities and equity instruments*

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

*Effective interest method*

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

Interest expense is recognized on an effective interest basis.

*Financial liabilities*

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

*Equity instruments*

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

*Derecognition*

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

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

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

***Provision for warranty claims***

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

***Impairment of tangible and intangible assets***

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

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

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

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

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

***Share-based payment transactions***

*Restricted shares*

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

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

***Depreciation and impairment of property, plant and equipment***

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

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

At as December 31, 2009, 2010 and 2011 and September 30, 2012, the carrying amounts of property, plant and equipment were approximately RMB220,915,000, RMB231,802,000, RMB278,262,000 and RMB323,650,000, respectively.

***Amortization and impairment of intangible assets***

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

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

As at December 31, 2009, 2010 and 2011 and September 30, 2012, the carrying amounts of intangible assets were approximately RMB23,768,000, RMB11,597,000, RMB43,695,000 and RMB72,978,000, respectively.

***Provision of inventories***

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

As at December 31, 2009, 2010 and 2011 and September 30, 2012, the carrying amounts of inventories were approximately RMB208,635,000, RMB251,368,000, RMB221,202,000 and RMB238,332,000, 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, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2009, 2010 and 2011 and September 30, 2012, the carrying amounts of trade receivables were approximately RMB51,923,000, RMB33,136,000, RMB245,437,000 and RMB380,321,000, respectively (net of allowance for doubtful debts of RMB322,000, RMB50,000, RMB43,000 and RMB98,000 as at December 31, 2009, 2010 and 2011 and September 30, 2012, respectively). As at December 31, 2009, 2010 and 2011 and September 30, 2012, the carrying amounts of amounts due from related companies which are trade receivables were approximately RMB458,105,000, RMB701,400,000, RMB892,816,000 and RMB942,549,000, respectively. As at December 31, 2009, 2010 and 2011 and September 30, 2012, the carrying amounts of loan to a related company were approximately RMB77,625,000, RMB78,029,000, Nil and Nil, respectively.

***Provision for warranty claims***

Provision for warranty is made based on the possible claims on the products by customers with reference to the warranty coverage period and the percentage of warranty expenses incurred over total sales amounts during the Track Record Period. Where the actual claims are greater than expected, a material increase in warranty expenses may arise, which would be recognized in profit or loss for the period in which such a claim takes place. As at December 31, 2009, 2010 and 2011 and September 30, 2012, the carrying amounts of provision for warranty claims were approximately RMB51,000, RMB7,442,000, RMB5,280,000 and RMB5,119,000, respectively.

## 6. REVENUE AND SEGMENT INFORMATION

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

***Segment revenue and segment results***

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

(1) Gasoline engines;

(2) Diesel engines; and

(3) Engine components and service income.

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

*For the year ended December 31, 2009*

| | Gasoline engines | Diesel engines | Engine components and service income | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Segment revenue-external | 983,650 | 275,220 | 26,297 | 1,285,167 |
| Segment results | 124,615 | 39,013 | 6,780 | 170,408 |
| Unallocated income | | | | 10,197 |
| Unallocated expenses | | | | |
| Selling and distribution expenses | | | | (52,018) |
| Administrative expenses | | | | (44,378) |
| Finance costs | | | | (11,130) |
| Other expenses | | | | (13,568) |
| Profit before tax | | | | 59,511 |

*Other segment information included in the measurement of segment results:*

| | Gasoline engines | Diesel engines | Engine components and service income | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Depreciation and amortization | 29,694 | 11,516 | — | 41,210 |
| (Reversal of provision) provision of inventories | (820) | 15 | — | (805) |

*For the year ended December 31, 2010*

| | Gasoline engines | Diesel engines | Engine components and service income | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Segment revenue — external | 1,557,768 | 352,208 | 35,138 | 1,945,114 |
| Segment results | 223,721 | 70,070 | 7,499 | 301,290 |
| Unallocated income | | | | 11,144 |
| Unallocated expenses | | | | |
| Selling and distribution expenses | | | | (65,845) |
| Administrative expenses | | | | (55,419) |
| Finance costs | | | | (17,753) |
| Other expenses | | | | (23,595) |
| Profit before tax | | | | 149,822 |

*Other segment information included in the measurement of segment results:*

| | Gasoline engines | Diesel engines | Engine components and service income | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Depreciation and amortization | 33,054 | 10,683 | — | 43,737 |
| (Reversal of provision) provision of inventories | (249) | 73 | — | (176) |

*For the year ended December 31, 2011*

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

*Other segment information included in the measurement of segment results:*

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

*For the nine months ended September 30, 2011 (unaudited)*

| | Gasoline engines | Diesel engines | Engine components and service income | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Segment revenue — external | 1,145,302 | 319,292 | 35,402 | 1,499,996 |
| Segment results | 214,451 | 80,192 | 8,148 | 302,791 |
| Unallocated income | | | | 6,643 |
| Unallocated expenses | | | | |
| Selling and distribution expenses | | | | (29,737) |
| Administrative expenses | | | | (46,772) |
| Finance costs | | | | (22,872) |
| Other expenses | | | | (16,962) |
| Profit before tax | | | | 193,091 |

*Other segment information included in the measurement of segment results:*

| | Gasoline engines | Diesel engines | Engine components and service income | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Depreciation and amortization | 18,015 | 8,796 | — | 26,811 |
| Provision of inventories | 168 | 51 | — | 219 |

*For the nine months ended September 30, 2012*

| | Gasoline engines | Diesel engines | Engine components and service income | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Segment revenue — external | 1,559,926 | 358,602 | 27,740 | 1,946,268 |
| Segment results | 292,090 | 89,706 | 8,196 | 389,992 |
| Unallocated income | | | | 6,361 |
| Unallocated expenses | | | | |
| Selling and distribution expenses | | | | (40,214) |
| Administrative expenses | | | | (49,891) |
| Finance costs | | | | (21,555) |
| Other expenses | | | | (24,577) |
| Share of result of a jointly controlled entity | | | | 281 |
| Profit before tax | | | | 260,397 |

*Other segment information included in the measurement of segment results:*

| | Gasoline engines | Diesel engines | Engine components and service income | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Depreciation and amortization | 17,660 | 3,122 | — | 20,782 |
| (Reversal of provision) provision of inventories | (42) | 185 | — | 143 |

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 4. Segment results represents the profit earned by each segment without allocation of selling and distribution expenses, administrative expenses, finance costs, other expenses and share of result of a jointly controlled entity. This is the measure reported to the directors for the purposes of resource allocation and performance assessment.

***Segment assets and liabilities***

The assets and liabilities of the Group are regularly reviewed by the Board of Directors of the Company as a whole and no discrete financial information on segment assets and segment liabilities is available, therefore the measure of total assets and total liabilities by reportable operating segment is not presented.

***Geographical information***

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

### *Information about major customers*

Revenue from customers contributing over 10% of the total sales in all reportable segments of the Group during the Track Record Period is as follows:

| | 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* |
| Brilliance China Group | 627,041 | 805,233 | 416,192 | 290,908 | 381,755 |
| Subsidiaries of Dongfeng Automobile Co., Ltd.* 東風汽車股份有限公司 ("Dongfeng") | 296,065 | 380,828 | 651,790 | 397,782 | 513,068 |
| Huachen Group | N/A[1] | 270,414 | 661,627 | 383,559 | 485,440 |

1 The corresponding revenue did not contribute over 10% of the total sales of the Group.

## 7. OTHER 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* |
| Bank interest income | 3,619 | 4,330 | 2,257 | 1,691 | 2,838 |
| Government grants (see Note 30) | 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 |

## 8. FINANCE COSTS

| | 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* |
| Interest on borrowings wholly repayable within five years: | | | | | |
| Bank loans | 5,553 | 8,188 | 10,097 | 7,564 | 9,426 |
| Loans from related companies | 2,000 | 2,000 | 1,900 | 1,500 | — |
| Discounted bills | 3,577 | 7,565 | 34,954 | 15,647 | 13,954 |
| | 11,130 | 17,753 | 46,951 | 24,711 | 23,380 |
| Less: amounts capitalized | — | — | (9,431) | (1,839) | (1,825) |
| | 11,130 | 17,753 | 37,520 | 22,872 | 21,555 |

Borrowing costs capitalized during the year ended December 31, 2011 and each of nine months ended September 30, 2011 (unaudited) and 2012 arose on the general borrowing pool and were calculated by applying a capitalization rate of 8.9%, 8.1% (unaudited) and 6.6%, respectively per annum to expenditure on qualifying assets incurred during that year/period.

* English name for reference only.

## 9. INCOME TAX EXPENSE

| | 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* |
| PRC Enterprise Income Tax | | | | | |
| Current tax | — | — | 44,471 | 28,853 | 37,910 |
| Overprovision in prior year | — | — | — | — | (1,150) |
| | — | — | 44,471 | 28,853 | 36,760 |
| Deferred tax expense (credit) (see Note 31) | 1,234 | 365 | (221) | (329) | (132) |
| | 1,234 | 365 | 44,250 | 28,524 | 36,628 |

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

According to the Notice of the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局) ("SAT") and Sichuan Provincial Office, SAT (四川省國家稅務局) in 2001 and 2002 in relation to the opinions on the implementation of the Relevant Tax Treatment Policies for the Western China Development Plan《國家稅務總局關於落實西部大開發有關稅收政策具體實施意見的通知》, 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重建有關稅收政策問題的通知》) promulgated by the Ministry of Finance of the PRC (中華人民共和國財政部) ("MOF") and the SAT, Mianyang Xinchen was the affected entity located in the Wenchuan Earthquake affected area and was exempted from enterprise income tax for the year ended December 31, 2008. Pursuant to No.131 [2009] "Notice in relation to Extension of Tax Favourable Treatment Period" 《關於延長部份稅收優惠政策執行期限的通知》 promulgated by MOF, General Administration of Customs and the SAT, Mianyang Xinchen was approved to extend the tax exemption from the enterprise income tax for each of the years ended December 31, 2009 and 2010 in support of recovery and reconstruction after the Wenchuan earthquake.

Mianyang Xinchen was accredited as a "High and New Technology Enterprise" by the Science and Technology Bureau of Sichuan Province and relevant authorities in December 2008 for a term of three years, and was registered with the local tax authority to be eligible to the reduced 15% enterprise income tax rate from 2009 to 2011. The High and New Technology Enterprise qualification has been renewed in 2011, which entitles Mianyang Xinchen to enjoy such reduced tax rate for another three years until December 31, 2014. Accordingly, Mianyang Xinchen is subject to 15% enterprise income tax rate for the year ended December 31, 2011 and the nine months ended September 30, 2012.

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

The Group is not subject to PRC dividend withholding tax on the dividends paid prior to the completion of the Group Reorganization. Upon the completion of the Group Reorganization, Southern State, a non-PRC resident, will become a group entity and the immediate holding company of Mianyang Xinchen, a tax resident in the PRC. As a result, the Group will be subject to the PRC dividend withholding tax of 10% when and if undistributed earnings of Mianyang Xinchen are declared to be paid as dividends out of profits that arose on or after January 1, 2008. Deferred tax has not been provided for in the consolidated financial statements in respect of the tax effect of temporary differences attributable to accumulated undistributed earnings of Mianyang Xinchen as at December 31, 2009, 2010 and 2011 and September 30, 2012 amounted to approximately RMB4,370,000, RMB19,695,000, RMB45,742,000 and RMB68,027,000, respectively as the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The directors of Mianyang Xinchen plan to set aside the undistributed profits of Mianyang Xinchen for investment purpose. If such amounts exceed the investment plan, the Group will recognize the deferred tax liabilities in respect of the withholding tax on the then undistributed profits.

The tax expense during the Track Record Period can be reconciled to the profit before tax per consolidated statements of comprehensive income as follows:

| | 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* |
| Profit before tax | 59,511 | 149,822 | 304,639 | 193,091 | 260,397 |
| Tax at PRC Tax rate of 15% | 8,927 | 22,473 | 45,696 | 28,964 | 39,060 |
| Tax effect of expenses not deductible for tax purpose | 579 | 821 | 1,925 | 1,619 | 2,594 |
| Tax effect of deductible temporary differences not recognized | 3,530 | 5,302 | 5,589 | 5,059 | 4,036 |
| Utilization of deductible temporary differences previously not recognized | (1,603) | (3,530) | (5,302) | (5,302) | (5,589) |
| Overprovision in prior year | — | — | — | — | (1,150) |
| Tax incentives on eligible expenditures (Note) | (1,862) | (1,449) | (3,658) | (1,816) | (2,323) |
| Tax exemption | (8,337) | (23,252) | — | — | — |
| Income tax expense | 1,234 | 365 | 44,250 | 28,524 | 36,628 |

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

## 10. PROFIT FOR THE YEAR/PERIOD

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

| | 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* |
| Directors' remuneration (see Note 11) | 812 | 844 | 846 | 342 | 593 |
| Other staff costs | 49,269 | 63,113 | 56,825 | 30,383 | 44,406 |
| Contributions to retirement benefits scheme | 2,626 | 3,660 | 5,514 | 3,950 | 6,598 |
| Total staff costs | 52,707 | 67,617 | 63,185 | 34,675 | 51,597 |
| Depreciation of property, plant and equipment | 36,194 | 40,992 | 30,646 | 25,344 | 24,452 |
| Amortization of prepaid lease payments | 422 | 632 | 1,401 | 1,039 | 1,080 |
| Amortization of intangible assets (included in cost of sales) | 11,411 | 12,171 | 10,036 | 6,957 | 1,561 |
| Total depreciation and amortization | 48,027 | 53,795 | 42,083 | 33,340 | 27,093 |
| Research expenses (included in other expenses) | 13,254 | 19,355 | 19,783 | 9,467 | 12,415 |
| Amortization of capitalized development costs (included in total depreciation and amortization) | 11,411 | 12,171 | 10,036 | 6,957 | 1,561 |
| Total research and development costs | 24,665 | 31,526 | 29,819 | 16,424 | 13,976 |
| Auditors' remuneration | 80 | 91 | 227 | 100 | 100 |
| Exchange loss (gain), net | 1 | (2) | (666) | 18 | 611 |
| Allowance for (reversal of) doubtful debts | 322 | (272) | (7) | (7) | 55 |
| Included in cost of sales: | | | | | |
| Cost of inventories recognized as expense | 1,114,759 | 1,643,824 | 1,831,140 | 1,197,205 | 1,556,276 |
| (Reversal of provision) provision of inventories (see Note 21) | (805) | (176) | (5,042) | 219 | 143 |
| Provision for warranty | 4,497 | 12,272 | 8,149 | 7,855 | 7,760 |
| Included in other expenses: | | | | | |
| Loss on disposal of property, plant and equipment | 314 | 64 | 232 | 204 | — |
| Factory reallocation expenses (Note a) | — | 4,176 | 2,276 | 1,810 | — |
| Initial public offering expenses | — | — | 10,879 | 5,439 | 12,162 |

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

## 11. DIRECTORS' EMOLUMENTS AND EMPLOYEES' REMUNERATION

*Directors' emoluments*

Details of the emoluments paid to the directors of the Company during the Track Record Period are as follows:

| | 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* |
| Directors' fees | — | — | — | — | — |
| Salaries and allowances | 231 | 231 | 234 | 189 | 290 |
| Discretionary bonus | 581 | 613 | 612 | 153 | 303 |
| Contributions to retirement benefits scheme | — | — | — | — | — |
| | 812 | 844 | 846 | 342 | 593 |

The emoluments of the directors on a named basis are as follows:

| | 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* |
| Executive Directors | | | | | |
| Wu Xiao An 吳小安 | — | — | — | — | 100 |
| Wang Yunxian 王運先 | 812 | 844 | 846 | 342 | 493 |
| Non-executive Directors | | | | | |
| Qi Yumin 祁玉民 | — | — | — | — | — |
| Li Peiqi 李培奇 (Resigned on April 24, 2012 and reappointed on August 29, 2012) | — | — | — | — | — |
| Tang Qiao 唐橋 (Resigned on August 29, 2012) | — | — | — | — | — |
| Tan Chengxu (譚成旭) (Resigned on April 24, 2012) | — | — | — | — | — |
| Lei Xiaoyang 雷小陽 (Resigned on November 16, 2011) | — | — | — | — | — |
| Independent non-executive Directors | | | | | |
| Huang Haibo 黃海波 | — | — | — | — | — |
| Wang Jun 王隽 | — | — | — | — | — |
| Yu Yanqi 于延琦 (Resigned on November 19, 2012) | — | — | — | — | — |
| Wang Songlin 王松林 | — | — | — | — | — |
| | 812 | 844 | 846 | 342 | 593 |

*Employees' remuneration*

Of the five highest paid individuals of the Group, 1, 1, 1, 1 (unaudited) and 1 is director of the Company whose emoluments are included above during the years ended December 31, 2009, 2010 and 2011 and the nine months ended September 30, 2011 (unaudited) and 2012, respectively. The remunerations of the remaining 4, 4, 4, 4 (unaudited) and 4 individuals are as follows:

| | 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* |
| Salaries and allowances | 369 | 377 | 376 | 248 | 239 |
| Discretionary bonus | 1,277 | 1,499 | 1,501 | 634 | 692 |
| Contributions to retirement benefits scheme | — | — | — | — | — |
| | 1,646 | 1,876 | 1,877 | 882 | 931 |

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

The directors and certain senior management have also been employed by the Brilliance China Group and Wuliangye Group and the payment of their contributions to retirement benefits scheme was centralized and made by the Brilliance China Group and Wuliangye Group for the Track Record Period, in which the amounts are considered as insignificant. Mr. Wang Yunxian has held various positions in Mianyang Xinchen and Xinhua Combustion Engine and has resigned from all his positions in Xinhua Combustion Engine during the nine months ended September 30, 2012.

The remunerations of each of the 5, 5, 4, 5 (unaudited) and 5 of the five highest paid individuals during the years ended December 31, 2009, 2010 and 2011 and the nine months ended September 30, 2011 (unaudited) and 2012, respectively are within HK$1,000,000. The remunerations of one of the five highest paid individuals during the year ended December 31, 2011 was in the range of HK$1,000,001 to HK$1,500,000.

During the Track Record Period, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 12. DIVIDENDS

No dividend has been paid or declared by the Company or Mianyang Xinchen during the Track Record Period.

## 13. EARNINGS PER SHARE

The calculation of the basic earnings per share for the Track Record Period is based on the profit for the year/period attributable to owners of the Company and weighted average number of shares of 800,000,000, 800,000,000, 823,815,000, 800,000,000 (unaudited) and 940,199,794 for the years ended December 31, 2009, 2010 and 2011 and the nine months ended September 30, 2011 (unaudited) and 2012, respectively. The number of shares for the purpose of basic earnings per share for the years ended December 31, 2009 and 2010 and the nine months ended September 30, 2011 (unaudited) is calculated based on the 800,000,000 ordinary shares of the Company after retrospective adjustment and assuming the capitalization issue on October 25, 2011 pursuant to the reorganization as described in the paragraph headed "Changes in the share capital of our Company" in Appendix V to the Prospectus had been effective on January 1, 2009. The weighted average number of shares for the year ended December 31, 2011 has been adjusted for the capital injection for that year.

No diluted earnings per share is presented for the Track Record Period as there was no potential dilutive ordinary share in issue.

### 14. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Plant and machinery | Office equipment and others | Motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| COST | | | | | | |
| At January 1, 2009 | 49,787 | 249,309 | 16,516 | 8,688 | 24,364 | 348,664 |
| Additions | — | 8,447 | 1,366 | 571 | 36,232 | 46,616 |
| Transfer | 4,464 | 47,071 | 3,762 | — | (55,297) | — |
| Disposals | — | (10) | (104) | (2,139) | — | (2,253) |
| At December 31, 2009 | 54,251 | 304,817 | 21,540 | 7,120 | 5,299 | 393,027 |
| Additions | — | — | 1,105 | 1,338 | 49,683 | 52,126 |
| Transfer | 34 | 5,439 | 299 | — | (5,772) | — |
| Disposals | — | (36) | (251) | (592) | — | (879) |
| At December 31, 2010 | 54,285 | 310,220 | 22,693 | 7,866 | 49,210 | 444,274 |
| Additions | 8,397 | — | 1,209 | 1,631 | 66,182 | 77,419 |
| Transfer | 78,951 | 6,201 | — | — | (85,152) | — |
| Disposals | — | (829) | (727) | (852) | — | (2,408) |
| At December 31, 2011 | 141,633 | 315,592 | 23,175 | 8,645 | 30,240 | 519,285 |
| Additions | — | 522 | 275 | 1,566 | 68,007 | 70,370 |
| Transfer | 45,028 | 23,851 | — | — | (68,879) | — |
| Disposals | — | (106) | (106) | (1,791) | — | (2,003) |
| At September 30, 2012 | 186,661 | 339,859 | 23,344 | 8,420 | 29,368 | 587,652 |
| DEPRECIATION | | | | | | |
| At January 1, 2009 | 15,808 | 110,260 | 7,386 | 3,562 | — | 137,016 |
| Provided for the year | 9,549 | 23,014 | 2,553 | 1,078 | — | 36,194 |
| Eliminated on disposals | — | — | (93) | (1,005) | — | (1,098) |
| At December 31, 2009 | 25,357 | 133,274 | 9,846 | 3,635 | — | 172,112 |
| Provided for the year | 10,534 | 25,964 | 3,100 | 1,394 | — | 40,992 |
| Eliminated on disposals | — | (35) | (230) | (367) | — | (632) |
| At December 31, 2010 | 35,891 | 159,203 | 12,716 | 4,662 | — | 212,472 |
| Provided for the year | 5,379 | 21,452 | 3,011 | 804 | — | 30,646 |
| Eliminated on disposals | — | (720) | (663) | (712) | — | (2,095) |
| At December 31, 2011 | 41,270 | 179,935 | 15,064 | 4,754 | — | 241,023 |
| Provided for the period | 5,683 | 16,022 | 2,048 | 699 | — | 24,452 |
| Eliminated on disposals | — | (95) | (95) | (1,283) | — | (1,473) |
| At September 30, 2012 | 46,953 | 195,862 | 17,017 | 4,170 | — | 264,002 |
| CARRYING VALUES | | | | | | |
| At December 31, 2009 | 28,894 | 171,543 | 11,694 | 3,485 | 5,299 | 220,915 |
| At December 31, 2010 | 18,394 | 151,017 | 9,977 | 3,204 | 49,210 | 231,802 |
| At December 31, 2011 | 100,363 | 135,657 | 8,111 | 3,891 | 30,240 | 278,262 |
| At September 30, 2012 | 139,708 | 143,997 | 6,327 | 4,250 | 29,368 | 323,650 |

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

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

The buildings are located in the PRC and the carrying amounts of the buildings amounting to RMB84,982,000 and RMB130,010,000 as at December 31, 2011 and September 30, 2012, respectively, are in the process of obtaining the property ownership certificate.

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

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

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

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

The Group's buildings are located in the PRC.

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

| | At December 31, | | | At September 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Buildings | 18,275 | 9,780 | 6,672 | 4,341 |
| Plant and machinery | 147,458 | 129,845 | 120,578 | 141,188 |
| | 165,733 | 139,625 | 127,250 | 145,529 |

## 15. PREPAID LEASE PAYMENTS

| | RMB'000 |
|---|---|
| CARRYING VALUES | |
| At January 1, 2009 | 15,580 |
| Released to profit or loss | (422) |
| At December 31, 2009 | 15,158 |
| Additions | 50,632 |
| Released to profit or loss | (632) |
| At December 31, 2010 | 65,158 |
| Released to profit or loss | (1,401) |
| At December 31, 2011 | 63,757 |
| Released to profit or loss | (1,080) |
| At September 30, 2012 | 62,677 |

| | At December 31, | | | At September 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Analysed for reporting purpose: | | | | |
| Current assets | 422 | 1,434 | 1,434 | 1,434 |
| Non-current assets | 14,736 | 63,724 | 62,323 | 61,243 |
| | 15,158 | 65,158 | 63,757 | 62,677 |

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

The Group has pledged land use rights having carrying values of approximately RMB15,158,000, RMB65,158,000, RMB63,757,000 and RMB62,677,000 as at December 31, 2009, 2010 and 2011 and September 30, 2012, respectively, to secure general banking facilities granted to the Group.

## 16. INTANGIBLE ASSETS

| | Completed development costs | Development costs in progress | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| COST | | | |
| At January 1, 2009 | 26,226 | 8,033 | 34,259 |
| Additions | — | 2,127 | 2,127 |
| Transfer | 10,160 | (10,160) | — |
| At December 31, 2009 and December 31, 2010 | 36,386 | — | 36,386 |
| Additions | — | 42,134 | 42,134 |
| At December 31, 2011 | 36,386 | 42,134 | 78,520 |
| Additions | — | 30,844 | 30,844 |
| At September 30, 2012 | 36,386 | 72,978 | 109,364 |
| AMORTIZATION | | | |
| At January 1, 2009 | 1,207 | — | 1,207 |
| Charge for the year | 11,411 | — | 11,411 |
| At December 31, 2009 | 12,618 | — | 12,618 |
| Charge for the year | 12,171 | — | 12,171 |
| At December 31, 2010 | 24,789 | — | 24,789 |
| Charge for the year | 10,036 | — | 10,036 |
| At December 31, 2011 | 34,825 | — | 34,825 |
| Charge for the period | 1,561 | — | 1,561 |
| At September 30, 2012 | 36,386 | — | 36,386 |
| CARRYING VALUES | | | |
| At December 31, 2009 | 23,768 | — | 23,768 |
| At December 31, 2010 | 11,597 | — | 11,597 |
| At December 31, 2011 | 1,561 | 42,134 | 43,695 |
| At September 30, 2012 | — | 72,978 | 72,978 |

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

## 17. INVESTMENT IN A SUBSIDIARY

THE COMPANY

It represents investment cost in, and deemed capital contribution by way of waiver of loans to, Southern State.

## 18. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

| | At September 30, 2012 |
|---|---|
| | *RMB'000* |
| Cost of unlisted investment in a jointly controlled entity | 50,000 |
| Share of result and other comprehensive income | 281 |
| Unrealized profit | (648) |
| | 49,633 |

Pursuant to a joint venture agreement entered into between Mianyang Xinchen and Dongfeng in December 2011, Changzhou Dongfeng Xinchen Engine Co., Ltd 常州東風新晨動力機械有限公司 ("Dongfeng JV") was established on January 9, 2012 with registered capital of RMB250 million, which is owned as to 50% by Mianyang Xinchen and 50% by Dongfeng. The purpose of establishing Dongfeng JV is to construct an engine production facility with a planned production capacity of 200,000 units per annum to manufacture the joint venture branded engines for Dongfeng's light-duty vehicles. Mianyang Xinchen's estimated portion of the capital injection in relation to the Dongfeng JV is approximately RMB125 million, of which RMB50 million has been paid during the nine months ended September 30, 2012.

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

| | As at September 30, 2012 |
|---|---|
| | *RMB'000* |
| Current assets | 68,355 |
| Non-current assets | 22,519 |
| Current liabilities | (27,379) |
| Non-current liabilities | (13,214) |
| The Group's share of net assets | 50,281 |
| Unrealized profit on sale of engines to Dongfeng JV | (648) |
| | 49,633 |

| | Nine months ended September 30, 2012 |
|---|---|
| | *RMB'000* |
| Income recognized in profit or loss | 19,715 |
| Expenses recognized in profit or loss | (19,434) |
| Other comprehensive income | — |
| The Group's share of result for the period | 281 |

## 19. LOAN TO A RELATED COMPANY

A loan was granted to Mianyang Huarui Automotive Company Limited* 綿陽華瑞汽車有限公司 ("Mianyang Huarui"), a subsidiary of Huachen Group, and was non-trade related, unsecured, interest free and was to be settled upon the completion of the group restructuring of Mianyang Huarui. The effective interest rate on the loan is 5% per annum. In the opinion of the directors, the group restructuring of Mianyang Huarui was expected to be completed within one year from December 31, 2009 and then again within one year from December 31, 2010 and, accordingly, the loan was classified

* English name for reference only.

as a current asset as at December 31, 2009 and 2010. In May 2011, Huarui settled the loan to Mianyang Xinchen by certain bills receivable issued by a bank and was collected in cash in November 2011.

## 20. LOAN TO A SHAREHOLDER/LOANS FROM SHAREHOLDERS

THE GROUP AND THE COMPANY

As detailed in Note 41, the Company has two trust arrangements to entitle the Group's employees to subscribe for shares of the Company through Lead In Management Limited 領進管理有限公司 ("Lead In") for their services to the Group. Under loan agreements dated October 18, 2011, each of the two shareholders of the Company, namely Brilliance Investment and Xinhua Investment, advanced loans in equal amounts of HK$20,000,000 to the Company (collectively, the "Loans from Shareholders"). In return, (i) the Company lent an aggregate amount of HK$40,000,000, equal to the Loans from Shareholders, to Lead In (the "Loan to a shareholder") and (ii) Lead In used the funding obtained from the Company to subscribe for 36,977,960 shares of the Company under the Discretionary Trust (see Note 41).

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

## 21. INVENTORIES

| | At December 31, | | | At September 30, |
|---|---|---|---|---|
| | **2009** | **2010** | **2011** | **2012** |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| Raw material and 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 |
| | 208,635 | 251,368 | 221,202 | 238,332 |

The inventories are net of provision of RMB6,101,000, RMB5,925,000, RMB883,000 and RMB1,026,000 as at December 31, 2009, 2010 and 2011 and September 30, 2012, respectively, which is determined with reference to the net realisable value of the inventory items. The reversal of provision of inventories for each of the years ended December 31, 2009, 2010 and 2011 are RMB805,000, RMB176,000, RMB5,042,000 respectively. The provision of inventories for the nine months ended September 30, 2012 is RMB143,000.

## 22. TRADE AND OTHER RECEIVABLES

THE GROUP

Trade and other receivables comprise the following:

| | At December 31, | | | At 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 materials 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 |

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

| | 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 bills receivable presented based on the bills issue 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 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 |

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

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

Included in the Group's trade receivables balances are debtors with aggregate carrying amount of approximately RMB6,723,000, RMB2,631,000, RMB43,513,000 and RMB202,200,000 at December 31, 2009, 2010 and 2011 and September 30, 2012, respectively, which are past due as at the reporting date. Considering the high credibility of these customers, good track record with the Group and subsequent settlement, the management believes that no impairment allowance is necessary in respect of the remaining unsettled balances. The Group does not hold any collateral over these balances.

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

| | At December 31, | | | At September 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 1 month | — | — | — | 1,208 |
| Over 1 month but within 2 months | — | — | 16,820 | 55,056 |
| Over 2 months but within 3 months | 5,616 | 934 | 21,808 | 86,324 |
| 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 |
| | 6,723 | 2,631 | 43,513 | 202,200 |

Movement in the allowance for doubtful debts:

| | At December 31, | | | At September 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At beginning of year/period | — | 322 | 50 | 43 |
| Impairment losses recognized on receivables | 322 | 14 | — | 55 |
| Amounts recovered during the year/period | — | (286) | (7) | — |
| At end of year/period | 322 | 50 | 43 | 98 |

THE COMPANY

The other receivables of the Company represents deferred expenditure in relation to professional fees for proposed issue of new shares upon the listing.

## 23. AMOUNTS DUE FROM RELATED COMPANIES

THE GROUP

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

| | At December 31, | | | At September 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Huachen Group | | | | |
| Mianyang Huarui | 49,769 | 42,496 | 226,120 | 145,684 |
| Shenyang Brilliance Power Train Machinery Co., Ltd. 瀋陽華晨動力機械有限公司 | — | 242,723 | 474,311 | 375,558 |
| Mianyang Huaxiang Machinery Manufacturing Co., Ltd.* 綿陽華祥機械製造有限公司 | — | 13,368 | 68,685 | 27,234 |
| Mianyang Huaxin Automobile Co., Ltd.* 綿陽華鑫汽車有限公司 | 11,554 | 10,321 | 4,903 | — |
| Huachen | — | 3,150 | 6,446 | 4,245 |
| | 61,323 | 312,058 | 780,465 | 552,721 |
| Brilliance China Group | | | | |
| Mianyang Brilliance Ruian Automotive Components Co., Ltd.* 綿陽華晨瑞安汽車零部件有限公司 ("Mianyang Ruian") | 216,477 | 183,916 | 272,745 | — |
| Shenyang XingYuanDong Automobile Component Co., Ltd. 瀋陽興遠東汽車零部件有限公司 ("Xing Yuan Dong") | 14,593 | 3,535 | 3,535 | 341,698 |
| Shenyang ChenFa Automobile Component Co., Ltd. 瀋陽晨發汽車零部件有限公司 | 228,920 | 316,289 | 1,262 | 222 |
| Shenyang Brilliance JinBei Automobile Co., Ltd. 瀋陽華晨金杯汽車有限公司 | 10,892 | 10,516 | 3,817 | 4,929 |
| | 470,882 | 514,256 | 281,359 | 346,849 |
| Wuliangye Group | | | | |
| Sichuan Yi Bin Pushen Heavy Machinery Co., Ltd.* 四川省宜賓普什重機有限公司 | — | 86 | 86 | — |
| Jointly controlled entity | — | — | — | 54,739 |
| | 532,205 | 826,400 | 1,061,910 | 954,309 |

Analysed as:

| | At December 31, | | | At September 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade receivables | 458,105 | 701,400 | 892,816 | 942,549 |
| Bills receivable | 74,100 | 125,000 | 169,094 | 11,760 |
| | 532,205 | 826,400 | 1,061,910 | 954,309 |

* English name for reference only.

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

| | At December 31, | | | At 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 | 122,816 |
| Over 1 year | 28,575 | 16,465 | 4,214 | 934 |
| | 458,105 | 701,400 | 892,816 | 942,549 |

The following is an aged analysis of bills receivable presented based on the bills issue 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 3 months | 74,100 | 100,000 | 159,962 | 10,020 |
| Over 3 months but within 6 months | — | 25,000 | 9,132 | 1,740 |
| | 74,100 | 125,000 | 169,094 | 11,760 |

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

Included above are trade receivables due from related companies with aggregate carrying amounts of approximately RMB145,660,000, RMB266,131,000, RMB419,471,000 and RMB471,550,000 at December 31, 2009, 2010 and 2011 and September 30, 2012, respectively, which are past due as at the reporting date. The management of the Group has assessed these related companies to be financially sound and taking into consideration of the gradual and frequent repayments from those related companies, no impairment allowance is considered necessary in respect of these balances. In the opinion of the directors of the Company, the amounts due from related companies not past due nor impaired at the end of each reporting period are of good credit quality. The Group does not hold any collateral over these balances.

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

| | At December 31, | | | At September 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| 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 | 122,816 |
| Over 1 year | 28,575 | 16,465 | 4,214 | 934 |
| | 145,660 | 266,131 | 419,471 | 471,550 |

THE COMPANY

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

## 24. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

THE GROUP

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

| | Bank balances | Pledged bank deposits |
|---|---|---|
| At December 31, 2009 | 0.36% | 1.71% - 1.98% |
| At December 31, 2010 | 0.36% | 2.25% - 2.50% |
| At December 31, 2011 | 0.01% - 0.50% | 3.10% - 3.30% |
| At September 30, 2012 | 0.01% - 0.35% | 2.60% - 2.80% |

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

THE COMPANY

Bank balances carry interest rates at 0.01% at December 31, 2011 and September 30, 2012, respectively.

## 25. TRADE AND OTHER PAYABLES

THE GROUP

| | At December 31, | | | At September 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade payables | 307,943 | 383,991 | 559,447 | 598,206 |
| Bills payable | 252,816 | 304,236 | 413,158 | 261,535 |
| Total trade and bills payables | 560,759 | 688,227 | 972,605 | 859,741 |
| Accrued purchase of raw materials | 167,294 | 165,356 | 255,479 | 372,459 |
| Construction payables | 12,100 | 5,962 | 11,272 | 39,021 |
| Payroll and welfare payables | 23,535 | 35,349 | 37,257 | 26,909 |
| Advances from customers | 13,897 | 7,822 | 4,732 | 2,939 |
| Provision for warranty (Note) | 51 | 7,442 | 5,280 | 5,119 |
| Other payables | 9,682 | 13,735 | 25,716 | 18,923 |
| | 787,318 | 923,893 | 1,312,341 | 1,325,111 |

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

| | At December 31, | | | At September 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 3 months | 258,887 | 316,380 | 440,911 | 351,556 |
| Over 3 months but within 6 months | 44,489 | 56,657 | 98,943 | 209,411 |
| Over 6 months but within 1 year | 1,269 | 6,096 | 19,593 | 37,239 |
| Over 1 year | 3,298 | 4,858 | — | — |
| | 307,943 | 383,991 | 559,447 | 598,206 |

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

| | At December 31, | | | At September 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 3 months | 104,685 | 164,917 | 74,833 | 241,455 |
| Over 3 months but within 6 months | 148,131 | 139,319 | 338,325 | 20,080 |
| | 252,816 | 304,236 | 413,158 | 261,535 |

Note:

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

The movement of warranty provision are as follows.

| | 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* |
| At beginning of year/period | 1,053 | 51 | 7,442 | 7,442 | 5,280 |
| Warranty provision charged to profit or loss | 4,497 | 12,272 | 12,938 | 7,855 | 7,760 |
| Reversal of warranty provision | — | — | (4,789) | — | — |
| Warranty claimed by customers | (5,499) | (4,881) | (10,311) | (7,644) | (7,921) |
| At end of year/period | 51 | 7,442 | 5,280 | 7,653 | 5,119 |

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

THE COMPANY

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

## 26. AMOUNTS DUE TO RELATED COMPANIES

THE GROUP

Details of amounts due to related companies are as follows:

| | At December 31, | | | At September 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade related: | | | | |
| Wuliangye Group | | | | |
| Xinhua Combustion Engine | 33,474 | 59,679 | 101,871 | 73,266 |
| Mianyang Ruian | — | — | — | 14,944 |
| Sichuan Yi Bin Pushen Auto Parts Co., Ltd* 四川省宜賓普什汽車零部件有限公司 | 5,834 | 9,170 | 12,472 | 12,100 |
| | 39,308 | 68,849 | 114,343 | 100,310 |
| Non-trade related: | | | | |
| Brilliance China Group | | | | |
| Brilliance China | — | — | 28 | 311 |
| Xing Yuan Dong | 6,365 | 6,365 | — | — |
| | 6,365 | 6,365 | 28 | 311 |
| Wuliangye Group | | | | |
| Mianyang Jianmen Real Estate Development and Construction Limited Liability Company* 綿陽劍門房地產開發建設有限責任公司 | 1,839 | 757 | 2,327 | 435 |
| | 8,204 | 7,122 | 2,355 | 746 |
| | 47,512 | 75,971 | 116,698 | 101,056 |

The trade related amounts are analysed as:

| | At December 31, | | | At September 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade payables | 26,498 | 44,584 | 82,789 | 69,032 |
| Bills payable | 12,810 | 24,265 | 31,554 | 31,278 |
| | 39,308 | 68,849 | 114,343 | 100,310 |

The non-trade related amounts are analysed as:

| | At December 31, | | | At September 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Bills payable | 876 | 250 | 1,788 | — |
| Other payables | 7,328 | 6,872 | 567 | 746 |
| | 8,204 | 7,122 | 2,355 | 746 |

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

* English name for reference only.

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

| | At December 31, | | | At 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 |

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

| | At December 31, | | | At 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 non-trade related amounts are interest free, unsecured and repayable on demand.

THE COMPANY

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

## 27. LOANS FROM RELATED COMPANIES

| | At December 31, | | | At September 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Sichuan Yibin Pushi Group Co., Ltd.* 四川省宜賓普什集團有限公司 ("Pushi Group"), a subsidiary of Wuliangye | 20,000 | 20,000 | — | — |
| Xing Yuan Dong | 20,000 | 20,000 | — | — |
| | 40,000 | 40,000 | — | — |

The loans were used for funding the development of new products and technical know-how and were unsecured, bore interest at 5% per annum, had a term of 2 years and were repayable in 2010. The loans were fully settled as at December 31, 2011.

* English name for reference only.

## 28. BANK BORROWINGS

| | At December 31, | | | At September 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Bank borrowings repayable within one year | 93,000 | 176,950 | 163,950 | 194,950 |
| Bank borrowings repayable more than one year, but not exceeding two years | 32,000 | — | — | — |
| | 125,000 | 176,950 | 163,950 | 194,950 |
| Less: Amounts due for settlement within 12 months shown under current liabilities | (93,000) | (176,950) | (163,950) | (194,950) |
| Amounts due for settlement after 12 months | 32,000 | — | — | — |
| Secured | 125,000 | 134,950 | 121,950 | 152,950 |
| Unsecured | — | 42,000 | 42,000 | 42,000 |
| | 125,000 | 176,950 | 163,950 | 194,950 |

All bank borrowings are denominated in RMB.

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

| | At December 31, | | | At September 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| Fixed-rate borrowings | 5.31% to 5.5755% | 5.31% to 5.625% | 5.05% to 6.56% | 6.00% to 6.56% |
| Variable-rate borrowings | Benchmark rate# x 105% | Benchmark rate# x 101% | Benchmark rate# x 110% | Benchmark rate# x 110% |

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

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

At December 31, 2009, 2010 and 2011 and September 30, 2012, the Group had available unutilized bank loan facilities of approximately RMB80,000,000, RMB57,000,000, RMB90,050,000 and RMB135,050,000, respectively.

## 29. OTHER LOAN

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

* English name for reference only.

## 30. DEFERRED 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* |
| Amounts credited to profit or loss during the year/period: | | | | | |
| Subsidies related to research activities (Note a) | 1,429 | 1,927 | 1,350 | 250 | 300 |
| Subsidies related to property, plant and equipment (Note b) | 333 | 680 | 3,569 | 2,670 | 2,817 |
| Other incentive subsidies (Note c) | 200 | — | 143 | — | — |
| | 1,962 | 2,607 | 5,062 | 2,920 | 3,117 |

The movement of deferred income is as follows.

| | 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* |
| At beginning of year/period | 3,000 | 3,768 | 31,179 | 31,179 | 28,010 |
| Receipt of subsidies related to property, plant and equipment | 1,101 | 28,091 | 400 | 400 | 1,550 |
| Amount credited to profit or loss during the year/period | (333) | (680) | (3,569) | (2,670) | (2,817) |
| At end of year/period | 3,768 | 31,179 | 28,010 | 28,909 | 26,743 |

*Notes:*

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

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

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

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

## 31. DEFERRED TAX

The following are the major deferred tax assets (liabilities) recognized and movements thereon during the Track Record Period:

| | Temporary difference on | | | | |
|---|---|---|---|---|---|
| | Receivables | Property, plant and equipment | Development costs | Inventories | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At January 1, 2009 | — | 173 | 2,083 | 152 | 2,408 |
| Credit (charge) to profit or loss | 114 | (28) | (2,083) | 763 | (1,234) |
| At December 31, 2009 | 114 | 145 | — | 915 | 1,174 |
| Charge to profit or loss | (41) | — | — | (324) | (365) |
| At December 31, 2010 | 73 | 145 | — | 591 | 809 |
| (Charge) credit to profit or loss | (1) | — | 681 | (459) | 221 |
| At December 31, 2011 | 72 | 145 | 681 | 132 | 1,030 |
| (Charge) credit to profit or loss | (72) | (145) | 327 | 22 | 132 |
| At September 30, 2012 | — | — | 1,008 | 154 | 1,162 |

## 32. PAID-IN CAPITAL/SHARE CAPITAL

The paid-in capital amounted to RMB200,008,000 at December 31, 2009 and 2010 and represented the fully paid and registered capital of Mianyang Xinchen.

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

| | Number of shares | Amount |
|---|---|---|
| | | *HK$* |
| Ordinary shares of HK$0.01 each | | |
| Authorized: | | |
| At date of incorporation, December 31, 2011 and September 30, 2012 | 8,000,000,000 | 80,000,000 |
| Issued and fully paid: | | |
| Issue of new shares at date of incorporation | 1,000 | 10 |
| Issue of new shares on August 29, 2011 | 1,000 | 10 |
| Capitalization issue on October 25, 2011 | 799,998,000 | 7,999,980 |
| Issue of new shares on October 31, 2011 | 46,200,000 | 462,000 |
| Issue of new shares on October 31, 2011 | 93,999,794 | 939,998 |
| At December 31, 2011 and September 30, 2012 | 940,199,794 | 9,401,998 |

| | At December 31, 2011 and September 30, 2012 |
|---|---|
| | *RMB'000* |
| Presented in financial statements | 7,693 |

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

In order to complete the Group Reorganization as stated in Note 2, on August 29, 2011, the Company issued 1,000 ordinary shares of HK$0.01 each to Xinhua Investment by waive of loans repayable to Xinhua Investment of HK$433,000,000 (equivalent to RMB354,654,000).

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

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

On October 31, 2011, Lead In, incorporated in the BVI on May 18, 2011, subscribed for 93,999,794 ordinary shares of the Company, representing approximately 9.998% of the enlarged issued share capital of the Company ("Lead In Subscribed Shares") at a consideration of approximately HK$1.0817 per share, totalling approximately HK$101,682,000 (equivalent to RMB82,823,000), as determined based on the Mianyang Xinchen Valuation Report. The Lead In Subscribed Shares are held on trust for the beneficiaries under two separate trust arrangements as described in Note 41.

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

## 33. RESERVES

THE COMPANY

| | Share premium | Special reserve | Accumulated losses | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At date of incorporation | — | — | — | — |
| Issuance of new shares (see Note 32) | 122,388 | — | — | 122,388 |
| Arising from group reorganization | — | 354,654 | — | 354,654 |
| Capitalization issue (see Note 32) | — | (6,551) | — | (6,551) |
| Loss and total comprehensive expense for the year | — | — | (8,061) | (8,061) |
| At December 31, 2011 | 122,388 | 348,103 | (8,061) | 462,430 |
| Loss and total comprehensive expense for the period | — | — | (1,136) | (1,136) |
| At September 30, 2012 | 122,388 | 348,103 | (9,197) | 461,294 |

## 34. CAPITAL RISK MANAGEMENT

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

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

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

## 35. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

THE GROUP

| | Carrying amount at December 31, | | | Carrying amount at September 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| *Financial assets* | | | | |
| Loans and receivables (including cash and cash equivalents) | 1,009,898 | 1,347,226 | 2,136,631 | 2,267,668 |
| *Financial liabilities* | | | | |
| At amortized cost | 985,159 | 1,204,380 | 1,618,785 | 1,639,062 |

THE COMPANY

| | Carrying amount at December 31, | Carrying amount at September 30, |
|---|---|---|
| | 2011 | 2012 |
| | *RMB'000* | *RMB'000* |
| *Financial assets* | | |
| Loans and receivables (including cash and cash equivalents) | 146,161 | 144,749 |
| *Financial liabilities* | | |
| At amortized cost | 33,692 | 33,416 |

### (b) Financial risk management objectives and policies

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

*Interest rate risk*

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

*Sensitivity analysis*

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

*Variable-rate borrowings*

If interest rates of the variable-rate borrowings had been 50 basis points higher/lower than the lending benchmark interest rate stipulated by the People's Bank of China and all other variables were held constant, the Group's profit for the years ended December 31, 2009, 2010 and 2011 and nine months ended September 30, 2012 would decrease/increase by approximately RMB325,000, RMB265,000, RMB170,000 and RMB321,000, respectively.

*Variable-rate bank balances*

If interest rate of variable-rate bank balances had been 10 basis points higher/lower and all other variables were held constant, the Group's profit for the years ended December 31, 2009, 2010 and 2011 and nine months ended September 30, 2012 would increase/decrease by approximately RMB37,000, RMB67,000, RMB155,000 and RMB280,000, respectively.

*Credit risk*

At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statements of financial position and outstanding endorsed and discounted bills receivable as disclosed in Note 38.

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

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

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

The Group has concentration of credit risk as 83%, 88%, 87% and 80% of the Group's total trade receivables and amounts due from related companies (trade related) as at December 31, 2009, 2010 and 2011 and September 30, 2012, respectively, were due from the five largest customers. Those five largest customers are with good creditworthiness based on historical settlement record. In order to minimise the concentration of credit risk, the management has delegated staff responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure follow-up action is taken to recover overdue debts. The management also performs periodic evaluations and customer visits to ensure the Group's exposure to bad debts is not significant and adequate impairment losses are made for irrecoverable amount. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

*Liquidity risk*

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

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms as at December 31, 2009, 2010 and 2011 and September 30, 2012. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from the interest rate at the end of the reporting period.

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

*Liquidity and interest risk tables*

THE GROUP

| | Weighted average interest rate | Repayable on demand or within 3 months | 3-6 months | 6 months to 1 year | Over 1 year | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|---|
| | *%* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At December 31, 2009** | | | | | | | |
| Trade and other payables | — | 397,413 | 201,531 | 6,409 | — | 605,353 | 605,353 |
| Amounts due to related companies | — | 30,987 | 10,140 | 6,385 | — | 47,512 | 47,512 |
| Accrued purchase of raw material | — | 167,294 | — | — | — | 167,294 | 167,294 |
| Loans from related companies | 5.00 | — | — | 42,000 | — | 42,000 | 40,000 |
| Bank borrowings | | | | | | | |
| —Fixed rate | 5.48 | 822 | 822 | 29,643 | 33,650 | 64,937 | 60,000 |
| —Variable rate | 5.58 | 53,906 | 12,112 | — | — | 66,018 | 65,000 |
| Outstanding endorsed and discounted bills receivable | | 180,074 | 172,965 | — | — | 353,039 | — |
| | | 830,496 | 397,570 | 84,437 | 33,650 | 1,346,153 | 985,159 |
| **At December 31, 2010** | | | | | | | |
| Trade and other payables | — | 531,141 | 196,871 | 14,091 | — | 742,103 | 742,103 |
| Amounts due to related companies | — | 40,091 | 28,662 | 7,218 | — | 75,971 | 75,971 |
| Accrued purchase of raw material | — | 165,356 | — | — | — | 165,356 | 165,356 |
| Loans from related companies | 5.00 | 40,000 | — | — | — | 40,000 | 40,000 |
| Bank borrowings | | | | | | | |
| —Fixed rate | 5.45 | 1,688 | 43,688 | 83,964 | — | 129,340 | 123,950 |
| —Variable rate | 5.36 | 53,474 | — | — | — | 53,474 | 53,000 |
| Other loan | — | — | — | — | 4,000 | 4,000 | 4,000 |
| Outstanding endorsed and discounted bills receivable | | 188,351 | 438,874 | — | — | 627,225 | — |
| | | 1,020,101 | 708,095 | 105,273 | 4,000 | 1,837,469 | 1,204,380 |
| **At December 31, 2011** | | | | | | | |
| Trade and other payables | — | 580,574 | 438,199 | 27,114 | — | 1,045,887 | 1,045,887 |
| Amounts due to related companies | — | 70,523 | 40,975 | 5,200 | — | 116,698 | 116,698 |
| Accrued purchase of raw material | — | 255,479 | — | — | — | 255,479 | 255,479 |
| Loans from shareholders | — | — | — | 32,771 | — | 32,771 | 32,771 |
| Bank borrowings | | | | | | | |
| —Fixed rate | 6.05 | 1,874 | 93,494 | 32,525 | — | 127,893 | 123,950 |
| —Variable rate | 6.94 | 694 | 694 | 40,925 | — | 42,313 | 40,000 |
| Other loan | — | — | — | — | 4,000 | 4,000 | 4,000 |
| Outstanding endorsed and discounted bills receivable | | 242,544 | 436,313 | — | — | 678,857 | — |
| | | 1,151,688 | 1,009,675 | 138,535 | 4,000 | 2,303,898 | 1,618,785 |
| **At September 30, 2012** | | | | | | | |
| Trade and other payables | — | 628,251 | 229,491 | 76,260 | — | 934,002 | 934,002 |
| Amounts due to related companies | — | 58,212 | 38,797 | 4,047 | — | 101,056 | 101,056 |
| Accrued purchase of raw material | — | 372,459 | — | — | — | 372,459 | 372,459 |
| Loans from shareholders | — | 32,595 | — | — | — | 32,595 | 32,595 |
| Bank borrowings | | | | | | | |
| —Fixed rate | 6.29 | 61,775 | 42,966 | 22,499 | — | 127,240 | 123,950 |
| —Variable rate | 6.85 | 1,215 | 72,029 | — | — | 73,244 | 71,000 |
| Other loan | — | — | — | 4,000 | — | 4,000 | 4,000 |
| Outstanding endorsed and discounted bills receivable | | 491,422 | 92,099 | — | — | 583,521 | — |
| | | 1,645,929 | 475,382 | 106,806 | — | 2,228,117 | 1,639,062 |

THE COMPANY

| | Weighted average interest rate | Repayable on demand or within 3 months | 3-6 months | 6 months to 1 year | Over 1 year | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|---|
| | *%* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At December 31, 2011** | | | | | | | |
| Trade and other payables | — | 95 | — | — | — | 95 | 95 |
| Amounts due to related companies | — | 826 | — | — | — | 826 | 826 |
| Loans from shareholders | — | — | — | 32,771 | — | 32,771 | 32,771 |
| | | 921 | — | 32,771 | — | 33,692 | 33,692 |
| **At September 30, 2012** | | | | | | | |
| Amounts due to related companies | — | 821 | — | — | — | 821 | 821 |
| Loans from shareholders | — | 32,595 | — | — | — | 32,595 | 32,595 |
| | | 33,416 | — | — | — | 33,416 | 33,416 |

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

### (c) Fair value

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

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

## 36. OPERATING LEASE

*The Group as lessee*

Minimum lease payments paid under operating lease during the Track Record Period:

| | 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* |
| Warehouse | 120 | 100 | 100 | 75 | 75 |

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

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

## 37. CAPITAL COMMITMENTS

| | At December 31, | | | At September 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Capital expenditure in respect of the acquisition of property, plant and equipment, prepaid lease payments and intangible assets: | | | | |
| —contracted for but not provided in the Financial Information | 5,999 | 57,098 | 52,357 | 19,241 |
| —authorized but not contracted for in the Financial Information | 178,795 | 194,550 | 95,542 | 812,407 |
| | 184,794 | 251,648 | 147,899 | 831,648 |
| Capital expenditure in respect of investment in a jointly controlled entity | | | | |
| —contracted for but not provided in the Financial Information | — | — | 125,000 | 75,000 |

## 38. CONTINGENT LIABILITIES

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

| | At December 31, | | | At September 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Settlement of trade and other payables | 124,524 | 397,635 | 170,974 | 477,622 |
| Discounted bills for raising of cash | 228,515 | 229,590 | 507,883 | 105,899 |
| Outstanding endorsed and discounted bills receivable with recourse | 353,039 | 627,225 | 678,857 | 583,521 |

Maturity analysis of the outstanding endorsed and discounted bills receivable:

| | At December 31, | | | At September 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 3 months | 180,074 | 188,351 | 242,544 | 491,422 |
| Over 3 months but within 6 months | 172,965 | 438,874 | 436,313 | 92,099 |
| | 353,039 | 627,225 | 678,857 | 583,521 |

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

## 39. RELATED PARTY DISCLOSURES

The related party transactions in respect of items listed below and in Note 41 are expected to continue after the Listing:

| | 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* |
| Sale of goods | | | | | |
| Brilliance China Group | 627,041 | 805,233 | 416,192 | 290,908 | 381,755 |
| Huachen Group | 36,430 | 270,414 | 661,627 | 383,559 | 485,440 |
| Wuliangye Group | — | — | — | — | 182 |
| Jointly controlled entity | — | — | — | — | 46,786 |
| | 663,471 | 1,075,647 | 1,077,819 | 674,467 | 914,163 |
| Purchase of goods | | | | | |
| Brilliance China Group | 24,204 | 36,035 | 39,274 | 28,866 | 35,431 |
| Huachen Group | — | — | 7 | 7 | 10 |
| Wuliangye Group | 109,712 | 162,738 | 154,639 | 111,750 | 107,425 |
| | 133,916 | 198,773 | 193,920 | 140,623 | 142,866 |
| Rental charged | | | | | |
| Wuliangye Group | 120 | 100 | 100 | 75 | 75 |
| Maintenance and construction cost charged | | | | | |
| Wuliangye Group | 2,646 | 1,245 | 5,547 | 3,383 | 6,826 |

In addition to the above, the Group also had the following material related party transactions which are expected to be discontinued after the Listing:

| | 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* |
| Interest expense charged | | | | | |
| Brilliance China Group | 1,000 | 1,000 | 900 | 750 | — |
| Wuliangye Group | 1,000 | 1,000 | 1,000 | 750 | — |
| | 2,000 | 2,000 | 1,900 | 1,500 | — |

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

Balances with Brilliance China Group, Huachen Group and Wuliangye Group are disclosed in Notes 19, 20, 23, 26 and 27.

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

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). The Group has entered into various transactions in the ordinary course of business, including deposits placements, borrowings and other general banking facilities, with banks which are PRC government related entities. In addition, the Group itself is jointly controlled by a subsidiary of Brilliance China and a subsidiary of Wuliangye, each of which are ultimately controlled by the PRC government. Apart from the transactions with Brilliance China Group, Huachen Group and Wuliangye Group disclosed above, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities to be independent third parties so far as the Group's business transactions with them are concerned.

*Compensation of key management personnel*

The remuneration of directors and other members of key management during the Track Record Period were as follows:

| | 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* |
| Short-term benefits | 4,251 | 4,568 | 4,767 | 2,259 | 2,366 |
| Post-employment benefits | — | — | — | — | — |
| | 4,251 | 4,568 | 4,767 | 2,259 | 2,366 |

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

## 40. RETIREMENT BENEFIT PLAN

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

## 41. SHARE-BASED PAYMENT TRANSACTIONS

*Share Incentive Scheme*

During the year ended December 31, 2011, the Company established a share incentive scheme to provide an incentive to directors, management, employees and relevant personnel of the Group who have contributed or will make contributions to the development and growth of the Group ("Beneficiaries") (the "Incentive Scheme") which contains two trust arrangements, namely a fixed trust (the "Fixed Trust") and a discretionary trust (the "Discretionary Trust"). On October 31, 2011, the Company issued 93,999,794 shares of the Company, representing approximately 9.998% of the enlarged issued share capital of the Company, to Lead In, which held on trust for the relevant Beneficiaries under the two trust arrangements at subscription price of HK$1.0817 per share (see Note 32). The subscription price of HK$1.0817 per share is considered as fair value since it was determined based on the Mianyang Xinchen Valuation Report, which was issued by an independent valuer for the purpose of Group Reorganization (see Note 2) and it was also used to determine the consideration for the shares issued to Dongfeng Motors Engineering (i.e. HK$1.0817 per Share), which is an independent third party prior to its investment.

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

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

| | Number of shares awarded during the year and at December 31, 2011 and September 30, 2012 | Vesting period |
|---|---|---|
| Directors | 5,916,474 | (a) |
| | 5,916,474 | (b) |
| | 2,958,236 | (c) |
| Employees | 16,892,260 | (a) |
| | 16,892,260 | (b) |
| | 8,446,130 | (c) |
| | 57,021,834 | |
| Exercisable at the end of the year/period | — | |

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

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

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

Details of the trust arrangements are more fully explained under the paragraph "Incentive Scheme Established by Lead In" in the section headed "History and Reorganization" in the Prospectus.

*Share Option Scheme*

The Company has conditionally adopted a share option scheme on April 25, 2012 (amended and restated on February 8, 2013) to provide incentives or rewards to participants for their contribution to the Group and/or to enable the management of the Group to recruit and retain employees that are valuable to the Group. Details of the principal terms of the share option scheme are summarized under the paragraph "E. Share Option Scheme" in the section headed "Statutory and General Information" in Appendix V to the Prospectus.

No share options have been granted under the share option scheme up to the date of this report.

## B. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable to the Company's directors by the Company or any of its subsidiaries during the Track Record Period. Under the arrangements presently in force, the estimated aggregate remunerations, excluding any discretionary bonus, if any, of the Company's directors for the year ended December 31, 2012 is approximately RMB338,000.

## C. SUBSEQUENT EVENT

On February 25, 2013, Brilliance Investment, Brilliance China, Xinhua Investment, Xinhua Combustion Engine, Pushi Group and Wuliangye entered into a deed of indemnity in favor of the Group in respect of, amongst others, taxation and property matters and details of which are summarized under the sub-section headed "Tax and other indemnities" in Appendix V to the Prospectus.

## D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to September 30, 2012.

Yours faithfully

**Deloitte Touche Tohmatsu**
Certified Public Accountants
Hong Kong