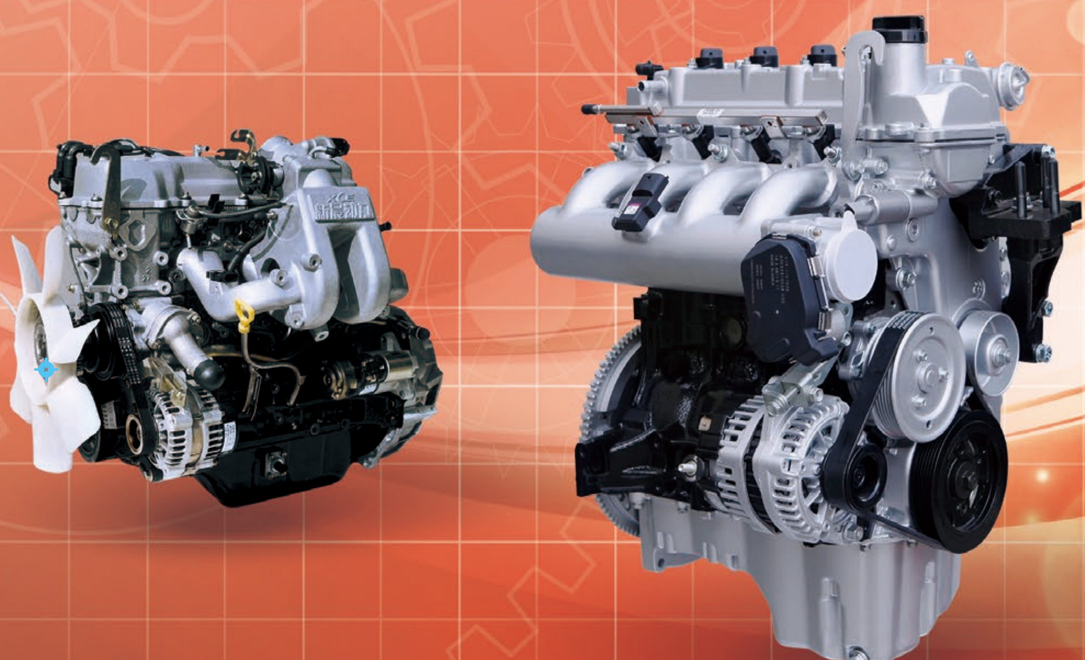
POWER XINCHEN
新晨动力

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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1148

2013 Annual Report



Contents

Corporate Information

BOARD OF DIRECTORS

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

non-executive director
* *independent non-executive director*

AUTHORISED REPRESENTATIVES

Mr. Wu Xiao An
Mr. Wang Yunxian

CHIEF FINANCIAL OFFICER

Mr. Xu Bingchu

COMPANY SECRETARY

Ms. Fung Sam Ming

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

AUDITORS

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

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited,
Hong Kong Branch

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISORS TO THE COMPANY

Appleby
Troutman Sanders

INVESTOR RELATIONS

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

STOCK CODE

The Main Board of The Stock Exchange of
Hong Kong Limited: 1148

Financial Highlights

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

(Amounts in thousands except earnings per share)

	Year ended and as at 31st December,				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Income Statement Data:					
Revenue	**2,586,193**	2,572,741	2,307,748	1,945,114	1,285,167
Profit before Income Tax Expense	**324,085**	342,096	304,639	149,822	59,511
Income Tax Expense	**(53,336)**	(51,987)	(44,250)	(365)	(1,234)
Profit Attributable to Owners of the Company	**270,749**	290,109	260,389	149,457	58,277
Basic Earnings per Share	**RMB0.222**	RMB0.309	RMB0.316	RMB0.187	RMB0.073
Diluted Earnings per Share	**RMB0.222**	RMB0.309	RMB0.316	RMB0.187	RMB0.073
Statement of Financial Position Data:					
Non-current Assets	**663,052**	525,237	398,319	318,052	287,521
Current Assets	**3,785,037**	2,555,353	2,365,829	1,601,674	1,224,619
Current Liabilities	**(2,228,521)**	(1,717,071)	(1,699,746)	(1,236,074)	(973,860)
Non-current Liabilities	**(39,140)**	(41,018)	(32,010)	(35,179)	(35,768)
Shareholders' Equity	**2,180,428**	1,322,501	1,032,392	648,473	502,512

Note:

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

Chairman's Statement

Dear Honorable Shareholders,

On behalf of the board of directors, I am pleased to present the annual results of Xinchen China Power Holdings Limited for the year ended 31st December, 2013.

During the year, the Group achieved total sales of RMB2,586.19 million, representing an increase of 0.5% when compared to 2012. Revenue from the sales of gasoline engines and revenue from the sale of engine components and service income increased by 2.2% and 113.6% while revenue from the sales of diesel engines decreased by 17.4% as compared to those in 2012 respectively. During the year, the Company realized a net profit of RMB270.75 million, representing 6.7% decrease as compared with that of last year. During the year, there was an increase in unrealized foreign exchange translation loss due to appreciation of RMB against Hong Kong dollar denominated bank deposit raised from the initial public offering of shares of the Company. Excluding such item, the Group achieved similar level of net profit compared with that of last year.

During the year, we have relocated most of our production facilities to Mianyang High-Tech Development Zone in Sichuan Province. We expect to complete the relocation of all our production facilities to our new production site by end of 2014. In early 2014, we completed the acquisition of E3 engine production lines which further strengthened our leading position in the industry.

To broaden our income source and capture new business opportunities, we expanded into new market by way of acquiring connection rod production facilities in early 2014. Connection rod is a key component of N20 engines designed for BMW vehicles. We believe our connection rod business will be benefited from the growing demand for BMW vehicles in China in near future.

The Chinese government has been spending effort on environmental protection. As such, the government may impose more stringent policies in relation to, among other, emission and fuel consumption, which will increase uncertainties to the automotive industries and our existing engine business. Facing more stringent regulatory requirements and increasing demand for less emission and less fuel consumption products, we will leverage our strong research and development capabilities and diversified product portfolio to adjust our product mix and develop new products to meet the relevant regulatory requirements and market demand. At the same time, we will strive to increase our market share and maintain our leading position in the industry by way of expanding our production capacity, strengthening our internal control on our costs and improving our operational efficiency, so as to maintain our profitability.

Leveraging on our close relationship with BMW Brilliance Automotive Ltd. and BMW AG, we initiated N20 engines project in late 2012. This project enables us to improve our research and development and management capabilities and quality of production in our existing business and expand into engine assembly business for a world-wide renowned passenger vehicle manufacturer. We are in the process of installing and conducting final testing of our N20 engines production facilities. We expect to commence commercial production of N20 engines in second half of 2014.

Given automotive engine industry will remain very competitive, we have been exploring investment opportunities in other related businesses to diversify our business and enrich our product portfolio, so as to improve our profitability and maximize returns for our shareholders. Acquisition of connection rod business in early 2014 signified our successful move on tapping new market with escalating business opportunities and laid down a good foundation for us to further expand into other core engine component businesses and other related upstream businesses.

The Group will continue to work closely with BMW Brilliance Automotive Ltd. and BMW AG to enhance our research and development capability and improve our supply chain management in coming future. We aim to be a stable engine and engine components supplier of BMW Brilliance Automotive Ltd. and BMW AG in China.

On behalf of the Board, I would like to take this opportunity to express my sincere appreciation to our shareholders, business partners, management team and all other employees for their continued support and dedication to the Group.

Wu Xiao An
(also known as Ng Siu On)
Chairman
26th March, 2014

Management's Discussion & Analysis

BUSINESS REVIEW

For the year ended 31st December, 2013, the Group recorded total annual consolidated sales of RMB2,586.19 million, representing an increase of approximately 0.5% when compared to the corresponding period last year (RMB2,572.74 million). The increase was mainly due to the increase in sale of gasoline engines with displacement of 1.6L and increase in service income.

Regarding the sales volume of the Group's engines, we recorded a growth of 3.2%, from 267,168 units in 2012 to around 275,713 units in 2013. The increase was mainly due to increase in sale of gasoline engine with displacement of 1.6L.

Of all the Group's engine models, the gasoline engines with displacement of 1.6L or less contributed RMB1,112.59 million, representing approximately 43.0% of the total revenue. The gasoline engines with displacement of 1.6L – 2.0L, 2.0L – 2.5L, and 2.5L – 3.0L contributed RMB171.80 million, RMB799.44 million and RMB20.84 million respectively, representing approximately 6.6%, approximately 30.9%, and approximately 0.8% of the total revenue respectively. The diesel engines with displacement of 2.0L – 2.5L contributed RMB388.70 million, representing approximately 15.0 % of the total revenue. The engine components and service income contributed RMB92.82 million, representing approximately 3.6% of the total revenue.

The annual cost of sales in 2013 amounted to RMB2,075.44 million, up by approximately 1.0% when compared to RMB2,054.95 million for the corresponding period last year. The increase was primarily due to increase in production costs resulted from the increase in labour costs and the rent payable under the temporary lease of production facilities from the Group's related company.

The gross profit margin of the Group decreased from approximately 20.1% in 2012 to 19.7% in 2013 mainly due to increase in the sales of gasoline engines with displacement less than 1.6L, which has a lower profit margin.

Other income increased from RMB9.86 million in 2012 to RMB38.38 million in 2013, representing an increase of approximately 289.2%. The increase was mainly due to the increase in government grants for research and development activities and interest income.

Selling and distribution expenses increased by approximately 30.1%, from RMB55.18 million in 2012 to RMB71.81 million in 2013, representing approximately 2.1% and approximately 2.8% of the revenue of 2012 and 2013 respectively. The increase was mainly due to the increase in advertising and promotional expenses for promoting our new products and scaling up our marketing activities.

Administrative expenses increased by approximately 12.7%, from RMB73.96 million in 2012 to RMB83.37 million in 2013, representing approximately 2.9% and approximately 3.2% of the revenue in 2012 and 2013 respectively. The increase was mainly due to increase in staff costs, office expenses and professional fees.

Finance costs decreased by approximately 21.8%, from RMB27.33 million in 2012 to RMB21.36 million in 2013. The decrease was mainly due to decrease in discounting costs resulted from improvement of the Group's working capital position.

Other expenses increased by approximately 65.9% from RMB29.13 million in 2012 to RMB48.33 million in 2013. The significant increase was mainly attributable to the appreciation of RMB against Hong Kong dollar denominated bank deposit raised from the initial public offering of shares of the Company, which resulted in an increase in unrealized foreign exchange translation loss.

The Group's profit before tax decreased by approximately 5.3% from RMB342.10 million in 2012 to RMB324.09 million in 2013.

Income tax expenses increased slightly by approximately 2.6% from RMB51.99 million in 2012 to RMB53.34 million in 2013.

For the year 2013, the net income attributable to owners of the Company was RMB270.75 million, representing an approximately 6.7% decrease from RMB290.11 million in 2012. Basic earnings per share in 2013 amounted to RMB0.222, compared to RMB0.309 in 2012.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2013, the Group had RMB1,166.37 million in cash and cash equivalents (2012: RMB664.75 million), and RMB191.00 million in pledged bank deposits (2012: RMB177.81 million). The Group had trade and other payables RMB1,750.01 million (2012: RMB1,337.64 million), and bank borrowings due within one year RMB343.45 million (2012: RMB194.95 million), but had no long-term bank borrowing outstanding as at 31st December, 2013.

CAPITAL STRUCTURE

As at 31st December, 2013, the Group's total assets was RMB4,448.09 million (2012: RMB3,080.59 million), which was funded by the following: (1) share capital of RMB10.50 million (2012: RMB7.69 million), (2) reserves of RMB2,169.93 million (2012: RMB1,314.81 million) and (3) total liabilities of RMB2,267.66 million (2012: RMB1,758.09 million).

CONTINGENT LIABILITIES

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

PLEDGE OF ASSETS

As at 31st December, 2013, the Group pledged certain of its land use rights, buildings, plant and machinery with an aggregate carrying value of approximately RMB183.82 million to (2012: RMB201.67 million) certain banks to secure certain credit facilities granted to the Group.

As at 31st December, 2013, the Group also pledged bank deposits approximately RMB191.00 million (2012: RMB177.81 million) to certain banks to secure certain credit facilities granted to the Group.

Other than transaction disclosed under the paragraph headed "Significant investments" below, there were no major acquisition and disposal of subsidiaries and associated companies undertaken the Group for the year ended 31st December, 2013.

GEARING RATIO

As at 31st December, 2013, the Debt-to-Equity ratio, computed by dividing total liabilities by total equity attributable to owners of the company, was approximately 1.04 (2012: 1.33). The decrease in the Debt-to-Equity ratio was mainly due to increase of total equity resulted from issuing new shares for the initial public offering of the Company in first quarter of 2013.

NEW PRODUCT

The Group launched one gasoline engine model, namely 3TZ, and one diesel engine model, namely D22TE, to the market in 2013. Depending on market situation, the Group will consider launching new engine models to the market in 2014.

FOREIGN EXCHANGE RISKS

The Group considers that the effect caused by exchange rate fluctuation on the Group's financial performance is insignificant. In the future, the Group may consider hedging its foreign currency exposure, if and when necessary. There were no hedging transactions outstanding as at 31st December, 2013.

EMPLOYEES AND REMUNERATION POLICY

As at 31st December, 2013, the Group employed approximately 1,080 employees (2012: approximately 1,020). Employee costs amounted to approximately RMB87.67 million for the year ended 31st December, 2013 (2012: approximately RMB76.79 million). The Group will endeavor to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' remuneration is based on their performance.

SIGNIFICANT INVESTMENTS

On 25th November, 2013, the Group entered into an acquisition agreement in relation to the acquisition of E3 engine production lines and the connection rod production lines. The consideration was finalised at approximately RMB394.28 million from Huachen. The transaction was completed in January 2014.

The Group was authorized by BMW AG of Germany in December 2012 to manufacture a model of engine N20. We are currently in the final stages of testing for the N20 engines prior to the commencement of production of N20 engines. We expect to commence trial production of N20 engines in the second quarter of 2014.

During the year, the construction works of the first phase production facility of Changzhou Dongfeng Xinchen Engine Co., Ltd. has been completed. We are still in the process of procuring and installing major equipment.

CAPITAL COMMITMENTS

As at 31st December, 2013, the Group had capital commitments of approximately RMB525.44 million among which contracted capital commitments amounted to approximately RMB189.46 million, principally for the capital expenditure in respect of acquisition of property, plant and equipment and products development.

FUTURE BUSINESS DEVELOPMENT

The Group will expand its production capacity and enrich its product portfolio to enhance its competitiveness and strengthen its leading position in the industry.

In addition, the Group will actively explore investment opportunities in engine parts and components related businesses in order to diversify the Group's income source and enhance shareholders' returns.

In 2014, the Group is going to provide N20 engine related assembly services and sell connection rods to BMW Brilliance Automotive Ltd.. Other than the existing businesses, the Group will leverage on the close relationship with BMW Brilliance Automotive Ltd. to explore other potential business opportunities in the future.

Directors, Senior Management and Company Secretary

EXECUTIVE DIRECTORS

Mr. Wu Xiao An (also known as Mr. Ng Siu On), （吳小安）, aged 52, is the chairman of the Company. He was appointed as a Director on 10th March, 2011 and designated as an executive Director on 24th April, 2012. He has over 19 years of experience in the automotive industry and is primarily responsible for the overall strategic planning and business development of the Group. Since April 1998, he has been serving as a director of Southern State Investment Limited, a direct wholly-owned subsidiary of the Company. From April 1998 to September 2005, Mr. Wu had been a director of Mianyang Xinchen Engine Co., Ltd. ("**Mianyang Xinchen**"), and he was re-appointed as a director of Mianyang Xinchen in July 2011. Since February 2011, he has been a director of Brilliance Investment Holdings Limited. Since 2002, Mr. Wu has served various positions in Brilliance China Automotive Holdings Limited ("**Brilliance China**"), including the chairman of Brilliance China since June 2002, an executive director since January 1994 and vice chairman and the chief financial officer from January 1994 to June 2002. He has also been a director of Huachen Automotive Group Holdings Company Limited ("**Huachen**") since October 2002, a director of Shenyang Brilliance JinBei Automobile Co., Ltd. ("**Shenyang Jinbei**") since January 1994, and the chairman of BMW Brilliance Automotive Ltd. ("**BMW Brilliance Automotive**") since May 2003. From 1988 to 1993, he was the deputy manager of the Bank of China, New York Branch. Mr. Wu obtained a bachelor's degree of arts from Beijing Foreign Languages Institute（北京外國語學院）(now known as Beijing Foreign Studies University（北京外國語大學）) in 1985 and a master of business administration degree from Fordham University in New York in 1992.

Mr. Wang Yunxian（王運先）, aged 59, is the chief executive officer of the Company. He was appointed as a Director on 10th March, 2011 and designated as an executive Director on 24th April, 2012. He has over 37 years of experience in the PRC automotive industry and is primarily responsible for the business operation of the Group. Since May 2011, he has been a director of Xinhua Investment Holdings Limited. Since 1998, Mr. Wang held various positions in Mianyang Xinchen, including a director and vice general manager from April 1998 to March 2000, a director and general manager since March 2000 and supervisor of the national enterprise technology center of Mianyang Xinchen since March 2004. Since 1976, Mr. Wang held various positions in Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited ("**Xinhua Combustion Engine**"), including director, party secretary, general manager, vice general manager, head of sales department, production supervisor and technician, and he has resigned from his positions of director and general manager in Xinhua Combustion Engine on 22nd March, 2012 and 23rd March, 2012, respectively. Since January 2005, Mr. Wang has been a director and general manager of Mianyang Huarui Automotive Company Limited ("**Mianyang Huarui**"). In October 2004, Mr. Wang received the special government expert allowances (engineering class)（特殊津貼（工程類））from the State Council（國務院）. In 2005, Mr. Wang received the National Model Worker Award（全國勞動模範）issued by the State Council, as well as the title of Ten Outstanding Innovative Talents of Sichuan Province（四川省十大傑出創新人才）in December 2005. He graduated from Sichuan University of Science and Technology（四川工業學院）(now merged into Xihua University（西華大學）) in July 1986, and graduated from a postgraduate course in finance from the Chinese Academy of Social Sciences（中國社會科學院）in July 1998.

NON-EXECUTIVE DIRECTORS

Mr. Qi Yumin（祁玉民）, aged 54, was appointed as a Director on 16th November, 2011, and designated as a non-executive Director on 24th April, 2012. Since January 2006, Mr. Qi has served as an executive director, president and the chief executive officer of Brilliance China and as the chairman and president of Huachen since December 2005. Since 2009, he has been appointed chairman and a director of Shenyang Jinbei and two companies listed on the Shanghai Stock Exchange, namely Shenyang JinBei Automotive Company Limited（金杯汽車股份有限公 司）and Shanghai Shenhua Holdings Co., Ltd.（上海申華控股股份有限公司）. Mr. Qi has been a director of BMW Brilliance Automotive since November 2006. From 1982 to 2004, Mr. Qi held various positions in Dalian Heavy Industries Co., Ltd.（大連重工集團有限公司）, including chairman and general manager. From October 2004 to December 2005, he was the vice mayor of Dalian municipal government. Mr. Qi graduated from Xi'an University of Technology（西安理工大學）(formerly known as Shanxi Institute of Mechanical Engineering（陝西機械學院）) Department of engineering and economics, with a major in machinery manufacturing management and engineering, in July 1982 and a master's degree in business administration from Dalian University of Technology（大連理工學院）in April 2004. He was qualified as a senior engineer (professor level) by the Personnel Department of Liaoning Province（遼寧省人事廳）in December 1992.

Mr. Li Peiqi（李培奇）, aged 62, was appointed and designated as an non-executive Director on 29th August, 2012. He had been a Director from 4th July, 2011 to 24th April, 2012. Since May 2011 and October 2006, he has been serving as a director of Xinhua Investment and an executive director of Mianyang Xinchen, respectively. From 1989 to 2011, Mr. Li assumed various positions in the group of Sichuan Province Yibin Wuliangye Group Co., Ltd.. From January 2005 to November 2011, he was a director of Wuliangye. From July 2003 to September 2012, he was the chief executive officer of the Sichuan Yibin Pushi Group Co., Ltd. ("**Pushi Group**"). From May 1998 to July 2003, he served as general manager of Pushi Group. From September 2006 to July 2013, he served as the chairman of Xinhua Combustion Engine. Mr. Li was qualified as a senior engineer in January 2006 by the Sichuan Province Title Reform Leading Group Office（四川省職稱改革工作領導小組辦公室）.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chi Guohua（池國華）, aged 39, was appointed and designated as an independent non-executive Director on 22nd November, 2012. Mr. Chi is a certified public accountant (non-practicing member) in the PRC. Since March 2000, Mr. Chi has been serving as the teaching assistant, lecturer, associate professor and professor in the School of Accounting of Dongbei University of Finance and Economics（東北財經大學會計學院）. Mr. Chi has been appointed as the doctoral supervisor of Financial Management Department by Dongbei University of Finance and Economics（東北財經大學）since 1st January, 2013. Since March 2010, he has been the deputy head of Internal Control Research Center of the PRC（中國內部控制研究中心）. Furthermore, since April 2012, Mr. Chi has been serving as an independent director of Dalian Tianbao Green Foods Co., Ltd.（大連天寶綠色食品股份有限公司）, a company listed on the Shenzhen Stock Exchange. From February 2005 to February 2006, Mr. Chi was the head of the strategic investment department of Shenyang Machine Tool (Group) Co., Ltd.（瀋陽機床（集團）有限公司）; and from March 2006 to March 2007, he was the financial adviser of Shenyang Machine Tool (Group) Group Ltd.（瀋陽機床（集團）集團公司）. From January 2009 to December 2010, Mr. Chi was a consultant in the Committee on Internal Control Standards of Enterprise for the Ministry of Finance of the PRC（中國財政部企業內部控制標準委員會）. Mr. Chi currently also holds positions in certain academic and professional organizations, including serving as a member of the Accounting Education Committee of Accounting Society of China（中國會計會會計教育專業委員會）since 2010 and a councillor of the Finance Cost Branch of Accounting Society of China（中國會計學會財務成本分會）since August 2010. Mr. Chi was awarded Qianren-level of the "Liaoning Baiqianwan Talents Program"（遼寧省"百千萬人才工程"千人層次）in November 2007, the leading (reserve) accounting representative of the Ministry of Finance（中國財政部全國會計學術領軍（後備）人才）in October 2007, and an outstanding representative of tertiary education institution of Liaoning Province（遼寧省高等學校優秀人才）in August 2007. Mr. Chi obtained a post doctorate in Business Administration from the Xiamen University（廈門大學）in January 2008 and a doctorate in management (accounting studies) from Dongbei University of Finance and Economics（東北財經大學）in April 2005.

Mr. Wang Jun（王雋）, aged 52, was appointed as an independent non-executive Director on 24th April, 2012. Mr. Wang has over 23 years of experience in the legal field, especially in corporate compliance operation, risk control, corporate law, litigation and arbitration. Since February 2009, Mr. Wang has been practising law at the Beijing Office of Dacheng Law Offices（北京大成律師務所）. From April 2000 to February 2009, he practised law at the Beijing Jian Yuan Law Offices（北京市建元律師務所）. From September 1987 to March 2000, he was employed by China University of Petroleum（中國石油大學）as a teacher. From September 1983 to September 1985, he served as the cadre of the Railway Transport High Court（鐵路運輸高級法院）. Mr. Wang obtained a postgraduate degree in economic law in July 1987 and a bachelor's degree in law from the department of law in July 1983, both from the China University of Political Science and Law（中國政法大學）.

Mr. Huang Haibo（黃海波）, aged 59, was appointed as a Director on 30th November, 2011, and designated as an independent non-executive Director on 24th April, 2012. Mr. Huang has spent over 29 years researching and applying his expertise in automotives technology. Since September 1983, Mr. Huang has been serving as the teaching assistant, lecturer, associate professor and professor in the Department of Automotive Engineering of Sichuan University of Science and Technology（四川工業學院）(renamed as the Transport and Automotives Engineering School in Xihua University（西華大學）in 2003). Since July 2008 to August 2013, he served as an independent non-executive director of Hunan Jiangnan Red Arrow Co. Ltd.（湖南江南紅箭股份有限公司）, a company listed on the Shenzhen Stock Exchange. He is the chairman of the Sichuan Xihua Vehicle Authentication Institution（四川西華機動車司法鑑定所）since August 2005 and a member of National Technical Committee on Operating Safe Technology and Testing Equipment of Motor Vehicles and of Standardization Administration of China（全國機動車運行安全技術檢測設備標準化技術委員會）since 2008. He received a master's degree in Beijing Institute of Agricultural Mechanization（北京農業機械化學院）in December 1983 and a doctorate degree in Engineering in Sichuan University（四川大學）in December 2004.

Mr. Wang Songlin（王松林）, aged 62, was appointed as an independent non-executive Director on 24th April, 2012. Mr. Wang has over 34 years of experience in the PRC automotive industry. From 2000 to 2011, May 2005 to March 2011, August 2007 to March 2012, and July 2009 to September 2010, Mr. Wang had been serving as the chairman of each of Beijing Zhongqi Jingtian Auto Trading Co., Ltd.（北京中汽京田汽車貿易有限公司）, Beijing Guoji Longsheng Automobile Co., Ltd.（北京國機隆盛汽車有限公司）, Beijing Guoji Fengsheng Automobile Co., Ltd.（北京國機豐盛汽車有限公司）and Changsha Qidian Automotive Products Co., Ltd.（長沙汽電汽車零部件有限公司）, respectively. Mr. Wang served as the deputy chief executive officer of China National Automotive Industry Corporation（中國汽車工業總公司）and the vice president of China National Machinery Industry Corporation（中國機械工業集團有限公司）. He is also currently a director of Sinomach Automobile Co., Ltd.（國機汽車股份有限公司）, a company listed on the Shanghai Stock Exchange. From June 2005 to April 2012, he served as a non-executive director of Guangzhou Automobile Group Co., Ltd.（廣州汽車集團股份有限公司）, a company listed on the Stock Exchange. From June 2004 to December 2011, Mr. Wang served as the deputy general manager of China National Machinery Industry Corporation（中國機械工業集團有限公司）. From August 1998 to June 2000, he was the party secretary and deputy general manager of China National Automotive Industry Import and Export Corporation（中國汽車工業進出口總公司）. He is currently the vice president of China Association of Automobile Manufacturers（中國汽車工業協會）, and the vice chairman of each of the Seventh Standing Council of the Society of Automotive Engineers of China（中國汽車工程學會第七屆常務理事會）and the Council of China Auto Talents Society（中國汽車人才研究會理事會）. Mr. Wang obtained a professional graduation certificate in casting technology and equipment from Harbin Institute of Technology（中國汽車人才研究會理事會）in September 1978 and a postgraduate diploma in a master's course of technology and economics from Harbin Institute of Technology（哈爾濱工業大學）in April 1995.

SENIOR MANAGEMENT

Mr. He Xuzong（何旭宗）, aged 47, is the vice general manager of Mianyang Xinchen. Mr. He has over 23 years of experience in the automotive industry and is primarily responsible for product development of our Group. From November 2008 to January 2012, he served as the vice general manager of Xinhua Combustion Engine, and since January 2008, he has been the vice general manager of Mianyang Xinchen. From February 2004 to January 2008, he had been the assistant to the general manager and director of technology and quality of Mianyang Xinchen. From July 1989 to February 2004, he held various positions in Xinhua Combustion Engine, including technical engineer, managing deputy head of technology department, head of the technical center, and head of the product development department. Mr. He obtained a bachelor's degree in automotive engineering from Sichuan University of Science and Technology（四川工業學院）(now merged into Xihua University（西華大學）) in July 1989. Mr. He was qualified by Sichuan Province Title Reform Leading Group Office（四川省職稱改革工作領導小組辦公室）as a senior engineer in January 2002.

Mr. Song Ning（宋寧）, aged 50, is the vice general manager of Mianyang Xinchen. Mr. Song has over 27 years of experience in the automotive industry and is primarily responsible for production and safety management of our Group. From October 2001 to January 2012, he served as the vice general manager of Xinhua Combustion Engine, and since March 2000, he has been the vice general manager of Mianyang Xinchen. From April 1998 to October 2006, he was a director, and from May 1998 to March 2000, he was the head of the production support department of Mianyang Xinchen. From September 1985 to May 1998, he held various positions in Xinhua Combustion Engine, including technician, vice chief engineer, deputy head of workshop, head of technology and quality control department, head of workshop, head of chief engineer's office, head of technology development center, vice chief engineer and head of quality control. From March 2003 to August 2006, he served as the director of Xinhua Combustion Engine. Mr. Song is an engineering graduate from Sichuan University of Science and Technology（四川工業學院）(now merged into Xihua University（西華大學）) in 1985. He was qualified by Sichuan Province Title Reform Leading Group Office（四川省職稱改革工作領導小組辦公室）as a senior engineer in February 2001.

Mr. Ma Li（馬力）, aged 54, is the vice general manager of Mianyang Xinchen. Mr. Ma has over 30 years of experience in the automotive industry and is primarily responsible for marketing and spare parts business of our Group. Since March 2000, he has been the vice general manager of Mianyang Xinchen, and during the period from October 2001 to January 2012, he served as the vice general manager of Xinhua Combustion Engine concurrently. From January 2005 to March 2009, he also served as an executive director of Mianyang Huarui. From August 1982 to May 1998, he held various positions in Xinhua Combustion Engine, including technician, deputy head of supply office, managing deputy head of sales department and the head of sales department. Mr. Ma obtained a bachelor's degree in internal combustion engines in Chengdu Institute of Agriculture and Machinery（成都農業機械學院）(now merged into Xihua University（西華大學）) in July 1982, and received a postgraduate diploma in business management from Sichuan University（四川大學）in 1999. Mr. Ma was qualified as a senior engineer in May 1996.

Mr. Xu Bingchu（徐炳初）, aged 53, is the chief financial officer and the chief financial officer of Mianyang Xinchen. Mr. Xu has over 30 years of experience in financial management and is primarily responsible for financial management of our Group. Since April 2009, he has served as the chief financial officer of Mianyang Huarui, and since May 2002, he has been the chief financial officer of Mianyang Xinchen and Mianyang Ruian. From May 2002 to July 2002, he was the chief financial officer of Xinhua Combustion Engine. From November 2000 to May 2002, Mr. Xu was the chief financial officer's assistant and the manager of finance department of Mianyang Xinchen and Mianyang Ruian concurrently. Prior to that, from September 1982 to October 2000, he assumed various positions in China State Shipbuilding Corporation（中國船舶工業總公司）, including head of the financial department and financial supervisor. Mr. Xu graduated from the Shanghai Maritime University（上海海事大學）(formerly known as Shanghai Harbor College（上海港灣專科學校）) in 1982, and obtained a master's degree in financial management from Chinese Academy of Social Sciences in July 1998.

Mr. Li Changzhen（李昌震）, aged 49, is the senior vice president of the Company. Mr. Li is primarily responsible for the Group's strategic investment management. He has about 20 years' experience in mergers and acquisitions, and in capital markets. Mr. Li received Bachelor of Science and Master of Science from Tianjin University (1983, 1986), and Master of Science and PhD from State University of New York at Buffalo (1990, 1995).

COMPANY SECRETARY

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

Report of Directors

The directors of the Company present this report together with the audited financial statements of the Group for the year ended 31st December, 2013.

PRINCIPAL ACTIVITIES

The principal activities of the Company and Southern State Investment Limited are investment holding. The principal activities of Mianyang Xinchen Engine Co., Ltd. ("**Mianyang Xinchen**") are the development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles in the PRC.

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

FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2013 are set out in the consolidated statement of profit or loss and other comprehensive income of the Group on page 45.

CASH FLOW POSITION

The cash flow position of the Group for the year ended 31st December, 2013 is set out and analysed in the consolidated statement of cash flows on pages 49 to 50.

DIVIDEND

The board of directors of the Company (the "**Board**") did not recommend the payment of any dividend in respect of the year ended 31st December, 2013 (2012: Nil).

CLOSURE OF REGISTER OF MEMBERS

The Company's forthcoming annual general meeting will be held on Thursday, 29th May, 2014 at 9:00 a.m..

The Hong Kong branch register of members of the Company will be closed from Tuesday, 27th May, 2014 to Thursday, 29th May, 2014, both dates inclusive, during which period no transfer of Shares will be registered. Only shareholders of the Company whose names appear on the register of members of the Company on Thursday, 29th May, 2014 or their proxies or duly authorised corporate representatives are entitled to attend the annual general meeting. In order to qualify for attending the annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 26th May, 2014.

FIVE-YEAR FINANCIAL SUMMARY

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

DISTRIBUTABLE RESERVES

There is no distributable reserves of the Company as at 31st December, 2013.

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 48.

PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment of the Group for the year ended 31st December, 2013 are set out in note 13 to the consolidated financial statements.

CONTRACTS OF SIGNIFICANCE

Save as disclosed under the sections headed "CONNECTED TRANSACTIONS" and "CONTINUING CONNECTED TRANSACTIONS" in this Report of Directors:

(i) no contracts of significance in relation to the business of the Group, to which the Company or any of its subsidiaries was a party and in which a controlling shareholder of the Company or any of its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the period from the Listing Date and up to 31st December, 2013; and

(ii) no contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries subsisted at the end of the year or at any time during the period from the Listing Date and up to 31st December, 2013.

SHARE CAPITAL

Details of the Company's share capital as of 31st December, 2013 are set out in note 28 to the consolidated financial statements.

SHARE INCENTIVE SCHEME ESTABLISHED BY LEAD IN

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

Lead In was incorporated in the British Virgin Islands on 18th May, 2011 and is currently owned as to 50% by Mr. Wu Xiao An and 50% by Mr. Wang Yunxian, both of whom are executive directors of the Company. On 31st October, 2011, Lead In subscribed for 93,999,794 Shares, representing approximately 9.998% of the then enlarged issued share capital of the Company (before completion of the Listing) at a consideration of HK$101,681,967.73, which was determined based on a valuation report of Mianyang Xinchen carried out by an independent valuer. Lead In holds such Shares on trust for the Beneficiaries under two separate trust arrangements, namely the "Fixed Trust" and the "Discretionary Trust".

The terms of the Incentive Scheme and the trust arrangements are not subject to the provisions of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") as these arrangements do not involve the grant of options by the Company to subscribe for Shares after the Listing.

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

Name of Beneficiary	Total consideration paid	Number of shares awarded	Exercised during the year	Outstanding as at 31st December, 2013	Approximate percentage of issued share capital of the Company (Note)
Directors of the Company:					
Mr. Wu Xiao An	HK$9,000,000	8,320,041	3,328,016	4,992,025	0.64%
Mr. Wang Yunxian	HK$7,000,000	6,471,143	2,588,457	3,882,686	0.50%
Mr. Li Peiqi	HK$7,000,000	6,471,143	2,588,457	3,882,686	0.50%
Director of Mianyang Xinchen:					
Mr. Zhang Zitao	HK$1,432,000	1,323,810	529,524	794,286	0.10%
Senior Management:					
Mr. He Xuzong	HK$3,300,000	3,050,681	1,220,272	1,830,409	0.23%
Mr. Song Ning	HK$2,100,000	1,941,342	776,536	1,164,806	0.15%
Mr. Lai Yong *(retired in September, 2013)*	HK$2,850,000	2,634,679	1,053,871	1,580,808	0.20%
Mr. Ma Li	HK$2,300,000	2,126,232	850,492	1,275,740	0.16%
Mr. Xu Bingchu	HK$3,350,000	3,096,904	1,238,761	1,858,143	0.24%
42 other employees	HK$23,350,000	21,585,859	8,634,318	12,951,541	1.67%
Total:	HK$61,682,000	57,021,834	22,808,704	34,213,130	4.42%

Note: These percentages are calculated on the basis of 1,287,407,794 Shares in issue as at 31st December, 2013.

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

SHARE OPTION SCHEME

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

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

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

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

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

The Share Option Scheme will remain in force for a period of 10 years from the Listing. The period during which an option may be exercised will be determined by the directors of the Company in their absolute discretion, save that no option shall be exercised later than 10 years from the date of grant.

No share options had been granted by the Company under the Share Option Scheme for the year ended 31st December, 2013 and no expenses were recognized by the Group for 2013 (2012: nil).

DIRECTORS

The directors of the Company who held office during the year ended 31st December, 2013 and up to the date of this annual report were:

Executive directors:

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

Non-executive directors:

Mr. Qi Yumin
Mr. Li Peiqi

Independent non-executive directors:

Mr. Chi Guohua
Mr. Wang Jun
Mr. Huang Haibo
Mr. Wang Songlin

Pursuant to Article 108 of the Articles of Association of the Company and code provision A.4.2 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules, Mr. Wu Xiao An, Mr. Wang Yunxian and Mr. Qi Yumin, will retire by rotation at the annual general meeting of the Company to be held on 29th May, 2014.

Each of Mr. Wu Xiao An, Mr. Wang Yunxian and Mr. Qi Yumin, being eligible, will offer themselves for re-election and the Board has recommended them for re-election at the forthcoming annual general meeting of the Company.

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

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

As at 31st December, 2013, so far as known to the directors or chief executives of the Company, each of the following persons (other than a director or chief executive of the Company) had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (the "**SFO**"):

Name of Shareholder	Capacity	Number of Shares	Approximate percentage of shareholding[7]
Brilliance Investment Holdings Limited	Beneficial owner	400,000,000	31.07%
Brilliance China Automotive Holdings Limited[1]	Interest in a controlled corporation	400,000,000	31.07%
Huachen Automotive Group Holdings Company Limited[2]	Interest in a controlled corporation	400,000,000	31.07%
Xinhua Investment Holdings Limited	Beneficial owner	400,000,000	31.07%
Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited[3]	Interest in a controlled corporation	400,000,000	31.07%
Sichuan Yibin Pushi Group Co., Ltd.[4]	Interest in a controlled corporation	400,000,000	31.07%
Sichuan Province Yibin Wuliangye Group Co., Ltd.[5]	Interest in a controlled corporation	400,000,000	31.07%
Lead In Management Limited[6]	Trustee	71,191,090	5.52%

Notes:

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

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

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

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

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

(6) Lead In Management Limited ("**Lead In**") is a trustee of the fixed trust and discretionary trust under the Incentive Scheme and is deemed or taken to be interested in approximately 5.52% of the issued share capital of the Company.

(7) These percentages are calculated on the basis of 1,287,407,794 Shares in issue as at 31st December, 2013.

Save as disclosed herein, as at 31st December, 2013, there was no other person so far as known to the directors or chief executives of the Company (other than a director or chief executive of the Company), as having an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31st December, 2013, the interests and short positions of each director and chief executive of the Company and their respective associates in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange, are set out below:

Interest in the shares of the Company

Name of Director	Nature of interest	Number and class of shares	Approximate percentage of shareholding(5)
Mr. Wu Xiao An (also known as Ng Siu On) (1)(4)	Beneficial owner	3,328,016 ordinary	0.25%
	Trustee and interest in a controlled corporation	71,191,090 ordinary	5.52%
Mr. Wang Yunxian (2)(4)	Beneficial owner	2,588,457 ordinary	0.20%
	Trustee and interest in a controlled corporation	71,191,090 ordinary	5.52%
Mr. Li Peiqi (3)(4)	Beneficial owner	2,588,457 ordinary	0.20%
	Beneficiary of a trust	34,213,130 ordinary	2.65%

Notes:

(1) Mr. Wu Xiao An is a trustee of the Fixed Trust and the Discretionary Trust (which in aggregate hold 71,191,090 Shares for the beneficiaries) under the Incentive Scheme and holds 50% interests in Lead in. Accordingly, Mr. Wu is deemed or taken to be interested in approximately 5.52% of the issued share capital of the Company. Mr. Wu is entitled to 4,992,025 Shares as a beneficiary under the Fixed Trust.

(2) Mr. Wang Yunxian is a trustee of the Fixed Trust and the Discretionary Trust (which in aggregate hold 71,191,090 Shares for the beneficiaries) under the Incentive Scheme and holds 50% interests in Lead in. Accordingly, Mr. Wang is deemed or taken to be interested in approximately 5.52% of the issued share capital of the Company. Mr. Wang is entitled to 3,882,686 Shares as a beneficiary under the Fixed Trust.

(3) Mr. Li Peiqi is entitled to 3,882,686 Shares as a beneficiary under the Fixed Trust which holds a total of 34,213,130 Shares for the beneficiaries.

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

(5) These percentages are calculated on the basis of 1,287,407,794 Shares in issue as at 31st December, 2013.

Save as disclosed above, as at 31st December, 2013, none of the directors and chief executives of the Company or their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year ended 31st December, 2013 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate; and none of the directors of the Company, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' SERVICE CONTRACTS

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

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the period from the Listing Date and up to the date of this annual report, none of the directors of the Company was considered to have interests in business which competes or is likely to compete, either directly or indirectly, with the business of the Group and any other conflicts of interest.

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

The Shares were listed on the Stock Exchange on the Listing Date. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities in 2013.

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

In 2013, the aggregate sales attributable to the Group's five largest customers represented approximately 77.8% of the Group's total turnover while the sales attributable to the Group's largest customer was approximately 29.5% of the Group's total turnover. The aggregate purchases attributable to the Group's five largest suppliers during the year represented approximately 35.3% of the Group's total purchases and the purchases attributable to the Group's largest supplier represented approximately 9.2% of the Group's total purchases.

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

PUBLIC FLOAT

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

UNDERTAKING FROM HUACHEN AND BRILLIANCE AND DEED OF NON-COMPETITION

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

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

On 25th February, 2013, Brilliance Investment, Brilliance China, Xinhua Investment, Xinhua Combustion Engine, Pushi Group and Wuliangye (collectively the "**Controlling Shareholders**") and Huachen entered into a deed of non-competition (the "**Deed of Non-competition**") in favour of the Company, pursuant to which each of the Controlling Shareholders and Huachen has unconditionally and irrevocably agreed, undertaken and covenanted with the Company (for itself and for the benefits of each other member of the Group) that it would not, and would procure that its associates (other than any members of the Group) would not, directly or indirectly, either on its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, director, partner, agent, employee or otherwise, and whether for profit, reward or otherwise) any activity or business which competes or is likely to compete, directly or indirectly, with the business referred to in the prospectus of the Company dated 28th February, 2013 (the "**Prospectus**") and any other business from time to time conducted, carried on or contemplated to be carried on by any member of the Group or in which any member of the Group is engaged or has invested or which any member of the Group has otherwise publicly announced its intention to enter into, engage in or invest in (whether as principal or agent and whether undertaken directly or through any body corporate, partnership, joint venture, or other contractual or other arrangement) (the "**Restricted Business**").

Each of the Controlling Shareholders and Huachen has further unconditionally and irrevocably agreed, undertaken to and covenanted with the Company the following:

(i) to provide all information requested by the Company which is necessary for an annual review by the independent non-executive directors of its compliance with the Deed of Non-competition and the enforcement of the Deed of Non-competition;

(ii) to procure the Company to disclose decisions on matters reviewed by the independent non-executive directors of the Company relating to the compliance and enforcement of the Deed of Non-competition either through the annual report, or by way of announcements to the public; and

(iii) to make an annual declaration on compliance with its undertaking under the Deed of Non-competition in the annual reports of the Company as the independent non-executive directors of the Company think fit and/or as required by the relevant requirements under the Listing Rules.

The Controlling Shareholders and Huachen have further unconditionally and irrevocably agreed, undertaken to and covenanted with the Company to procure that any business investment or other commercial opportunity which directly or indirectly competes, or may lead to competition with the Restricted Business (the "**New Opportunities**") given, identified or offered to it and/or any of its associates (other than any members of the Group) (the "**Offeror**") is first referred to the Company in the following manner:

(i) each of the Controlling Shareholders and Huachen is required to, and shall procure its associates (other than members of the Group) to, refer, or to procure the referral of, the New Opportunities to the Company, and shall give written notice to the Company of any New Opportunities containing all information reasonably necessary for the Company to consider whether (a) such New Opportunities would constitute competition with the Company's core business; and (b) it is in the interest of the Group to pursue such New Opportunities, including but not limited to the nature of the New Opportunities and the details of the investment or acquisition costs (the "**Offer Notice**"); and

(ii) the Offeror will be entitled to pursue the New Opportunities only if (a) the Offeror has received a notice from the Company declining the New Opportunities and confirming that such New Opportunities would not constitute competition with the Company's core business; or (b) the Offeror has not received such notice from the Company within 10 business days from the receipt of the Offer Notice. If there is a material change in the terms and conditions of the New Opportunities pursued by the Offeror, the Offeror will refer the New Opportunities as so revised to the Company in the manner as set out above.

An annual declaration in respect of the First Huachen and Brilliance China Undertaking and the Second Huachen and Brilliance China Undertaking from Huachen and Brilliance China, and the Deed of Non-competition from the Controlling Shareholders and Huachen respectively have been received by the Company in compliance with their respective undertakings thereof.

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

CONNECTED TRANSACTIONS

Since the Listing Date and up to the date of this annual report, the Company entered into various transactions which constituted connected transactions under Chapter 14A of the Listing Rules. Details of these transactions are summarized below:

Acquisition of production lines and inventories

On 25th November, 2013, Mianyang Xinchen entered into an acquisition agreement (the "**Acquisition Agreement**") with Huachen pursuant to which Mianyang Xinchen agreed to purchase and Huachen agreed to sell the E3 engine production lines and the connection rod production lines in the E2 factory located in No. 12, the 8 Road, Economic and Technological Development Zone, Shenyang, PRC (the "**E2 Factory**") and the related assets (the "**Production Lines**"), as well as the inventories primarily comprising some auxiliary materials, cutting tools, the parts and components of E3 engines, a small amount of E3 finished products, the roughcasts of connection rod and some finished connection rod products (the "**Inventories**"). The consideration was RMB451,423,200 (subsequently reduced to RMB394,281,630 due to adjustment in Inventories). Huachen, which owns approximately 42.48% of Brilliance China as at 25th November, 2013, is deemed as a connected person of the Company under Rule 14A.06 of the Listing Rules. Details of the Acquisition Agreement are set out in the announcement of the Company dated 25th November, 2013 and the circular of the Company dated 31st December, 2013. The Acquisition Agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held on 16th January, 2014 and completion of which took place in January, 2014.

(1) The provision of technical consulting and advisory services, procurement of inventories and testing of services of N20 engines with BBA; and (2) Procurement of raw materials from Huachen

On 12th March, 2014, the Company announced that the Company will procure related engine parts and components and testing services from BMW Brilliance Automotive and BMW Brilliance Automotive will provide technical consulting and advisory services in relation to the N20 engines to the Company pursuant to an engine assembly license agreement entered into among Bayerische Motoren Werke Aktiengesellschaft ("**BMW**"), BMW Brilliance Automotive and the Company dated 12th December, 2012, together with the N20 engine technical consulting and advisory service framework agreement and the N20 engine parts supply framework agreement, as described in the Prospectus, for a total transaction value of RMB11,060,158. The Company will enter into the BBA Framework Agreement (as defined below) upon commencement of the trial production of N20 engines in the second quarter of 2014.

BMW Brilliance Automotive, a sino-foreign equity joint venture company incorporated in the PRC and is owned as to 50% by Shenyang Jinbei, an indirect wholly-owned subsidiary of Brilliance China, and 50% by BMW Holding B.V. The principal activities of BMW Brilliance Automotive include but not limited to manufacture and sale of BMW vehicles. BMW Brilliance Automotive is a connected person of the Company since it is an associate of Brilliance China.

Following the entering into of the Acquisition Agreement dated 25th November, 2013 as described above, on 12th March, 2014, the Company announced that Mianyang Xinchen entered into a materials procurement agreement (the "**Materials Procurement Agreement**") pursuant to which Mianyang Xinchen agreed to purchase and Huachen agreed to sell the connection rod roughcasts for the production of connection rods at the consideration of RMB12,987,000 for the three months ending 31st May, 2014 or until the BBA Framework Agreement (as defined below) is finalised (whichever is earlier). The Materials Procurement Agreement with Huachen is an interim arrangement pending finalisation of arrangements with BMW Brilliance Automotive directly. Huachen is deemed to be a connected person of the Company for the reasons described above.

A long term agreement will be entered between the Company and BMW Brilliance Automotive (the ""**BBA Framework Agreement**") for, among others, the purchase and supply of engine parts and components.

CONTINUING CONNECTED TRANSACTIONS

In 2013, the Group entered into various transactions which constituted continuing connected transactions under Chapter 14A of the Listing Rules. All the continuing connected transactions during the year that need to be disclosed herein are in compliance with the Listing Rules. The actual monetary value of the continuing connected transactions of the Group for the financial year ended 31st December, 2013 is set out below:

	Connected Person	Nature of Transaction	Actual monetary value for the financial year ended 31st December, 2013 RMB'000
Continuing connected transactions exempt from the independent shareholders' approval requirements			
1.	Mianyang Ruian	Purchase of engine components from Mianyang Ruian	48,764
2.	Mianyang Jianmen Real Estate	Procurement of construction and building maintenance services from Mianyang Jianmen Real Estate	3,339
3.	Huachen	(i) Leasing of the production facilities and supply of relevant human resources to, (ii) procurement of supporting production materials for and supply of basic utilities to, and (iii) the use of production technology for production of engines, by Mianyang Xinchen	17,966
4.	Shenyang Brilliance Power	Rental of factory premises by Mianyang Xinchen	–
Non-exempt continuing connected transactions			
A.	***Transactions with Brilliance China Group***		
5.	Shenyang Jinbei and Xing Yuan Dong	Sale of engines and engine components to Shenyang Jinbei, and engines to Xing Yuan Dong	372,645
B.	***Transactions with Wuliangye Group***		
6.	Sichuan Pushi and Xinhua Combustion Engine	Purchase of crankshafts from Sichuan Pushi, and engine components from Xinhua Combustion Engine	184,572
C.	***Transactions with Huachen Group***		
7.	Huachen, Mianyang Huarui, Mianyang Huaxiang and Shenyang Brilliance Power	Sale of engines and engine components to Huachen, Mianyang Huarui, Mianyang Huaxiang, and sale of engines to Shenyang Brilliance Power	763,982

Further information on transactions 1 to 7 are provided as follows:

Transaction 1: Mianyang Brilliance Ruian Automotive Components Co., Ltd. ("**Mianyang Ruian**") is a wholly-owned subsidiary of Brilliance China, a substantial shareholder of the Company. The principal business activities of Mianyang Ruian include (i) the resale of automotive engines purchased from the Group to subsidiaries of Brilliance China; and (ii) the manufacture and sale of engine components to the Group and third parties. The engine components purchased by the Group from Mianyang Ruian are either for the production of the Group's products or sold by the Group to its customers, including but not limited to Brilliance China group companies, for repair and maintenance of the Group's products.

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

The total purchases from Mianyang Ruian for the year ended 31st December, 2013 did not exceed the annual cap of RMB55.8 million, and it is expected that the total purchases from Mianyang Ruian for the two years ending 31st December, 2015 will not exceed RMB65.6 million and RMB78.0 million, respectively.

Transaction 2: Mianyang Jianmen Real Estate Development and Construction Co., Ltd. ("**Mianyang Jianmen Real Estate**") is a wholly-owned subsidiary of Xinhua Combustion Engine, a substantial shareholder of the Company, the ultimate holding company of which is Wuliangye. The principal business activities of Mianyang Jianmen Real Estate are development of real estate and civil construction and services.

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

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

The total procurement from Mianyang Jianmen Real Estate for the year ended 31st December, 2013 did not exceed the annual cap of RMB12.7 million, and it is expected that the total procurement from Mianyang Jianmen Real Estate for the two years ending 31st December, 2015 will not exceed RMB10.8 million and RMB10.8 million, respectively.

Transaction 3: Huachen, which owns approximately 42.48% of Brilliance China, is deemed as a connected person of the Company under Rule 14A.06 of the Listing Rules.

On 28th May, 2013, Mianyang Xinchen entered into a framework agreement (the "**Framework Agreement**") with Huachen pursuant to which both parties, on the same day, also entered into the following individual agreements:

(i) the lease agreement (the "**Lease Agreement**") pursuant to which Huachen agreed to lease the E3 engine production lines in the E2 Factory (the "**Production Facilities**") and supply the relevant human resources to Mianyang Xinchen at a rental of RMB15,182,400 per year;

(ii) the materials procurement agreement (the "**Materials Procurement Agreement**") pursuant to which Huachen agreed to procure supporting production materials, including auxiliary materials and office supplies, for and supply such basic utilities as water, electricity, gas, heating and communications to, Mianyang Xinchen; and

(iii) the use of technology agreement (the "**Use of Technology Agreement**") pursuant to which Huachen agreed to allow Mianyang Xinchen to use the production technology for the production of BM15 engine and BM15T engine free of charge on an exclusive basis.

Pursuant to the Framework Agreement, Mianyang Xinchen agreed to supply such engines to Shenyang Brilliance Power.

The proposed aggregate annual caps for the continuing connected transactions under the Framework Agreement, the Lease Agreement and the Materials Procurement Agreement for the three financial years ending 31st December, 2015 will not exceed RMB24,280,480, RMB44,101,862 and RMB48,640,164, respectively. The continuing connected transactions under the Framework Agreement for the year ended 31st December, 2013 did not exceed the annual cap of RMB24,280,480.

The Framework Agreement, the related Lease Agreement and the Materials Procurement Agreement were subsequently terminated in January, 2014 (please refer to Transaction 4 below). The Use of Technology Agreement remains effective.

Details of the Framework Agreement, the Lease Agreement, the Materials Procurement Agreement and the Use of Technology Agreement are set out in the announcement of the Company dated 28th May, 2013.

Transaction 4: Shenyang Brilliance Power Train Machinery Co., Ltd. ("**Shenyang Brilliance Power**") is a company owned as to 51% by Huachen and 49% by Brilliance China and therefore is a connected person of the Company.

On 16th December, 2013, Shenyang Brilliance Power and Mianyang Xinchen entered into a new lease agreement (the "**New Lease Agreement**") pursuant to which Shenyang Brilliance Power agreed to lease to Mianyang Xinchen part of the E2 Factory and the related land use right and ancillary assets at a rental of RMM4,999,920 per year.

The New Lease Agreement became effective immediately after the ownership of the Production Lines and the Inventories had been transferred from Huachen to Mianyang Xinchen. The Acquisition Agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held on 16th January, 2014 and completion of which took place in January, 2014. The New Lease Agreement became effective in January, 2014, and the Framework Agreement, the Lease Agreement and the Materials Procurement Agreement were terminated on the same day, while the Use of Technology Agreement remains effective.

It is expected that the proposed annual cap for the continuing connected transactions contemplated under the New Lease Agreement for the two financial years ending 31st December, 2014 and 2015 is RMB4,999,920, respectively.

Details of the New Lease Agreement are set out in the announcement of the Company dated 16th December, 2013.

Transaction 5: Shenyang Brilliance JinBei Automobile Co., Ltd. ("**Shenyang Jinbei**") is a non wholly-owned subsidiary of Brilliance China, a substantial shareholder of the Company. The principal business activities of Shenyang Jinbei include the manufacture and sale of minibuses and the provision of after-sale services. Shenyang Jinbei does not engage in the manufacture and sale of automotive engines. The automotive components produced by Shenyang Jinbei are solely for its own consumption.

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

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

The sales to Shenyang Jinbei and Xing Yuan Dang for the year ended 31st December, 2013 did not exceed the annual cap of RMB501.0 million, and it is expected that the total sales to Shenyang Jinbei and Xing Yuan Dong for each of the two years ending 31st December, 2015 in aggregate will not exceed RMB574.9 million and RMB667.6 million, respectively.

Transaction 6: Sichuan Yibin Pushi Automotive Components Co., Ltd. ("**Sichuan Pushi**") is a direct wholly-owned subsidiary of Pushi Group which owns approximately 93% of Xinhua Combustion Engine, a substantial shareholder of the Company, the ultimate holding company of which is Wuliangye. The principal business activities of Sichuan Pushi are the process and sale of automotive components and engine components. Xinhua Combustion Engine, being a substantial shareholder of the Company, is a connected person of the Company.

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

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

The total purchases from Sichuan Pushi and Xinhua Combustion Engine for the year ended 31st December, 2013 did not exceed the annual cap of RMB192.9 million, it is expected that the total purchases from Sichuan Pushi and Xinhua Combustion Engine for the two years ending 31st December, 2015 will not exceed RMB231.8 million and RMB268.7 million, respectively.

Transaction 7: Huachen is deemed as a connected person of the Company as described in Transaction 3 above. Mianyang Huarui Automotive Company Limited ("**Mianyang Huarui**") is a wholly-owned subsidiary of Huachen. Mianyang Huaxiang Machinery Manufacturing Co., Ltd. ("**Mianyang Huaxiang**") is an indirect wholly-owned subsidiary of Huachen. Shenyang Brilliance Power is a connected person of the Company as described in Transaction 4 above.

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

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

The total sales to Huachen, Mianyang Huarui, Mianyang Huaxiang and Shenyang Brilliance Power for the year ended 31st December, 2013 did not exceed the annual cap of RMB774.1 million, and it is expected that the total sales to Huachen, Mianyang Huarui, Mianyang Huaxiang and Shenyang Brilliance Power for each of the two years ending 31st December, 2015 in aggregate will not exceed RMB868.6 million and RMB1,044.3 million, respectively.

The independent non-executive directors of the Company confirmed that the above continuing connected transactions 1 to 7 have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or on terms no less favourable to the Company than those available to or from (as appropriate) independent third parties, and in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole. The independent non-executive directors of the Company further confirmed that the proposed annual caps in respect of the above continuing connected transactions 1 to 7 are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The Company's external auditors, Deloitte Touche Tohmatsu, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions 1 to 7 disclosed above in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

The above continuing connected transactions 1 to 7 are also regarded as "related party transactions" under the applicable accounting standards. Details of these transactions are further disclosed in note 35 to the consolidated financial statements of this annual report, except the sale of goods to a jointly controlled entity which did not constitute a connected transaction to the Group.

Save as disclosed above, in the opinion of the directors of the Company, there are no related party transactions in note 35 to the consolidated financial statements which constituted connected transactions or continuing connected transactions of the Group.

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 28 to 42 of this annual report.

OTHER INFORMATION

An amount bearing interest at 3% per annum is due from Xinhua Investment to Brilliance China. The amount is due in August 2014 and secured by all assets of Xinhua Investment.

AUDITORS

Deloitte Touche Tohmatsu, the auditors of the Company, will retire at the conclusion of the forthcoming annual general meeting of the Company and be eligible to offer themselves for re-appointment. A resolution will be submitted to the annual general meeting to be held on 29th May, 2014 to seek shareholders' approval on the appointment of Deloitte Touche Tohmatsu as the Company's auditors until the conclusion of the next annual general meeting and to authorise the Board to fix their remuneration.

By order of the Board

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

Hong Kong,
26th March, 2014

Corporate Governance Report

CORPORATE GOVERNANCE

The Company is committed to achieving and maintaining the highest standards of corporate governance consistent with the needs and requirements of the business and its shareholders, and in compliance with the "Corporate Governance Code" (the "**CG Code**") set out in Appendix 14 to the Listing Rules. The corporate governance principles of the Company emphasize a quality Board, sound internal controls, and transparency and accountability to all shareholders.

During the period from the Listing Date and up to the date of this annual report, the Group has complied with all the code provisions as set out in the CG Code.

A. DIRECTORS

A.1 The Board

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

The Board has fiduciary duties and statutory responsibilities towards the Group and is directly accountable to the shareholders.

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

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

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

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

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

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

The Board held four (4) meetings since the Listing Date and up to 31st December, 2013. Participation of individual directors at the Board meetings is as follows:

	Attendance by directors/ Number of meetings	Attendance Rate
Executive directors:		
Mr. Wu Xiao An *(Chairman)*	4/4	100%
Mr. Wang Yunxian *(Chief Executive Officer)*	4/4	100%
Non-executive directors:		
Mr. Qi Yumin	4/4	100%
Mr. Li Peiqi	4/4	100%
Independent non-executive directors:		
Mr. Chi Guohua	4/4	100%
Mr. Wang Jun	4/4	100%
Mr. Huang Haibo	4/4	100%
Mr. Wang Songlin	4/4	100%
Average attendance rate		100%

Apart from the four (4) Board meetings, consent/approval from the Board had also been obtained by written resolutions on a number of matters.

Participation of individual directors at the annual general meeting held on 23rd May, 2013 and the extraordinary general meeting held on 16th January, 2014 is as follows:

	Attendance by directors/ Number of meetings	Attendance Rate
Executive directors:		
Mr. Wu Xiao An *(Chairman)*	2/2	100%
Mr. Wang Yunxian *(Chief Executive Officer)*	2/2	100%
Non-executive directors:		
Mr. Qi Yumin	2/2	100%
Mr. Li Peiqi	2/2	100%
Independent non-executive directors:		
Mr. Chi Guohua	1/2	50%
Mr. Wang Jun	2/2	100%
Mr. Huang Haibo	2/2	100%
Mr. Wang Songlin	2/2	100%
Average attendance rate		93.75%

The Company considers that it has taken out appropriate insurance cover for its directors and officers in respect of legal actions may be taken against directors and officers. The Company reviews the extent of the insurance coverage every year and was satisfied with the insurance coverage for year 2013.

A.2 Chairman and Chief Executive Officer

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

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

A.3 Board composition

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

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

Pursuant to the Listing Rules, every listed issuer is required to have such number of independent non-executive directors representing at least one-third of the Board, and at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. During the period from the Listing Date and up to the date of this annual report, the number of independent non-executive directors has met the minimum requirement under the Listing Rules. Mr. Chi Guohua is a certified public accountant (non-practicing member) in the PRC. Mr. Chi has over 11 years of experience in financial, internal control and strategic investment in the PRC. He currently also holds positions in certain academic and professional organizations in the PRC.

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board has assessed the independence of all the independent non-executive directors and considered that all the independent non-executive directors have met the independence criteria as set out in Rule 3.13 of the Listing Rules.

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

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

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

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

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

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

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

To comply with code provision A.4.2 of the CG Code and in accordance with Article 108 of the Articles of Association of the Company, Mr. Wu Xiao An, Mr. Wang Yunxian and Mr. Qi Yumin will retire by rotation at the forthcoming annual general meeting of the Company to be held on 29th May, 2014 and have offered themselves for re-election at that annual general meeting.

A.5 Responsibilities of directors

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

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

Since the Listing Date and up to 31st December, 2013, in addition to directors' attendance at meetings and review of papers and circulars sent by management, each director has participated in the continuing professional development training arranged and funded by the Company as follows:

Name of Directors	**Type of training** *(Notes)*
Mr. Wu Xiao An	1 and 2
Mr. Wang Yunxian	1 and 2
Mr. Qi Yumin	1 and 2
Mr. Li Peiqi	1 and 2
Mr. Chi Guohua	1 and 2
Mr. Wang Jun	1 and 2
Mr. Huang Haibo	1 and 2
Mr. Wang Songlin	1 and 2

Notes:

1. reading seminar materials and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements.

2. attending a briefing session conducted by legal professional relating to updates on the Listing Rules and corporate governance practices.

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

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

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

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

The Company also established on 25th April, 2012 written guidelines on no less exacting terms than the Model Code (the "**Code for Securities Transactions by Employees**") for securities transactions by the employees of the Company and also the directors and employees of its subsidiaries and its holding company who, because of such office or employment, are likely to be in possession of unpublished inside information of the Group or the securities of the Company.

No incident of non-compliance of the Code for Securities Transactions by Employees by the employees of the Company and the directors and employees of its subsidiaries and its holding company since the Listing Date and up to the date of this annual report was noted by the Company.

A.6 Supply of and access to information

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

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

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

A.7 Non-executive Directors

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

B. BOARD COMMITTEES

B.1 Nomination Committee

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

The Nomination Committee of the Company was established on 25th April, 2012 with specific written terms of reference which include the duties set out in code provisions A.5.2(a) to (d) of the CG Code. The existing members of the Nomination Committee include Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin, all of whom are independent non-executive directors, and Mr. Wu Xiao An, an executive director. Mr. Wang Jun is the chairman of the Nomination Committee.

Since the Listing Date and up to 31st December, 2013, the Nomination Committee held one (1) meeting and discharged its responsibilities. Attendance of individual members at the Nomination Committee meeting is as follows:

	Attendance by members/ Number of meeting	**Attendance Rate**
Mr. Wang Jun *(chairman of the Nomination Committee)*	1/1	100%
Mr. Huang Haibo	1/1	100%
Mr. Wang Songlin	1/1	100%
Mr. Wu Xiao An	1/1	100%
Average attendance rate		100%

The Nomination Committee is responsible for reviewing the Board's composition and diversity, developing the relevant procedures for nomination and appointment of directors and assessing the independence of the independent non-executive directors to ensure that the Board has a balance of expertise, skills and experience and formulating succession plans for executive directors and senior executives. The Nomination Committee is also authorised to obtain outside professional advice and to seek information from employees, and the Company will provide sufficient resources to the Nomination Committee for performance of its duties.

The work performed by the Nomination Committee since the Listing Date and up to 31st December, 2013 included:

– confirmed and ratified the designation of certain senior executives of the Company;

– reassessed the independence of the independent non-executive directors; and

– made recommendation to the Board for re-election of retiring directors at the annual general meeting of the Company held on 23rd May, 2013.

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

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

The Company has adopted a board diversity policy on 17th December, 2013. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Board's composition, including gender, ethnicity, age, length of service, is set out below:

	Gender	Ethnicity	Age	Length of Service
Mr. Wu Xiao An	Male	Chinese	52	3 years
Mr. Wang Yunxian	Male	Chinese	59	3 years
Mr. Qi Yumin	Male	Chinese	54	2 years
Mr. Li Peiqi	Male	Chinese	62	2 years
Mr. Chi Guohua	Male	Chinese	39	2 years
Mr. Wang Jun	Male	Chinese	52	2 years
Mr. Huang Haibo	Male	Chinese	59	2 years
Mr. Wang Songlin	Male	Chinese	62	2 years

The members of the Nomination Committee are of the opinion that the Board's composition meets with the board diversity policy of the Company.

B.2 Remuneration Committee

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

Since the Listing Date and up to 31st December, 2013, the Remuneration Committee held one (1) meeting and discharged its responsibilities. Attendance of individual members at the Remuneration Committee meeting is as follows:

	Attendance by members/ Number of meeting	Attendance Rate
Mr. Huang Haibo *(chairman of the Remuneration Committee)*	1/1	100%
Mr. Wang Jun	1/1	100%
Mr. Wang Songlin	1/1	100%
Mr. Wu Xiao An	1/1	100%
Average attendance rate		100%

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

The work performed by the Remuneration Committee since the Listing Date and up to 31st December, 2013 included:

– approved, confirmed and ratified the "Policy and Guidelines of The Remuneration Committee";

– approved the remuneration of directors (including the independent non-executive directors);

– reviewed the directors' service agreements of the two executive directors for a term of three years commencing from 1st April, 2013;

– approved the bonus payment to the staff of the Group; and

– considered the grant of share options when necessary as a mean to provide incentives or rewards to the Directors and/or employees of the Group.

The remuneration of directors is determined with reference to his qualifications, experience, duties and responsibilities in the Group. When approving the remuneration of directors, no individual directors will be involved in decisions relating to his own remuneration.

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

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

B.3 Audit Committee

The Audit Committee of the Company was established on 25th April, 2012 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants. The terms of reference of the Audit Committee include the duties set out in code provisions C.3.3(a) to (n) of the CG Code. The existing members of the Audit Committee comprise Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin, all of whom are independent non-executive directors. Mr. Chi Guohua is the chairman of the Audit Committee. The Audit Committee does not have any former partner of the Group's existing audit firm as a member. The Company has adopted policy for hiring of employees and former employees of its external auditors on 25th April, 2012 to ensure judgment and independence of the audit of the Group will not be impaired.

Since the Listing Date and up to 31st December, 2013, the Audit Committee held two (2) meetings and discharged its responsibilities. Attendance of individual members at the Audit Committee meetings is as follows:

	Attendance by members/ Number of meetings	**Attendance Rate**
Mr. Chi Guohua *(chairman of the Audit Committee)*	2/2	100%
Mr. Wang Jun	2/2	100%
Mr. Huang Haibo	2/2	100%
Mr. Wang Songlin	2/2	100%
Average attendance rate		100%

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

The following is a summary of the work performed by the Audit Committee since the Listing Date and up to 31st December, 2013:

- reviewed the auditors' management letter and the management's response;
- reviewed and considered the recently issued accounting standards, the adoption of new accounting standards and the change in significant accounting policies;
- reviewed the audited financial statements and the final results announcement for the year ended 31st December, 2012;
- reviewed the interim report and the interim results announcement for the six months ended 30th June, 2013;
- met with the auditors to go through any significant audit issues or key findings noted during the audit of the Group's 2012 final results;
- met with the auditors to go through any significant key findings on the internal control and financial reporting matters based on the agreed-upon procedures performed for the Group's 2013 unaudited interim results;
- reviewed the continuing connected transactions; and
- made recommendations to the Board regarding the appointment of external auditors and auditors remuneration.

Since the Listing Date and up to 31st December 2013, all issues raised by the Audit Committee were addressed by the management. The work and findings of the Audit Committee were reported to the Board. Since the Listing Date, no issues brought to the attention of the management and the Board were of sufficient importance to require disclosure in this annual report.

The Audit Committee reviewed the audited consolidated financial statements of the Group for the year ended 31st December, 2013 in conjunction with the Company's external auditors. Based on the review and discussions with management, the Audit Committee was satisfied that the audited consolidated financial statements of the Group were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended 31st December, 2013. The Audit Committee therefore recommended the audited consolidated financial statements of the Group for the year ended 31st December, 2013 be approved by the Board.

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

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

This annual report has been reviewed by the Audit Committee.

B.4 Corporate Governance Function

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

C. ACCOUNTABILITY AND AUDIT

C.1 Financial reporting

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

The directors are responsible for overseeing all financial aspects of the Company and for keeping proper accounting records and preparing financial statements for each financial period, that give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31st December, 2013, the directors have:

- approved the adoption of all applicable Hong Kong Financial Reporting Standards which are issued by the Hong Kong Institute of Certified Public Accountants;
- selected and applied consistently appropriate accounting policies;
- made judgments and estimates that are prudent and reasonable; and
- prepared the accounts on a going concern basis.

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

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

All directors acknowledge their responsibility for preparing the financial statements for the year ended 31st December, 2013.

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

Since the Listing Date and up to 31st December, 2013, the audit and non-audit service fees paid or payable by the Company amounted to approximately HK$1,000,000 and HK$1,332,500, respectively, The non-audit services mainly included interim review of condensed consolidated financial statements and advisory service.

The statement of the Auditors about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on pages 43 to 44 of this annual report.

C.2 Internal controls

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

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

D. DELEGATION BY THE BOARD

Management functions

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

1. *Business strategy*

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

2. *Appointment*

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

3. *Board and senior management*

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

4. *Relations with the shareholders*

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

5. *Financial matters*

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

6. *Capital expenditures*

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

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

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

9. *Risk management*

   - risk assessment and insurance; and
   - risk management policies.

10. *Internal controls and reporting system*

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

11. Use of the company seal(s).

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

E. COMPANY SECRETARY

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

F. COMMUNICATION WITH SHAREHOLDERS

F.1 Effective communication

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

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

An annual general meeting of the Company was held on 23rd May, 2013 at which Mr. Wu Xiao An, the chairman of the Board and the chairmen of the Audit Committee, Remuneration Committee and Nomination Committee, attended the meeting either in person or by way of telephone conference to answer questions raised by the shareholders at the meeting in accordance with code provision E.1.2 set out in the CG Code.

An extraordinary general meeting of the Company was held on 16th January, 2014 at which approval was sought from the independent shareholders of the Company in relation to the acquisition of the E3 engine production lines and the connection rod production lines located in the E2 Factory and certain inventories by Mianyang Xinchen from Huachen which constituted a discloseable and connected transaction of the Company. All the directors of the Company attended the meeting either in person or by way of telephone conference to answer questions raised by the shareholders at the meeting, except Mr. Chi Guohua who was absent at the meeting due to business trip. Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin, members of the independent board committee attended the meeting by means of tele-conferencing facilities. Details of the acquisition are set out in the circular of the Company dated 31st December, 2013.

The Chairman of the Board, the chairmen of the Audit Committee, Remuneration Committee and Nomination Committee, or in their absence, another member of the relevant committee or an appointed representative, will attend the forthcoming annual general meeting of the Company to answer questions of shareholders.

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

The Company has adopted a shareholders' communication policy on 25th April, 2012 (as revised with effect on 23rd May, 2013) which is available on the website of the Company.

F.2 Voting by poll

At the annual general meeting held on 23rd May, 2013 and the extraordinary general meeting held on 16th January, 2014, the Chairman had provided an explanation of the procedures for conducting a poll at the commencement of the meeting. Poll results were posted on the website of the Stock Exchange and the website of the Company on the day of the holding of each of the shareholder's meeting.

G. SHAREHOLDERS' RIGHT

Shareholders' right to convene extraordinary general meetings

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

Procedures for putting forward proposals at shareholders' meetings

To put forward proposals at a general meeting of the Company, a shareholder should lodge a written notice of his/her/its proposal with his/her/its detailed contact information to the principal place of business of the Company in Hong Kong. The identity of the shareholder and his/her/its request will be verified with the Company's branch share registrar in Hong Kong and upon confirmation by the branch share registrar that the request is proper and in order and made by a shareholder, the Board will determine in its sole discretion whether the proposal may be included in the agenda for the general meeting.

The Company has also adopted a set of guidelines on procedures for shareholders to propose a person for election as a director of the Company on 25th April, 2012 which is available on the website of the Company.

Shareholders' enquiries

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available and the Company has an investor relationship personnel to attend to enquires from the Shareholders. Details of the contact person are set out below:

Name	:	The Company Secretary
Telephone	:	2516 6918
Email	:	xce@xinchenpower.com

Shareholders may also make enquiries with the Board at the general meetings of the Company and/or by sending them to the Company's principal place of business in Hong Kong and addressing to the Board.

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of divided to the Company's branch share registrar.

H. INVESTOR RELATIONS

Constitutional Documents

Pursuant to a special resolution of the shareholders of the Company passed on 25th April, 2012, the amended and restated memorandum and articles of association of the Company were adopted with effect from the Listing Date. Save as disclosed above, during the year ended 31st December, 2013, there was no significant change in the memorandum and articles of association of the Company.

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

Independent Auditors' Report

For the year ended 31 December 2013

Deloitte.
德勤

TO THE MEMBERS OF
XINCHEN CHINA POWER HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the accompanying consolidated financial statements of Xinchen China Power Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 45 to 100, which comprise the consolidated statement of financial position as at 31 December 2013 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2013, and of the Group's profits and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 March 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	NOTES	**2013** **RMB'000**	2012 RMB'000
Revenue	5	**2,586,193**	2,572,741
Cost of sales		**(2,075,435)**	(2,054,954)
Gross profit		**510,758**	517,787
Other income and gain	6	**38,379**	9,862
Selling and distribution expenses		**(71,809)**	(55,176)
Administrative expenses		**(83,371)**	(73,955)
Finance costs	7	**(21,362)**	(27,331)
Other expenses and losses		**(48,328)**	(29,125)
Share of result of a joint venture	16	**(182)**	34
Profit before tax		**324,085**	342,096
Income tax expense	8	**(53,336)**	(51,987)
Profit and total comprehensive income for the year attributable to owners of the Company	9	**270,749**	290,109
Earnings per share – Basic (RMB)	12	**0.222**	0.309

Consolidated Statement of Financial Position

At 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**349,872**	319,642
Prepaid lease payments	14	**59,441**	60,882
Intangible assets	15	**177,636**	88,153
Interest in a joint venture	16	**49,259**	49,441
Deferred tax assets	27	**151**	552
Deposits for acquisition of property, plant and equipment and prepaid lease payments		**26,693**	6,567
		663,052	525,237
CURRENT ASSETS			
Inventories	18	**385,051**	214,728
Prepaid lease payments	14	**1,434**	1,434
Trade and other receivables	19	**896,220**	660,114
Amounts due from related companies	20	**1,113,544**	804,004
Loan to a shareholder	17	**31,426**	32,515
Pledged bank deposits	21	**190,996**	177,807
Bank balances and cash	21	**1,166,366**	664,751
		3,785,037	2,555,353
CURRENT LIABILITIES			
Trade and other payables	22	**1,750,005**	1,337,637
Amounts due to related companies	23	**94,125**	43,067
Loans from shareholders	17	**–**	32,515
Bank borrowings due within one year	24	**343,450**	194,950
Other loan	25	**–**	4,000
Other tax payables		**–**	54,444
Income tax payables		**40,941**	50,458
		2,228,521	1,717,071
NET CURRENT ASSETS		**1,556,516**	838,282
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,219,568**	1,363,519
NON-CURRENT LIABILITIES			
Deferred income		**39,140**	41,018
NET ASSETS		**2,180,428**	1,322,501
CAPITAL AND RESERVES			
Share capital	28	**10,500**	7,693
Reserves		**2,169,928**	1,314,808
TOTAL EQUITY		**2,180,428**	1,322,501

The consolidated financial statements on pages 45 to 100 were approved and authorised for issue by the Board of Directors on 26th March, 2014 and are signed on its behalf by:

Wu Xiao An
(Also known as Ng Siu On)
DIRECTOR

Wang Yunxian
DIRECTOR

Statement of Financial Position

At 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSET			
Investment in subsidiary	39	**823,233**	354,654
CURRENT ASSETS			
Other receivables		**–**	4,700
Prepayments		**1,245**	–
Amounts due from related companies/a subsidiary	20	**99**	4
Loan to a shareholder	17	**31,426**	32,515
Bank balances and cash	21	**149,013**	105,831
		181,783	143,050
CURRENT LIABILITIES			
Other payables	22	**675**	7,836
Amounts due to related companies	23	**1,108**	819
Loans from shareholders	17	**–**	32,515
		1,783	41,170
NET CURRENT ASSETS		**180,000**	101,880
NET ASSETS		**1,003,233**	456,534
CAPITAL AND RESERVES			
Share capital	28	**10,500**	7,693
Reserves	29	**992,733**	448,841
TOTAL EQUITY		**1,003,233**	456,534

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Surplus reserves RMB'000 *(Note a)*	Deemed distribution to a shareholder RMB'000 *(Note b)*	Retained profits RMB'000	Total RMB'000
At 1 January 2012	7,693	122,388	193,457	152,386	(11,285)	567,753	1,032,392
Profit and total comprehensive income for the year	–	–	–	–	–	290,109	290,109
Transfer	–	–	–	46,313	–	(46,313)	–
At 31 December 2012	7,693	122,388	193,457	198,699	(11,285)	811,549	1,322,501
Profit and total comprehensive income for the year	–	–	–	–	–	270,749	270,749
Issue of new shares	2,807	623,232	–	–	–	–	626,039
Transaction costs attributable to issue of shares	–	(38,861)	–	–	–	–	(38,861)
Transfer	–	–	–	47,705	–	(47,705)	–
At 31 December 2013	**10,500**	**706,759**	**193,457**	**246,404**	**(11,285)**	**1,034,593**	**2,180,428**

Notes:

(a) Surplus reserves comprise statutory surplus reserve and discretionary surplus reserve of Mianyang Xinchen Engine Co., Limited ("Mianyang Xinchen"), a major operating subsidiary of the Group and a Sino-foreign equity joint venture enterprise, which are non-distributable and the transfer to these reserves is determined according to the relevant laws in the People's Republic of China (the "PRC") and by the board of directors of Mianyang Xinchen in accordance with its Articles of Association. Statutory surplus reserve amounting to approximately RMB165,312,000 as at 31 December 2013 (2012: RMB133,508,000), can be used to make up for previous year's losses or convert into additional capital of Mianyang Xinchen. Discretionary surplus reserve amounting to approximately RMB81,092,000 as at 31 December 2013 (2012: RMB65,191,000) can be used to expand the existing operations of Mianyang Xinchen.

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	2013 RMB'000	2012 RMB'000
Operating activities		
Profit before tax	**324,085**	342,096
Adjustments for:		
Interest expenses	**21,362**	27,331
Interest income	**(10,882)**	(5,212)
Depreciation and amortisation	**28,107**	35,389
Amortisation of government grants	**(5,678)**	(3,957)
Provision for warranty, net of reversal	**11,344**	12,469
Allowance for (reversal of) provision of inventories	**470**	(347)
Share of result of a joint venture	**182**	(34)
Unrealised profit on sales to a joint venture	**–**	593
Allowance for doubtful debts	**100**	113
Unrealised exchange loss	**1,089**	–
Gain on disposal of property, plant and equipment	**(47)**	(267)
Operating cash flows before movements in working capital	**370,132**	408,174
(Increase) decrease in inventories	**(170,793)**	6,821
Increase in trade and other receivables	**(236,206)**	(164,021)
Increase in trade and other payables and other tax payables	**314,945**	6,193
(Increase) decrease in amounts due from related companies	**(309,540)**	257,906
Increase (decrease) in amounts due to related companies	**46,009**	(72,355)
Cash generated from operations	**14,547**	442,718
Income tax paid	**(62,452)**	(31,737)
Net cash (used in) from operating activities	**(47,905)**	410,981
Investing activities		
Interest received	**10,882**	5,212
Receipt from government grants	**3,800**	16,965
Purchase of property, plant and equipment	**(20,058)**	(32,113)
Deposits paid for acquisition of property, plant and equipment and prepaid lease payments	**(20,412)**	(2,699)
Proceeds for disposal of property, plant and equipment	**143**	801
Investment in a joint venture	**–**	(57,000)
Development costs paid	**(91,877)**	(57,345)
Withdrawal of pledged bank deposits	**597,738**	487,148
Placement of pledged bank deposits	**(610,927)**	(441,896)
Net cash used in investing activities	**(130,711)**	(73,927)

Consolidated Statement of Cash Flows (Cont'd)

For the year ended 31 December 2013

	2013 RMB'000	2012 RMB'000
Financing activities		
Interest paid	**(23,981)**	(29,774)
New bank borrowings raised	**374,450**	194,950
Issuance of shares	**626,039**	–
Issuance costs	**(38,861)**	–
Repayment of bank borrowings	**(225,950)**	(163,950)
Repayment of advance to shareholders	**(32,515)**	–
Repayment of other loan	**(4,000)**	–
Advance from related companies	**5,049**	512
Repayment to a related company	**–**	(1,788)
Net cash from (used in) financing activities	**680,231**	(50)
Net increase in cash and cash equivalents	**501,615**	337,004
Cash and cash equivalents at beginning of the year	**664,751**	327,747
Cash and cash equivalents at end of the year, represented by bank balances and cash	**1,166,366**	664,751

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 10 March 2012. 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 of Hong Kong Limited (the "Stock Exchange"), and 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"), a state owned enterprises registered in the PRC, which are able to exercise significant influence over the Company. In March 2013, the Company completed the listing of its shares on the Main Board of the Stock Exchange. The addresses of the registered office and the principal place of business of the Company are disclosed in corporate information section of the annual report.

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

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

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

For the purpose of preparing and presenting the consolidated financial statements, the Group has consistently adopted the Hong Kong Accounting Standards ("HKASs"), Hong Kong Financial Reporting Standards ("HKFRSs"), amendments and interpretations ("HK(IFRIC) – Int"), which are effective for the accounting period beginning on 1 January 2013.

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's consolidated financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early adopted the following new and revised standards, amendments and interpretations that have been issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") but are not yet effective:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle[2]
HKFRS 9	Financial Instruments[3]
HKFRS 14	Regulatory Deferral Accounts[5]
HK(IFRIC) – Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions
5 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

The principal accounting policies are set out below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of consolidation (Cont'd)

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.

Interest in a joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of a joint venture are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of a joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Appropriate adjustments have been made to conform the joint venture's accounting policies to those of the Group.

Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. 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 of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its joint venture, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture 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 recognised 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 recognised when services are provided.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition (Cont'd)

Interest income from a financial asset is recognised 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 recognised 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 recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised 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 derecognised 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 recognised 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. 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 recognised 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 recognised 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 capitalisation.

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

Government grants

Government grants are not recognised 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 recognised in profit or loss on a systematic basis over the periods in which the Group recognises 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 recognised 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 recognised 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 recognised as expense when employees have rendered service entitling them to the contributions.

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other 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 recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised 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 utilised. Such assets and liabilities are not recognised 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 recognised 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 recognised 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 realised, 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 recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Intangible assets

Research and development expenditure

Expenditure on research activities is recognised 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 recognised 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible assets (Cont'd)

Research and development expenditure (Cont'd)

The amount initially recognised 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 recognised, 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 amortisation 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 recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

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

Financial assets

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

Effective interest method

The effective interest method is a method of calculating the amortised 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 recognised on an effective interest basis for debt instruments.

Loans and receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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 amortised cost, the amount of the impairment loss recognised is the difference between the assets' 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 recognised 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 amortised 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 recognised, the previously recognised 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 amortised cost would have been had the impairment not been recognised.

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 amortised 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 recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Financial liabilities

Financial liabilities including trade and other payables, amounts due to related companies, bank borrowings, loans from shareholders and other loan, are subsequently measured at amortised 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 derecognises 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 recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised 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 recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises 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 derecognised and the consideration paid and payable is recognised in profit or loss.

Provision for warranty claims

Provision for warranty claims is recognised 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of tangible and intangible assets (Cont'd)

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 recognised 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 recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss 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 amortised to profit or loss over the corresponding vesting period, if any.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, 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 recognised 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.

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

Depreciation and impairment of property, plant and equipment (Cont'd)

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 recognised during the year.

The carrying amount of property, plant and equipment is set out in Note 13.

Amortisation and impairment of intangible assets

The Group's management determines the estimated useful lives and related amortisation 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 amortisation 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. 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 recognised during the year.

The carrying amount of intangible assets is set out in Note 15.

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.

The carrying amount of inventories is set out in Note 18.

Estimated impairment of trade receivables and amounts due from related companies

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of trade receivables and amounts due from related companies which are of trade nature is set out in Notes 19 and 20, 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 year. Where the actual claims are greater than expected, a material increase in warranty expenses may arise, which would be recognised in profit or loss for the period in which such a claim takes place. The carrying amount of provision for warranty claims is set out in Note 22.

5. REVENUE AND SEGMENT INFORMATION

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

(1) Gasoline engines;

(2) Diesel engines; and

(3) Engine components and service income.

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

For the year ended 31 December 2013

	Gasoline engines RMB'000	Diesel engines RMB'000	Engine components and service income RMB'000	Total RMB'000
Segment revenue – external	2,104,667	388,703	92,823	2,586,193
Segment results	362,426	84,400	63,932	510,758
Unallocated income				38,379
Unallocated expenses				
Selling and distribution expenses				(71,809)
Administrative expenses				(83,371)
Finance costs				(21,362)
Other expenses and losses				(48,328)
Share of result of a joint venture				(182)
Profit before tax				324,085

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

Segment revenue and segment results (Cont'd)

For the year ended 31 December 2013 (Cont'd)

Other segment information included in the measurement of segment results:

	Gasoline engines RMB'000	Diesel engines RMB'000	Engine components and service income RMB'000	Unallocated RMB'000	Total RMB'000
Depreciation and amortisation	16,968	3,069	–	8,070	28,107
Provision of inventories	397	73	–	–	470

For the year ended 31 December 2012

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

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

Segment revenue and segment results (Cont'd)

For the year ended 31 December 2012 (Cont'd)

Other segment information included in the measurement of segment results:

	Gasoline engines RMB'000	Diesel engines RMB'000	Engine components and service income RMB'000	Unallocated RMB'000	Total RMB'000
Depreciation and amortisation	22,990	4,006	–	8,393	35,389
(Reversal of provision) provision of inventories	(577)	230	–	–	(347)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Segment results represent the profit earned by each segment before the allocation of selling and distribution expenses, administrative expenses, finance costs, other income and gain/expenses and losses and share of result of a joint venture. This is the measure reported to the Board 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 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 generated in the PRC, which is the country of domicile of Mianyang Xinchen.

Information about major customers

Revenue from major customers which accounts for 10% or more of the Group's total revenue are sales of engines to certain related parties as disclosed in Note 35.

6. OTHER INCOME AND GAIN

	2013 RMB'000	2012 RMB'000
Bank interest income	**10,882**	5,212
Government grants *(see Note 26)*	**21,144**	4,257
Gain on disposal of property, plant and equipment	**47**	267
Others	**6,306**	126
	38,379	9,862

7. FINANCE COSTS

	2013 RMB'000	2012 RMB'000
Interest on borrowings wholly repayable within five years:		
Bank loans	**13,953**	13,023
Discounted bills	**10,028**	16,751
	23,981	29,774
Less: amounts capitalised	**(2,619)**	(2,443)
	21,362	27,331

Borrowing costs capitalised during the year arose on the general borrowing pool and were calculated by applying a capitalisation rate of 5.9% (2012: 6.5%) per annum to expenditure on qualifying assets.

8. INCOME TAX EXPENSE

	2013 RMB'000	2012 RMB'000
PRC Enterprise Income Tax		
Current tax	**52,354**	52,659
Underprovision (overprovision) in prior year	**581**	(1,150)
	52,935	51,509
Deferred tax expense *(see Note 27)*	**401**	478
	53,336	51,987

8. INCOME TAX EXPENSE (Cont'd)

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

Mianyang Xinchen was accredited as a "High and New Technology Enterprise" by the Science and Technology Department 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 2012, which entitles Mianyang Xinchen to enjoy such reduced tax rate for another three years until 31 December 2014. Accordingly, Mianyang Xinchen is subject to 15% enterprise income tax rate for the years ended 31 December 2013 and 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 subject to PRC dividend withholding tax on the dividends paid by Mianyang Xinchen as it is a tax resident in the PRC but Southern State, the immediate holding company of Mianyang Xinchen, is a non-PRC tax resident. As a result, the Group will be subject to the PRC dividend withholding tax of 10% when and if undistributed earnings of Mianyang Xinchen are declared to be paid as dividends out of profits that arose on or after 1 January 2008. Deferred tax has not been provided for in the consolidated financial statements in respect of the tax effect of temporary differences attributable to accumulated undistributed earnings of Mianyang Xinchen as at 31 December 2013 arising since 1 January 2008 amounting to approximately RMB108,175,000 (2012: RMB76,617,000), as the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The directors of Mianyang Xinchen plan to set aside such undistributed profits of Mianyang Xinchen for investment purpose.

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

	2013	2012
	RMB'000	RMB'000
Profit before tax	**324,085**	342,096
Tax at PRC Tax rate of 15%	**48,613**	51,315
Tax effect of expenses not deductible for tax purpose	**6,959**	4,723
Tax effect of deductible temporary differences not recognised	**5,173**	5,628
Utilisation of deductible temporary differences previously not recognised	**(5,628)**	(5,589)
Underprovision (overprovision) in prior year	**581**	(1,150)
Tax incentives on eligible expenditures *(Note)*	**(2,362)**	(2,940)
Income tax expense	**53,336**	51,987

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

9. PROFIT FOR THE YEAR

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

	2013 RMB'000	2012 RMB'000
Directors' remuneration *(see Note 10)*	**7,646**	1,377
Other staff costs	**70,626**	66,567
Contributions to retirement benefits scheme	**9,399**	8,847
Total staff costs	**87,671**	76,791
Depreciation of property, plant and equipment	**24,272**	31,988
Amortisation of prepaid lease payments	**1,441**	1,441
Amortisation of intangible assets (included in cost of sales)	**2,394**	1,960
Total depreciation and amortisation	**28,107**	35,389
Research expenses (included in other expenses and losses)	**17,051**	15,661
Amortisation of capitalised development costs (included in total depreciation and amortisation)	**2,394**	1,960
Total research and development costs	**19,445**	17,621
Auditors' remuneration	**821**	505
Exchange loss, net	**19,093**	889
Allowance for doubtful debts	**100**	113
Included in cost of sales:		
Cost of inventories recognised as expense	**2,075,435**	2,054,954
Allowance for (reversal of) provision of inventories *(see Note 18)*	**470**	(347)
Provision for warranty, net *(see Note 22)*	**11,344**	12,469
Included in other expenses and losses:		
Initial public offering expenses	**11,443**	13,464

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

Directors' and chief executive's emoluments

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

	2013 RMB'000	2012 RMB'000
Fees	299	–
Salaries and allowances	4,460	977
Discretionary bonus	2,878	400
Contributions to retirement benefits scheme	9	–
	7,646	1,377

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

Year ended 31 December 2013

	Fees RMB'000	Discretionary bonus RMB'000	Salaries and allowances RMB'000	Contributions to retirement benefit scheme RMB'000	Total RMB'000
Executive Directors					
Wu Xiao An 吳小安	137	1,197	2,322	9	3,665
Wang Yunxian 王運先*	162	803	2,138	–	3,103
Non-executive Directors					
Qi Yumin 祁玉民	–	–	–	–	–
Li Peiqi 李培奇	–	398	–	–	398
Independent non-executive Directors					
Huang Haibo 黃海波	–	120	–	–	120
Wang Jun 王隽	–	120	–	–	120
Wang Songlin 王松林	–	120	–	–	120
Chi Guohua 池國華	–	120	–	–	120
	299	2,878	4,460	9	7,646

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

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

Year ended 31 December 2012

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

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

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

Employees' remuneration

Of the five highest paid individuals of the Group, two (2012: one) are/is director(s) of the Company whose emoluments are included above during the year ended 31 December 2013. The remunerations of the remaining three (2012: four) individuals are as follows:

	2013 RMB'000	2012 RMB'000
Salaries and allowances	1,855	2,137
Discretionary bonus	639	1,600
Contribution to retirement benefits scheme	21	–
	2,515	3,737

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

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

The five highest paid individuals, other than directors, were within the following bands:

	2013 No. of employees	2012 No. of employees
HK$ Nil to HK$1,000,000 (equivalent to RMB Nil to RMB798,100)	2	4
HK$1,500,000 to HK$2,000,000 (equivalent to RMB1,197,151 to RMB1,596,200)	1	–

During the years ended 31 December 2013 and 2012, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Senior management's remuneration

There are 5 (2012: 5) senior executives in the Group (excluding directors) and their remuneration by band for the year ended 31 December 2013 and 2012 is set out below:

	2013 No. of employees	2012 No. of employees
HK$ Nil to HK$1,000,000 (equivalent to RMB Nil to RMB798,100)	4	5
HK$1,500,000 to HK$2,000,000 (equivalent to RMB1,197,151 to RMB1,596,200)	1	–

11. DIVIDENDS

No dividend has been paid or declared by the Company during both years ended 31 December 2013 and 2012, nor has any dividend been proposed since the end of the reporting period.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to owners of the Company and weighted average number of shares of 1,218,226,468 (2012: 940,199,794) for the year ended 31 December 2013.

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

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment and others RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2012	141,633	315,592	23,175	8,645	30,240	519,285
Additions	–	522	451	2,393	70,536	73,902
Transfer	46,347	23,735	–	–	(70,082)	–
Disposals	–	(106)	(157)	(1,792)	–	(2,055)
At 31 December 2012	187,980	339,743	23,469	9,246	30,694	591,132
Additions	–	–	1	31	62,498	62,530
Transfer	41,866	7,111	1,236	–	(58,145)	(7,932)
Disposals	–	(9)	(135)	(822)	–	(966)
At 31 December 2013	**229,846**	**346,845**	**24,571**	**8,455**	**35,047**	**644,764**
DEPRECIATION						
At 1 January 2012	41,270	179,935	15,064	4,754	–	241,023
Provided for the year	7,651	20,798	2,590	949	–	31,988
Eliminated on disposals	–	(95)	(142)	(1,284)	–	(1,521)
At 31 December 2012	48,921	200,638	17,512	4,419	–	271,490
Provided for the year	3,966	17,276	2,112	918	–	24,272
Eliminated on disposals	–	(8)	(121)	(741)	–	(870)
At 31 December 2013	**52,887**	**217,906**	**19,503**	**4,596**	**–**	**294,892**
CARRYING VALUES						
At 31 December 2013	**176,959**	**128,939**	**5,068**	**3,859**	**35,047**	**349,872**
At 31 December 2012	139,059	139,105	5,957	4,827	30,694	319,642

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

The above items of property, plant and equipment (other than construction in progress) are depreciated on a straight-line basis at the following useful lives 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 Group's buildings are located in the PRC and the carrying amount of the buildings amounting to RMB101,842,000 as at 31 December 2013 (2012: RMB112,506,000), is in the process of obtaining the property ownership certificate.

The estimated economic life of old factory premises was originally determined at 30 years.

In the beginning of 2011, the Group reassessed the remaining useful life of old factory premises, taking into account the delay in completion of the new production facility. Since the remaining useful life of the existing buildings was expected to be longer than originally estimated, useful life had been revised to extend for one year up to the end of 2012. This change in useful life had increased the depreciation charge for the year ended 31 December 2012 by approximately RMB4,153,000 and no effect for the year ended 31 December 2013.

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

	2013 **RMB'000**	2012 RMB'000
Buildings	**1,276**	3,564
Plant and machinery	**121,669**	135,789
	122,945	139,353

14. PREPAID LEASE PAYMENTS

	RMB'000
CARRYING VALUES	
At 1 January 2012	63,757
Released to profit or loss	(1,441)
At 31 December 2012	62,316
Released to profit or loss	(1,441)
At 31 December 2013	**60,875**

	2013 **RMB'000**	2012 RMB'000
Analysed for reporting purpose:		
Current assets	**1,434**	1,434
Non-current assets	**59,441**	60,882
	60,875	62,316

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 RMB60,875,000 as at 31 December 2013 (2012: RMB62,316,000), to secure general banking facilities granted to the Group.

15. INTANGIBLE ASSETS

	Completed development costs RMB'000	Development costs in progress RMB'000	Total RMB'000
COST			
At 1 January 2012	36,386	42,134	78,520
Additions	–	46,418	46,418
Transfer	17,330	(17,330)	–
At 31 December 2012	53,716	71,222	124,938
Additions	–	91,877	91,877
At 31 December 2013	**53,716**	**163,099**	**216,815**
AMORTISATION			
At 1 January 2012	34,825	–	34,825
Charge for the year	1,960	–	1,960
At 31 December 2012	36,785	–	36,785
Charge for the year	2,394	–	2,394
At 31 December 2013	**39,179**	**–**	**39,179**
CARRYING VALUES			
At 31 December 2013	**14,537**	**163,099**	**177,636**
At 31 December 2012	16,931	71,222	88,153

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

16. INTEREST IN A JOINT VENTURE

	2013 RMB'000	2012 RMB'000
Cost of unlisted investment in a joint venture	**50,000**	50,000
Share of result and other comprehensive income	**(148)**	34
Unrealised profit	**(593)**	(593)
	49,259	49,441

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

Summarised financial information in respect of the joint venture, representing amounts shown in Dongfeng JV's financial statements prepared in conformity with HKFRSs is as below:

	2013 RMB'000	2012 RMB'000
Current assets	**88,298**	119,654
– cash and cash equivalent	**64,248**	78,141
Non-current assets	**64,616**	49,328
Current liabilities	**(27,453)**	(42,622)
Non-current liabilities	**(25,757)**	(26,292)
Revenue	**30,753**	77,534
(Loss) profit for the year	**(364)**	68
Other comprehensive income	**–**	–

Reconciliation of the above summarised financial information to the carrying amount of the interest in Dongfeng JV recognised in the consolidated financial statements is as below:

	2013 RMB'000	2012 RMB'000
Net assets of Dongfeng JV	**99,704**	100,068
Proportion of the Group's ownership interest in Dongfeng JV	**50%**	50%
Carrying amount of the Group's interest in Dongfeng JV, adjusting by unrealised profit *(note)*	**49,259**	49,441

Note: The balance has been adjusted by unrealised profits arising from goods sold by the Group to Dongfeng JV.

17. LOAN TO A SHAREHOLDER/LOANS FROM SHAREHOLDERS

The Group and the Company

As detailed in Note 37, the Company has two trust arrangements to entitle the Group's employees to subscribe for shares of the Company through Lead In Management Limited ("Lead In") for their services to the Group. Under loan agreements dated 18 October 2011, each of the two shareholders of the Company, namely Brilliance Investment Holdings Limited ("Brilliance Investment") and Xinhua Investment Holdings Limited ("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 37).

The Company has repaid loans from shareholders in October 2013.

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. The Loan to a shareholder was extended to October 2013 in 2012 and further extended to October 2014 in 2013.

18. INVENTORIES

	2013 RMB'000	2012 RMB'000
Raw material and components	**145,517**	116,707
Work-in-progress	**24,375**	19,131
Finished goods	**215,159**	78,890
	385,051	214,728

The inventories are net of provision of RMB1,006,000 as at 31 December 2013 (2012: RMB536,000), which is determined with reference to the net realisable value of the inventory items. Additional provision of RMB470,000 was provided for during the year ended 31 December 2013 (2012: a reversal of RMB347,000).

19. TRADE AND OTHER RECEIVABLES

The Group

Trade and other receivables comprise the following:

	2013 RMB'000	2012 RMB'000
Trade receivables	**407,870**	389,584
Less: Allowance for doubtful debts	**(256)**	(156)
Trade receivables, net	**407,614**	389,428
Bills receivable	**421,009**	257,642
Total trade and bills receivables	**828,623**	647,070
Prepayments for purchase of raw materials and engine components	**18,358**	1,953
Other receivables*	**49,239**	11,091
	896,220	660,114

* *Included in the balance is value added tax recoverable of RMB24,396,000 (2012: Nil).*

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.

	2013 RMB'000	2012 RMB'000
Within 1 month	**165,083**	167,808
Over 1 month but within 2 months	**57,615**	26,339
Over 2 months but within 3 months	**22,328**	26,229
Over 3 months but within 6 months	**146,954**	83,672
Over 6 months but within 1 year	**13,688**	84,915
Over 1 year	**1,946**	465
	407,614	389,428

19. TRADE AND OTHER RECEIVABLES (Cont'd)

The Group (Cont'd)

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

	2013 RMB'000	2012 RMB'000
Within 3 months	**327,096**	124,613
Over 3 months but within 6 months	**93,806**	133,029
Over 6 months but within 1 year	**107**	–
	421,009	257,642

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 RMB190,324,000 at 31 December 2013 (2012: RMB200,995,000), which are past due as at the reporting date. Considering the high credibility of these customers, good track record with the Group and subsequent settlement, the management believes that no impairment allowance is necessary in respect of the remaining unsettled balances. The Group does not hold any collateral over these balances.

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

	2013 RMB'000	2012 RMB'000
Within 1 month	**–**	3,544
Over 1 month but within 2 months	**5,408**	2,170
Over 2 months but within 3 months	**22,328**	26,229
Over 3 months but within 6 months	**146,954**	83,672
Over 6 months but within 1 year	**13,688**	84,915
Over 1 year	**1,946**	465
	190,324	200,995

Movement in the allowance for doubtful debts:

	2013 RMB'000	2012 RMB'000
At beginning of year	**156**	43
Addition	**100**	113
At end of year	**256**	156

20. AMOUNTS DUE FROM RELATED COMPANIES

The Group

	2013 RMB'000	2012 RMB'000
Non-trade related	**1,083**	–
Trade related	**1,112,461**	804,004
	1,113,544	804,004

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

	2013 RMB'000	2012 RMB'000
Huachen Group#		
Mianyang Huarui Automotive Company Limited ("Mianyang Huarui")* 綿陽華瑞汽車有限公司	**131,733**	171,638
Shenyang Brilliance Power Train Machinery Co., Ltd. 瀋陽華晨動力機械有限公司	**416,452**	192,125
Mianyang Huaxiang Machinery Manufacturing Co., Ltd.* 綿陽華祥機械製造有限公司	**29,739**	11,877
Huachen Automotive Group Holdings Company Limited ("Huachen Automotive") 華晨汽車集團控股有限公司	**3,164**	4,604
	581,088	380,244
Brilliance China Group##		
Shenyang XingYuanDong Automobile Component Co., Ltd. ("XingYuan Dong") 瀋陽興遠東汽車零部件有限公司	**451,072**	377,746
Shenyang Brilliance JinBei Automobile Co., Ltd. 瀋陽華晨金杯汽車有限公司	**6,121**	7,378
	457,193	385,124
Wuliangye Group		
Mianyang Xinhua Internal Combustion Engine Joint-Stock Company Limited* ("Xinhua Combustion Engine") 綿陽新華內燃機股份有限公司	**18,024**	–
Mianyang Jianmen Real Estate Development and Construction Limited Liability Company* ("Mianyang Jianmen RE") 綿陽劍門房地產開發建設有限責任公司	**8**	–
Dongfeng JV	**56,148**	38,636
	1,112,461	804,004

* *English name for reference only*

\# *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")*

\#\# *Brilliance China Automotive Holdings Limited ("Brilliance China", Brilliance China and its subsidiaries collectively referred to as "Brilliance China Group")*

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

The Group (Cont'd)

Analysed as:

	2013 RMB'000	2012 RMB'000
Trade receivables	**839,510**	736,134
Bills receivable	**254,919**	67,870
Prepayment	**18,032**	–
	1,112,461	804,004

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.

	2013 RMB'000	2012 RMB'000
Within 3 months	**515,766**	374,753
Over 3 months but within 6 months	**286,187**	241,056
Over 6 months but within 1 year	**37,492**	120,070
Over 1 year	**65**	255
	839,510	736,134

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

The Group (Cont'd)

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

	2013	2012
	RMB'000	RMB'000
Within 3 months	**154,149**	65,500
Over 3 months but within 6 months	**99,600**	2,370
Over 6 months but within 1 year	**1,170**	–
	254,919	67,870

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 RMB323,744,000 at 31 December 2013 (2012: RMB361,381,000), which is past due as at the reporting date. The management of the Group has assessed these related companies to be financially sound and taking into consideration of the gradual and frequent repayments from those related companies, no impairment allowance is considered necessary in respect of these balances. In the opinion of the directors of the Company, the amounts due from related companies not past due nor impaired at the end of each reporting period are of good credit quality. The Group does not hold any collateral over these balances.

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

	2013	2012
	RMB'000	RMB'000
Over 3 months but within 6 months	**286,187**	241,056
Over 6 months but within 1 year	**37,492**	120,070
Over 1 year	**65**	255
	323,744	361,381

The Company

The amounts due from related companies/a subsidiary are unsecured, interest free and repayable on demand.

21. 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 31 December 2013	**0.01% – 0.35%**	**2.60% – 2.80%**
At 31 December 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% (2012: 0.01%) at 31 December 2013.

22. TRADE AND OTHER PAYABLES

The Group

	2013 RMB'000	2012 RMB'000
Trade payables	**427,786**	346,874
Bills payable	**668,316**	385,419
Total trade and bills payables	**1,096,102**	732,293
Accrued purchase of raw materials	**538,393**	496,231
Construction payables	**9,842**	41,477
Payroll and welfare payables	**34,487**	37,521
Advances from customers	**9,437**	4,752
Provision for warranty *(Note)*	**5,084**	5,084
Retention money	**41,033**	7,915
Other payables	**15,627**	12,364
	1,750,005	1,337,637

22. TRADE AND OTHER PAYABLES (Cont'd)

The Group (Cont'd)

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:

	2013 RMB'000	2012 RMB'000
Within 3 months	**324,699**	200,568
Over 3 months but within 6 months	**85,793**	100,334
Over 6 months but within 1 year	**6,134**	45,972
Over 1 year but within 2 year	**11,160**	–
	427,786	346,874

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

	2013 RMB'000	2012 RMB'000
Within 3 months	**296,284**	146,434
Over 3 months but within 6 months	**372,032**	238,985
	668,316	385,419

Note:

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

The movement of warranty provision are as follows.

	2013 RMB'000	2012 RMB'000
At beginning of year	**5,084**	5,280
Warranty provision charged to profit or loss	**11,344**	12,469
Warranty claimed by customers	**(11,344)**	(12,665)
At end of year	**5,084**	5,084

The Company

The other payables of the Company represents accrued service fees.

23. AMOUNTS DUE TO RELATED COMPANIES

The Group

Details of amounts due to related companies are as follows:

	2013 RMB'000	2012 RMB'000
Trade related:		
Huachen Group		
Mianyang Huarui	**3**	–
Huachen Automotive	**1,118**	–
Brilliance China Group		
Xing Yuan Dong	**1,409**	–
Mianyang Brilliance Ruian Automotive Components Co., Ltd* ("Mianyang Ruian") 綿陽華晨瑞安汽車零部件有限公司	**33,942**	10,743
Wuliangye Group		
Xinhua Combustion Engine	**37,144**	24,653
Sichuan Yi Bin Pushen Automotive Components Co., Ltd* 四川省宜賓普什汽車零部件有限公司	**14,371**	6,592
Mianyang Jianmen RE	**10**	–
	87,997	41,988
Non-trade related:		
Brilliance China Group		
Brilliance China	**408**	309
Mianyang Ruian	**2,437**	–
Wuliangye Group		
Mianyang Jianmen RE	**461**	770
Xinhua Combustion Engine	**2,822**	–
	6,128	1,079
	94,125	43,067

The trade related amounts are analysed as:

	2013 RMB'000	2012 RMB'000
Trade payables	**17,299**	19,295
Bills payable	**34,511**	22,693
Accrual	**36,187**	–
	87,997	41,988

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

The Group (Cont'd)

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:

	2013 **RMB'000**	2012 RMB'000
Within 3 months	**15,464**	15,396
Over 3 months but within 6 months	**1,684**	2,957
Over 6 months but within 1 year	**91**	496
Over 1 year	**60**	616
	17,299	19,295

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.

	2013 **RMB'000**	2012 RMB'000
Within 3 months	**11,937**	12,744
Over 3 months but within 6 months	**22,574**	9,949
	34,511	22,693

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

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

* *English name for reference only.*

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.

24. BANK BORROWINGS

	2013 **RMB'000**	2012 RMB'000
Bank borrowings repayable within one year shown under current liabilities	**343,450**	194,950
Secured	**131,450**	152,950
Unsecured	**212,000**	42,000
	343,450	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:

	2013	2012
Fixed-rate borrowings	**5.00% to 6.00%**	6.00% to 6.56%
Variable-rate borrowings	**Benchmark rate# x 100%**	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 13 and 14.

25. OTHER LOAN

The other loan was 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 fully rapid in July 2013.

26. DEFERRED INCOME/GOVERNMENT GRANTS

	2013 RMB'000	2012 RMB'000
Amounts recognised in profit or loss during the year:		
Subsidies related to research activities *(Note a)*	**13,950**	300
Subsidies related to property, plant and equipment *(Note b)*	**5,678**	3,957
Other incentive subsidies *(Note c)*	**1,516**	–
	21,144	4,257

The movement of deferred income is as follows.

	2013 RMB'000	2012 RMB'000
At beginning of year	**41,018**	28,010
Receipt of subsidies related to property, plant and equipment	**3,800**	16,965
Amount credited to profit or loss during the year	**(5,678)**	(3,957)
At end of year	**39,140**	41,018

Notes:

(a) The Group received government subsidies for research and development activities to enhance the competitiveness in the industry and to promote new products. The subsidies related to expensed research and development activities are recognised 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 amortised 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.

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

27. DEFERRED TAX

The following are the major deferred tax assets recognised and movements thereon during the current and prior years:

	Temporary difference on				
	Receivables RMB'000	Property, plant and equipment RMB'000	Development costs RMB'000	Inventories RMB'000	Total RMB'000
At 1 January 2012	72	145	681	132	1,030
Charge to profit or loss	(72)	(145)	(209)	(52)	(478)
At 31 December 2012	–	–	472	80	552
Charge to profit or loss	–	–	(472)	71	(401)
At 31 December 2013	–	–	–	151	151

28. SHARE CAPITAL

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

	Number of shares	Amount HK$
Ordinary shares of HK$0.01 each		
Authorised:		
At date of incorporation, 1 January 2012, 31 December 2012 and 2013	8,000,000,000	80,000,000
Issued and fully paid:		
At 1 January 2012 and 31 December 2012	940,199,794	9,401,998
Issue of new shares on 12 March 2013 (i)	313,400,000	3,134,000
Issue of new shares on 9 April 2013 (ii)	33,808,000	338,080
At 31 December 2013	1,287,407,794	12,874,078

	2013 RMB'000	2012 RMB'000
Presented in financial statements	**10,500**	7,693

28. SHARE CAPITAL (Cont'd)

(i) On 12 March 2013, 313,400,000 shares of HK$0.01 each of the Company, amounting to HK$3,134,000 (approximately RMB2,534,000), were issued at HK$2.23 per share by way of public offering and the Company's shares have then listed on the Main Board of the Stock Exchange.

(ii) On 9 April 2013, 33,808,000 shares of HK$0.01 each of the Company, amounting to HK$338,080 (approximately RMB273,000), were issued at HK$2.23 per share under over-allotment arrangement under the public offering.

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

29. RESERVES

The Company

	Share premium RMB'000	Special reserve RMB'000 *(Note)*	Accumulated losses RMB'000	Total RMB'000
At 1 January 2011	122,388	348,103	(8,061)	462,430
Loss and total comprehensive expense for the year	–	–	(13,589)	(13,589)
At 31 December 2012	122,388	348,103	(21,650)	448,841
Loss and total comprehensive expense for the year	–	–	(40,479)	(40,479)
Issue of new shares	623,232	–	–	623,232
Transaction costs attributable to issue of shares	(38,861)	–	–	(38,861)
At 31 December 2013	706,759	348,103	(62,129)	992,733

Note: The reserve represents the difference between total equity of Southern State at the date obtaining entire issued share capital of Southern State from shareholders of the Company by the Company and at the consideration of US1 upon group reorganisation under went in 2011.

30. 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 optimisation of the debt and equity balances. The Group's overall strategy remains unchanged from prior year.

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

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

31. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The Group

	2013 RMB'000	2012 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**3,338,337**	2,332,037
Financial liabilities		
At amortised cost	**2,169,131**	1,592,904

The Company

	2013 RMB'000	2012 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**180,538**	138,350
Financial liabilities		
At amortised cost	**1,108**	33,334

(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.

31. FINANCIAL INSTRUMENTS (Cont'd)

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

Interest rate risk

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

Sensitivity analysis

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

Variable-rate borrowings

If interest rates of the variable-rate borrowings had been 50 basis points higher/lower than the lending benchmark interest rate stipulated by the People's Bank of China and all other variables were held constant, the Group's profit for the year ended 31 December 2013 would decrease/increase by approximately RMB888,000 (2012: RMB302,000).

Variable-rate bank balances

If interest rate of variable-rate bank balances had been 10 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2013 would increase/decrease by approximately RMB981,000 (2012: RMB404,000).

Credit risk

At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position and outstanding endorsed and discounted bills receivable as disclosed in Note 34.

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.

31. FINANCIAL INSTRUMENTS (Cont'd)

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

Credit risk (Cont'd)

The Group has concentration of credit risk as 83% (2012: 78%) of the Group's total trade receivables and amounts due from related companies (trade related) as at 31 December 2013 was due from the five largest customers. Those five largest customers are with good creditworthiness based on historical settlement record. In order to minimise the concentration of credit risk, the management has delegated staff responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure follow-up action is taken to recover overdue debts. The management also performs periodic evaluations and customer visits to ensure the Group's exposure to bad debts is not significant and adequate impairment losses are made for irrecoverable amount. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group had concentration of credit risk by geographical location as trade receivables and bills receivables comprise various debtors which are all located in PRC during the year ended 31 December 2013 and 2012.

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 31 December 2013 and 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.

31. FINANCIAL INSTRUMENTS (Cont'd)

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

Liquidity risk (Cont'd)

Liquidity tables

The Group

	Weighted average interest rate %	Repayable on demand or within 3 months RMB'000	3 – 6 months RMB'000	6 months to 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2013							
Trade and other payables	–	708,201	457,826	15,976	11,160	1,193,163	1,193,163
Amounts due to related companies	–	69,716	24,258	91	60	94,125	94,125
Accrued purchase of raw material	–	538,393	–	–	–	538,393	538,393
Bank borrowings							
– Fixed rate	5.55	44,304	71,079	54,642	–	170,025	165,950
– Variable rate	5.62	2,493	101,968	78,472	–	182,933	177,500
Outstanding endorsed and discounted bills receivable	–	345,393	607,440	–	–	952,833	–
		1,708,500	1,262,571	149,181	11,220	3,131,472	2,169,131
At 31 December 2012							
Trade and other payables	–	395,373	339,319	87,449	–	822,141	822,141
Amounts due to related companies	–	28,450	13,505	1,112	–	43,067	43,067
Accrued purchase of raw material	–	496,231	–	–	–	496,231	496,231
Loans from shareholders	–	–	–	32,515	–	32,515	32,515
Bank borrowings							
– Fixed rate	6.21	43,924	1,236	83,299	–	128,459	123,950
– Variable rate	6.85	71,880	–	–	–	71,880	71,000
Other loan	–	–	–	4,000	–	4,000	4,000
Outstanding endorsed and discounted bills receivable		186,073	514,335	–	–	700,408	–
		1,221,931	868,395	208,375	–	2,298,701	1,592,904

31. FINANCIAL INSTRUMENTS (Cont'd)

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

Liquidity risk (Cont'd)

Liquidity tables (Cont'd)

The Company

	Weighted average interest rate %	Repayable on demand or within 3 months RMB'000	3 – 6 months RMB'000	6 months to 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2013							
Amounts due to related companies	–	1,108	–	–	–	1,108	1,108
		1,108	–	–	–	1,108	1,108
At 31 December 2012							
Amounts due to related companies	–	819	–	–	–	819	819
Loans from shareholders	–	–	–	32,515	–	32,515	32,515
		819	–	32,515	–	33,334	33,334

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.

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

32. OPERATING LEASE

The Group as lessee

The minimum lease payment under operating lease in respect of office premises and production facilities amounted to RMB10,553,000 (2012: RMB100,000) for the year ended 31 December 2013.

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

	2013 **RMB'000**	2012 RMB'000
Within one year	**8,313**	–
Between second and fifth year inclusive	**7,141**	–
	15,354	–

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

33. CAPITAL COMMITMENTS

	2013 **RMB'000**	2012 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment, prepaid lease payments and intangible assets:		
– contracted for but not provided in the consolidated financial statements	**114,463**	18,706
– authorised but not contracted for in the consolidated financial statements	**335,978**	797,083
	450,441	815,789
Capital expenditure in respect of investment in a joint venture		
– contracted for but not provided in the consolidated financial statements	**75,000**	75,000

34. CONTINGENT LIABILITIES

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

	2013 RMB'000	2012 RMB'000
Settlement of trade and other payables	733,754	583,732
Discounted bills for raising of cash	219,079	116,676
Outstanding endorsed and discounted bills receivable with recourse	952,833	700,408

Maturity analysis of the outstanding endorsed and discounted bills receivable:

	2013 RMB'000	2012 RMB'000
Within 3 months	345,393	186,073
Over 3 months but within 6 months	607,440	514,335
	952,833	700,408

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

35. RELATED PARTY DISCLOSURES

Other than those disclose elsewhere in the consolidated financial statements, during the year, the Group entered into the following transactions with related parties:

	2013 RMB'000	2012 RMB'000
Sale of goods		
Brilliance China Group	**372,645**	500,065
Huachen Group	**763,982**	654,409
Wuliangye Group	**–**	233
Dongfeng JV	**27,230**	83,648
	1,163,857	1,238,355
Purchase of goods		
Brilliance China Group	**48,764**	48,939
Huachen Group	**–**	10
Wuliangye Group	**184,572**	154,283
	233,336	203,232
Rental charged and auxiliary services		
Huachen Group	**17,966**	–
Brilliance China Group	**1,697**	–
Wuliangye Group	**–**	100
	19,663	100
Maintenance and construction cost charged		
Wuliangye Group	**3,339**	7,330

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

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

Balances with Brilliance China Group, Huachen Group and Wuliangye Group are disclosed elsewhere in the consolidated financial statements.

35. RELATED PARTY DISCLOSURES (Cont'd)

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 year were as follows:

	2013 **RMB'000**	2012 RMB'000
Short-term benefits	**10,717**	4,450
Post-employment benefits	**18**	–
	10,735	4,450

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

36. 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.

37. SHARE-BASED PAYMENT TRANSACTIONS

Share Incentive Scheme

During the year ended 31 December 2011, the Company established a share incentive scheme to provide an incentive to directors, management, employees and relevant personnel of the Group who have contributed or will make contributions to the development and growth of the Group ("Beneficiaries") (the "Incentive Scheme") which contains two trust arrangements, namely a fixed trust (the "Fixed Trust") and a discretionary trust (the "Discretionary Trust"). On 31 October 2011, the Company issued 93,999,794 shares of the Company, representing approximately 9.998% of the enlarged issued share capital of the Company, to Lead In, which held on trust for the relevant Beneficiaries under the two trust arrangements at subscription price of HK$1.0817 per share. 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 reorganisation 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.

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

Share Incentive Scheme (Cont'd)

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

The following table discloses the number of outstanding shares awarded under the Fixed Trust:

	31 December 2012	**Vesting period**
Directors	8,504,930	(a)
	8,504,930	(b)
	4,252,467	(c)
Employees	14,303,774	(a)
	14,303,774	(b)
	7,151,959	(c)
	57,021,834	

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. 25 October 2012); 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.

During the year ended 31 December 2013, 22,808,704 shares (2012: Nil) were issued to the relevant Beneficiaries. No entitlement of interests in the shares of the Company under the Fixed Trust was outstanding and became exercisable by the end of 31 December 2013 and 2012.

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 up to 36,977,960 shares which were subscribed by Lead In in 2011 for the purpose of granting shares to the relevant Beneficiaries for services rendered or to be rendered to the Group. However, during the years ended 31 December 2013 and 2012, 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 recognised for both years.

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

Share Option Scheme

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

During the year ended 31 December 2013 and 2012, no share options were granted under the Scheme by the Company. In addition, as of 31 December 2013 and 2012, no share options under the Scheme were outstanding.

38. EVENTS AFTER THE REPORTING PERIOD

On 25 November 2013, Huachen and Mianyang Xinchen entered into an acquisition agreement pursuant to which Mianyang Xinchen agreed to purchase and Huachen agreed to sell the Production Lines and the Inventories (both defined in the announcement dated 25 November 2013) (the "Assets Acquisition"). The consideration for the Assets Acquisition is subsequently finalised at RMB394,281,630 (equivalent to approximately HK$499,751,966), inclusive of VAT.

The Assets Acquisition was completed and the consideration was settled by cash with approximately RMB302,568,650 and the remaining of approximately RMB91,712,980 was set off against trade receivables due from Huachen or its subsidiaries subsequent to 31 December 2013.

39. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation or establishment/ operation	Issued and fully paid share/ registered capital	Proportion of issued share/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Southern State	British Virgin Islands/ Hong Kong	US$1 Ordinary share	100%	–	Investment holding
Mianyang Xinchen#	PRC	US$100,000,000 Registered capital (2012: US$24,120,000)	–	100%	Development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles

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

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