BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LIMITED

(華晨中國汽車控股有限公司)*

(Incorporated in Bermuda with limited liability)

Stock Code : 1114

Brilliance Auto
华晨汽车

Annual Report 2013

** for identification purposes only*

Contents

Corporate Information

BOARD OF DIRECTORS

Mr. Wu Xiao An
(also known as Mr. Ng Siu On) *(chairman)*
Mr. Qi Yumin *(chief executive officer)*
Mr. Wang Shiping
Mr. Tan Chengxu
Mr. Lei Xiaoyang#
Mr. Xu Bingjin*
Mr. Song Jian*
Mr. Jiang Bo*

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

AUTHORISED REPRESENTATIVES

Mr. Wu Xiao An
Mr. Lei Xiaoyang

CHIEF FINANCIAL OFFICER

Mr. Qian Zuming

COMPANY SECRETARY

Ms. Lam Yee Wah Eva

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

AUDITORS

Grant Thornton Hong Kong Limited
Level 12, 28 Hennessy Road
Wanchai
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

Weber Shandwick
10th Floor, Oxford House
Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

STOCK CODE

The Main Board of The Stock Exchange of Hong Kong Limited: 1114

Financial Highlights

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

(Amounts in thousands except earnings/loss per share)

	Year Ended and as at 31st December,				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 *(Note)*
Income Statement Data:					
Revenue	**6,103,487**	5,915,991	6,442,858	8,948,740	12,389,585
Profit (Loss) before Income Tax Expense	**3,324,729**	2,294,607	1,949,412	1,464,903	(2,703,203)
Income Tax (Expense) Credit	**(8,370)**	(57,564)	(58,010)	53,907	(40,989)
Profit (Loss) for the Year	**3,316,359**	2,237,043	1,891,402	1,518,810	(2,744,192)
Attributable to:					
Equity Holders of the Company	**3,374,200**	2,301,022	1,812,286	1,270,926	(1,639,835)
Non-controlling Interests	**(57,841)**	(63,979)	79,116	247,884	(1,104,357)
	3,316,359	2,237,043	1,891,402	1,518,810	(2,744,192)
Basic Earnings (Loss) per Share	**RMB0.67138**	RMB0.45804	RMB0.36263	RMB0.25452	RMB(0.36603)
Diluted Earnings per Share	**RMB0.66870**	RMB0.45605	RMB0.35931	RMB0.25219	N/A
Statement of Financial Position Data:					
Non-current Assets	**12,466,261**	9,640,197	6,779,030	6,121,936	4,894,177
Current Assets	**6,524,002**	6,417,359	6,031,623	7,098,192	6,570,873
Current Liabilities	**(6,792,518)**	(6,857,184)	(6,571,866)	(7,961,617)	(7,311,781)
Non-current Liabilities	**(56,400)**	(1,900)	(1,600)	(2,000)	(424,688)
Non-controlling Interests	**873,935**	816,094	752,115	1,068,815	1,293,432
Shareholders' Equity	**13,015,280**	10,014,566	6,989,302	6,325,326	5,022,013

Note:

The figures for 2009 included the continuing operations and discontinued operations of the Group.

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors, I hereby present the annual results of Brilliance China Automotive Holdings Limited for the year ended 31st December, 2013.

Despite a gentle easing of the national economic growth in the year 2013, China's automobile sector growth accelerated, realising total sales volume of 21.98 million units, or an increase of 13.9% over the previous year, according to the China Association of Automobile Manufacturers. Of these, 17.9 million units were passenger vehicles, reflecting growth of 15.7% for this segment compared to 2012. The luxury passenger vehicle segment in China has maintained its growth momentum and continued to outperform, registering a growth of approximately 20% during the year.

The year 2013 continued to be a busy but fruitful year for the Group. Our BMW joint venture, BMW Brilliance Automotive Ltd. ("**BMW Brilliance**"), celebrated its 10th year anniversary in July 2013. In 2013, BMW Brilliance again delivered impressive results with a 47.7% increase in profit contribution in conjunction with a 28.5% increase in sales volume. The BMW joint venture also continued with its production capacity expansion which allows for production of up to 400,000 vehicles annually. The highly advanced Tiexi plant has been designed to provide maximum production flexibility in terms of further capacity expansion as well as adjustments between products. In terms of new products, the new China-only 5-series long-wheelbase facelift model and an additional 3-series variant the 316i were both introduced into the market in the second half of the year. Additional new BMW products to be localized in the future are also under planning with an aim to enrich the joint venture's product portfolio and broaden its segment reach in China. The strong sales momentum of our products will continue to be supported by the rapid rollout of our dealer network, which had reached 420 outlets nationwide as at the end of 2013. With such a vast distribution network, BMW Brilliance is redirecting additional resources and focus on the cultivation of competencies in dealer network management and aftersale service provision. Our joint venture's sales activities are also supported by the BMW auto finance company which is expected to continue to contribute profits to the joint venture.

In addition, in November 2013, BMW Brilliance also marked a new milestone on its course of localization with the launch of ZINORO 1E, the first product under the joint venture's new local brand, which was well received by the market. This new product is the first new energy vehicle ("**NEV**") developed by a Chinese premium manufacturer. It demonstrates BMW Brilliance's capability in mastering the latest NEV technology in the areas of product development, testing and production. It is also an important part of the joint venture's strategy to continually deepen its local roots in China, and it further underpins BMW Brilliance's commitment to long-term success and to the future of local R&D and NEV development in China.

Over the past 10 years, BMW Brilliance has achieved remarkable performance by riding on the dynamic growth of the Chinese economy, and has successfully built up BMW as one of the most desirable premium auto brands in China while establishing a world-class production base in Shenyang. The joint venture has continued to refine its business model and product strategy to cater to the needs of the Chinese consumers, leveraging on the strong support and amicable cooperation of its shareholders. However, BMW Brilliance is not complacent with its achievements so far. In preparation for further competition in the premium segment, the joint venture is currently implementing various operational measures and changes, while the shareholders are reviewing potential future opportunities for further growth of BMW Brilliance, all in an effort to attain long-term sustainability and to properly position the joint venture to meet future market changes and challenges.

As for the minibus business, the new premium MPV model co-developed with our strategic partners and external consultants is targeted for market launch at the end of 2014. Therefore, the year 2014 will remain challenging for this business, and it is likely that the minibus operation will pose a negative financial impact to the Group's overall performance for the year. In addition to the new model being developed, we are concurrently studying various options to augment our minibus portfolio over time.

Apart from the above, the Group continues to look for ways to further streamline our operation and to strengthen our corporate structure as our operations continue to grow. The Group is also on the lookout for new business opportunities as a means to further expand our income base.

Last but not least, I would like to express my sincere appreciation to our shareholders, business partners, management team and employees for their continued support and dedication to the Group.

Xiaoan Wu

Wu Xiao An
(also known as Ng Siu On)
Chairman
27th March, 2014

Management's Discussion & Analysis

BUSINESS REVIEW

The consolidated net sales of the Group (which represent primarily those derived from the minibus business and major operating subsidiaries such as Shenyang Brilliance JinBei Automobile Co., Ltd. ("**Shenyang Automotive**") and Shenyang XingYuanDong Automobile Component Co., Ltd. ("**Xing Yuan Dong**")) for the year ended 31st December, 2013 was RMB6,103.5 million, representing a 3.2% increase from RMB5,916.0 million for the year ended 31st December, 2012. The slight increase in net sales was primarily due to an increase in automotive components sales while the sales of minibus products remained relatively stable. Component sales accounted for 18.7% of revenue for the year ended 31st December, 2013 as compared to 15.9% in 2012.

Shenyang Automotive sold 83,747 minibuses in 2013, which was at a similar level to the 82,506 minibuses sold in 2012. Of these minibuses sold, 70,211 units were Haise minibuses, representing a slight 1.7% decrease from the 71,461 units sold in 2012. On the other hand, unit sales of Granse minibuses increased by 22.6% from 11,045 units in 2012 to 13,536 units in 2013. The increase in Granse minibus sales volume in 2013 was primarily due to favorable impact from advertising campaigns held during the year.

Cost of sales increased by 3.8% from RMB5,219.8 million in 2012 to RMB5,417.0 million in 2013 which is slightly higher than the increase in net sales due to higher material and manufacturing costs in 2013. The gross profit margin of the Group has dropped from 11.8% in 2012 to 11.2% in 2013 due to higher costs and pricing pressure caused by intense competition in the minibus segment, the effect of which was partially offsetted by RMB70.4 million of government subsidies recorded during the year.

Other income increased by 90.9% from RMB50.4 million in 2012 to RMB96.2 million in 2013. The increase was primarily due to gains realised from the disposals of certain property, plant and equipment during the year.

Interest income decreased by 36.9% from RMB74.3 million in 2012 to RMB46.9 million in 2013. The decrease was mainly due to the settlement in 2013 of the balance due from Huachen for the disposal of Zhonghua business. There was an imputed interest of RMB28 million from this due from Huachen balance in 2012.

Selling expenses increased by 12.8% from RMB539.2 million in 2012 to RMB608.4 million in 2013. Selling expenses as a percentage of turnover has increased to 10.0% for 2013 from 9.1% in 2012. The increase was driven mainly by increases in the costs of transportation and advertising during the year.

General and administrative expenses increased by 17.9% from RMB338.7 million in 2012 to RMB399.4 million in 2013. The increase was primarily driven by an impairment provision of RMB40 million provided for the amount due from an affiliated company and exchange loss of RMB32 million.

Finance costs decreased by 20.5% from RMB174.3 million in 2012 to RMB138.6 million in 2013 primarily due to decreased financing from discounting bank guaranteed notes during the year.

The Group's share of results of joint ventures increased by 41.7% from RMB2,433.8 million in 2012 to RMB3,448.3 million in 2013. This was primarily attributable to the increased profits contributed by BMW Brilliance, the Group's 50% indirectly owned joint venture.

Net profits contributed to the Group by BMW Brilliance increased by 47.7% from RMB2,325.2 million in 2012 to RMB3,435.3 million in 2013. The BMW joint venture achieved sales of 206,729 BMW vehicles in 2013, an increase of 28.5% as compared to 160,849 BMW vehicles sold in 2012. The 2013 sales volumes of the locally produced 3-series, 5-series and X1 were 60,954 units, 123,463 units and 22,312 units, respectively, compared to 34,766 units, 105,600 units and 20,483 units, respectively, for 2012.

The Group's share of results of associates increased by 109.9% from RMB92.0 million in 2012 to RMB193.1 million in 2013. This was primarily attributable to the reclassification of Xinchen China Power Holdings Limited from a joint venture to an associate after its listing on the Stock Exchange of Hong Kong in March 2013.

The Group recorded profit before taxation of RMB3,324.7 million in 2013, which represents a 44.9% increase compared to RMB2,294.6 million for 2012.

Income tax expense was RMB8.4 million for 2013, which represents a 85.4% decrease from the RMB57.6 million recorded for 2012. The significant decrease was due to the reversal of deferred tax assets of RMB50 million in 2012.

For the year 2013, the net income attributable to equity holders of the Company was RMB3,374.2 million, representing a 46.6% increase from RMB2,301.0 million for 2012. Basic earnings per share in 2013 amounted to RMB0.67138, compared to RMB0.45804 in 2012.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2013, the Group had RMB903.3 million in cash and cash equivalents (31st December, 2012: RMB836.5 million), RMB173.9 million in short-term bank deposits (31st December, 2012: RMB57.6 million) and RMB1,039.5 million in pledged short-term bank deposits (31st December, 2012: RMB1,054.9 million). The Group had notes payable of RMB1,298.3 million (31st December, 2012: RMB1,708.2 million) and outstanding short-term bank borrowings of RMB1,528.2 million (31st December, 2012: RMB1,119.0 million), but no long-term bank borrowings outstanding as at 31st December, 2013 (31st December, 2012: Nil).

CONTINGENT LIABILITIES

On 8th November, 2012, a member of the Group and Shenyang JinBei Automotive Co., Ltd. ("**JinBei**") entered into an agreement for the provision of cross guarantee in respect of each other's banking facilities in the maximum amount of RMB600 million (2012: RMB600 million) from 1st January, 2013 to 31st December, 2013. As at 31st December, 2013, under this agreement, JinBei and its subsidiaries had outstanding bank loans and other banking facilities totalling RMB526.5 million (As at 31st December, 2012: RMB578.5 million) of which RMB200 million (As at 31st December, 2012: RMB200 million) and RMB326.5 million (As at 31st December, 2012: RMB378.5 million) were supported by the Group's bank deposits pledged to and corporate guarantee provided to the banks, respectively. On 17th December, 2013, an agreement was entered into by both parties to provide cross guarantee for the same amount to each other from 1st January, 2014 to 31st December, 2014.

In addition, the Group had provided a corporate guarantee in the maximum amount of RMB100 million (As at 31st December, 2012: RMB100 million) from 1st January, 2013 to 31st December, 2013 for revolving bank loans and bank guaranteed notes to Shanghai Shenhua Holdings Co., Ltd. ("**Shanghai Shenhua**"). As at 31st December, 2013, RMB60 million (As at 31st December, 2012: RMB60 million) of this corporate guarantee was utilised by Shanghai Shenhua.

GEARING RATIO

As at 31st December, 2013, the gearing ratio, computed by dividing total liabilities by total equity attributable to equity holders of the Company, was approximately 0.53 (31st December, 2012: 0.68). The decrease in the gearing ratio was primarily due to (a) the increase in total equity attributable to equity holders of the Company as a result of a significant increase of profit attributable to equity holders of the Company this year, and (b) the relatively stable total liabilities in 2013, as compared to last year.

FOREIGN EXCHANGE RISKS

As the overseas sales of the Group increases, the Group considers that exchange rate fluctuations have started to have some effect on the overall financial performance of the Group but it is at a manageable level. In the future, the Group may consider entering into hedging transactions through exchange contracts in order to minimise foreign exchange risks, if and when necessary. There were no outstanding hedging transactions as at 31st December, 2013 (31st December, 2012: Nil).

EMPLOYEES AND REMUNERATION POLICY

The Group employed approximately 6,600 employees as at 31st December, 2013 (31st December, 2012: approximately 6,400). Employee costs amounted to approximately RMB579.1 million for the year ended 31st December, 2013 (31st December, 2012: approximately RMB531.3 million). The Group will endeavour to ensure that the salary levels of its employees are in line with industry practices and prevailing market conditions and that employees' remuneration is based on performance. In addition, employees are eligible for share options under the share option scheme adopted by the Company. More details in respect of the Company's emolument policy and the basis for determining the emolument payable to the Company's directors are set out in note 10(b) to the financial statements.

Directors, Senior Management and Company Secretary

EXECUTIVE DIRECTORS

Mr. Wu Xiao An (also known as Mr. Ng Siu On), aged 52, has been the chairman of the board of directors (the "**Board**") of the Company since 18th June, 2002 and our executive director since 11th January, 1994. He is also a member of the remuneration committee and nomination committee of the Company. Mr. Wu 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. He was the vice chairman and the chief financial officer of the Company from January 1994 to June 2002. He has been a director of Huachen Automotive Group Holdings Company Limited ("**Huachen**") since October 2002, a director of Shenyang Automotive since January 1994, and the chairman of BMW Brilliance 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 (now known as Beijing Foreign Studies University) in 1985 and a master of business administration degree from Fordham University in New York in 1992. Currently, Mr. Wu is the chairman of the board of directors of Xinchen China Power Holdings Limited ("**Power Xinchen**", a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (stock code: 1148)). In March 2011, Mr. Wu was appointed as a director and in April 2012 designated as an executive director of Power Xinchen.

Mr. Qi Yumin, aged 54, has been an executive director, the president and the chief executive officer of the Company since 6th January, 2006. He is also a member of the remuneration committee and nomination committee of the Company. Mr. Qi has served as the chairman and president of Huachen since December 2005. Since January 2006, he has been appointed as the chairman and a director of Shenyang Automotive and since November 2006, Mr. Qi has been a director of BMW Brilliance. From 1982 to 2004, Mr. Qi held various positions in Dalian Heavy Industries Co., Ltd., 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 (formerly known as Shanxi Institute of Mechanical Engineering) 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 in April 2004. He was qualified as a senior engineer (professor level) by the Personnel Department of Liaoning Province in December 1992. In November 2011, Mr. Qi was appointed as a director and in April 2012 designated as a non-executive director of Power Xinchen. Since May 2009 and April 2009, he has been appointed as the chairman and a director of JinBei (stock code: 600609) and Shanghai Shenhua (stock code: 600653), respectively, both of which are companies listed on the Shanghai Stock Exchange.

Mr. Wang Shiping, aged 57, has been an executive director of the Company since 16th September, 2005. Mr. Wang has been appointed as a director of Shenyang Automotive since July 2005 and the vice president of Huachen since March 2005. Mr. Wang was previously the deputy head engineer of Radiator Branch Company of China First Automobile Group Corporation, the general manager of FAW-ZEXEL Air-Condition Branch Company, the deputy general manager and director of Strategic Planning of Fawer Automobile Part Co., Ltd. Mr. Wang is a senior engineer (researcher) in corporate management. He graduated from Anshan Iron & Steel University in 1982 with a bachelor's degree in engineering. He also received a master's degree in business economics from the Graduate School of the Chinese Academy of Social Sciences in 1998. Since November 2010 and December 2005, Mr. Wang has been appointed as a director of JinBei and Shanghai Shenhua, respectively.

Mr. Tan Chengxu, aged 50, has been an executive director of the Company since 10th November, 2010. Mr. Tan has been appointed as a director and the vice president of Huachen since March 2010, and a director and the vice chairman of Shenyang Automotive since June 2011. Mr. Tan is a senior engineer. Mr. Tan was a tutor of Dalian Railway Institute (now known as Dalian Jiaotong University) from August 1985 to December 1986. He was working in Dalian Locomotive and Rolling Stock Co. Ltd. from December 1986 to March 2005. Mr. Tan was a deputy director of the Economic Committee of Liaoning Provincial Government of the People's Republic of China (the "**PRC**") from March 2005 to March 2009 and a deputy director of the Liaoning Provincial Economy and Informatization Commission of the PRC from March 2009 to March 2010. Mr. Tan obtained a bachelor's degree in mechanical engineering from Dalian Railway Institute (now known as Dalian Jiaotong University) in 1985. He was awarded a master's degree in business administration and a doctorate degree in management by Dalian University of Technology in 2001 and 2007, respectively. Since September 2010, Mr. Tan has been appointed as a director of JinBei.

NON-EXECUTIVE DIRECTOR

Mr. Lei Xiaoyang, aged 57, has been a non-executive director of the Company since 1st July, 2008. Mr. Lei was a non-executive director of the Company from June 2003 to June 2005, an executive director of the Company from June 2005 to June 2008 and the chief financial officer of the Company from October 2006 to June 2008. Mr. Lei has been appointed as a director of Shenyang Automotive since November 2006 and the senior vice president finance and chief financial officer of BMW Brilliance since May 2008. He has been appointed as the vice president of Huachen since June 2011 and the chief legal counsel to Huachen since June 2006. Mr. Lei was the assistant president of Liaoning International Trust and Investment Corporation from June 1996 to September 2002, and was in charge of the financing department, the accounting department, the strategic planning department and the international finance department. Mr. Lei holds a bachelor's degree in engineering from Shenyang Polytechnic University and a master's degree in finance from Liaoning University as well as a master's degree in business administration from Roosevelt University. Since November 2010 and June 2006, Mr. Lei has been appointed as a director of JinBei and Shanghai Shenhua, respectively.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xu Bingjin, aged 74, has been an independent non-executive director of the Company since 27th June, 2003 and his further appointment as an independent non-executive director of the Company was approved by our shareholders at the annual general meeting held on 18th May, 2012. Mr. Xu is also the chairman of the audit committee, remuneration committee and nomination committee of the Company. Mr. Xu is currently the president of The Association of Sino-European Economic and Technical Cooperation. He was formerly an assistant minister of The Ministry of Foreign Economic and Trade Cooperation, the deputy director of the Office of National Mechanic and Electronic Products Importation and Exportation and the vice president of the World Trade Organization Research Association. Mr. Xu received a bachelor's degree in engineering economics from Jilin University of Technology in 1964 and holds the title of senior engineer. Since September 2004, Mr. Xu has been appointed as an independent non-executive director of Qingling Motors Co. Ltd. (stock code: 1122), a company listed on the Main Board of the Stock Exchange.

Mr. Song Jian, aged 57, has been an independent non-executive director of the Company since 17th September, 2004. He is also a member of the audit committee, remuneration committee and nomination committee of the Company. Mr. Song is currently the dean of the Automotive Technology Institute at Tsinghua University, the vice director of the National Laboratory in Automotive Safety and Energy and an expert consultant to the Beijing Government. Mr. Song was formerly the deputy dean of the automotive engineering department at Tsinghua University. In 1998, Mr. Song received the Award for Outstanding Science and Technology Persons in the China Automotive Industry. In 2005, he was ranked first in the Class One China Automotive Industry and Technology Advancement Award. In 2006, Mr. Song was named jointly by The China Association of Automotive Industry, The China Society of Automotive Engineering and The China Automotive News as the best chief designer of the automobile industry in the PRC. In 2008, Mr. Song was awarded "The Outstanding People of the China Automotive Industry: Commemorating the 30th Anniversary of China's Reform and Opening-up". In 2009, Mr. Song won "China Academic Award for Creative Talents of Automotive Industry – First Prize" from the State Ministry of Education. Mr. Song holds a bachelor's degree and a doctorate, both in engineering science, from Tsinghua University. He is currently a professor of the automotive engineering department at Tsinghua University. Since May 2010, Mr. Song has been appointed as an independent non-executive director of Hybrid Kinetic Group Limited (stock code: 1188), a company listed on the Main Board of the Stock Exchange.

Mr. Jiang Bo, aged 54, has been an independent non-executive director of the Company since 27th September, 2004. He is also a member of the audit committee, remuneration committee and nomination committee of the Company. Mr. Jiang is a certified public accountant and a certified public valuer in the PRC. Currently, Mr. Jiang is a managing partner of RuiHua Certified Public Accountants in the PRC. He was a director of Dandong Zhongpeng Accounting Firm from 1993 to 1999. Mr. Jiang has approximately 20 years of experience in auditing financial statements of companies listed on the PRC stock exchanges. Mr. Jiang has been a certified public valuer since 1998 and has been involved in asset appraisals of companies in preparation for listing in the PRC. He has participated in various listing projects of state-owned enterprises in the PRC and overseas and has gained experience in reviewing and analyzing the audited financial statements of companies listed in the PRC. Mr. Jiang has worked with one of the "Big-4" international accounting firms in the auditing of a state-owned enterprise. Mr. Jiang holds a bachelor of science degree in mathematics from Liaoning University and a diploma in accounting from Central Finance and Economics University. Since July 2007, Mr. Jiang has been appointed as an independent non-executive director of China HealthCare Holdings Limited (stock code: 673), a company listed on the Main Board of the Stock Exchange.

Directors, Senior Management and Company Secretary (Cont'd)

SENIOR MANAGEMENT

Mr. Qian Zuming, aged 51, has been the chief financial officer of the Company since 1st July, 2008. Mr. Qian has been appointed as an assistant to the president of Huachen since December 2009 and a director of Shenyang Automotive since January 2010. Mr. Qian is a fellow of the Institute of Financial Accountants of the United Kingdom. He is also an academic member of the Association of International Accountants. Mr. Qian holds a master's degree in finance from the Graduate School, The Chinese Academy of Social Sciences and a master's degree in business administration from The Wisconsin International University (USA), Ukraine.

Ms. Lisa Ng has been a senior vice president of the Company since October 2006, with primary responsibilities in investor relations, capital market transactions, and financial reporting review. In addition, she is also the company secretary to the board of directors and audit and compliance committee of BMW Brilliance. Ms. Ng is a qualified Chartered Accountant with the Canadian Institute of Chartered Accountants. Ms. Ng graduated from the University of Waterloo with a bachelor of arts (honours) degree in chartered accountancy. She is also a graduate from the Schulich School of Business of York University with a master of business administration degree majoring in corporate finance. Ms. Ng has extensive experience spanning from public accounting to corporate finance and private equity. Prior to joining the Group, she had spent seven years with AIG Global Investment Corp. (Asia) Ltd. and was responsible for the sourcing and execution of private equity investments. She was also a member of the Listing Division of The Hong Kong Exchanges and Clearing Limited, as well as an auditor with Ernst & Young in Canada.

Ms. Huang Yu is currently the vice president and chief accountant of the Company. Ms. Huang has worked for Shenyang Automotive as a financial analyst and internal auditor from July 1999 to June 2000, and worked as a manager of the financial center of the Group from June 2002 to April 2007. She was appointed as the qualified accountant of the Company from May 2007 to January 2009 pursuant to the requirements set out in the Listing Rules. She has been the chief accountant of the Company since May 2007. Ms. Huang graduated with a bachelor's degree and a master's degree, both in economics, from South Western University of Finance and Economics. She is a certified public accountant of the PRC and also a member of the Association of Chartered Certified Accountants. Ms. Huang also obtains the qualifications to be a lawyer in the PRC.

Mr. Wang Tao, aged 58, has served as general manager of Shenyang Automotive since February 2012. During the period from 1991 to 2011, Mr. Wang served as executive vice general manager of Jinbei GM Automotive Co., Ltd., general manager of Jinbei Automotive Materials Corporation, general dispatcher (in charge of production) of FAW Jinbei Automobile Co., Ltd., executive vice general manager of JinBei and executive vice general manager of Brilliance Zhonghua Automotive Co., Ltd.. Mr. Wang graduated with a bachelor's degree in economic management from Liaoning Provincial Party School in 1991.

COMPANY SECRETARY

Ms. Lam Yee Wah Eva has been the company secretary of the Company since 20th June, 2005. Ms. Lam is an associate of The Hong Kong Institute of Chartered Secretaries and an associate of The Institute of Chartered Secretaries and Administrators. Ms. Lam graduated from The City University of Hong Kong with a bachelor of arts (honours) degree in public and social administration. She was also awarded a postgraduate diploma in corporate administration by The City University of Hong Kong. Prior to joining the Company in March 2004, Ms. Lam worked in the company secretarial department of Hang Seng Bank Limited (stock code: 11) and Tom.com Limited (now known as TOM Group Limited (stock Code: 2383)), both of which are listed on the Stock Exchange. Ms. Lam also has five years' working experience in the company secretarial department of Ernst & Young, a certified public accountants firm in Hong Kong.

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 Company is a holding company. The principal activities of the Group are the manufacture and sale of BMW vehicles in the PRC through its major joint venture, BMW Brilliance, and manufacture and sale of minibuses and automotive components through its subsidiaries. The principal activities of the Company's subsidiaries are set out in note 16 to the financial statements.

Prior to May 1998, the Company's sole operating asset was its interests in Shenyang Automotive. As a result, the Company's historical results of operations had been primarily driven by the sales price, sales volume and cost of production of Shenyang Automotive's minibuses. With a view to maintain quality, ensure a stable supply of certain key components and develop new businesses and products, the Company has acquired interests in various suppliers of components and established joint ventures in the PRC since May 1998. With additional investments and joint ventures, the Company's income base has since been broadened and its financial performance has been diversified from that of Shenyang Automotive.

In May 1998, the Company acquired indirect interests in two automotive components suppliers in the PRC: a 51% equity interest in Ningbo Yuming Machinery Industrial Co., Ltd. ("**Ningbo Yuming**"), which primarily engaged in the production of automobile window molding, stripping and other auto components; and a 50% equity interest in Mianyang Xinchen Engine Co., Ltd. ("**Mianyang Xinchen**"), which primarily engaged in the development, manufacturing and sale of light-duty gasoline and diesel engines for use in passenger vehicles and light commercial vehicles. In October 1998, June 2000 and July 2000, the Company established Xing Yuan Dong, Ningbo Brilliance Ruixing Auto Components Co., Ltd. ("**Ningbo Ruixing**") and Mianyang Brilliance Ruian Automotive Components Co., Ltd. ("**Mianyang Ruian**"), respectively, as its wholly owned subsidiaries to centralize and consolidate the sourcing of auto parts and components for Shenyang Automotive. In 2001, in order to maintain their eligibility for preferential tax treatment from the PRC government, all three companies began manufacturing automotive components as well. Subsequently in 2004, the Company acquired the remaining 49% equity interest in Ningbo Yuming which became a wholly owned subsidiary of the Company on 25th November, 2004.

In December 2000, the Company acquired a 50% equity interest in Shenyang Xinguang Brilliance Automobile Engine Co., Ltd., a Sino-foreign equity joint venture primarily engaged in the manufacturing of gasoline engines for use in passenger vehicles. In December 2001, the Company acquired a 100% equity interest in Shenyang Brilliance Dongxing Automotive Component Co., Ltd. ("**Dongxing Automotive**"), a foreign-invested manufacturer of automotive components in the PRC.

On 18th April, 2002, Shenyang Jindong Development Co., Ltd. ("**Shenyang Jindong**") was established for the purpose of trading automotive components in the PRC. Currently, it is indirectly beneficially owned as to 80.45% by the Company.

In May 2002, Shenyang Automotive obtained the approval from the Chinese Government to produce and sell Zhonghua sedans in the PRC. The Zhonghua sedans were launched in August 2002. The Zhonghua sedan business was disposed of to Huachen in December 2009.

On 27th March, 2003, the Company, through its indirect subsidiary, Shenyang JinBei Automotive Industry Holdings Co., Ltd. ("**SJAI**"), entered into a joint venture contract with BMW Holding BV to produce and sell BMW-designed and branded sedans in the PRC. The registered capital and total investment cost of the joint venture, BMW Brilliance, is Euro 150 million and Euro 450 million, respectively. At that time, the Company's effective interests in SJAI and BMW Brilliance were 81% and 40.50%, respectively. On 28th April, 2003, the Company increased its effective interests in SJAI from 81% to 89.10% and thereby increased its effective interests in BMW Brilliance from 40.50% to 44.55%. On 16th December, 2003, the Company further increased its effective interests in SJAI from 89.10% to 99% and thereby increased its effective interests in BMW Brilliance from 44.55% to 49.50%. Subsequently on 26th January, 2010, the Company entered into an agreement to increase its effective interests in SJAI from 99% to 100%. As a result, the Company's effective interests in BMW Brilliance was increased to 50%. The locally produced BMW sedans were formally launched in the PRC in the fourth quarter of 2003. BMW Brilliance commenced production and sale of BMW SUVs in the PRC in early 2012.

In June 2003, the Company established Shenyang ChenFa Automobile Component Co., Ltd. ("**Shenyang ChenFa**"), a wholly foreign-owned enterprise in the PRC, for the development, manufacture and sale of engine components in China. In December 2011, the Company completed the disposal of 75% equity interests in Shenyang ChenFa to an independent third party. Currently, Shenyang ChenFa is directly held as to 25% by the Company.

On 29th December, 2003, the Company entered into agreements in relation to the proposed acquisition of an indirect 40.1% interest in JinBei, the joint venture partner of Shenyang Automotive and a supplier of automotive components for the Group's minibuses. JinBei is an A-share company listed on the Shanghai Stock Exchange. As a result of JinBei's share reform, which took place in August 2006, all issued shares of JinBei were converted into tradable shares on the Shanghai Stock Exchange. The Company's prospective 40.10% interest in JinBei was reduced to 33.35%.

On 16th April, 2004, Shanghai Hidea Auto Design Co., Ltd. ("**Shanghai Hidea**") was established for the design of automobiles. Currently, Shanghai Hidea is indirectly beneficially owned as to 70.68% by the Company.

On 13th December, 2004, the Company, together with Shenyang Automotive, established Shenyang Brilliance Power Train Machinery Co., Ltd. ("**Shenyang Brilliance Power**") which principally engages in the manufacture and sale of power trains in China. In October 2009, Shenyang Automotive agreed to transfer its entire interests in Shenyang Brilliance Power to Huachen. As a result, the Company's beneficially interests in Shenyang Brilliance Power decreased from 75.01% to 49%.

On 28th October, 2009, Shenyang Automotive entered into a business transfer agreement with Huachen pursuant to which Huachen agreed to acquire from Shenyang Automotive certain assets, liabilities, employees and business contracts in relation to the businesses of manufacture and sale of Zhonghua sedans operated by Shenyang Automotive. Completion of the disposal of the Zhonghua sedan business took place on 31st December, 2009. Subsequent to the completion of the disposal, the Group no longer has any interests in the Zhonghua sedan business. Starting from January 2010, the operating business of the Group is the manufacture and sale of minibuses and automotive components through its subsidiaries, and the manufacture and sale of BMW vehicles through its major joint venture, BMW Brilliance, in the PRC.

On 15th April, 2011, Shenyang XinJinBei Investment and Development Co., Ltd., an indirectly wholly-owned subsidiary of the Company, entered into a share transfer agreement with an independent third party for acquiring 9.9% equity interest in Shenyang Automotive. Upon completion of the acquisition in July 2011, the Company's effective interests in Shenyang Automotive was increased from 51% to 60.90%.

Mianyang Xinchen was formerly a Sino-foreign equity joint venture in the PRC owned as to 50% by each of Southern State Investment Limited, a wholly owned subsidiary of the Company, and Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited. Subsequent to the completion of group restructuring in August 2011 and pre-IPO investment in October 2011 and immediately before the global offering which took place in March 2013, Mianyang Xinchen was indirectly held as to 100% by Power Xinchen which was in turn indirectly held as to 42.544% by the Company. On 13th March 2013, the shares of Power Xinchen were listed on the Main Board of the Stock Exchange with 313,400,000 new shares subscribed by the public at an offer price of HK$2.23 per share. Following the listing of Power Xinchen in March 2013 and the partial exercise of an over-allotment option for issue of 33,808,000 additional shares of Power Xinchen in April 2013, the indirect shareholding of the Company in Power Xinchen decreased from 42.544% to 31.070%.

TURNOVER AND CONTRIBUTION

The Group's turnover and contribution to profit from operations for the year ended 31st December, 2013, analysed by product category, are as follows:

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW vehicles RMB'000	Reconciliation to the Group's income statement RMB'000	Total RMB'000
Segment sales to external customers	**6,103,487**	**73,172,504**	**(73,172,504)**	**6,103,487**
Segment results	**(119,892)**	**9,703,736**	**(9,703,736)**	**(119,892)**
Impairment losses on assets	**(48,051)**	**–**	**–**	**(48,051)**
Unallocated costs net of unallocated income				**(57,085)**
Interest income				**46,868**
Finance costs				**(138,568)**
Share of results of:				
Joint ventures	**13,050**	**3,435,293**	**–**	**3,448,343**
Associates	**193,114**	**–**	**–**	**193,114**
Profit before income tax expense				**3,324,729**

FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2013 are set out in the financial statements of the Group on pages 43 and 44.

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 page 49 and in note 35 to the financial statements.

DIVIDENDS

During the year under review, the directors have declared an interim dividend of HK$0.1 per ordinary share of the Company for the six months ended 30th June, 2013 to shareholders whose names appeared on the register of members of the Company as at 18th October, 2013 (Six months ended 30th June, 2012: Nil). The interim dividend was paid on 28th October, 2013.

The directors did not recommend the payment of a final dividend in respect of the year ended 31st December, 2013 (31st December, 2012: Nil).

CLOSURE OF REGISTER OF MEMBERS

The Company's forthcoming annual general meeting will be held on Friday, 30th May, 2014 at 9:00 a.m. (the "**2014 AGM**"). Notice of the 2014 AGM, which constitutes part of the circular to shareholders, is sent together with this annual report. The notice of the 2014 AGM and the proxy form are also available on the website of the Company.

The Hong Kong branch register of members of the Company will be closed from Wednesday, 28th May, 2014 to Friday, 30th May, 2014, both days inclusive, during which period no transfer of shares will be registered. The record date for the 2014 AGM is Friday, 30th May, 2014. Only shareholders of the Company whose names appear on the register of members of the Company on Friday, 30th May, 2014 or their proxies or duly authorised corporate representatives are entitled to attend the 2014 AGM. In order to qualify for attending the 2014 AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 27th 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.

RESERVES

Movements in the reserves of the Group and the Company during the year ended 31st December, 2013 are set out in note 33 to the financial statements.

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 14 to the financial statements.

SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Particulars of the subsidiaries, joint ventures and associates are set out in notes 16, 17 and 18, respectively to the financial statements.

SHARE CAPITAL

Details of the Company's share capital as of 31st December, 2013 are set out in note 32(a) to the financial statements.

SHARE OPTIONS

At a special general meeting held on 11th November, 2008, shareholders of the Company adopted a share option scheme (the "**Share Option Scheme**"). The Share Option Scheme came into effect on 14th November, 2008.

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 US$0.01 each (the "**Shares**") of the Company: (a) any eligible employee as defined in the Share Option Scheme; (b) any non-executive director (including 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; and (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.

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 10% of the Shares in issue as at the date of approval of the Share Option Scheme (i.e. 366,976,590 Shares, representing 7.30% of the total number of Shares in issue as at the date of this annual report).

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 in respect of any option granted under the Share Option Scheme shall be a price determined by the directors, 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 of the Company.

The Share Option Scheme will remain in force for a period of 10 years from 14th November, 2008. The period during which an option may be exercised will be determined by the directors in their absolute discretion, save that no option shall be exercised later than 10 years from the date of grant.

A summary of movements of the share options of the Company under the Share Option Scheme during the year ended 31st December, 2013 is set out below:

		Number of share options							
Category and name of participants	Date of grant	Outstanding as at 1st January, 2013	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31st December, 2013	Option period	Subscription price per Share (HK$)
Directors									
Mr. Qi Yumin	22nd December, 2008 *(Note)*	4,500,000	–	–	–	–	4,500,000	22nd December, 2008 – 21st December, 2018	0.438
Mr. Wang Shiping	22nd December, 2008 *(Note)*	1,500,000	–	–	–	–	1,500,000	22nd December, 2008 – 21st December, 2018	0.438
Mr. Lei Xiaoyang	22nd December, 2008 *(Note)*	1,500,000	–	–	–	–	1,500,000	22nd December, 2008 – 21st December, 2018	0.438
Employees (in aggregate)	22nd December, 2008 *(Note)*	12,000,000	–	–	–	–	12,000,000	22nd December, 2008 – 21st December, 2018	0.438
Others (in aggregate)	22nd December, 2008 *(Note)*	1,500,000	–	–	–	–	1,500,000	22nd December, 2008 – 21st December, 2018	0.438
Total		21,000,000	–	–	–	–	21,000,000		

Note: The share options were granted on 22nd December, 2008 and vested immediately upon the grant and are exercisable within a period of 10 years. The closing price of the Shares immediately before the date on which the share options were granted is HK$0.445 per Share.

As no share options have been granted by the Company under the Share Option Scheme for the year ended 31st December, 2013, no expenses were recognised 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 are:

Executive directors:

Mr. Wu Xiao An *(chairman of the Board)*
Mr. Qi Yumin *(chief executive officer)*
Mr. Wang Shiping
Mr. Tan Chengxu

Non-executive director:

Mr. Lei Xiaoyang

Independent non-executive directors:

Mr. Xu Bingjin
Mr. Song Jian
Mr. Jiang Bo

Pursuant to bye-law 99 and the code provision A.4.2 of Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), Mr. Lei Xiaoyang, Mr. Song Jian and Mr. Jiang Bo will retire by rotation at the 2014 AGM.

Pursuant to code provision A.4.3 of Appendix 14 to the Listing Rules, if an independent non-executive director serves more than 9 years, his/her further appointment should be subject to a separate resolution to be approved by shareholders. Mr. Song Jian and Mr. Jiang Bo were appointed as our independent non-executive directors on 17th September, 2004 and 27th September, 2004, respectively. Accordingly, separate resolutions will be submitted to the 2014 AGM to seek shareholders' approval to retain Mr. Song Jian and Mr. Jiang Bo as our independent non-executive directors. The reasons why the Board considers Mr. Song Jian and Mr. Jiang Bo as independent and why they should be re-elected are included in the circular sent to the shareholders of the Company together with this annual report.

Each of Mr. Lei Xiaoyang, Mr. Song Jian and Mr. Jiang Bo, being eligible, will offer himself for re-election and the Board has recommended them for election at the 2014 AGM.

Details of the directors standing for re-election at the 2014 AGM 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 is known to the directors or chief executives of the Company, the following persons other than a director or chief executive of the Company had an interest or a short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (the "**SFO**"):

	Number of Shares held/ Approximate shareholding percentage *(Note 1)*					
Name of Shareholders	**Long Position**	**%**	**Short Position**	**%**	**Lending Pool**	**%**
Huachen *(Note 2)*	2,135,074,988	42.48	–	–	–	–
Templeton Asset Management Ltd. *(Note 3)*	843,947,947	16.79	–	–	–	–

Notes:

1. The percentage of shareholding is calculated on the basis of 5,025,769,388 Shares in issue as at 31st December, 2013.
2. The 2,135,074,988 Shares in long position were held in the capacity as beneficial owner.
3. The 843,947,947 Shares in long position were held in the capacity as investment manager.

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31st December, 2013, the interests and short positions of each director, chief executive 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:

The Company

Name of directors	Type of interests	Number of shares held Long Position	Number of shares held Short Position	Approximate shareholding percentage *(Note 1)*	Number of share options granted (Percentage of the Company's issued share capital) *(Note 2)*
Mr. Wu Xiao An	Personal	7,750,000	–	0.15%	–
Mr. Qi Yumin	Personal	–	–	–	4,500,000 (0.08%) *(Note 3)*
Mr. Wang Shiping	Personal	–	–	–	1,500,000 (0.02%) *(Note 3)*
Mr. Lei Xiaoyang	Personal	300,000	–	0.005%	1,500,000 (0.02%) *(Note 3)*

Notes:

1. The percentage of shareholding is calculated on the basis of 5,025,769,388 Shares in issue as at 31st December, 2013.

2. The percentage represents the number of Shares which may fall to be allotted and issued upon exercise of any subscription rights attaching to the share options granted by the Company based on the 5,025,769,388 Shares in issue as at 31st December, 2013.

3. These share options are exercisable at any time during the 10-year period from 22nd December, 2008 at the subscription price of HK$0.438 per Share.

Associated Corporations of the Company

Name of director	Name of associated corporation	Type of interests	Number of shares held Long Position	Short Position	Approximate shareholding percentage *(Note 1)*
Mr. Wu Xiao An	Power Xinchen	Trustee and interest in a controlled corporation *(Note 2)*	71,191,090	–	5.52%
		Beneficial interest (in the fixed trust) *(Note 3)*	4,992,025	–	0.38%
		Beneficial interest (in shares) *(Note 4)*	3,328,016	–	0.25%

Notes:

1. The percentage of shareholding is calculated on the basis of 1,287,407,794 shares in issue of Power Xinchen as at 31st December, 2013.

2. As at 31st December, 2013, Power Xinchen was indirectly held as to 31.07% by the Company. The 71,191,090 shares in long position are interests of a fixed trust and a discretionary trust under an incentive scheme of Power Xinchen. These two trusts altogether held 71,191,090 shares of Power Xinchen. Mr. Wu Xiao An is one of the trustees of the aforementioned trusts. Mr. Wu also held 50% interests in Lead In Management Limited which is also a trustee of the two trusts. Accordingly, Mr. Wu is deemed or taken to be interested in the 71,191,090 shares of Power Xinchen, representing approximately 5.52% of its issued share capital as at 31st December, 2013.

3. Mr. Wu Xiao An is a beneficial owner of 4,992,025 shares of Power Xinchen, representing approximately 0.38% of its issued share capital as at 31st December, 2013, held under the fixed trust referred to in note (2) above.

4. Mr. Wu Xiao An held 3,328,016 shares of Power Xinchen in the capacity of beneficial owner, representing approximately 0.25% of its issued share capital as at 31st December, 2013.

Save as disclosed above, as at 31st December, 2013, none of the directors, 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, 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 Mr. Wu Xiao An and Mr. Qi Yumin, both of whom are executive directors of the Company, has entered into a service agreement with the Company dated 1st January, 2012 for a term of three years commencing from 1st January, 2012.

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 employer within one year without payment of compensation, other than statutory compensation.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities in 2013.

ANALYSIS OF INTEREST CAPITALISED

Details of interest capitalised are set out in note 6 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda 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, excluding the Group's associates and joint ventures, represented approximately 54.55% of the Group's total turnover while the sales attributable to the Group's largest customer was approximately 26.51% of the Group's total turnover. The aggregate purchases attributable to the Group's five largest suppliers, excluding the Group's associates and joint ventures, during the year represented approximately 13.03% of the Group's total purchases and the purchases attributable to the Group's largest supplier represented approximately 10.98% of the Group's total purchases.

None of the directors, their associates or any shareholders that, to the knowledge of the directors owning 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, as at the date of this annual report, the Company maintains the prescribed percentage of public float under the Listing Rules.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

In 2013, the Group entered into certain related party transactions which also constitute connected transactions and continuing connected transactions under Chapter 14A of the Listing Rules. All the connected transactions and continuing connected transactions during the year are listed below and some of these transactions are also set out in note 34(a) to the financial statements. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. Announcements have been made on these connected transactions and continuing connected transactions and relevant shareholders' approvals have been obtained, if necessary.

Connected Transactions for 2013

– *The 2013 Cross Guarantee*

On 8th November, 2012, Xing Yuan Dong, a wholly-owned subsidiary of the Company, and JinBei entered into an agreement for the provision of cross guarantee in respect of each other's banking facilities in the maximum amount of RMB600 million for a term of one year commencing from 1st January, 2013 to 31st December, 2013 (the "**2013 Cross Guarantee**"). At the time of entering into the agreement, JinBei was interested in 39.1% of equity interests in Shenyang Automotive. Shenyang Automotive was then owned as to 60.9% by the Company. Accordingly, JinBei is a connected person of the Company under the Listing Rules. The 2013 Cross Guarantee constituted a connected transaction for the Company under the Listing Rules. It is subject to the reporting and announcement requirements but is exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Details of the 2013 Cross Guarantee are set out in the announcement of the Company dated 8th November, 2012. The 2013 Cross Guarantee is not a notifiable transaction under Chapter 14 of the Listing Rules.

As at 31st December, 2013, Xing Yuan Dong provided a guarantee in respect of JinBei's banking facilities in the amount of approximately RMB526.5 million.

Continuing Connected Transactions for 2013

– *Continuing Connected Transactions*

Currently, the Group is engaged in the manufacture and sale of BMW vehicles in the PRC through its major joint venture, BMW Brilliance, and manufacture and sale of minibuses and automotive components through its subsidiaries.

On 11th November, 2011,

(a) certain members of the Group entered into framework agreements relating to the purchases/sale of materials and automotive components from/to JinBei and its subsidiaries and associated companies (other than Shenyang Automotive) (altogether the "**JinBei Group**"), and the purchases/sale of materials and automotive components from/to Huachen and its subsidiaries and associated companies (altogether the "**Huachen Group**") for a period of three financial years ending 31st December, 2014;

(b) Shenyang Automotive and Huachen entered into a lease agreement in relation to the lease of composite office building and workshops with a total area of approximately 42,200 sq.m. by Shenyang Automotive from Huachen for a period of three financial years ending 31st December, 2014 at a rental price of approximately RMB5 million per annum, which is determined by reference to rental for premises of similar usage within the proximity; and

(c) the Company and Huachen entered into a comprehensive service agreement in relation to the provision/purchase of services by the Group to/from the Huachen Group for a period of three financial years ending 31st December, 2014. Services to be provided by members of the Group mainly include manual labour, design and technical support while services to be provided by members of the Huachen Group mainly include research and development support, and information technology support.

The framework agreements and the comprehensive service agreement only set out the overriding and major terms of the transactions to be carried out by relevant parties. Details of the terms and conditions (including payment mode and payment terms) for the transactions contemplated under the framework agreements will be dealt with in the purchase orders to be placed by the relevant purchaser, which will be in line with the company policies adopted by the relevant vendor from time to time and may be varied in accordance with the prevailing market situation. The scope and fees for services to be provided or purchased by members of the Group pursuant to the comprehensive service agreement will be agreed by the relevant parties with reference to the pricing policies of the relevant service provider and the prevailing market condition. All the payments under the framework agreements, the comprehensive service agreement and the lease agreement shall be settled in cash or note payable with credit terms ranging from 30 to 90 days, which is the usual credit term policy adopted by the Group.

At the time of entering into the aforementioned agreements, JinBei owned 39.1% of the equity interests of Shenyang Automotive, a 60.9% owned subsidiary of the Company. Being a substantial shareholder of a subsidiary of the Company, JinBei is considered as a connected person of the Company under the Listing Rules. The subsidiaries and associated companies of JinBei are associates of JinBei within the meaning of the Listing Rules and are accordingly considered as connected persons of the Company. Therefore, transactions between members of the Group (including Shenyang Automotive) on one part and members of the JinBei Group (other than Shenyang Automotive) on the other part constitute connected transactions under Rule 14A.13(1)(a) of the Listing Rules.

At the time of entering into of the aforementioned agreements, Huachen was interested in approximately 45.20% of the issued share capital of the Company and is regarded as a connected person of the Company. Transactions between the Group and the Huachen Group constitute connected transactions under Rule 14A.13(1)(a) of the Listing Rules.

The purchases of materials and automotive components from the JinBei Group, the sale of materials and automotive components to the Huachen Group, and the purchases of materials and automotive components from the Huachen Group are subject to reporting, announcement and independent shareholders' approval requirements as set out in Rule 14A.35 of the Listing Rules. At a special general meeting held on 20th December, 2011 (the "**2011 SGM**"), independent shareholders of the Company approved these transactions and the relevant proposed caps for the three financial years ending 31st December, 2014.

The provision of services to/by the Huachen Group is subject to the reporting and announcement requirements but is exempt from independent shareholders' approval requirements under Rule 14A.34 of the Listing Rules.

The sale of materials and automotive components to the JinBei Group and the leasing of premises from Huachen are de minimus transactions and are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Rule 14A.33 of the Listing Rules (the "**Exempted Transactions**").

Details of the aforementioned transactions are set out in the circular of the Company dated 2nd December, 2011.

Subsequently at a special general meeting held on 21st December, 2012 (the "**2012 SGM**"), independent shareholders of the Company approved the increase in the type of products or services and also the annual caps for transactions C7 and F2 (as stated below) for the two financial years ending 31st December, 2014. Details are set out in the circular of the Company dated 29th November, 2012.

The actual monetary value of the above continuing connected transactions except for the Exempted Transactions which are not subject to reporting and annual review requirements (the "**Continuing Connected Transactions**") for the financial year ended 31st December, 2013 is set out below (the transactions are numbered in the same order as they appear in the circular dated 2nd December, 2011).

Continuing Connected Transactions	**Major type of products**	**Actual monetary value for the financial year ended 31st December, 2013 RMB'000**
A. Purchases of materials and automotive components by members of the Group (including Shenyang Automotive) from members of the JinBei Group		
A1. Purchases of materials and automotive components by Shenyang Automotive	Seats, driving shafts and sealing bars	554,991
A2. Purchases of materials and automotive components by Xing Yuan Dong	Gear box assemblies, seats, steering gear rods and interior trim parts	14,969
A3. Purchases of materials and automotive components by Dongxing Automotive	Main decelerators, foot pedal covers and fixing brace rubber covers	81
C. Sale of materials and automotive components by members of the Group to members of the Huachen Group		
C1. Sale of materials and automotive components by Xing Yuan Dong	Carpets, headliners, anti-freezing fluid and door panels	77,039
C2. Sale of materials and automotive components by Dongxing Automotive	Press parts, welding parts and complete outsourced parts	186,719
C3. Sale of materials and automotive components by Shenyang Jindong	Matching components	22,448
C4. Sale of materials and automotive components by Mianyang Ruian	Camshafts and caps	2,015
C5. Sale of materials and automotive components by Ningbo Yuming	Sealing bars, decorating bars, side triangle window assemblies and sun roof assemblies	38,001
C6. Sale of materials and automotive components by Ningbo Ruixing	Rear view mirrors	124
C7. Sale of materials, automotive components and automobiles by Shenyang Automotive	Engines, engine components, interior trim parts and automobiles	621,885
C8. Sale of materials and automotive components by Shanghai Hidea	DVD mainframe assemblies, wheel hubs and genuine leather seats	10

Continuing Connected Transactions	Major type of products	Actual monetary value for the financial year ended 31st December, 2013 RMB'000
D. Purchases of materials and automotive components by members of the Group from members of the Huachen Group		
D1. Purchase of materials and automotive components by Dongxing Automotive	Steels and assemblies	98,512
D2. Purchase of materials and automotive components by Shenyang Automotive	Power trains and press parts	587,045
D3. Purchase of materials and automotive components by Shanghai Hidea	Components	–
D4. Purchase of materials and automotive components by Shenyang Jindong	Scrap materials	91,723
F. Comprehensive service agreement		
F1. Provision of services by members of the Group to members of the Huachen Group		30,813
F2. Purchase of services by members of the Group from members of the Huachen Group		32,173

The independent non-executive directors of the Company have reviewed and confirmed that the Continuing Connected Transactions have been entered into:

1. in the ordinary and usual course of business of the Group;

2. either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

3. in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have reviewed the Continuing Connected Transactions and confirmed to the directors that the Continuing Connected Transactions:

1. have received the approval of the directors;

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

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

4. have not exceeded the 2013 annual caps as disclosed in the announcements made by the Company dated 11th November, 2011 and 8th November, 2012 and as approved by the shareholders at the 2011 SGM and the 2012 SGM.

Subsequent events

– *The 2014 Cross Guarantee*

On 17th December, 2013, an agreement was entered into between Xing Yuan Dong and JinBei, pursuant to which Xing Yuan Dong and JinBei together with its subsidiaries will cross guarantee each other's banking facilities in the maximum amount of RMB600 million incurred or to be incurred during their respective usual course of business for a period of one year commencing from 1st January, 2014 to 31st December, 2014 (the "**2014 Cross Guarantee**"). At the time of entering into the cross guarantee agreement, JinBei owned 39.1% of the equity interests of Shenyang Automotive, a 60.9% owned subsidiary of the Company. Being a substantial shareholder of a subsidiary of the Company, JinBei is considered as a connected person of the Company under the Listing Rules. Accordingly, the 2014 Cross Guarantee constituted a connected transaction for the Company under the Listing Rules. It is subject to the reporting and announcement requirements but is exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Details of the 2014 Cross Guarantee are set out in the announcement of the Company dated 17th December, 2013. The 2014 Cross Guarantee is not a notifiable transaction under Chapter 14 of the Listing Rules.

The Group also entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards. Details of these transactions are disclosed in note 34 to the financial statements of this annual report.

Save as disclosed above, in the opinion of the directors, the transactions disclosed as related party transactions in note 34 to the financial statements do not constitute connected transactions or continuing connected transactions as defined under the Listing Rules in force at the time of the entering into of the relevant transactions.

AUDITORS

Grant Thornton Hong Kong Limited will retire at the conclusion of the 2014 AGM and be eligible to offer themselves for re-appointment. A resolution will be submitted to the 2014 AGM to seek shareholders' approval on the appointment of Grant Thornton Hong Kong Limited as our auditors until the conclusion of the next annual general meeting and to authorise the Board to fix their remuneration.

By order of the Board

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

Hong Kong,
27th March, 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 consistent with the "Corporate Governance Code" (the "**CG Code**") set out in Appendix 14 to the Listing Rules. The Group has considered the CG Code and has put in place corporate governance practices to meet the code provisions. The corporate governance principles of the Company emphasize a quality Board, sound internal controls, and transparency and accountability to all shareholders.

Throughout the accounting year ended 31st December, 2013, the Group has complied with all code provisions which were in effect in the accounting year ended 31st December, 2013.

A. DIRECTORS

A.1 The Board

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

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

The Board is responsible for the management of the business and affairs of the Group with the objective of enhancing shareholder value and presenting a balanced, clear and understandable assessment of the Company's performance, position and prospects in its annual and interim reports and 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 specifically reserved to the Board are set out in paragraph D below.

The Board meets regularly, normally four times each year 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 early notice to all directors so that they could grasp every opportunity to attend. Special Board meetings will be held when necessary. Matters on transactions where directors are considered having a material conflict of interest 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. Directors having a conflict of interest or material interests in a transaction will, before the meeting of the Board, declare his interest(s) therein in accordance with the bye-laws of the Company, and shall abstain from voting on the resolution(s) 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 fourteen (14) days before the meetings. For other Board meetings, reasonable notices are generally given.

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

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 directors attending the relevant meetings. All the minutes of the Board meetings are properly kept by the company secretary and are available for inspection by the directors during normal office hours.

Participation of individual directors at Board meetings in 2013 is as follows:

Number of meetings		**5**
	Attendance by director	**Attendance rate**
Executive directors:		
Mr. Wu Xiao An *(chairman of the Board)*	5/5	100%
Mr. Qi Yumin	5/5	100%
Mr. Wang Shiping	5/5	100%
Mr. Tan Chengxu	5/5	100%
Non-executive director:		
Mr. Lei Xiaoyang	5/5	100%
Independent non-executive directors:		
Mr. Xu Bingjin	5/5	100%
Mr. Song Jian	5/5	100%
Mr. Jiang Bo	5/5	100%
Average attendance rate		100%

During 2013, apart from the five (5) meetings of the Board, consent/approval from the Board had also been obtained via circulation of written resolutions on a number of issues.

Participation of individual directors at the general meeting in 2013 is as follows:

Number of meeting		**1**
	Attendance by director	**Attendance rate**
Executive directors:		
Mr. Wu Xiao An *(chairman of the Board)*	1/1	100%
Mr. Qi Yumin	1/1	100%
Mr. Wang Shiping	1/1	100%
Mr. Tan Chengxu	1/1	100%
Non-executive director:		
Mr. Lei Xiaoyang	1/1	100%
Independent non-executive directors:		
Mr. Xu Bingjin	1/1	100%
Mr. Song Jian	1/1	100%
Mr. Jiang Bo	1/1	100%
Average attendance rate		100%

The Company believes it has taken out appropriate insurance cover for its directors and officers in respect of legal actions taken against directors and officers. The Company reviews the extent of the insurance coverage every year and is 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 should be separate and should not be performed by the same individual.

The Company has segregated the roles of chairman of the Board and chief executive officer. Mr. Wu Xiao An is the chairman of the Board and Mr. Qi Yumin is the chief executive officer. On 20th June, 2005, the Board first adopted a set of clear guidelines regarding the powers and duties of each of the chairman and the chief executive officer, which guidelines were revised on 28th March, 2012 and were further revised with effect from 27th March, 2013 after a regular review by the Board.

Meeting was held by the chairman with the non-executive directors (including the independent non-executive directors) without the executive directors present in 2013 in compliance with code provision A.2.7 of the CG Code. This provides an additional platform for direct communication of the non-executive directors (including the independent non-executive directors) with the chairman of the Board without the presence of the executive directors.

A.3 Board composition

Currently, the Board comprises eight directors: four executive directors, one non-executive director and three 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 of the Board)*	Member of the remuneration committee Member of the nomination committee
Mr. Qi Yumin *(chief executive officer)*	Member of the remuneration committee Member of the nomination committee
Mr. Wang Shiping	–
Mr. Tan Chengxu	–
Non-executive director:	
Mr. Lei Xiaoyang	–
Independent non-executive directors:	
Mr. Xu Bingjin	Chairman of the audit committee Chairman of the remuneration committee Chairman of the nomination committee
Mr. Song Jian	Member of the audit committee Member of the remuneration committee Member of the nomination committee
Mr. Jiang Bo	Member of the audit committee Member of the remuneration committee Member of the nomination committee

Under the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors. And, with effect from 31st December, 2012, every listed issuer is required by the Listing Rules 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. Throughout the year 2013, the number of independent non-executive directors has fulfilled the minimum requirement of the Listing Rules. Mr. Jiang Bo is a certified public accountant and a certified public valuer in the PRC. Mr. Jiang has approximately 20 years of experience in auditing financial statements of companies listed on the stock exchanges of the PRC, has participated in various listing projects of state-owned enterprises in the PRC and overseas, and has experience in reviewing and analyzing the audited financial statements of companies listed in the PRC.

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The nomination committee has assessed the independence of all the independent non-executive directors and the Board is satisfied with their independence.

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

The biographies of our directors are set out on pages 8 and 9 of this annual report.

The list of directors has been published on the website of the Company and that of the Stock Exchange, and is also 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 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 bye-law 102 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.

The Company had signed a formal letter of appointment or service agreement with each director (including independent non-executive directors) and whose appointment was for a specific term of three (3) years subject to the retirement by rotation provisions in the bye-laws of the Company. At every annual general meeting, one-third of the directors for the time being, or if their number is not three or in a multiple of three, the number nearest to but not greater than one-third, shall retire from office by rotation according to bye-law 99 of the Company. All directors of the Company are subject to the retirement by rotation provision in the bye-laws of the Company and are subject to the retirement by rotation at least once every three years pursuant to code provision A.4.2.

To comply with code provision A.4.2 and in accordance with bye-law 99, Mr. Lei Xiaoyang, Mr. Song Jian and Mr. Jiang Bo will retire by rotation at the 2014 AGM and have offered themselves for re-election at the 2014 AGM.

Pursuant to code provision A.4.3, serving more than nine (9) years could be relevant to the determination of a non-executive director's independence. If an independent non-executive director serves more than nine (9) years, his further appointment will be subject to a separate resolution to be approved by shareholders.

Mr. Song Jian, our independent non-executive director, was first appointed on 17th September, 2004 and has continuously served as an independent non-executive director of the Company for about nine (9) years and his further appointment as an independent non-executive director was approved by the shareholders at the general meeting held on 23rd May, 2011. The nomination committee had reviewed and assessed the independence of Mr. Song pursuant to code provision A.5.2(c) and was satisfied that further appointment of Mr. Song as an independent non-executive director is justified. Separate resolution will be proposed for the re-election of Mr. Song as an independent non-executive director according to the rotation provision of the bye-laws of the Company.

Mr. Jiang Bo, our independent non-executive director, was first appointed on 27th September, 2004 and has continuously served as an independent non-executive director of the Company for about nine (9) years and his further appointment as an independent non-executive director was approved by the shareholders at the general meeting held on 23rd May, 2011. The nomination committee had reviewed and assessed the independence of Mr. Jiang pursuant to code provision A.5.2(c) and was satisfied that further appointment of Mr. Jiang as an independent non-executive director is justified. Separate resolution will be proposed for the re-election of Mr. Jiang as an independent non-executive director according to the rotation provision of the bye-laws of the Company.

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, the Company has arranged for, and provided 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 abreast 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.

In addition to directors' attendance at meetings and review of papers and circulars distributed by management during 2013, each director has participated in the continuing professional development arranged and funded by the Company as follows:–

Name of directors	Reading regulatory updates	Attending in-house seminars
Mr. Wu Xiao An	√	√
Mr. Qi Yumin	√	√
Mr. Wang Shiping	√	√
Mr. Tan Chengxu	√	√
Mr. Lei Xiaoyang	√	√
Mr. Xu Bingjin	√	√
Mr. Song Jian	√	√
Mr. Jiang Bo	√	√

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

All independent non-executive directors and the non-executive director have attended the annual general meeting held on 24th May, 2013 (the "**2013 AGM**") in person or by way of telephone conference as required by code provision A.6.7 of the CG Code.

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

Having made specific enquiry of all directors, each director of the Company has confirmed that he has complied with the standard set out in the Model Code during the year ended 31st December, 2013.

The Company has also established on 17th June, 2005 written guidelines on no less exacting terms than the Model Code (the "**Code for Securities Transactions by Employees**") for securities transactions by employees of the Company or directors or 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. The guidelines were revised in 2009 to incorporate amendments to the Model Code which came into effect on 1st April, 2009. Slight amendments have also been made to the guidelines on 28th March, 2012 and 27th March, 2013, respectively to keep the guidelines in line with the current practices of the Company and the statutory requirements.

No incident of non-compliance of the Code for Securities Transactions by Employees by the employees during the year was noted by the Company.

A.6 Directors' commitments

The Company has signed a formal letter of appointment or service agreement setting out the key terms and conditions of the directors' appointments. All directors are committed to devote sufficient time and attention to the affairs of the Group. The directors have disclosed to the Company the number and nature of offices held in Hong Kong or overseas listed public companies or organizations and other significant commitments, with the identity of the public companies or organizations. The directors are reminded to notify the Company in a timely manner and at least bi-annually to confirm to the Company of any changes of such information. With respect to those directors who stand for re-election at the 2014 AGM, all of their directorships held in listed public companies in the past three years are also set out in the document accompanying the notice of the 2014 AGM.

A.7 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.

B. BOARD COMMITTEES

B.1 Nomination committee

The Board follows a formal and transparent procedure for the appointment of new directors to the Board. The appointment of a new director is 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 directors 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 was established on 28th March, 2012 with specific written terms of reference (as amended with effect from 27th March, 2013 for incorporation of certain amendments to the CG Code effective in September 2013). Terms of reference of the nomination committee have included the duties set out in code provision A.5.2(a) to (d) of the CG Code. The existing members of the nomination committee include Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo, all of whom are independent non-executive directors. Mr. Wu Xiao An and Mr. Qi Yumin, both of whom are executive directors, are also members of the nomination committee. Mr. Xu Bingjin is the chairman of the nomination committee.

During 2013, the nomination committee met on three (3) occasions and discharged its responsibilities. Attendance of individual members at nomination committee meetings in 2013 is as follows:

Number of meetings	**3**
Mr. Xu Bingjin *(chairman of the nomination committee)*	3/3 (100%)
Mr. Song Jian	3/3 (100%)
Mr. Jiang Bo	3/3 (100%)
Mr. Wu Xiao An	3/3 (100%)
Mr. Qi Yumin	3/3 (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, experience and diversity of perspectives appropriate to the requirements of the Company's business and for 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 Company adopted a board diversity policy on 13th August, 2013. The Company recognizes and embraces the benefits of diversity in Board members and a truly diverse Board will include and make good use of differences in the skills, regional and industry experience, background, race, gender and other qualities of directors. These differences will be taken into account in determining the optimum composition of the Board. 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 nomination committee will review annually on the composition of the Board under diversified perspectives, and monitor the implementation of the board diversity policy to ensure the effectiveness of the policy. It will also review the policy and discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

The work performed by the nomination committee during 2013 included:

- making recommendation on re-election of directors at the 2013 AGM;
- assessing the independence of the independent non-executive directors;
- reviewing the current Board's structure and size;
- reviewing the current Board's composition in terms of the current requirements of the Listing Rules on the number of independent non-executive directors and requisite qualification and expertise under Rule 3.10(2) of the Listing Rules;
- approving the board diversity policy;
- reviewing and discussing the current Board's composition in terms of age, gender, academic background, qualifications, knowledge, skill, professional experience and working experience; and
- reviewing the terms of reference of the nomination committee and approving revisions to comply with requirements of code provision A.5.6 of the CG Code.

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.

The terms of reference of the nomination committee are available on the website of the Company and the website of the Stock Exchange.

B.2 Remuneration committee

The remuneration committee was established on 17th June, 2005 with specific written terms of reference (as amended with effect from 28th March, 2012 and 27th March, 2013, respectively for incorporation of certain amendments after a regular review by the Board). The existing members of the remuneration committee include Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo, all of whom are independent non-executive directors. Mr. Wu Xiao An and Mr. Qi Yumin, both of whom are executive directors, are also members of the remuneration committee. Mr. Xu Bingjin is the chairman of the remuneration committee. The terms of reference of the remuneration committee are adopted with reference to the CG Code, including the specific duties set out in code provision B.1.2(a) to (h) of the CG Code.

During 2013, the remuneration committee met on two (2) occasions and discharged its responsibilities. Attendance of individual members at remuneration committee meetings in 2013 is as follows:

Number of meetings	**2**
Mr. Xu Bingjin *(chairman of the remuneration committee)*	2/2 (100%)
Mr. Song Jian	2/2 (100%)
Mr. Jiang Bo	2/2 (100%)
Mr. Wu Xiao An	2/2 (100%)
Mr. Qi Yumin	2/2 (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 during 2013 included:

– reviewing the terms of reference of the remuneration committee and the "Policy and Guidelines of The Remuneration Committee" and approving revisions to comply with requirements pursuant to code provision B.1.5 of the CG Code and other housekeeping amendments; and

– reviewing the remuneration package of the individual directors and the senior management of the Company.

During the process of consideration, no individual director will be involved in decisions relating to his own remuneration.

Full minutes of the remuneration committee meetings 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.

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 was established on 20th December, 1999 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants. On 27th March, 2013, a revised terms of reference of the audit committee was adopted for incorporation of certain amendments after a regular review by the Board. The terms of reference of the audit committee have included the duties set out in code provision C.3.3(a) to (n) of the CG Code. The existing members of the audit committee comprise Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo, all of whom are independent non-executive directors. Mr. Xu Bingjin is the chairman of the audit committee. The audit committee does not have a former partner of the Group's existing audit firm as its member. The Company has adopted policy for hiring of employees and former employees of its external auditors on 28th March, 2012 to ensure judgment or independence for the audit of the Group will not be impaired.

During 2013, the audit committee met on two (2) occasions and discharged its responsibilities. Attendance of individual members at audit committee meetings in 2013 is as follows:

Number of meetings	**2**
Mr. Xu Bingjin *(chairman of the audit committee)*	2/2 (100%)
Mr. Song Jian	2/2 (100%)
Mr. Jiang Bo	2/2 (100%)
Average attendance rate	100%

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

The following is a summary of the work performed by the audit committee during 2013:

– reviewing the auditor's management letter and management's response;

– noting the recently issued accounting standards, the adoption of new accounting standards and the change in significant accounting policies;

– reviewing the audited financial statements and final results announcement for the year ended 31st December, 2012;

– reviewing the interim report and the interim results announcement for the six months ended 30th June, 2013;

– meeting with the auditors to go through any significant audit issues or key findings noted during the audit of the Group's 2012 final results;

– meeting 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;

– reviewing the terms of reference of the audit committee and approving some housekeeping amendments;

– reviewing the hiring policies for employees and former employees of the external auditors;

– reviewing the continuing connected transactions and connected transactions for 2012; and

– making recommendations to the Board regarding the re-appointment of external auditors.

All issues raised by the audit committee have been addressed by the management. The work and findings of the audit committee have been reported to the Board. During 2013, no issues brought to the attention of the management and the Board were of sufficient importance to require disclosure in this annual report.

In 2013, the audit committee has met with the auditors in the absence of management pursuant to code provision C.3.3 note (1)(iii) of the CG Code.

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.

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 of the Board on 28th March, 2012 in compliance with code provision D.3 of the CG Code, effective from 1st April, 2012. Pursuant to the terms of reference of the corporate governance function, the Board shall be responsible for developing, reviewing and/or monitoring the policies and practices on corporate governance of the Company; training and continuous professional development of directors and senior management; and compliance with legal and regulatory requirements of the Company. This corporate governance report has been reviewed by the Board in discharge of its corporate governance function.

C. ACCOUNTABILITY AND AUDIT

C.1 Financial reporting

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

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

– noted any changes in accounting policies and practices;

– selected and applied consistently appropriate accounting policies;

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

– prepared the accounts on a going concern basis.

The Board is accountable to its shareholders for a clear and balanced assessment of the Company's financial position and prospects. In this regard, the directors' responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports 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.

Directors are provided with monthly updates of the Company pursuant to code provision C.1.2 of the CG Code.

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

Currently, the Company's external auditors are Grant Thornton Hong Kong Limited (the "**Auditors**").

For the year ended 31st December, 2013, the audit and non-audit service fees paid or payable by the Company amounted to approximately HK$1,785,000 and HK$378,000, respectively, The non-audit services mainly included conducting agreed-upon procedures on the 2013 interim consolidated financial statements.

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 41 and 42 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.

The Company has adopted an internal audit charter. The Group has conducted a general review of and has monitored the Group's internal management and operation during the year.

In addition, the Board and the audit committee have reviewed the effectiveness of the internal control systems 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 try to improve the effectiveness of the internal control systems of the Group and to monitor the systems and the progress of improvements. The Board and the audit committee considered that the key areas of the Group's internal control systems are reasonably implemented and the Group has complied with the CG Code provisions 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. These arrangements will be reviewed periodically to ensure that they remain appropriate to the Company's needs. The Board has adopted a revised memorandum on the respective functions of the Board and the management on 27th March, 2013 after a regular review. 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 chief executive officer;
   - appointment of senior executives;
   - fixing of auditor's 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 the annual general meeting and any other shareholders' meetings;
    - matters relating to disclosure as required by the applicable laws 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 auditor's 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 the price and market activity of the shares of the Company and to decide whether the relevant information would be price-sensitive and needs 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. Lam Yee Wah Eva, 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 and is capable of performance of the functions of the company secretary. The Company will provide fund for Ms. Lam 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. During 2013, Ms. Lam has attended training programs and seminars arranged by The Hong Kong Institute of Chartered Secretaries and the Stock Exchange and has satisfied the 15 hours of professional training requirement of the Listing Rules.

F. COMMUNICATION WITH SHAREHOLDERS

F.1 Effective communication

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

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

In accordance with code provision E.1.2 of the CG Code, Mr. Wu Xiao An, the chairman of the Board, and Mr. Xu Bingjin, the chairman of the audit committee, remuneration committee and nomination committee, have attended the 2013 AGM. Mr. Qi Yumin, a member of the remuneration committee and nomination committee, and Mr. Song Jian, a member of the three committees, also attended the said general meeting. Other directors also attended the above general meeting by way of telephone conference.

The chairman of the Board, the chairman of the audit committee, remuneration committee and nomination committee, or in their absence, another member of the relevant committee or an appointed representative, will attend the forthcoming annual general meeting to answer questions of shareholders.

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

The Company has arranged for notice and related documents to be sent to shareholders for the 2013 AGM at least 20 clear business days before the meeting pursuant to code provision E.1.3 of the CG Code. A separate resolution was prepared for each substantive matter to be presented to shareholders for approval at the 2013 AGM.

The Company has adopted a shareholders' communication policy on 28th March, 2012 (as revised with effect on 27th March, 2013 after a regular review by the Board) and the policy is available on the website of the Company.

F.2 Voting by poll

At the 2013 AGM, the chairman has 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 (as well as on the website of the Company) on the day of the holding of the shareholders' meeting.

G. SHAREHOLDERS' RIGHT

Shareholders' right to convene special general meeting

Pursuant to bye-law 62 of the Company's bye-laws and section 74 of The Companies Act 1981 of Bermuda (as amended), shareholder(s), holding not less than one-tenth of the issued and paid-up share capital of the Company carrying voting right at general meetings of the Company, have the right to make written requisition (the "**Requisition**") to the Board to convene a special general meeting.

Procedures for shareholders to convene special general meeting

The Requisition must be in writing and signed by all requisitionist(s) (being the shareholder(s) making the Requisition) and must be deposited at the registered office of the Company at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda, with a copy sent to the Company' head office address at Suites 1602–05, Chater House, 8 Connaught Road Central, Hong Kong.

The Requisition must state the purposes of the special general meeting including the resolution(s) to be considered at the meeting.

Requisitionist(s) should also provide the following information:

(i) their respective shareholding information; and

(ii) their respective contact information (i.e. postal address, email address and contact telephone number).

The Company shall serve requisite notice of the special general meeting, including the time, place of meeting and particulars of resolution(s) to be considered at the meeting and the general nature of the business within twenty-one (21) days from the date of the deposit of the Requisition, failing which, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a special general meeting, but any special general meeting so convened shall not be held after the expiration of three months from the date of deposit of the Requisition. A special general meeting so convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Board.

H. INVESTOR RELATIONS

Significant changes in the Company's bye-laws

There was no amendment made to the bye-laws of the Company during the year 2013.

Independent Auditors' Report

Grant Thornton
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TO THE SHAREHOLDERS OF
BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Brilliance China Automotive Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 43 to 112, which comprise the consolidated and company statements of financial position as at 31st December, 2013, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine as 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 Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, 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.

Grant Thornton
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OPINION

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

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12,
28 Hennessy Road,
Wanchai,
Hong Kong,

27th March, 2014

Chiu Wing Ning
Practising certificate number: P04920

Consolidated Income Statement

For the year ended 31st December, 2013

(Expressed in thousands of RMB except for per share amounts)

	Note	2013 RMB'000	2012 RMB'000
Revenue	5	**6,103,487**	5,915,991
Cost of sales		**(5,416,968)**	(5,219,806)
Gross profit		**686,519**	696,185
Other income		**96,204**	50,444
Interest income		**46,868**	74,343
Selling expenses		**(608,355)**	(539,159)
General and administrative expenses		**(399,396)**	(338,717)
Finance costs	6	**(138,568)**	(174,306)
Share of results of:			
Joint ventures		**3,448,343**	2,433,844
Associates		**193,114**	91,973
Profit before income tax expense	7	**3,324,729**	2,294,607
Income tax expense	8	**(8,370)**	(57,564)
Profit for the year		**3,316,359**	2,237,043
Attributable to:			
Equity holders of the Company	9	**3,374,200**	2,301,022
Non-controlling interests		**(57,841)**	(63,979)
		3,316,359	2,237,043
Earnings per share	11		
– Basic		**RMB0.67138**	RMB0.45804
– Diluted		**RMB0.66870**	RMB0.45605

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2013

	2013 RMB'000	2012 RMB'000
Profit for the year	**3,316,359**	2,237,043
Other comprehensive (expense) income that will be subsequently reclassified to income statement, net of tax		
Change in fair value of available-for-sale financial assets	**(220)**	4,566
Share of other comprehensive income of a joint venture	**20,445**	714,364
	20,225	718,930
Total comprehensive income for the year	**3,336,584**	2,955,973
Attributable to:		
Equity holders of the Company	**3,394,425**	3,019,952
Non-controlling interests	**(57,841)**	(63,979)
	3,336,584	2,955,973

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2013

The Group	Issued capital RMB'000	Hedging reserve RMB'000	Share premium RMB'000	Investment revaluation reserve RMB'000	Cumulative translation adjustments reserve RMB'000	Difference arising from acquisition of non-controlling interests RMB'000	Share options reserve RMB'000	Capital reserve RMB'000	Retained earnings RMB'000	Total equity attributable to the equity holders of the Company RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1st January, 2012	394,931	(541,204)	2,460,021	(299)	39,179	(537,584)	5,699	120,000	5,048,559	6,989,302	(752,115)	6,237,187
Transactions with equity holders of the Company												
Issue of new shares by exercise of share options	946	–	6,664	–	–	–	(2,298)	–	–	5,312	–	5,312
Profit for the year	–	–	–	–	–	–	–	–	2,301,022	2,301,022	(63,979)	2,237,043
Other comprehensive income												
Share of other comprehensive income of a joint venture	–	714,364	–	–	–	–	–	–	–	714,364	–	714,364
Change in fair value of available-for-sale financial assets	–	–	–	4,566	–	–	–	–	–	4,566	–	4,566
Total other comprehensive income	–	714,364	–	4,566	–	–	–	–	–	718,930	–	718,930
As at 31st December, 2012	395,877	173,160	2,466,685	4,267	39,179	(537,584)	3,401	120,000	7,349,581	10,014,566	(816,094)	9,198,472

Consolidated Statement of Changes in Equity (Cont'd)

For the year ended 31st December, 2013

The Group	Issued capital RMB'000	Hedging reserve RMB'000	Share premium RMB'000	Investment revaluation reserve RMB'000	Cumulative translation adjustments reserve RMB'000	Difference arising from acquisition of non-controlling interests RMB'000	Share options reserve RMB'000	Capital reserve RMB'000	Retained earnings RMB'000	Total equity attributable to the equity holders of the Company RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1st January, 2013	395,877	173,160	2,466,685	4,267	39,179	(537,584)	3,401	120,000	7,349,581	10,014,566	(816,094)	9,198,472
Transactions with equity holders of the Company												
Dividends	–	–	–	–	–	–	–	–	(393,711)	(393,711)	–	(393,711)
Profit for the year	–	–	–	–	–	–	–	–	3,374,200	3,374,200	(57,841)	3,316,359
Other comprehensive income												
Share of other comprehensive income of a joint venture	–	20,445	–	–	–	–	–	–	–	20,445	–	20,445
Change in fair value of available-for-sale financial assets	–	–	–	(220)	–	–	–	–	–	(220)	–	(220)
Total other comprehensive income	–	20,445	–	(220)	–	–	–	–	–	20,225	–	20,225
As at 31st December, 2013	395,877	193,605	2,466,685	4,047	39,179	(537,584)	3,401	120,000	10,330,070	13,015,280	(873,935)	12,141,345

Statements of Financial Position

As at 31st December, 2013

		The Group		The Company	
		2013	2012	**2013**	2012
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Non-current assets					
Intangible assets	13	**669,912**	361,509	**–**	–
Property, plant and equipment	14	**1,685,758**	1,745,133	**741**	1,109
Land lease prepayments	15	**61,053**	62,511	**–**	–
Interests in subsidiaries	16	**–**	–	**4,031,496**	4,125,186
Interests in joint ventures	17	**8,066,556**	6,236,268	**–**	–
Interests in associates	18	**1,351,686**	603,642	**141,183**	141,183
Prepayments for a long-term investment	19	**600,000**	600,000	**–**	–
Available-for-sale financial assets	20	**19,680**	19,900	**15,542**	15,762
Other non-current assets		**11,616**	11,234	**–**	–
Total non-current assets		**12,466,261**	9,640,197	**4,188,962**	4,283,240
Current assets					
Cash and cash equivalents		**903,263**	836,511	**40,975**	50,979
Short-term bank deposits		**173,934**	57,556	**101,974**	–
Pledged short-term bank deposits	21	**1,039,469**	1,054,877	**–**	–
Inventories	22	**769,435**	838,393	**–**	–
Accounts receivable	23	**834,460**	509,296	**–**	–
Notes receivable	24	**1,385,259**	1,302,447	**–**	–
Other current assets	25	**1,418,182**	1,818,070	**489,266**	522,090
Income tax recoverable		**–**	209	**–**	–
Total current assets		**6,524,002**	6,417,359	**632,215**	573,069
Current liabilities					
Accounts payable	26	**2,990,627**	3,119,993	**–**	–
Notes payable	27	**1,298,253**	1,708,160	**–**	–
Other current liabilities	28	**940,226**	874,122	**9,908**	30,149
Short-term bank borrowings	29	**1,528,200**	1,119,000	**–**	–
Income tax payable		**35,212**	35,909	**–**	–
Total current liabilities		**6,792,518**	6,857,184	**9,908**	30,149
Net current (liabilities) assets		**(268,516)**	(439,825)	**622,307**	542,920
Total assets less current liabilities		**12,197,745**	9,200,372	**4,811,269**	4,826,160
Non-current liabilities					
Deferred government grants		**56,400**	1,900	**–**	–
NET ASSETS		**12,141,345**	9,198,472	**4,811,269**	4,826,160

Statements of Financial Position (Cont'd)

As at 31st December, 2013

		The Group		The Company	
		2013	2012	**2013**	2012
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Capital and reserves					
Share capital	32(a)	**395,877**	395,877	**395,877**	395,877
Reserves	33	**12,619,403**	9,618,689	**4,415,392**	4,430,283
Total equity attributable to equity holders of the Company		**13,015,280**	10,014,566	**4,811,269**	4,826,160
Non-controlling interests		**(873,935)**	(816,094)	**–**	–
TOTAL EQUITY		**12,141,345**	9,198,472	**4,811,269**	4,826,160

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

Qi Yumin
Director

Consolidated Statement of Cash Flows

For the year ended 31st December, 2013

	Note	2013 RMB'000	2012 RMB'000
Operating activities			
Cash used in operations	35	**(184,058)**	(44,745)
Interest received		**39,107**	46,467
Enterprise income tax paid		**(8,858)**	(3,287)
Net cash used in operating activities		**(153,809)**	(1,565)
Investing activities			
Acquisition of property, plant and equipment and addition of intangible assets		**(616,191)**	(526,097)
(Increase) Decrease in short-term and pledged bank deposits		**(100,970)**	170,559
Dividend received from an associate		**84,000**	79,910
Dividend received from a joint venture		**1,000,000**	500,000
Proceeds from disposal of property, plant and equipment		**29,725**	800
Proceed from disposal of a subsidiary		**–**	60,000
(Increase) Decrease in other long-term assets		**(382)**	713
Decrease in amounts due from affiliated companies		**73,880**	76,901
Net cash generated from investing activities		**470,062**	362,786
Financing activities			
Increase in amounts due to affiliated companies		**4,091**	19,814
Issue of notes payable		**630,365**	888,696
Repayments of notes payable		**(888,697)**	(683,758)
Government grants received		**124,869**	700
Proceeds from short-term bank borrowings		**1,818,200**	1,551,210
Repayments of short-term bank borrowings		**(1,409,000)**	(1,728,840)
Issue of share capital		**–**	5,312
Dividends paid		**(393,711)**	–
Interest paid		**(135,618)**	(163,540)
Net cash used in financing activities		**(249,501)**	(110,406)
Increase in cash and cash equivalents		**66,752**	250,815
Cash and cash equivalents, as at 1st January,		**836,511**	585,696
Cash and cash equivalents, as at 31st December,		**903,263**	836,511

Notes to the Financial Statements

For the year ended 31st December, 2013

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda on 9th June, 1992 with limited liability. The Company's shares are traded on the Main Board of The Stock Exchange of Hong Kong Limited (the "**SEHK**").

The Company is an investment holding company. The principal activities of the Group are the manufacture and sale of BMW vehicles in the People's Republic of China (the "**PRC**") through its major joint venture, BMW Brilliance Automotive Ltd. ("**BMW Brilliance**"), and manufacture and sale of minibuses and automotive components through its subsidiaries.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), collective terms of which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the SEHK (the "**Listing Rules**").

These financial statements have been prepared on the basis consistent with the accounting policies adopted in the 2012 financial statements, except for the adoption for the first time the new and revised standards, amendments and interpretations (collectively "**new HKFRSs**") issued by the HKICPA, which are relevant to and effective for the Group's and the Company's financial statements for the annual financial year beginning on 1st January, 2013:

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income
HKAS 28 (Amendments)	Investments in Associates and Joint Ventures (2011)
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement

The adoption of these new HKFRSs did not result in substantial changes to the accounting policies of the Group and had no material effect on how the results and financial position for the current and prior periods have been prepared and presented.

(b) Basis of measurement

The measurement basis used in the preparation of the financial statements is historical cost, except for financial instruments classified as available-for-sale financial assets which are measured at fair value as explained in note 2(i)(i) below.

(c) Preparation of financial statements

At 31st December, 2013, the Group had net current liabilities of approximately RMB269 million. Notwithstanding the Group's current liabilities exceeding its current assets at 31st December, 2013, in preparing these financial statements, the directors have given careful consideration to current and future liquidity of the Group and its ability to provide working capital for its operations.

At the reporting date, the Group had short-term bank borrowings of RMB1,528 million which are renewable on a yearly basis. Management is confident that these borrowings can be renewed on their expiry.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(c) Preparation of financial statements (Cont'd)

As shown in the financial statements, the profits and net liabilities situation of the Group have been improving. In addition, Huachen Automotive Group Holdings Company Limited ("**Huachen**"), which is a PRC state-owned enterprise and the major shareholder of the Company, has also agreed to provide adequate funds to the Group, if necessary, to meet its liabilities as they fall due. Together with the expected continuing cash dividends from BMW Brilliance and the continuing financial support from bankers, the directors consider that the Group will have sufficient cash resources to satisfy its future working capital needs and other financing requirements. Accordingly, the directors are of the opinion that it is appropriate to prepare the financial statements on a going concern basis.

(d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date that control commences. They are de-consolidated from the date that control ceases.

In consolidated financial statements, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gains or losses have been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Basis of consolidation (Cont'd)

(ii) Non-controlling interests

Non-controlling interests represent the equity on a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the equity holders of the Company. Non-controlling interest in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity holders of the Company.

The Group treats transactions with non-controlling interests as transactions with equity holders of the Company. For purchases additional equity interests in subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Difference between consideration and respective net assets disposed of to non-controlling interests are also recorded in equity.

(iii) Associates and joint ventures

An associate is an entity, not being a subsidiary or a joint entity, in which an equity interest is held for the long-term and the Group or Company has significant influence, but not control or joint control, over its management. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

A joint venture is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share control of arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the joint venture's net assets and any impairment losses related to the investment. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates and joint ventures for the year, including any impairment loss on goodwill relating to the investment in associates and joint ventures recognised for the year.

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 an associate or 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 to sell) 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.

Unrealised profits and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associate or joint venture. Where unrealised losses on asset sales between the Group and its associates or joint ventures are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate or joint venture uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate or joint venture's accounting policies to those of the Group when the associate or joint venture's financial statements are used by the Group in applying the equity method.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Basis of consolidation (Cont'd)

(iii) Associates and joint ventures (Cont'd)

When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. For this purpose, the Group's interest in the associate or joint venture is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or joint venture.

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investments in its associates or joint ventures. At each reporting date, the Group determines whether there is any objective evidence that the investment in an associate or a joint venture is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (higher of value in use and fair value less costs to sell) of the associate or joint venture and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including cash flows arising from the operations of the associate or joint venture and the proceeds on ultimate disposal of the investment.

In the Company's statement of financial position, investments in associates and joint ventures are stated at cost less accumulated impairment losses unless they are held for sale or included in a disposal group that are classified as held for sale. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. Results of associates and joint ventures are accounted for by the Company on the basis of dividends received and receivable. All dividends whether received out of the associate's or joint venture's pre or post-acquisition profits are recognised in the Company's profit or loss.

(iv) Translation of foreign currencies

Items included in the financial statements of each of the Group's entities, including the Company, subsidiaries, associates and joint ventures, are all measured using Renminbi ("**RMB**") which is the currency of the primary economic environment in which the entities operate ("**the functional currency**").

Transactions in currencies other than the functional currency are translated into the functional currency at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in other currencies at the reporting date are re-translated into the functional currency at rates of exchange prevailing at the reporting date. Exchange differences arising in these cases are dealt with in the profit or loss.

Cumulative translation adjustments under shareholders' equity represent exchange differences arising from the Company's change in functional currency in previous years.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(e) Intangibles

(i) Goodwill

Capitalised goodwill arising on acquisition of an associate or a joint venture is included in the cost of the investment of the relevant associate or joint venture.

On disposal of a cash generating unit of an associate or a joint venture, any attributable amount of purchased goodwill is included in the calculation of gain or loss on disposal.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2(j)).

(ii) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are capitalised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so; costs are identifiable and can be reliably measured and there is an intention and ability to sell or use the asset for generating future economic benefits. Such development costs include the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable, and are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight-line basis over 5 to 7 years. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

(iii) Acquired intangible assets

Acquired intangible assets with finite useful lives are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight-line basis over the estimated useful lives of 5 to 10 years.

(f) Property, plant and equipment

Property, plant and equipment, including land and buildings (if any) but other than construction-in-progress, are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to profit or loss during the year in which they are incurred.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is recognised as income or expense in the profit or loss.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, other than construction-in-progress, over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values of 10%, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately:

Buildings	20–30 years
Machinery and equipment	10–20 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years
Tools and moulds	20,000–420,000 times of usage

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(g) Construction-in-progress

Construction-in-progress represents factories and office buildings for which construction work has not been completed and machinery pending installation and which, upon completion, management intends to hold for production or own use. Construction-in-progress is carried at cost which includes development and construction expenditure incurred and interest and other direct costs attributable to the development less accumulated impairment losses. On completion, the construction-in-progress is transferred to corresponding classes of property, plant and equipment or intangible assets at cost less accumulated impairment losses. Construction-in-progress is not depreciated or amortised until such time as the assets are completed and ready for their intended use.

(h) Leasehold land and buildings

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "land lease prepayments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

(i) Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis. A financial asset is derecognised when the Group's contractual rights to future cash flows from the financial asset expire or when the Group transfers the contractual rights to future cash flows to a third party. A financial liability is derecognised only when the liability is extinguished.

The Group's financial assets other than investments in subsidiaries, associates and joint ventures are classified into available-for-sale financial assets and loans and receivables.

(i) Available-for-sale financial assets

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale financial assets.

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised in other comprehensive income and accumulated separately in the available-for-sale financial assets revaluation reserve in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss is reclassified from equity to profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

For available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each reporting date subsequent to initial recognition.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(i) Financial instruments (Cont'd)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are initially recognised at fair value. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate.

(iii) Impairment of financial assets

At each reporting date, the Group assesses for indicators of impairment on financial assets. Financial assets are 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.

For available-for-sale financial assets in equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered objective evidence of impairment.

For all other financial assets, objective evidence of impairment includes:

– significant financial difficulty of the issuer or counterparty;

– default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;

– the disappearance of an active market for that financial asset because of financial difficulties; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial assets' original effective interest rate.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(i) Financial instruments (Cont'd)

(iii) Impairment of financial assets (Cont'd)

Loans and receivables

The amount of 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). Impairment loss is recognised in profit or loss for the period in which the impairment occurs.

For financial assets other than accounts receivable, other receivables and receivables from related parties that are stated at amortised costs, impairment losses are written off against the corresponding assets directly. For accounts receivable, other receivables and receivables from related parties, when the recovery of these financial assets is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group considers that recovery of these receivables is remote, the amount considered irrecoverable is written off against these receivables directly and any amounts held in the allowance account in respect of these receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss in the period in which the reversal occurs.

Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and accumulated in equity and there is objective evidence that the asset is impaired, an amount is reclassified from equity and recognised in profit or loss as an impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Reversals in respect of investments in equity instruments classified as available-for-sale financial assets and stated at fair values are not recognised in profit or loss. The subsequent increase in fair value is recognised in other comprehensive income. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances is recognised in profit and loss.

Impairment losses recognised in an interim period in respect of available-for-sale financial assets in equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. Consequently, if the fair value of these available-for-sale financial assets increases in the remainder of an annual period, or in a subsequent period, the increase is recognised in other comprehensive income.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(i) Financial instruments (Cont'd)

(iv) Other financial liabilities

The Group's other financial liabilities include accounts and notes payables and other payables, bank loans and other borrowings. These financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest-related charges are recognised in accordance with the Group's accounting policy for borrowing costs (see note 2(t)).

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

(v) Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is initially recognised as deferred income within accounts and other payables at fair value, where such information is available. Otherwise, it is recognised at consideration received and receivable. Subsequently, it is measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that is required to settle the commitment at the reporting date.

(j) Impairment of non-financial assets

At each reporting date, the Group reviews internal and external sources of information to determine whether its tangible and intangible assets (other than goodwill), investments in subsidiaries, associates and joint ventures and prepayments have suffered impairment losses, or whether an impairment loss previously recognised no longer exists or may be reduced. If any such indication is found, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

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 cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is recognised as income immediately.

For the purpose of assessing impairment of goodwill, goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose which should not be larger than an operating segment.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(j) Impairment of non-financial assets (Cont'd)

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(k) Inventories

Inventories comprise raw materials, work-in-progress and finished goods and are stated at the lower of cost and net realisable value. Costs comprise all costs of purchase, direct labour, and an appropriate proportion of all production overheads and other costs incurred in bringing the inventories to their present location and condition. Costs are calculated on the moving weighted-average basis, except for costs of work-in-progress and finished goods of minibuses which are calculated on a specific identification basis. Net realisable value is determined on the basis of anticipated sales proceeds in the ordinary course of business less the estimated costs of completion and the estimated selling expenses.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Deposits with banks or other financial institutions with a maturity of more than three months and within one year at acquisition are classified as short-term deposits.

Pledged short-term deposits are the same as short-term deposits except that these deposits are pledged to bankers for banking facilities granted.

(m) Provisions

Provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to settle the obligation.

Provision for product warranties granted by the Group for certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present value as appropriate.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(n) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to income or expenses items are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

The government grants relating to the purchase of prepaid land leases, intangible assets, and property, plant and equipment are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation and amortisation expenses.

(o) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Payments made under operating leases net of any incentives received from the lessor are charged to profit or loss on a straight-line basis over the lease periods.

Assets leased out under operating leases are included in property, plant and equipment in the statement of financial position. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

(p) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the reporting date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Bonus plans

Bonus plans are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) Pension obligations

The Group's contributions to defined contribution retirement plans administered by the government of the PRC are recognised as an expense in profit or loss. The assets of the schemes are held separately from those of the Group in independently administered funds. Further information is set out in note 31.

Contributions made to the Mandatory Provident Fund Scheme for the Group's employees in Hong Kong are charged to profit or loss when incurred.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(p) Employee benefits (Cont'd)

(iv) Share-based payments

The Group's employees, including directors, receive remuneration in the form of share-based payment transactions, whereby the employees rendered services in exchange for shares or rights over shares. The cost of such transactions with employees is measured by reference to the fair value of equity instrument at grant date. The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share options reserve within equity. The fair value is determined using the Black-Scholes option pricing model, taking into account the terms and conditions of the transactions, other than conditions linked to the price of the shares of the Company.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the year in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award. During the vesting period, the number of share options that is expected to vest ultimately is reviewed. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

(q) Income tax

Income tax in profit or loss comprises current and deferred taxes. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. All changes to current tax assets or liabilities are recognised as a component of tax expenses in profit or loss.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Tax rates enacted or substantively enacted by the reporting date are used to determine deferred taxation.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor accounting profit.

Deferred taxation is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date 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.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(r) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required, or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

(s) Revenue recognition

Revenue is recognised when it is probable that economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably and on the following bases:

(i) Sale of goods

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and titles are passed.

(ii) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that requires a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of that asset.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs ceases when substantially all activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(u) Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the directors and the chief operating decision makers for their decisions about resource allocation to the Group's business components, which are determined by the Group's different brands of vehicles, and review of their performances.

The Group has identified the following reportable segments:

(1) the manufacture and sale of minibuses and automotive components; and

(2) the manufacture and sale of BMW vehicles.

The measurement policies the Group adopts for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that the following items are not included in arriving at the operating results of the operating segment:

– expenses related to share-based payments;

– share of results of associates and joint ventures;

– interest income;

– finance costs;

– impairment losses on construction-in-progress and property, plant and equipment;

– impairment losses on intangible assets;

– impairment losses on available-for-sale financial assets;

– impairment losses on receivables;

– corporate income and expenses which are not directly attributable to the business activities of any operating segment; and

– income tax expense.

In addition, the operating results of the operating segments include completed segment results of the manufacture and sale of BMW vehicles, which are currently reported on the basis of the Group's share of equity interests in BMW Brilliance included in the Group's financial statements prepared under HKFRS.

Segment assets include all assets other than interests in joint ventures (note 17), interests in associates (note 18), available-for-sale financial assets (note 20), prepayments for a long-term investment (note 19) and advance to Shenyang Automobile Industry Asset Management Company Limited ("**SAIAM**") (note 25(a)). In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

Segment liabilities include all liabilities. Corporate liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

In addition, segment assets and segment liabilities include completed assets and liabilities of the manufacture and sale of BMW vehicles segment, which are currently reported on the basis of the Group's share of equity interests in BMW Brilliance included in the Group's financial statements prepared under HKFRS.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(v) Related parties

For the purpose of these financial statements, a related party includes a person and entity as defined below:

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture or a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third entity.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group and the Company.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(w) Future changes in HKFRSs

As at the date of authorisation of these financial statements, the HKICPA has issued the following new standards, amendments and interpretations which are not yet effective.

HKFRS 9	Financial Instruments[3]
HKFRS 9, HKFRS 7 and HKAS 39 (Amendments)	Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39[3]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures [3]
HKAS 32 (Amendments)	Amendments to HKAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities[1]
HKAS 36 (Amendments)	Amendments to HKAS 36 Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets[1]
HKAS 39 (Amendments)	Amendments to HKAS 39 Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting[1]

1 Effective for annual periods beginning on or after 1st January, 2014
2 Effective for annual periods beginning on or after 1st July, 2014
3 No mandatory effective date yet determined but is available for adoption

The directors of the Company anticipate that application of the new/revised standards and interpretations will have no material impact on the results and financial position of the Group and the Company.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the accounting policies set out in note 2, management is required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Cont'd)

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

(a) Depreciation and amortisation

The net book values of the Group's property, plant and equipment (other than construction-in-progress) and intangible assets as at 31st December, 2013 were approximately RMB1,348 million (2012: RMB1,442 million) and RMB670 million (2012: RMB362 million), respectively. The Group depreciates its property, plant and equipment, other than construction-in-progress, on a straight line basis after taking into account their estimated residual value, over 5 to 30 years for property, plant and equipment other than special tools and moulds and over 20,000 times to 420,000 times of usage for special tools and moulds. The intangible assets are amortised on a straight-line basis over their estimated useful lives of 5 to 10 years.

The depreciation and amortisation rates are based on the estimated useful lives and reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment and intangible assets with reference to the current condition and the level of technological advancement of these assets compared with the market. When there is a change in technological advancement in the market which reduces the expected useful lives of these assets, the depreciation and amortisation rates are adjusted which would have a negative impact on the Group's results.

(b) Impairment test of goodwill

The Group determines whether goodwill is required to be impaired based on an estimation of the value of the cash-generating units to which the goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2013, full provision of impairment was provided for goodwill in investment in subsidiaries (2012: Same) while carrying value of goodwill in investment in associates and joint ventures were RMB72,800,000 (2012: RMB26,654,000) and Nil (2012: RMB63,196,000), respectively. Based on the assessment, no further impairment loss is considered necessary by the directors. If the actual future cash flows of these associates and joint ventures are less than expected, the maximum potential impact to the financial statements would be the carrying amounts of the goodwill.

(c) Impairment on inventories

The Group's management reviews inventory aging analysis at each reporting date and makes allowance for obsolete and slow-moving items of inventories that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work-in-progress based principally on the selling prices of the respective finished goods and current market conditions. The management carries out an inventory review on a product-by-product basis at each reporting date and makes allowance for obsolete items.

However, situation in the PRC automobile market could change from time to time and this can put pressure on the selling prices and the turnover of the Group's inventories. As at 31st December, 2013, the Group had inventories of RMB769,435,000 (2012: RMB838,393,000) (net of provision of impairment of RMB124,837,000 (2012: RMB88,424,000)). Should there be an unexpected change in market condition, the provision may not be adequate and further impairment may be required, and a material loss may arise.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Cont'd)

(d) Impairment on receivable

The policy for impairment on the Group's bad and doubtful debts of receivables is based on the estimation of present value of the future cash flows from receivables with reference to aging analysis of accounts. 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. As at 31st December, 2013, the Group had accounts receivable (both from third parties and affiliated companies) totalling RMB834,460,000 (2012: RMB509,296,000) (net of accumulated impairment losses of RMB41,995,000 (2012: RMB41,822,000)), other receivables of RMB400,803,000 (2012: RMB406,077,000) (net of accumulated impairment losses of RMB99,374,000 (2012: RMB93,348,000)) amounts due from affiliated companies of RMB944,087,000 (2012: RMB826,052,000) (net of accumulated impairment losses of RMB55,975,000 (2012: RMB15,975,000)). Where the actual cash flows are less than expected, a material loss may arise.

(e) Warranty provisions

The Group makes provisions for product warranties granted by the Group in respect of certain products are recognised based on sales volume and past experience of the level of repair and returns, discounted to their present values as appropriate.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group's major financial instruments include accounts and notes receivables, other receivables, prepayment for a long-term investment, accounts and notes payables, other payables and interest-bearing borrowings. Details of the policies on how to mitigate the risks from these financial instruments are set out below. The Group's management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

(a) Credit risk

The Group's credit risk primarily consists of accounts receivable, notes receivable and other receivables from a variety of customers and debtors including state and local agencies, municipalities and private industries and its affiliated companies, bank balances and deposits, and guarantee for loans drawn by its affiliated companies.

In order to minimise credit risk, credit history and background of new customers and debtors are checked and security deposits or letters of credit are usually obtained from major customers. Credit limits with credit terms of 30 days to 90 days are set for customers and designated staff monitors accounts receivable and follow-up collection with customers. Customers considered to be high risk are traded on cash basis or when bank guaranteed notes or letters of credit are received.

The Group reviews regularly the recoverable amount of each individual receivable and adequate provision is made for any balance determined to be unrecoverable.

The Group has no significant concentration of credit risk as at 31st December, 2013 except that about 24% (2012: 38%) of accounts receivable were due from Huachen. As at 31st December, 2013, the total receivable due from Huachen amounted to RMB596 million (2012: RMB796 million). However, the Group also had total payable of RMB396 million (2012: RMB802 million) as at 31st December, 2013 to Huachen. Accordingly, the net credit risk exposure from Huachen as at 31st December, 2013 was RMB200 million. The directors consider that the net amount due had arisen from normal course of business with Huachen and therefore the credit risk is at acceptable level but the Group will continue to monitor the exposure.

The credit risk on liquid funds with banks is limited because these banks are authorised banks in the PRC with high credit ratings.

The Group's maximum exposure of credit risk is the carrying amounts of the Group's balances in accounts receivable, notes receivable and other receivables from both third parties and affiliated companies totalling RMB3,565 million as at 31st December, 2013 (2012: RMB3,538 million).

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Cont'd)

(a) Credit risk (Cont'd)

The Company's credit risk is mainly arisen from amounts due from affiliated companies and other receivables. The maximum exposure of credit risk is the carrying amount of amounts due from affiliated companies of RMB486 million (2012: RMB518 million) and other receivables of RMB2 million (2012: RMB3 million). The Company reviews regularly the recoverable amount of each individual receivable and adequate provision is made for any balance determined to be unrecoverable.

(b) Liquidity risk

In managing liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by the management to finance the Group's operations, expected expansion and product developments. The Group relies on bank borrowings as a significant source of liquidity. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants. In view of excess of current liabilities over current assets of the Group, the management has taken necessary measures to maintain the Group's liquidity as set out in note 2(c).

As at 31st December, 2012 and 31st December, 2013, the remaining contractual maturities of the Group's financial liabilities which were all due within one year, based on undiscounted cash flows, are summarised below:

	2013	2012
	RMB'000	RMB'000
Financial liabilities		
Accounts payable	**2,990,627**	3,119,993
Notes payable	**1,298,253**	1,708,160
Other payables	**548,909**	456,927
Accrued expenses and other current liabilities	**78,016**	52,608
Short-term bank borrowings	**1,528,200**	1,119,000
Amounts due to affiliated companies	**148,420**	204,093
	6,592,425	6,660,781

	2013	2012
	RMB'000	RMB'000
Financial guarantee contracts		
– Shanghai Shenhua Holdings Co., Ltd. ("**Shanghai Shenhua**")	**60,000**	60,000
– Shenyang JinBei Automotive Co., Ltd. ("**JinBei**")	**526,500**	578,500
	586,500	638,500

The Company did not provide any financial guarantees to subsidiaries within the Group during the year ended 31st December, 2013 (2012: Nil).

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Cont'd)

(c) Currency risk

The Group's business mainly operates in the PRC with most of its transactions denominated and settled in RMB, except that certain receivables and payables, cash and cash equivalents are denominated in U.S. Dollars which are exposed to foreign currency translation risk. The Group had not used any financial instrument to hedge the foreign exchange risk.

At 31st December, 2013, if the RMB had strengthened/weakened by 3% against the U.S. Dollar with all other variables held constant, the post-tax profit for the year would have been approximately RMB12 million lower/higher (2012: RMB7 million lower/higher), mainly as a result of foreign exchange losses/gains on translation of the U.S. Dollar denominated trade receivable and cash and cash equivalents and short-term bank deposits.

(d) Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's interest-bearing bank loans and discounted bank guaranteed notes.

Funds not required by the Group in the short-term are kept as temporary demand or time deposits in commercial banks and the Group does not hold any market risk-sensitive instruments for speculative purposes.

Assuming the cash and cash equivalents, short-term deposits, pledged short-term bank deposits, short-term bank borrowings and notes payable for financing outstanding as at 31st December, 2013 were outstanding for the whole year, a 50 basis point increase or decrease would increase or decrease the profit after tax and equity of the Group for the year by approximately RMB0.03 million (2012: approximately RMB0.1 million). The 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis was performed on the same basis for 2012.

The Company does not have significant exposure in interest rates risk.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Cont'd)

(e) Summary of financial instruments by category

The carrying amounts of the Group's and Company's financial assets at 31st December, 2012 and 31st December, 2013 are categorized as follows:

	The Group			The Company		
	Loans and Receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000	Loans and Receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Financial assets at 31st December, 2013						
Prepayment for a long-term investment	**–**	**600,000**	**600,000**	**–**	**–**	**–**
Available-for-sale financial assets	**–**	**19,680**	**19,680**	**–**	**15,542**	**15,542**
Cash and cash equivalents	**903,263**	**–**	**903,263**	**40,975**	**–**	**40,975**
Short-term bank deposits	**173,934**	**–**	**173,934**	**101,974**	**–**	**101,974**
Pledged short-term bank deposits	**1,039,469**	**–**	**1,039,469**	**–**	**–**	**–**
Accounts receivable	**834,460**	**–**	**834,460**	**–**	**–**	**–**
Notes receivable	**1,385,259**	**–**	**1,385,259**	**–**	**–**	**–**
Other receivables	**400,803**	**–**	**400,803**	**2,415**	**–**	**2,415**
Amounts due from affiliated companies	**944,087**	**–**	**944,087**	**485,531**	**–**	**485,531**
	5,681,275	**619,680**	**6,300,955**	**630,895**	**15,542**	**646,437**
Financial assets at 31st December, 2012						
Prepayment for a long-term investment	–	600,000	600,000	–	–	–
Available-for-sale financial assets	–	19,900	19,900	–	15,762	15,762
Cash and cash equivalents	836,511	–	836,511	50,979	–	50,979
Short-term bank deposits	57,556	–	57,556	–	–	–
Pledged short-term bank deposits	1,054,877	–	1,054,877	–	–	–
Accounts receivable	509,296	–	509,296	–	–	–
Notes receivable	1,302,447	–	1,302,447	–	–	–
Other receivables	406,077	–	406,077	2,727	–	2,727
Receivable for disposal of discontinued operations	494,490	–	494,490	–	–	–
Amounts due from affiliated companies	826,052	–	826,052	518,006	–	518,006
	5,487,306	619,900	6,107,206	571,712	15,762	587,474

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Cont'd)

(e) Summary of financial instruments by category (Cont'd)

The carrying amounts of the Group's and Company's financial liabilities at 31st December, 2012 and 31st December, 2013 are categorized as follows:

	The Group Financial liabilities measured at amortised costs		The Company Financial liabilities measured at amortised costs	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial liabilities at 31st December,				
Accounts payable	**2,990,627**	3,119,993	**–**	–
Notes payable	**1,298,253**	1,708,160	**–**	–
Other payables	**548,909**	456,927	**2,577**	22,036
Short-term bank borrowings	**1,528,200**	1,119,000	**–**	–
Amounts due to affiliated companies	**148,420**	204,093	**5,047**	5,265
	6,514,409	6,608,173	**7,624**	27,301

(f) Fair value measurements recognised in the statement of financial position

The Group and Company measure available-for-sale financial assets with market quoted price at fair value at the end of each reporting period. Fair value is the price that will be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group or Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the three-level fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Cont'd)

(f) Fair value measurements recognised in the statement of financial position (Cont'd)

The Group's and the Company's financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

	2013				2012			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000	RMB'000
Assets								
Available-for-sale financial assets								
– Listed	**15,542**	**–**	**–**	**15,542**	15,762	–	–	15,762

There have been no transfers between levels 1, 2 and 3 or issue or settlement of financial instruments of levels 1, 2 and 3 during the reporting years.

The listed equity securities are denominated in Hong Kong dollars. Fair value has been determined by reference to the quoted bid price at the reporting date and has been translated using the spot foreign currency rate at the end of the reporting year where appropriate.

5. REVENUE AND SEGMENT INFORMATION

Revenue represents the invoiced value of goods, net of consumption tax, discounts and returns.

	2013	2012
	RMB'000	RMB'000
Revenue		
Sale of minibuses and automotive components	**6,103,487**	5,915,991

Note: During the year, the Group had two major customers with aggregate revenue derived from them amounting to more than 10% of the Group's revenue, and each of these two customers amounted to RMB1,618,193,000 and RMB745,551,000 (2012: Nil and RMB3,098,572,000).

Although the minibuses and automotive components of the Group are primarily sold in the PRC, the sales in overseas markets are increasing and the distribution of sales in the PRC and overseas markets are as follows:

	2013	2012
	RMB'000	RMB'000
PRC	**5,430,292**	5,318,817
Other Asian countries	**51,221**	122,449
Southern America	**115,177**	241,811
Middle East	**378,146**	144,182
Africa	**128,092**	88,582
Others	**559**	150
	6,103,487	5,915,991

The directors identify the Group's operating segments as detailed in note 2(u).

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

Operating segments – 2013

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW vehicles RMB'000	Reconciliation to the Group's income statement RMB'000	Total RMB'000
Segment sales to external customers	**6,103,487**	**73,172,504**	**(73,172,504)**	**6,103,487**
Segment results	**(119,892)**	**9,703,736**	**(9,703,736)**	**(119,892)**
Impairment losses on assets	**(48,051)**	**–**	**–**	**(48,051)**
Unallocated costs net of unallocated income				**(57,085)**
Interest income				**46,868**
Finance costs				**(138,568)**
Share of results of:				
Joint ventures	**13,050**	**3,435,293**	**–**	**3,448,343**
Associates	**193,114**	**–**	**–**	**193,114**
Profit before income tax expense				**3,324,729**

Operating segments – 2012

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW vehicles RMB'000	Reconciliation to the Group's income statement RMB'000	Total RMB'000
Segment sales to external customers	5,915,991	56,150,601	(56,150,601)	5,915,991
Segment results	(49,971)	7,073,411	(7,073,411)	(49,971)
Impairment losses on assets	(30,904)	–	–	(30,904)
Unallocated costs net of unallocated income				(50,372)
Interest income				74,343
Finance costs				(174,306)
Share of results of:				
Joint ventures	108,658	2,325,186	–	2,433,844
Associates	91,973	–	–	91,973
Profit before income tax expense				2,294,607

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

Operating segments – 2013

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW vehicles RMB'000	Reconciliation to the Group's statement of financial position RMB'000	Total RMB'000
Segment assets	8,504,915	46,138,315	(46,138,315)	8,504,915
Interests in joint ventures	13,315	8,053,241	–	8,066,556
Interests in associates	1,351,686	–	–	1,351,686
Available-for-sale financial assets				19,680
Prepayments for a long-term investment				600,000
Advance to a shareholder of a related party				300,000
Unallocated assets				147,426
Total assets				18,990,263
Segment liabilities	6,839,010	30,031,833	(30,031,833)	6,839,010
Unallocated liabilities				9,908
Total liabilities				6,848,918
Other disclosures:				
Capital expenditure	691,801	6,547,441	(6,547,441)	691,801
Depreciation of property, plant and equipment	100,332	1,056,850	(1,056,850)	100,332
Amortisation of land lease prepayments	1,458	17,997	(17,997)	1,458
Amortisation of intangible assets	37,375	80,515	(80,515)	37,375
Provision of inventories	46,842	54,637	(54,637)	46,842
Write-back of provision for inventories sold	10,397	66,462	(66,462)	10,397
Write-back of provision for doubtful debts	8	–	–	8

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

Operating segments – 2012

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW vehicles RMB'000	Reconciliation to the Group's statement of financial position RMB'000	Total RMB'000
Segment assets	8,165,400	32,681,926	(32,681,926)	8,165,400
Interests in joint ventures	638,765	5,597,503	–	6,236,268
Interests in associates	603,642	–	–	603,642
Available-for-sale financial assets				19,900
Prepayments for a long-term investment				600,000
Advance to a shareholder of a related party				300,000
Unallocated assets				132,346
Total assets				16,057,556
Segment liabilities	6,848,318	21,486,920	(21,486,920)	6,848,318
Unallocated liabilities				10,766
Total liabilities				6,859,084
Other disclosures:				
Capital expenditure	400,649	5,888,117	(5,888,117)	400,649
Depreciation of property, plant and equipment	99,468	871,025	(871,025)	99,468
Amortisation of land lease prepayments	1,458	14,751	(14,751)	1,458
Amortisation of intangible assets	39,234	65,023	(65,023)	39,234
Provision of inventories	45,665	132,823	(132,823)	45,665
Write-back of provision for inventories sold	10,416	63,005	(63,005)	10,416
Write-back of provision for doubtful debts	2,520	–	–	2,520

6. FINANCE COSTS

	2013 RMB'000	2012 RMB'000
Interest expense on:		
– bank loans wholly repayable within one year	**90,860**	88,342
– discounted bank guaranteed notes	**63,954**	102,462
	154,814	190,804
Less: interest expense capitalised in intangible assets and construction-in-progress at a rate of 6.1% (2012: 7.3%)	**(16,246)**	(16,498)
	138,568	174,306

7. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is stated after charging and crediting the following:

	Note	2013 RMB'000	2012 RMB'000
Charging:			
Impairment losses on:			
– Intangible assets (a)	13	**1,844**	20,699
– Accounts receivable (b)	23(a)	**173**	3,470
– Amounts due from affiliated companies (b)	34(e)	**40,000**	–
– Other receivables (b)	25(a)	**6,034**	6,735
		48,051	30,904
Staff costs	10(a)	**579,127**	531,294
Amortisation of intangible assets (a)	13	**37,375**	39,234
Amortisation of land lease prepayments	15	**1,458**	1,458
Depreciation of property, plant and equipment	14	**100,332**	99,468
Cost of inventories (c)		**5,380,523**	5,185,281
Provision for inventories	22	**46,842**	45,665
Auditors' remuneration		**3,086**	2,660
Research and development costs (b)		**3,715**	5,007
Warranty provision (b)		**27,944**	15,995
Operating lease charges in respect of land and buildings		**17,961**	18,068
Exchange loss, net		**32,404**	5,118
Loss on disposal and write-off of property, plant and equipment		**–**	1,066
Crediting:			
Gross rental income from land and buildings		**392**	448
Write-back of provision for inventories sold	22	**10,397**	10,416
Gain on deemed disposal of a joint venture	18	**9,961**	–
Gain on disposal of property, plant and equipment		**46,964**	–
Write-back of provision for doubtful debts of other receivables	25(a)	**8**	2,520

(a) impairment and amortisation of intangible assets in relation to production was included in cost of sales; amortisation of intangible assets for other purposes was included in general and administrative expenses.

(b) included in general and administrative expenses.

(c) included government subsidies of RMB70,369,000 in 2013.

8. INCOME TAX EXPENSE

The income tax charged to the consolidated income statement represents:

	2013 RMB'000	2012 RMB'000
Current tax		
PRC enterprise income tax		
– Current year	**8,154**	7,177
– Under provision in prior year	**216**	387
	8,370	7,564
Deferred tax expense in respect of tax losses *(Note 30)*	**–**	50,000
Total income tax expense	**8,370**	57,564

(a) Bermuda tax

The Company was incorporated under the laws of Bermuda and has received an undertaking from the Ministry of Finance in Bermuda pursuant to the provisions of the Exempted Undertakings Tax Protection Act, 1966, which exempts the Company and its shareholders, other than shareholders ordinarily residing in Bermuda, from any Bermuda taxes computed on profit, income or any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, at least until year 2035.

(b) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year.

(c) PRC corporate income tax

The Group's subsidiaries incorporated in the PRC are subject to Corporate Income Tax. Under the PRC Corporate Income Tax Law and the respective regulations, the corporate income tax for the subsidiaries, except Mianyang Ruian, is calculated at 25% on their estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof.

Mianyang Ruian received official designation by the local tax authority as a foreign-invested enterprise engaged in manufacturing activities in 2001. In 2004, Mianyang Ruian was also designated as an entity under "the encouraged industries under Catalogue for the Guidance of Foreign Investment Industries" and located in the Western area of the PRC. Pursuant to the relevant income tax laws in the PRC, from 2004 to 2012 and then extended to 2013, the applicable state income tax rate for Mianyang Ruian is 15%.

8. INCOME TAX EXPENSE (Cont'd)

(c) PRC corporate income tax (Cont'd)

With effect from 1st January, 2008, all profits of the PRC subsidiaries arising since that date that are distributed and remitted as dividend to the overseas parents are subject to 10% withholding tax on the amount remitted. No deferred tax is recognised in respect of this withholding tax on profits of the Group's PRC subsidiaries as it is the intention of the management that the Group would reinvest these profits in the respective subsidiaries and therefore the withholding tax would not be applicable to the Group. Unremitted earnings (determined under PRC GAAP) subject to this withholding tax totaled approximately RMB555,859,000 at 31st December, 2013 (2012: RMB147,106,000).

Reconciliation between tax expense and accounting profit using the weighted average taxation rate of the companies within the Group is as follows:

	2013 RMB'000	2012 RMB'000
Profit before income tax expense	**3,324,729**	2,294,607
Calculated at a weighted average statutory taxation rate in the PRC of 23.21% (2012: 24.33%)	**771,702**	558,239
Effect of tax holiday	**(796)**	(676)
Non-taxable income net of expenses not deductible for taxation purpose	**(820,245)**	(607,713)
Unrecognised temporary differences	**10,542**	20,985
Write-off of deferred tax asset in respect of tax losses	**–**	50,000
Utilisation of previously unrecognised tax losses	**–**	(145)
Unrecognised tax losses	**46,951**	36,487
Under provision in prior years	**216**	387
Tax expense for the year	**8,370**	57,564

9. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to the equity holders of the Company for the year includes a profit of approximately RMB379,040,000 (2012: a loss of approximately RMB50,710,000) which has been dealt with in the financial statements of the Company.

10. STAFF COSTS AND DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Staff costs

	2013 RMB'000	2012 RMB'000
Wages, salaries and performance related bonus	**425,905**	386,165
Pension costs – defined contribution plans	**52,548**	50,498
Staff welfare costs	**100,674**	94,631
	579,127	531,294

10. STAFF COSTS AND DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

(b) Executive directors' and non-executive directors' emoluments

The amounts of emoluments paid and payable to the directors of the Company during 2013 are as follows:

	Fee RMB'000	Bonus RMB'000	Salaries and other benefits RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2013					
Executive directors					
Mr. Wu Xiao An	**–**	**3,790**	**3,588**	**–**	**7,378**
Mr. Qi Yumin	**–**	**–**	**2,280**	**–**	**2,280**
Mr. Wang Shiping	**–**	**–**	**1,740**	**–**	**1,740**
Mr. Tan Chengxu	**–**	**–**	**436**	**–**	**436**
	–	**3,790**	**8,044**	**–**	**11,834**
Non-executive director					
Mr. Lei Xiaoyang	**–**	**399**	**–**	**–**	**399**
Independent non-executive directors					
Mr. Xu Bingjin	**120**	**–**	**–**	**–**	**120**
Mr. Song Jian	**120**	**–**	**–**	**–**	**120**
Mr. Jiang Bo	**120**	**–**	**–**	**–**	**120**
	360	**–**	**–**	**–**	**360**
	360	**4,189**	**8,044**	**–**	**12,593**

The aggregate amounts of emoluments paid and payable to the directors of the Company during 2012 are as follows:

	Fee RMB'000	Bonus RMB'000	Salaries and other benefits RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2012					
Executive directors					
Mr. Wu Xiao An	–	3,636	3,748	–	7,384
Mr. Qi Yumin	–	–	2,102	–	2,102
Mr. Wang Shiping	–	–	518	–	518
Mr. Tan Chengxu	–	–	1,588	–	1,588
	–	3,636	7,956	–	11,592
Non-executive director					
Mr. Lei Xiaoyang	–	406	–	–	406
Independent non-executive directors					
Mr. Xu Bingjin	122	–	–	–	122
Mr. Song Jian	122	–	–	–	122
Mr. Jiang Bo	122	–	–	–	122
	366	–	–	–	366
	366	4,042	7,956	–	12,364

10. STAFF COSTS AND DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

(b) Executive directors' and non-executive directors' emoluments (Cont'd)

In both 2012 and 2013,

– no share option was granted to any of the directors;

– no emoluments were paid to the directors as inducement to join or upon joining the Group or as compensation for loss of office; and

– no directors waived their emoluments.

The ultimate objective of the Group's emolument policy is to ensure that the pay levels of its employees are in line with industry practices and prevailing market conditions so as to enable the Group to attract and retain persons of high quality and experience which is essential to the success of the Group.

In determining the level of fees and other emoluments paid to directors of the Company, market rates and factors such as each director's workload and required commitment are taken into account:

– Remuneration of executive directors comprises basic remuneration determined with reference to their qualifications, industry experience and responsibilities within the Group, and a performance-based remuneration. In determining the performance-based remuneration of executive directors, regard is given to the Company's corporate goals and objectives set by the board from time to time and the performance and contribution of the individual to the Group's overall performance.

– Non-executive director is compensated with reference to his qualifications, expertise and experience and the amount of time allocated to the affairs of the Group.

– Independent non-executive directors are compensated with reference to the level of compensation awarded to independent non-executive directors by other companies listed on the SEHK; the responsibilities assumed by such independent non-executive directors; complexity of the automobile industry and the business of the Group; goodwill and reputational value brought to the Group by the relevant independent non-executive director.

During the process of consideration, no individual director is involved in decisions relating to his own remuneration.

(c) Remuneration of senior management

Pursuant to Appendix 14 to the Listing Rules, the remuneration of senior management, excluding directors, is within the following bands:

	2013	2012
	Number	Number
HK$1,000,000 to HK$2,000,000	**2**	2
HK$2,000,001 to HK$3,000,000	**2**	2

10. STAFF COSTS AND DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

(d) Five highest paid individuals

The five highest paid individuals in the Group during the year included two directors (2012: two directors), details of whose emoluments have been disclosed in note (b) above. The emoluments paid to the remaining three individuals (2012: three individuals) for the year are as follows:

	2013 **RMB'000**	2012 RMB'000
Salaries and other benefits	**5,823**	4,856
Performance related bonus	**1,437**	1,214
Contributions to pension schemes	**12**	11
	7,272	6,081

The number of the remaining highest paid individuals whose emoluments fell within the following bands is as follows:

	2013	2012
HK$2,000,001 to HK$3,000,000	**2**	3
HK$3,000,001 to HK$4,000,000	**1**	–

The emoluments represent the amounts paid to or receivable by the individuals in the respective financial year, which include the benefits derived from the share options granted, if any (Note 32(c)).

During the year, no emoluments were paid to the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office (2012: Same).

11. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares as follows:

	Number of shares	
	2013 **'000**	2012 '000
Weighted average number of ordinary shares		
Issued ordinary shares at 1st January,	**5,025,769**	5,010,769
Effect of share options exercised	**–**	12,884
Weighted average number of ordinary shares for calculating basic earnings per share	**5,025,769**	5,023,653
Weighted average number of ordinary shares deemed issued under the Company's share option scheme	**20,140**	21,881
Weighted average number of ordinary shares for calculating diluted earnings per share	**5,045,909**	5,045,534

12. DIVIDENDS

On 13th August, 2013, an interim dividend of HK$0.1 per share totaling RMB393,711,000 (2012: Nil) was declared by the directors and paid during 2013.

The directors do not recommend the payment of a final dividend for the year ended 31st December, 2013 (2012: Nil).

13. INTANGIBLE ASSETS

	Development costs RMB'000	Specialised software RMB'000	Total RMB'00
Cost			
As at 1st January, 2012	272,697	10,728	283,425
Additions	220,571	2,174	222,745
Transfer from construction-in-progress *(Note 14)*	1,173	–	1,173
As at 31st December, 2012	494,441	12,902	507,343
As at 1st January, 2013	**494,441**	**12,902**	**507,343**
Additions	**340,352**	**1,025**	**341,377**
Transfer from construction-in-progress *(Note 14)*	**6,192**	**53**	**6,245**
As at 31st December, 2013	**840,985**	**13,980**	**854,965**
Accumulated amortisation and impairment losses			
As at 1st January, 2012	79,121	6,780	85,901
Amortisation	37,991	1,243	39,234
Impairment	20,309	390	20,699
As at 31st December, 2012	137,421	8,413	145,834
As at 1st January, 2013	**137,421**	**8,413**	**145,834**
Amortisation	**36,335**	**1,040**	**37,375**
Impairment	**1,844**	**–**	**1,844**
As at 31st December, 2013	**175,600**	**9,453**	**185,053**
Net book value			
As at 31st December, 2013	**665,385**	**4,527**	**669,912**
As at 31st December, 2012	357,020	4,489	361,509

14. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000	Tools & moulds, machinery and equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction-in-progress RMB'000	Total RMB'000
Cost						
As at 1st January, 2012	572,131	1,774,537	259,725	98,613	281,495	2,986,501
Additions	3,713	45,966	9,270	6,950	112,005	177,904
Inter-transfer	694	62,052	20,198	694	(83,638)	–
Transfer to intangible assets *(Note 13)*	–	–	–	–	(1,173)	(1,173)
Disposals	–	(2,792)	(6,163)	(8,302)	–	(17,257)
As at 31st December, 2012	576,538	1,879,763	283,030	97,955	308,689	3,145,975
As at 1st January, 2013	**576,538**	**1,879,763**	**283,030**	**97,955**	**308,689**	**3,145,975**
Additions	**5,551**	**41,340**	**12,309**	**4,370**	**286,854**	**350,424**
Inter-transfer	**1,994**	**228,247**	**16,346**	**2,181**	**(248,768)**	**–**
Transfer to intangible assets *(Note 13)*	**–**	**–**	**–**	**–**	**(6,245)**	**(6,245)**
Disposals	**(27,799)**	**(299,973)**	**(57,546)**	**(19,211)**	**–**	**(404,529)**
As at 31st December, 2013	**556,284**	**1,849,377**	**254,139**	**85,295**	**340,530**	**3,085,625**
Accumulated depreciation and impairment losses						
As at 1st January, 2012	239,116	822,003	194,297	56,201	5,148	1,316,765
Charge for the year	15,613	62,593	13,656	7,606	–	99,468
Inter-transfer	–	401	(402)	1	–	–
Eliminated on disposals/write-off	–	(2,513)	(5,561)	(7,317)	–	(15,391)
As at 31st December, 2012	254,729	882,484	201,990	56,491	5,148	1,400,842
As at 1st January, 2013	**254,729**	**882,484**	**201,990**	**56,491**	**5,148**	**1,400,842**
Charge for the year	**15,950**	**62,854**	**14,063**	**7,465**	**–**	**100,332**
Inter-transfer	**–**	**1,909**	**108**	**–**	**(2,017)**	**–**
Eliminated on disposals/write-off	**(15,573)**	**(39,556)**	**(39,285)**	**(6,893)**	**–**	**(101,307)**
As at 31st December, 2013	**255,106**	**907,691**	**176,876**	**57,063**	**3,131**	**1,399,867**
Net book value						
As at 31st December, 2013	**301,178**	**941,686**	**77,263**	**28,232**	**337,399**	**1,685,758**
As at 31st December, 2012	321,809	997,279	81,040	41,464	303,541	1,745,133

All buildings are situated in the PRC under medium term leases of not more than 50 years.

15. LAND LEASE PREPAYMENTS

The carrying value of land lease prepayments represents cost less accumulated amortisation paid for land use rights in the PRC under medium term leases of not more than 50 years. The value to be amortised within the next twelve months after 31st December, 2013 amounts to RMB1,458,000 (2012: RMB1,458,000).

	2013	2012
	RMB'000	RMB'000
Cost		
As at 1st January, and at 31st December,	**89,919**	89,919
Accumulated amortisation		
As at 1st January,	**27,408**	25,950
Charge for the year	**1,458**	1,458
As at 31st December,	**28,866**	27,408
Net book value		
As at 31st December,	**61,053**	62,511

16. INTERESTS IN SUBSIDIARIES

	2013	2012
	RMB'000	RMB'000
Unlisted investments, at cost	**4,127,744**	4,127,744
Accumulated impairment losses	**(1,768,000)**	(1,768,000)
	2,359,744	2,359,744
Amounts due from subsidiaries:		
– interest bearing *(Note a)*	**6,920**	6,920
– non-interest bearing *(Note b)*	**1,976,832**	2,030,522
	1,983,752	2,037,442
Accumulated impairment losses	**(312,000)**	(272,000)
	1,671,752	1,765,442
	4,031,496	4,125,186

Notes:

(a) The amounts are interest-bearing at rates ranging from 5% to 7.8125% (2012: 5% to 7.8125%) per annum, unsecured and repayable on demand.

(b) The amounts are unsecured, interest-free and repayable on demand.

16. INTERESTS IN SUBSIDIARIES (Cont'd)

Details of the Company's subsidiaries as at 31st December, 2013 and 2012 were as follows:

Name of company	Place of establishment/ incorporation	Registered capital/issued and fully paid capital	Legal structure	Percentage of effective equity interest/ voting right attributable to the Company		Principal activities
				Directly	*Indirectly*	
Shenyang Brilliance JinBei Automobile Co., Ltd. ("**Shenyang Automotive**")	Shenyang, the PRC	US$444,160,000	Equity joint venture	51%	9.9%	Manufacture, assembly and sale of minibuses and automotive components
Ningbo Yuming Machinery Industrial Co., Ltd.	Ningbo, the PRC	US$22,500,000	Wholly foreign owned enterprise	–	100%	Manufacture and sale of automotive components
Shenyang XingYuanDong Automobile Component Co., Ltd. ("**Xing Yuan Dong**")	Shenyang, the PRC	US$150,000,000	Wholly foreign owned enterprise	100%	–	Manufacture and trading of automotive components
Ningbo Brilliance Ruixing Auto Components Co., Ltd.	Ningbo, the PRC	US$5,000,000	Wholly foreign owned enterprise	100%	–	Manufacture and trading of automotive components
Mianyang Ruian	Mianyang, the PRC	US$22,910,000	Wholly foreign owned enterprise	100%	–	Manufacture and trading of automotive components
Shenyang Brilliance Dongxing Automotive Component Co., Ltd.	Shenyang, the PRC	RMB222,000,000	Wholly foreign owned enterprise	–	100%	Manufacture and trading of automotive components and remodeling minibuses and sedans
Shenyang Jindong Development Co., Ltd.	Shenyang, the PRC	RMB10,000,000	Equity joint venture	–	80.45%	Trading of automotive components
Shenyang Jianhua Motors Engine Co., Ltd. ("**Shenyang Jianhua**")	Shenyang, the PRC	RMB155,032,500	Equity joint venture	–	68.72%	Investment holding
China Brilliance Automotive Components Group Limited	Bermuda	US$12,000	Company with limited liabilities	100%	–	Investment holding
Brilliance Investment Holdings Limited	British Virgin Islands	US$1	Company with limited liabilities	100%	–	Investment holding
Beston Asia Investment Limited	British Virgin Islands	US$1	Company with limited liabilities	100%	–	Investment holding
Pure Shine Limited	British Virgin Islands	US$1	Company with limited liabilities	100%	–	Investment holding

16. INTERESTS IN SUBSIDIARIES (Cont'd)

Name of company	Place of establishment/ incorporation	Registered capital/issued and fully paid capital	Legal structure	Percentage of effective equity interest/ voting right attributable to the Company		Principal activities
				Directly	*Indirectly*	
Key Choices Group Limited	British Virgin Islands	US$50,000	Company with limited liabilities	100%	–	Investment holding
Brilliance China Finance Limited	British Virgin Islands	US$50,000	Company with limited liabilities	100%	–	Investment holding
Shenyang XinJinBei Investment and Development Co., Ltd. ("**SXID**")	Shenyang, the PRC	RMB1,500,000,000	Company with limited liabilities	–	100%	Investment holding
Shenyang JinBei Automotive Industry Holdings Co., Ltd. ("**SJAI**")	Shenyang, the PRC	RMB1,500,000,000	Company with limited liabilities	–	100%	Investment holding
Shanghai Hidea Auto Design Co., Ltd.	Shanghai, the PRC	US$2,000,000	Equity joint venture	25%	45.68%	Design of automobiles

Note: Except for the subsidiaries incorporated in Bermuda and the British Virgin Islands, all other subsidiaries principally operate in the PRC.

17. INTERESTS IN JOINT VENTURES

	2013 **RMB'000**	2012 RMB'000
Share of net assets	**8,066,556**	6,236,268

17. INTERESTS IN JOINT VENTURES (Cont'd)

Details of the Group's joint ventures as at 31st December, 2013 were as follows:

Name of company	Place of incorporation/ establishment	Registered capital/issued and paid up capital	Legal structure	Percentage of effective equity interest/voting right held indirectly	Principal activities
Shenyang Xinguang Brilliance Automobile Engine Co., Ltd. ("**Xinguang Brilliance**")	Shenyang, the PRC	US$7,220,000	Equity joint venture	50%	Manufacture and sale of automotive engines for minibuses and light duty trucks
BMW Brilliance	Shenyang, the PRC	US$174,000,000	Equity joint venture	50%	Manufacture and sale of BMW vehicles

The Group's share of BMW brilliance's assets, liabilities, income and expenses are as follows:

	2013 RMB'000	2012 RMB'000
Non-current assets	**11,699,202**	8,484,794
Current assets	**11,369,956**	7,856,169
Current liabilities	**(14,026,047)**	(10,066,155)
Non-current liabilities	**(989,870)**	(677,305)
Net assets	**8,053,241**	5,597,503
Revenue	**36,586,252**	28,075,300
Net profit	**3,435,293**	2,325,186
Other comprehensive income	**20,445**	714,364
Total comprehensive income	**3,455,738**	3,039,550
Dividends received from BMW Brilliance	**1,000,000**	500,000

17. INTERESTS IN JOINT VENTURES (Cont'd)

The Group's share of other joint ventures' assets, liabilities, income and expenses are as follows:

	2013 **RMB'000**	2012 RMB'000
Non-current assets	**24,334**	250,298
Current assets	**185,489**	1,305,899
Current liabilities	**(195,579)**	(963,170)
Non-current liabilities	**(929)**	(17,458)
Net assets	**13,315**	575,569
Income	**368,548**	1,335,892
Net profit and total comprehensive income	**13,050**	108,658

18. INTERESTS IN ASSOCIATES

	2013 **RMB'000**	2012 RMB'000
Share of net assets		
– Associates listed in Hong Kong	**723,595**	–
– Unlisted associates	**555,292**	576,988
Goodwill	**72,799**	26,654
	1,351,686	603,642
Fair value of associates listed in Hong Kong	**1,638,832**	N/A

The Company's interests in associates represent the cost of investments in 25% and 49% in Shenyang ChenFa Automobile Component Co., Ltd. ("**Shenyang ChenFa**") and Shenyang Brilliance Power Train Machinery Co., Ltd. ("**Shenyang Brilliance Power**"), respectively.

18. INTERESTS IN ASSOCIATES (Cont'd)

Details of the Group's associates as at 31st December, 2013 were as follows:

Name of company	Place of principal operations and establishment	Registered capital/ issued and paid up capital	Legal structure	Percentage of effective equity interest/ voting right held directly	Percentage of effective equity interest/ voting right held indirectly	Principal activities
Xinchen China Power Holdings Limited ("**Power Xinchen**") *(Note 1)*	Cayman Islands	HK$12,874,078	Company with limited liability	–	31.07%	Investment holding
Southern State Investment Limited ("**Southern State**") *(Note 1)*	British Virgin Islands	US$1	Company with limited liability	–	31.07%	Investment holding
Mianyang Xinchen Engine Co., Ltd. ("**Mianyang Xinchen**") *(Note 1)*	Mianyang, the PRC	US$100,000,000	Wholly foreign owned enterprise	–	31.07%	Development, manufacture and sale of automotive engines
Shenyang Aerospace *(Note 2)*	Shenyang, the PRC	RMB738,250,000	Equity joint venture	–	14.43%	Manufacture and sale of automotive engines
Shenyang JinBei Vehicle Dies Manufacturing Co., Ltd.	Shenyang, the PRC	RMB29,900,000	Equity joint venture	–	48%	Manufacture and sale of automotive components
Shenyang ChenFa	Shenyang, the PRC	US$19,000,000	Equity joint venture	25%	–	Development, manufacture and sale of engines and engine components
Shenyang Brilliance Power	Shenyang, the PRC	US$29,900,000	Equity joint venture	49%	–	Manufacture and sale of power train

Note 1: On 13th March, 2013, the listing of Power Xinchen was completed and the dealings in shares of Power Xinchen on the Main Board of the SEHK commenced on the same day.

Upon the listing and the partial exercise of an over-allotment option for issue of additional shares of Power Xinchen, the Group's effective interest in Power Xinchen, Southern State and Mianyang Xinchen diluted to 31.07% and such companies have become associates of the Group. As a result, a gain of approximately RMB9,961,000 on the deemed disposed resulted.

Note 2: The Group has effective equity interest of 14.43% in Shenyang Aerospace through an indirect 21% equity interest held by Shenyang Jianhua (20% and 80% equity interest in Shenyang Jianhua were held by Xing Yuan Dong, a wholly-owned subsidiary of the Company, and Shenyang Automotive, a 60.9% owned subsidiary of the Company, respectively).

18. INTERESTS IN ASSOCIATES (Cont'd)

Aggregated financial information of the associates for the year ended 31st December, 2013 is summarised as follows:

	2013 **RMB'000**	2012 RMB'000
Non-current assets	**2,112,587**	1,656,975
Current assets	**7,327,332**	3,017,677
Current liabilities	**(4,557,831)**	(2,147,302)
Non-current liabilities	**(130,658)**	(89,944)
Net assets	**4,751,430**	2,437,406
Revenue	**8,501,782**	5,964,880
Net profit	**775,373**	449,070
Net profit attributable to the Group	**193,114**	91,973

19. PREPAYMENTS FOR A LONG-TERM INVESTMENT

On 29th December, 2003, SJAI (currently an indirectly wholly-owned subsidiary of the Company) and SXID (currently an indirectly wholly-owned subsidiary of the Company) entered into agreements with the sellers in relation to the acquisition of the entire equity interests of SAIAM and Shenyang XinJinBei Investment Co., Ltd. ("**SXI**"), respectively (the "**Acquisitions**"). As at 31st December, 2013, SAIAM owns 24.38% while SXI owns 8.97% of the equity interest in JinBei, a company listed on the Shanghai Stock Exchange. The consideration for the Acquisitions was RMB600 million, which was determined after arm's length negotiations between the parties by taking into account the respective financial position of SAIAM and SXI.

Although the Acquisitions have been approved by State-owned Assets Supervision and Administration Commission of Liaoning Provincial Government and the State-Owned Assets Supervision and Administration Commission of the State Council, the transfer of the entire interest of SAIAM and SXI is subject to the granting of a waiver to SXID and SJAI from making an offer for all of the shares of JinBei under Regulation on Acquisitions of Listed Companies by the China Securities Regulatory Commission. Upon completion of the Acquisitions, the Group will be effectively interested in an aggregate of approximately 33.35% of the issued share capital of JinBei.

As at 31st December, 2013 and 2012, the consideration of RMB600 million paid to the shareholders of SAIAM and SXI was recorded as prepayments for a long-term investment. The directors have assessed the fair value of the underlying shares of JinBei and are satisfied that the recoverability of the prepayments is supported by the underlying shares of JinBei.

The directors are currently evaluating market situation and considering potential options for this investment, in light of the Group's latest strategy and future plans.

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Equity investments				
– Unlisted, at cost	**4,138**	4,138	**–**	–
– Listed in Hong Kong, at fair value	**15,542**	15,762	**15,542**	15,762
At 31st December,	**19,680**	19,900	**15,542**	15,762

The unlisted equity investments are stated at cost less provision for impairment as they do not have a quoted market price in an active market. The directors are of the opinion that the carrying amounts of the unlisted equity investments approximate their fair value. The Group does not intend to dispose of this unlisted equity investment and will hold it for a long term purpose.

The equity investment listed in Hong Kong of the Group and the Company represents the same investment with fair value of RMB15,542,000 (2012: RMB15,762,000) as at the reporting date.

21. PLEDGED SHORT-TERM BANK DEPOSITS

Pledged short-term bank deposits as at 31st December, 2013 were pledged for the following purposes:

	2013	2012
	RMB'000	RMB'000
Issue of bank guaranteed notes to trade creditors *(Note)*	**828,939**	841,197
Bank loans granted to JinBei *(Note 34(a))*	**210,530**	213,680
	1,039,469	1,054,877

Note: In addition to short-term bank deposits, as at 31st December, 2013, the Group had also pledged bank guaranteed notes receivable from third parties and affiliated companies of approximately RMB251 million (2012: RMB204 million) for issue of bank guaranteed notes and short term bank borrowings.

22. INVENTORIES

	2013 RMB'000	2012 RMB'000
Raw materials	**330,908**	421,134
Work-in-progress	**123,917**	150,208
Finished goods	**439,447**	355,475
	894,272	926,817
Less: provision for inventories	**(124,837)**	(88,424)
	769,435	838,393

As at 31st December, 2013, the carrying amount of inventories that were stated at net realisable value amounted to approximately RMB35 million (2012: RMB54 million).

The reconciliation of provision for inventories in the year is as follows:

	2013 RMB'000	2012 RMB'000
At 1st January,	**88,424**	53,381
Obsolete inventories written off	**(32)**	(206)
Provision for the year	**46,842**	45,665
Reversal for the year	**(10,397)**	(10,416)
At 31st December,	**124,837**	88,424

The reversal of provision for inventories represents the reversal for provision previously recognised for inventories that were sold during the year (2012: Same).

23. ACCOUNTS RECEIVABLE

	Note	2013 RMB'000	2012 RMB'000
Accounts receivable	23(a)	**507,625**	205,462
Accounts receivable from affiliated companies	34(c)	**326,835**	303,834
		834,460	509,296

(a) An aging analysis of accounts receivable is set out below:

	2013 RMB'000	2012 RMB'000
Less than six months	**464,541**	196,920
Six months to one year	**39,093**	3,706
Above one year but less than two years	**133**	1,972
Two years or above	**24,465**	23,298
	528,232	225,896
Less: provision for doubtful debts	**(20,607)**	(20,434)
	507,625	205,462

At the reporting date, accounts receivable from third parties of RMB401 million (2012: RMB148 million) are mainly denominated in U.S. Dollar and the rest are denominated in Renminbi. The Group's credit policy is set out in note 4(a).

The movement in allowance for doubtful debts for accounts receivable during the year, including both specific and collective loss components, is as follows:

	2013 RMB'000	2012 RMB'000
At 1st January,	**20,434**	16,964
Impairment loss recognised	**173**	3,470
At 31st December,	**20,607**	20,434

The provision for doubtful debts is in respect of accounts receivable that were individually determined to be impaired. These impaired accounts receivable relate to customers that were in financial difficulties and management assessed that the impaired amounts will not be recoverable. Consequently, specific allowance for doubtful debts for the full amount of each of the impaired receivables was recognised.

23. ACCOUNTS RECEIVABLE (Cont'd)

(a) (Cont'd)

The aging analysis of the Group's accounts receivable that are past due but neither individually nor collectively considered to be impaired are as follows:

	2013 **RMB'000**	2012 RMB'000
Six months to one year	**39,093**	3,706
Above one year but less than two years	**133**	1,972
Two years or above	**3,858**	2,864
	43,084	8,542

Accounts receivable that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. These balances were either settled subsequent to 31st December, 2013 and up to the date of these financial statements or based on past experience, management believes that no impairment allowance is necessary in respect of the remaining unsettled balances as there has not been a significant change in credit quality and balances are still considered fully recoverable.

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

The Group does not hold any collateral over the accounts receivable.

24. NOTES RECEIVABLE

	Note	**2013** **RMB'000**	2012 RMB'000
Notes receivable	24(a)	**371,126**	258,058
Notes receivable from affiliated companies	34(d)	**1,014,133**	1,044,389
		1,385,259	1,302,447

(a) All notes receivable are denominated in Renminbi and are primarily notes received from customers for settlement of accounts receivable balances. As at 31st December, 2013, all notes receivable were guaranteed by established banks in the PRC with maturities of less than six months from 31st December, 2013 (2012: Same).

25. OTHER CURRENT ASSETS

	Note	The Group 2013 RMB'000	The Group 2012 RMB'000	The Company 2013 RMB'000	The Company 2012 RMB'000
Other receivables	25(a)	**400,803**	406,077	**2,415**	2,727
Prepayments and other current assets		**72,566**	71,881	**1,320**	1,357
Other taxes recoverable		**726**	19,570	**–**	–
Receivable for disposal of discontinued operations		**–**	494,490	**–**	–
Amounts due from affiliated companies	34(e)	**944,087**	826,052	**485,531**	518,006
		1,418,182	1,818,070	**489,266**	522,090

(a)

	The Group 2013 RMB'000	The Group 2012 RMB'000	The Company 2013 RMB'000	The Company 2012 RMB'000
Advance to SAIAM	**300,000**	300,000	**–**	–
Others	**200,177**	199,425	**2,415**	2,727
	500,177	499,425	**2,415**	2,727
Less: provision for doubtful debts	**(99,374)**	(93,348)	**–**	–
At 31st December,	**400,803**	406,077	**2,415**	2,727

All other receivables are denominated in Renminbi. SAIAM will become a subsidiary of the Group after the completion of the acquisition of SAIAM as detailed in note 19. The amount advanced to SAIAM will be settled upon the completion of the acquisition. In view of the substantial assets in JinBei possessed by SAIAM, the management considers the credit risk in recovering this amount is minimal.

The other items in other receivables mainly represent prepayments and deposits paid and advances to other third parties. The management considers the credit risks for the balances after the provision of impairment for doubtful debts detailed below to be minimal as these items are considered insignificant in amounts individually, and are recovered very shortly after they are incurred.

25. OTHER CURRENT ASSETS (Cont'd)

(a) (Cont'd)

The movement in allowance for doubtful debts for other receivables during the year, including both specific and collective loss components, is as follows:

	2013 RMB'000	2012 RMB'000
At 1st January,	**93,348**	89,133
Impairment loss recognised	**6,034**	6,735
Write-back of previously recognised impairment losses	**(8)**	(2,520)
At 31st December,	**99,374**	93,348

As at 31st December, 2013, the Group's other receivables of RMB99,374,000 (2012: RMB93,348,000) was individually determined to be impaired. The individual impaired receivables related to debtors that were in financial difficulties and management assessed that the impaired amounts will not be recoverable. Consequently, specific allowance for doubtful debts for the full amounts of the impaired receivables was recognised. The Group does not hold any collateral over the other receivables.

26. ACCOUNTS PAYABLE

	Note	**2013 RMB'000**	2012 RMB'000
Accounts payable	26(a)	**1,650,088**	1,495,021
Accounts payable to affiliated companies	34(f)	**1,340,539**	1,624,972
		2,990,627	3,119,993

(a) An aging analysis of accounts payable based on the invoice date is set out below:

	2013 RMB'000	2012 RMB'000
Less than six months	**1,413,042**	1,341,372
Six months to one year	**135,882**	82,783
Above one year but less than two years	**34,024**	21,764
Two years or above	**67,140**	49,102
	1,650,088	1,495,021

Accounts payable with balances denominated in currencies other than Renminbi are considered not significant. All these amounts are payable within one year.

27. NOTES PAYABLE

	Note	2013 RMB'000	2012 RMB'000
Notes payable		**1,284,357**	1,691,153
Notes payable to affiliated companies	34(g)	**13,896**	17,007
		1,298,253	1,708,160

28. OTHER CURRENT LIABILITIES

		The Group		The Company	
	Note	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Customer advances		**76,088**	61,796	**–**	–
Other payables		**548,909**	456,927	**2,577**	22,036
Accrued expenses and other current liabilities		**78,016**	52,608	**2,284**	2,848
Other taxes payable		**88,793**	98,698	**–**	–
Amounts due to affiliated companies	34(h)	**148,420**	204,093	**5,047**	5,265
		940,226	874,122	**9,908**	30,149

29. SHORT-TERM BANK BORROWINGS

	2013 RMB'000	2012 RMB'000
Secured bank borrowings	**88,200**	84,000
Unsecured bank borrowings	**1,440,000**	1,035,000
	1,528,200	1,119,000

All bank borrowings at 31st December, 2013 are interest-bearing at rates ranging from 5.60% to 6.90% per annum (2012: 5.60% to 7.872% per annum) and repayable from 8th January, 2014 to 13th November, 2014.

As at 31st December, 2013, bank borrowings of RMB88.2 million (2012: RMB84.0 million) are secured by the Group's buildings with net book values of approximately RMB47.9 million (2012: RMB48 million) and notes receivable of RMB60 million (2012: RMB60 million).

30. DEFERRED TAX ASSET

The details of movements of recognised deferred tax asset in respect of tax losses are as follows:

	2013 **RMB'000**	2012 RMB'000
At 1st January,	–	(50,000)
Charge to profit or loss	–	50,000
At 31st December,	–	–

As at 31st December, 2013, the Group still had unrecognised deferred tax asset in respect of tax losses of RMB3,816 million (2012: RMB3,787 million) which will expire at various dates up to and including 2018 (2012: 2017).

In addition, as at 31st December, 2013 the Group also had not recognised deferred tax asset in respect of temporary differences of RMB666 million (2012: RMB658 million) for the reason that it is uncertain as to their recoverability.

31. RETIREMENT PLAN AND EMPLOYEES' BENEFITS

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 12% to 21% (2012: 12% to 22%) of salaries, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

The Group's Hong Kong employees are covered by the mandatory provident fund which is managed by an independent trustee. The Group and its Hong Kong employees each makes monthly mandatory contributions to the scheme at 5% (2012: 5%) of the employees' salary with the maximum amount of HK$1,250 by each the Group and the employee per month. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the fund.

The Group's contributions for staff in Hong Kong and the PRC for the year ended 31st December, 2013 were approximately RMB52.5 million (2012: RMB50.5 million).

32. SHARE CAPITAL AND SHARE OPTIONS

(a) Share capital

	2013		2012	
	Number of shares '000	**Amount '000**	Number of shares '000	Amount '000
Authorised:				
Ordinary shares at par value of US$0.01 each				
As at 1st January, and 31st December,	**8,000,000**	**US$80,000**	8,000,000	US$80,000
Issued and fully paid:				
Ordinary shares at par value of US$0.01 each				
As at 1st January,	**5,025,769**	**RMB395,877**	5,010,769	RMB394,931
Issue of new shares by exercising share options	**–**	**–**	15,000	RMB946
As at 31st December,	**5,025,769**	**RMB395,877**	5,025,769	RMB395,877

(b) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk and by securing access to financing at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages securely afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions, including adjustments to the amount of dividends paid to shareholders, issue of new shares and return of capital to shareholders, etc.

Management monitors its capital structure on the basis of debt-to-equity ratio. For this purpose, the Group defines debt as the sum of all short-term debts and long-term debts, including bank borrowings, notes payable for financing purpose and amounts due to affiliated companies. As at 31st December, 2013, the Group's debt-to-equity ratio was 19.01% (2012: 24.05%).

The debt-to-equity ratio at the reporting date was:

	The Group		The Company	
	As at 31st December, 2013 RMB'000	As at 31st December, 2012 RMB'000	**As at 31st December, 2013 RMB'000**	As at 31st December, 2012 RMB'000
Short-term bank borrowings	**1,528,200**	1,119,000	**–**	–
Amounts due to affiliated companies	**148,420**	204,093	**5,047**	5,265
Notes payable for financing purpose	**630,365**	888,697	**–**	–
Total debt	**2,306,985**	2,211,790	**5,047**	5,265
Total equity	**12,137,446**	9,198,472	**4,811,269**	4,826,160
Debt-to-equity ratio	**19.01%**	24.05%	**0.10%**	0.11%

32. SHARE CAPITAL AND SHARE OPTIONS (Cont'd)

(c) Share options

On 11th November, 2008, the Company adopted a share option scheme ("**Share Option Scheme**").

The terms of the Share Option Scheme allows for the Company's board of directors to grant options to the participants (including the Group's employees, non-executive directors, suppliers and customers, etc.) to subscribe for the Company's shares at a price which should not be lower than the higher of:

(i) the closing price of the shares on the SEHK as stated in SEHK's quotation sheet on the date of grant, which must be a trading date;

(ii) the average closing price of the shares on the SEHK as stated in SEHK's quotation sheets for the five trading days immediately preceding the date of grant; and

(iii) the nominal value of the shares.

In addition, the Share Option Scheme refines the scope of participants such that directors are provided with flexibility in granting options to persons who have contributed or may contribute to the development and growth of the Group and any entity in which the Group holds any equity interest (the "**Invested Entity**"). In addition, the Share Option Scheme clarifies the circumstances under which options granted to non-employees of the Group or Invested Entities will lapse.

Details of movements of share options granted under the Share Option Scheme, all with exercise price at HK$0.438 and exercisable from 22nd December, 2008 to 21st December, 2018, during the year are as follows:

	2013 **Number of** **share options**	2012 Number of share options
At 1st January,	**21,000,000**	36,000,000
Exercised during the year	**–**	(15,000,000)
At 31st December,	**21,000,000**	21,000,000

No share option was exercised or lapsed during 2013. The weighted average share price for share options exercised during 2012 at the date of exercise was HK$8.56.

The weighted average remaining contractual life of the share options granted under the Share Option Scheme outstanding as at 31st December, 2013 was approximately 4.58 years (2012: 5.58 years).

33. RESERVES

The Group

	Hedging reserve RMB'000 *(Note c)*	Share premium RMB'000	Investment revaluation reserve RMB'000	Cumulative translation adjustment reserve RMB'000	Difference arising from acquisition of non-controlling interests RMB'000	Share options reserve RMB'000	Capital reserve RMB'000 *(Note b)*	Retained earnings RMB'000 *(Note a)*	Total RMB'000
At 1st January, 2012	(541,204)	2,460,021	(299)	39,179	(537,584)	5,699	120,000	5,048,559	6,594,371
Issue of new shares by exercise of share options	–	6,664	–	–	–	(2,298)	–	–	4,366
Total comprehensive Income	714,364	–	4,566	–	–	–	–	2,301,022	3,019,952
At 31st December, 2012	173,160	2,466,685	4,267	39,179	(537,584)	3,401	120,000	7,349,581	9,618,689
At 1st January, 2013	**173,160**	**2,466,685**	**4,267**	**39,179**	**(537,584)**	**3,401**	**120,000**	**7,349,581**	**9,618,689**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(393,711)**	**(393,711)**
Total comprehensive income	**20,445**	**–**	**(220)**	**–**	**–**	**–**	**–**	**3,374,200**	**3,394,425**
At 31st December, 2013	**193,605**	**2,466,685**	**4,047**	**39,179**	**(537,584)**	**3,401**	**120,000**	**10,330,070**	**12,619,403**

(a) The Group's retained earnings included an amount of approximately RMB1,198,000,000 (2012: RMB869,000,000) reserved by the subsidiaries in the PRC in accordance with the relevant PRC regulations. The PRC laws and regulations require companies registered in the PRC to allocate 10% of their profits after tax (determined under PRC GAAP) to their respective statutory reserves. No allocation to the statutory reserves is required after the balance of such reserve reaches 50% of the registered capital of the respective companies. The statutory surplus reserves shall only be used to make up losses of the company, to expand the company's production operations, or to increase the capital of the company.

(b) In 2003, as approved by the board of directors of Xing Yuan Dong in accordance with the relevant laws and regulations, dedicated capital of Xing Yuan Dong amounting to RMB120 million was released for capitalisation of paid up registered capital. Such release of dedicated capital is credited to the capital reserve.

(c) Hedging reserve represents the Group's share of the hedging reserve in the equity of a joint venture. Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve.

33. RESERVES (Cont'd)

The Company

	Share premium RMB'000	Investment revaluation reserve RMB'000	Cumulative translation adjustments reserve RMB'000	Share option reserve RMB'000	Retained earnings RMB'000	Total RMB'000
As at 1st January, 2012	2,460,021	(299)	39,179	5,699	1,967,461	4,472,061
Issue of new shares by exercise of share options	6,664	–	–	(2,298)	–	4,366
Total comprehensive loss	–	4,566	–	–	(50,710)	(46,144)
As at 31st December, 2012	2,466,685	4,267	39,179	3,401	1,916,751	4,430,283

	Share premium RMB'000	**Investment revaluation reserve RMB'000**	**Cumulative translation adjustments reserve RMB'000**	**Share option reserve RMB'000**	**Retained earnings RMB'000**	**Total RMB'000**
As at 1st January, 2013	**2,466,685**	**4,267**	**39,179**	**3,401**	**1,916,751**	**4,430,283**
Dividends	**–**	**–**	**–**	**–**	**(393,711)**	**(393,711)**
Total comprehensive income	**–**	**(220)**	**–**	**–**	**379,040**	**378,820**
As at 31st December, 2013	**2,466,685**	**4,047**	**39,179**	**3,401**	**1,902,080**	**4,415,392**

The directors consider that the Company had approximately RMB1,941.2 million (2012: RMB1,955.9 million) available for distribution to shareholders.

34. CONNECTED AND RELATED PARTY TRANSACTIONS

Related parties include those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. The Group is subject to the control of the PRC Government.

In accordance with HKAS24 "Related Party Disclosures", other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC Government ("**government-related entities**") are regarded as related parties of the Group.

For the related party transactions disclosure purpose, an affiliated company is a company in which one or more of the directors or substantial shareholders of the Company have direct or indirect beneficial interests in the company or are in a position to exercise significant influence over the company, including joint ventures and associates of the Group. Parties are also considered to be affiliated if they are subject to common control or common significant influence.

In addition to the related party information shown elsewhere in the consolidated financial statements, the following is a summary of significant related party transactions entered into in the ordinary and usual course of business and balances between the Group and its related parties, including other government-related entities.

34. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

During the year, the Group had significant transactions and balances with the following related parties, some of which are also deemed to be connected persons pursuant to the Listing Rules.

Name and relationship

Name	Relationship
Huachen	Major shareholder of the Company
JinBei	A shareholder of Shenyang Automotive
Shanghai Shenhua	Common directorship of certain directors of the Company
Brilliance Holdings Limited ("**BHL**")	Common directorship of a director of the Company

Huachen and JinBei are government-related entities, and are connected persons of the Company under the Listing Rules, with which the Group has material transactions.

(a) The related party transactions in respect of items listed below also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. Particulars of the connected transactions and continuing connected transactions are detailed in the Report of the Directors.

	2013 **RMB'000**	2012 RMB'000
Sales of goods:		
– Affiliated companies of JinBei	**2,015**	3,624
– Huachen and its affiliated companies	**948,243**	353,756
Purchases of goods:		
– Affiliated companies of JinBei	**570,041**	548,447
– Huachen and its affiliated company	**809,453**	725,859
Sub-contracting charges to:		
– Huachen and its affiliated company	**30,813**	24,836

On 8th November, 2012, a member of the Group and JinBei entered into an agreement for the provision of cross guarantee in respect of each other's banking facilities in the maximum amount of RMB600 million (2012: RMB600 million) from 1st January, 2013 to 31st December, 2013. As at 31st December, 2013, under this agreement, JinBei and its subsidiaries had outstanding bank loans and other banking facilities totalling RMB526.5 million (As at 31st December, 2012: RMB578.5 million) of which RMB200 million (As at 31st December, 2012: RMB200 million) and RMB326.5 million (As at 31st December, 2012: RMB378.5 million) were supported by the Group's bank deposits pledged to and corporate guarantee provided to the banks, respectively. On 17th December, 2013, an agreement was entered into by both parties to provide cross guarantee for the same amount to each other from 1st January, 2014 to 31st December, 2014.

34. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

(b) In addition to the above, the Group also had the following material related party transactions which were not considered as continuing connected transactions/connected transactions under the Main Board Listing Rules. Details of such transactions are set out below:

	2013 **RMB'000**	2012 RMB'000
Sales of goods:		
– Shanghai Shenhua and its affiliated companies	**2,748,681**	3,479,818
– Joint ventures*	**10,728**	56,962
– Associates*	**132,360**	82,280
Purchases of goods:		
– Joint ventures*	**199,711**	744,949
– Associates*	**492,924**	107,239
– An affiliated company of Shanghai Shenhua	**5,488**	4,790
– An affiliated company of the joint venture partner of Xinguang Brilliance	**3**	–
Other transactions:		
Interest from a shareholder of an associate	**8,213**	8,365
Operating lease rental on land and buildings charged by:		
– Huachen	**4,954**	4,954
– Shanghai Shenhua	**593**	593

* *Included in sales of goods to and purchases of goods from associates are approximately RMB58 million in sales of goods to and RMB392 million in purchase of goods from Mianyang Xinchen which was a joint venture as at 31st December, 2012 but has become an associate in 2013. The comparative figures of sales of goods of approximately RMB49 million to and purchases of goods of approximately RMB544 million from Mianyang Xinchen were included in sales of goods to and purchases of goods from joint ventures.*

The above sale and purchase transactions were carried out after negotiations between the Group and the affiliated companies in the ordinary course of business and on the basis of estimated market value as determined by the directors.

In addition, the Group had provided a corporate guarantee in the maximum amount of RMB100 million (As at 31st December, 2012: RMB100 million) from 1st January, 2013 to 31st December, 2013 for revolving bank loans and bank guaranteed notes to Shanghai Shenhua. As at 31st December, 2013, RMB60 million (As at 31st December, 2012: RMB60 million) of this corporate guarantee was utilised by Shanghai Shenhua.

34. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

(c) As at 31st December, 2013, the Group's accounts receivable from affiliated companies consisted of the following:

	2013 **RMB'000**	2012 RMB'000
Accounts receivable from related parties:		
– Shanghai Shenhua and its affiliated companies	**10,416**	11,210
– Affiliated companies of JinBei	**11,713**	21,382
– Huachen and its affiliated companies	**289,520**	270,385
– Associates*	**25,826**	7,092
– Joint ventures*	**10,287**	15,153
– An affiliated company of a shareholder of a joint venture	**461**	–
	348,223	325,222
Less: provision for doubtful debts	**(21,388)**	(21,388)
	326,835	303,834

* *Included in accounts receivable due from associates is approximately RMB23 million due from Mianyang Xinchen which was a joint venture as at 31st December, 2012 but has become an associate in 2013. The comparative figure of RMB10 million in 2012 is included in accounts receivable due from joint ventures.*

The Group's credit policy is to offer credit to affiliated companies following financial assessment and an established payment record. These affiliated companies are generally required to settle 25% to 33% of the previous month's ending balances. The aging analysis of amounts due from affiliated companies is as follows:

	2013 **RMB'000**	2012 RMB'000
Less than six months	**217,767**	158,734
Six months to one year	**24,071**	29,216
Above one year but less than two years	**74,259**	70,105
Two years or above	**32,126**	67,167
	348,223	325,222

The aging analysis of the Group's accounts receivable from affiliated companies that are past due but are neither individually nor collectively considered to be impaired are as follows:

	2013 **RMB'000**	2012 RMB'000
Six months to one year	**24,071**	29,216
Above one year but less than two years	**74,259**	70,105
Two years or above	**10,738**	45,779
	109,068	145,100

34. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

(c) (Cont'd)

As at 31st December, 2013, the Group's accounts receivable from affiliated companies of RMB21,388,000 (2012: RMB21,388,000) was individually determined to be impaired. The individually impaired accounts receivable from affiliated companies related to affiliated companies which failed to settle the outstanding balances in full and management assessed that the impaired amounts will not be recoverable. Consequently, specific allowance for doubtful debts of full amounts of the impaired receivables was recognised.

The remaining past due accounts receivable from affiliated companies which are not impaired relate to a number of other affiliated companies which have been repaying the Group but at a slow pace. As they are still settling the outstanding balances, management believes that no impairment allowance is necessary in respect of these balances.

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

The Group does not hold any collateral over the accounts receivable from affiliated companies.

(d) As at 31st December, 2013, the Group's notes receivable from affiliated companies arising from trading activities consisted of the following:

	2013	2012
	RMB'000	RMB'000
Notes receivable from related parties:		
– Affiliated companies of JinBei	**3,369**	8,884
– Shanghai Shenhua and its affiliated companies	**818,456**	887,159
– Associates*	**84,549**	55,357
– A joint venture*	**–**	15,740
– Huachen and its affiliated company	**106,998**	77,099
– An affiliated company of a shareholder of a joint venture	**761**	150
	1,014,133	1,044,389

* *Included in notes receivable from associates is approximately RMB5 million due from Mianyang Xinchen which was a joint venture as at 31st December, 2012 but has become an associate during 2013. The comparative figure of RMB16 million is included in notes receivable from a joint venture.*

All notes receivable from affiliated companies are guaranteed by established banks in the PRC and have maturities of six months or less from 31st December, 2013 (2012: Same).

34. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

(e) As at 31st December, 2013, the amounts due from affiliated companies consisted of:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts due from related parties				
– Joint ventures	**97,191**	123,445	**–**	16,157
– Associates	**197,292**	292,884	**197,292**	196,884
– Affiliated companies of BHL	**–**	–	**–**	–
– Shanghai Shenhua	**14,048**	14,046	**–**	–
– Huachen and its affiliated companies	**349,287**	52,686	**–**	–
– A shareholder of an associate	**288,239**	304,965	**288,239**	304,965
– JinBei and its affiliated companies	**54,005**	54,001	**–**	–
	1,000,062	842,027	**485,531**	518,006
Less: provision for doubtful debts	**(55,975)**	(15,975)	**–**	–
	944,087	826,052	**485,531**	518,006

Amounts due from affiliated companies are unsecured and repayable on demand and except for the amount due from a shareholder of an associate, which is secured by all assets of that shareholder, interest-bearing at 3% per annum and repayable in August 2014.

The movement in allowance for doubtful debts for the amounts due from affiliated companies is as follows:

	2013	2012
	RMB'000	RMB'000
At 1st January,	**15,975**	333,207
Impairment losses	**40,000**	–
Uncollectible amounts written off	**–**	(317,232)
At 31st December,	**55,975**	15,975

After the provision for amounts long overdue from affiliated companies, the unprovided balances are either from affiliated companies which had made repayments during the year or up to the date of these financial statements, or those that management has assessed to be financially sound and are capable of repaying. Accordingly, the management believes that no impairment allowance is necessary in respect of these balances. The Group does not hold any collateral over the advances to affiliated companies.

34. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

(e) (Cont'd)

The aging analysis of the Group's other receivables from affiliated companies that are past due but are neither individually nor collectively considered to be impaired are as follows:

	2013 **RMB'000**	2012 RMB'000
Six months to one year	**11,128**	10,223
Above one year but less than two years	**8,969**	319,171
Two years or above	**510,497**	293,134
	530,594	622,528

(f) As at 31st December, 2013, the Group's accounts payable to affiliated companies arising from trading activities consisted of the following:

	2013 **RMB'000**	2012 RMB'000
Due to related parties:		
– Associates*	**402,601**	40,703
– Joint ventures*	**104,882**	480,655
– Huachen and its affiliated companies	**415,843**	744,433
– An affiliated company of BHL	**33,829**	34,010
– Shanghai Shenhua and its affiliated companies	**104,452**	36,143
– Affiliated companies of JinBei	**278,929**	288,964
– Affiliated companies of a shareholder of a joint venture	**3**	64
	1,340,539	1,624,972

* *Included in accounts payable to associate is approximately RMB319 million due to Mianyang Xinchen which was a joint venture as at 31st December, 2012 but has become an associate in 2013. The comparative figure of RMB386 million is included in accounts payable to joint ventures.*

34. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

(f) (Cont'd)

The accounts payable to affiliated companies are unsecured and non-interest bearing. Accounts payable to affiliated companies are generally settled on a monthly basis at 25% to 33% of the previous month's ending balance. The aging analysis of accounts payable to affiliated companies is as follows:

	2013	2012
	RMB'000	RMB'000
Less than six months	**1,152,712**	1,085,941
Six months to one year	**90,023**	190,705
Above one year but less than two years	**56,468**	338,539
Two years or above	**41,336**	9,787
	1,340,539	1,624,972

(g) As at 31st December, 2013, the Group's notes payable to affiliated companies arising from trading activities consisted of the following:

	2013	2012
	RMB'000	RMB'000
Notes payable to related parties:		
– Affiliated companies of JinBei	**6,856**	15,807
– Associates	**7,040**	1,200
	13,896	17,007

(h) As at 31st December, 2013, the amounts due to affiliated companies by the Company and the Group consisted of:

	The Group		**The Company**	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts due to related parties:				
– Associates	**114,218**	113,352	**–**	–
– Huachen and its affiliated companies	**774**	57,669	**–**	–
– Affiliated companies of BHL	**27,947**	28,165	**5,047**	5,265
– Affiliated companies of Shanghai Shenhua	**3,895**	3,906	**–**	–
– JinBei and its affiliates	**1,566**	979	**–**	–
– Other affiliated company	**20**	22	**–**	–
	148,420	204,093	**5,047**	5,265

Amounts due to affiliated companies by the Group and the Company are unsecured, non-interest bearing and repayable on demand.

34. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

(i) Pursuant to a trademark license agreement, JinBei granted Shenyang Automotive the right to use the JinBei trademark on its products and marketing materials indefinitely.

(j) Compensation benefits to key management personnel are as follows:

	2013	2012
	RMB'000	RMB'000
Short-term employee benefits	**18,362**	17,471

(k) **Transactions and balances with other state-owned enterprises in the PRC**

The Group operates in an economic environment predominated by government-related entities. During the year, the Group had entered into various transactions with government-related entities including, but not limited to, sales of minibuses and automotive components, purchases of raw materials and automotive components, and utilities services.

The directors consider that transactions with other government-related entities are activities in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and other government-related entities are ultimately controlled or owned by the PRC Government. The Group has also established pricing policies for products and services, and such pricing policies do not depend on whether or not the customers are government related entities. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure except for the transactions with government-related entities as disclosed above and majority parts of bank balances, short-term and pledged short-term deposits with bank borrowings, general banking facilities and utilities services from state-owned financial institutions. However, the Company adopts HKAS 24 which grants exemption on disclosure requirements about government-related entities. The directors are of the opinion that such transactions were conducted in the ordinary course of business and in accordance with normal commercial terms.

35. CASH USED IN OPERATIONS

	2013 RMB'000	2012 RMB'000
Profit before income tax expense	**3,324,729**	2,294,607
Share of results of:		
– Joint ventures	**(3,448,343)**	(2,433,844)
– Associates	**(193,114)**	(91,973)
Interest income	**(46,868)**	(74,343)
Interest expenses	**138,568**	174,306
Gain on deemed disposal of a joint venture	**(9,961)**	–
Write-back of provision for inventories sold	**(10,397)**	(10,416)
Depreciation of property, plant and equipment	**100,332**	99,468
Amortisation of intangible assets	**37,375**	39,234
Impairment loss on intangible assets	**1,844**	20,699
Amortisation of land lease prepayments	**1,458**	1,458
(Gain) Loss on disposal of property, plant and equipment	**(46,964)**	1,066
Deferred income	**(70,369)**	(400)
Write-back of provision for doubtful debts	**(8)**	(2,520)
Provision for inventories	**46,842**	45,665
Provision for doubtful debts on:		
– Accounts receivable	**173**	3,470
– Other receivables	**6,034**	6,735
– Amounts due from affiliated companies	**40,000**	–
Operating (loss) profit before working capital change	**(128,669)**	73,212
Decrease (Increase) in inventories	**42,044**	(145,423)
Increase in accounts receivable	**(333,914)**	(66,815)
Increase in notes receivable	**(82,812)**	(330,638)
(Increase) Decrease in other current assets	**(4,839)**	67,547
Increase in accounts payable	**448,040**	654,455
Decrease in notes payable	**(151,575)**	(287,222)
Increase (Decrease) in other current liabilities	**27,667**	(9,861)
Cash used in operations	**(184,058)**	(44,745)

36. COMMITMENTS

(a) Capital commitments

	2013 RMB'000	2012 RMB'000
Contracted but not provided for:		
– Construction projects	**113,630**	13,220
– Acquisition of plant and machinery	**457,603**	350,858
– Others	**35,583**	12,562
	606,816	376,640
Authorised but not contracted for:		
– Construction projects and acquisition of plant and machinery	**309,678**	279,772

(b) Operating lease commitments

As at 31st December, 2013, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of leased properties as follows:

	2013 RMB'000	2012 RMB'000
Within one year	**22,065**	27,578
In the second to fifth years inclusive	**26,666**	42,354
Over five years	**19,007**	18,970
	67,738	88,902

37. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements set out on pages 43 to 112 were approved and authorised for issue by the board of directors on 27th March, 2014.