POWER XINCHEN
新晨动力

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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1148

Annual Report 2014

Contents

Corporate Information	2
Financial Highlights	3
Chairman’s Statement	4
Management’s Discussion & Analysis	6
Directors, Senior Management and Company Secretary	10
Report of Directors	16
Corporate Governance Report	33
Independent Auditors’ Report	48
Consolidated Statement of Profit or Loss and Other Comprehensive Income	50
Consolidated Statement of Financial Position	51
Statement of Financial Position	52
Consolidated Statement of Changes in Equity	53
Consolidated Statement of Cash Flows	54
Notes to the Consolidated Financial Statements	56

Corporate Information

BOARD OF DIRECTORS

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

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

AUTHORISED REPRESENTATIVES

Mr. Wu Xiao An
Mr. Wang Yunxian

CHIEF FINANCIAL OFFICER

Mr. Xu Bingchu

COMPANY SECRETARY

Ms. Ngai Ka Yan

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

AUDITORS

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

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited,
Hong Kong Branch

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISORS TO THE COMPANY

Appleby
Troutman Sanders

INVESTOR RELATIONS

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

STOCK CODE

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

Financial Highlights

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

(Amounts in thousands except earnings per share)

	Year ended and as at 31 December				
	2014	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Income Statement Data:					
Revenue	**2,652,446**	2,586,193	2,572,741	2,307,748	1,945,114
Profit before Income Tax Expense	**317,016**	324,085	342,096	304,639	149,822
Income Tax Expense	**(45,470)**	(53,336)	(51,987)	(44,250)	(365)
Profit Attributable to Owners of the Company	**271,546**	270,749	290,109	260,389	149,457
Basic Earnings per Share	**RMB0.211**	RMB0.222	RMB0.309	RMB0.316	RMB0.187
Diluted Earnings per Share	**RMB0.211**	RMB0.222	RMB0.309	RMB0.316	RMB0.187
Statement of Financial Position Data:					
Non-current Assets	**1,623,130**	663,052	525,237	398,319	318,052
Current Assets	**3,119,672**	3,785,037	2,555,353	2,365,829	1,601,674
Current Liabilities	**(1,872,480)**	(2,228,521)	(1,717,071)	(1,699,746)	(1,236,074)
Non-current Liabilities	**(410,029)**	(39,140)	(41,018)	(32,010)	(35,179)
Shareholders' Equity	**2,460,293**	2,180,428	1,322,501	1,032,392	648,473

Note:

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

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors, I hereby present the annual results of Xinchen China Power Holdings Limited for the year ended 31 December 2014.

Despite the demand for certain vehicles produced by the Group's customers decreased during the year, which in turn adversely affected the sale of engines of the Group, the Group has managed to achieve an increase of 2.6% in the total sales, from RMB2,586.19 million in 2013 to RMB2,652.45 million in 2014, and an increase of 0.3% in the net profit, from RMB270.75 million in 2013 to RMB271.55 million in 2014.

According to the China Association of Automobile Manufacturers, China's automobile industry continued to grow steadily in 2014. The luxury passenger vehicle segment continued to outperform other segments of the automobile industry in China. During the year, the Group successfully tapped into the luxury passenger vehicle segment and developed business relationship with BMW Brilliance Automotive. The Group started to supply connection rods and N20 engines to BMW Brilliance Automotive in 2014.

Premium engines and engine parts and components segments have become the primary focus of the Group's development. Through past collaboration with BMW Brilliance Automotive, the Group has achieved certain degree of technology advancement and improvement of management skills, which enable the Group to strengthen the costs control of its existing business and its overall competitiveness. Although the business of premium engines and engine parts and components is still under development, the Group believes that it will benefit from the continuous growth in luxury passenger vehicle segment and this business segment will increase its contribution to the Group's overall performance in the near future. As a qualified domestic engine and engine component supplier to BMW Brilliance Automotive and well versed with the BMW standards, the Group will explore possibilities to supply its existing and new products to both BMW Brilliance Automotive and BMW AG in the future.

During the year, the Group acquired a company which holds a premise located in Shenyang. The acquisition represented a good opportunity for the Group to strengthen its presence in Shenyang. Currently, certain portion of premise was leased to BMW Brilliance Automotive, which generates rental income for the Group for the time being. In long run, the premise would be an ideal location for the Group to build its own production base in Shenyang, where the manufacture bases of some of the Group's major customers, including BMW Brilliance Automotive, are located, in order to strengthen its business relationship with the customers and save operating costs.

Chairman's Statement (Cont'd)

The Group has been positioning itself as a core engine business unit for Huachen group. During the year, the Group consolidated the engine production capacities owned by Huachen group through acquisition and entrustment management arrangement, which eliminated the potential internal competition among different engine plants within Huachen group, enriched the Group's product portfolio and enabled the Group to provide better quality services and products to its customers. In respect of the relocation of assets to new production site in Mianyang, the overall process is still underway.

In respect of the engines business with domestic branded automobile manufacturers, although this business segment has underperformed in the 2014, this segment still generated stable cashflow to support the Group's development in 2014. Going forward, the Group believes that the competitive operating environment for domestic branded automobile manufacturers may continue to adversely affect the Group's engine sales to the domestic branded auto manufacturers. The Group has been working towards strengthening its competitiveness and maintaining its market share in this segment. For instance, the Group has applied business control methodologies and technical knowhow learned from its business partners to streamline its internal structure, strengthen its internal control and upgrade its research and development capabilities.

The Group will work closely with its major customers so as to monitor the business needs of its major customers and develop new engine(s) in response to the market needs. The Group's international business partners are assisting the Group in formulating its engines development strategy. They have been helping the Group to develop a new engine platform. The Group is also exploring the possibilities of obtaining license to assemble new engine(s) for its existing and potential customers in order to optimize its product portfolio.

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

Wu Xiao An
(also known as Ng Siu On)
Chairman
25 March 2015

Management's Discussion & Analysis

Business Review

The Group achieved total consolidated sales of RMB2,652.45 million, representing an increase of 2.6% from RMB2,586.19 million in 2013. The increase was mainly due to the introduction of connection rods and N20 engines during the year, which partially offset the decrease in demand for the Group's small gasoline engines.

Sales volume of engines decreased approximately 15.1%, from around 275,700 units in 2013 to around 234,200 units in 2014, of which around 9,300 units of N20 engine were sold in 2014. The decrease was mainly due to decrease in the sales of small engines with displacement of 1.6L or less, being result of the decrease in demand for the products by one of the Group's major customers during the year.

In respect of the engines business segment, the Group recorded approximately 7.3% decrease in gasoline engines segment revenue, from approximately RMB2,104.67 million in 2013 to approximately RMB1,950.29 million in 2014. The decrease was mainly due to decrease in demand for the Group's small gasoline engine. The Group recorded approximately 8.9% increase in diesel engines segment revenue from approximately RMB388.70 million in 2013 to approximately RMB423.31 million in 2014. The increase was mainly due to increase in demand for the product launched by the Group in 2013.

In respect of the engine components and service income segment, the Group recorded approximately 200.4% increase in segment revenue, from approximately RMB92.82 million in 2013 to approximately RMB278.85 million in 2014. The increase was mainly due to the introduction of connection rods in 2014. The Group sold around 1,047,800 units of connection rods in 2014.

The consolidated cost of sales in 2014 amounted to RMB2,122.10 million, up by 2.2% when compared to RMB2,075.44 million recorded in the corresponding period last year. The increase in cost of sales was generally in line with the increase in the Group's total sales. Furthermore, the Group acquired certain property, plant and equipment during the year, which expanded the scale of the Group's operation and lead to a significant increase in depreciation costs in 2014 as compared to 2013.

The gross profit margin of the Group slightly increased from 19.7% in 2013 to 20.0% in 2014 mainly due to the introduction of connection rods in 2014.

Other income increased from RMB38.38 million in 2013 to RMB44.13 million in 2014, representing an increase of 15.0%. This is because the Group received rental income since August 2014 and no such income was recorded in 2013.

Selling and distribution expenses decreased by 10.3%, from RMB71.81 million in 2013 to RMB64.42 million in 2014, representing 2.8% and 2.4% of the revenue in 2013 and 2014, respectively. The decrease was mainly due to the scale down of the Group's promotion activities, which was offset by increase in staff costs resulting from increase in sales personnel headcounts and increase in transportation and packaging related expenses.

Administrative expenses increased by 41.4%, from RMB83.37 million in 2013 to RMB117.91 million in 2014, representing 3.2% and 4.4% of the revenue in 2013 and 2014, respectively. The increase was mainly due to increase in staff costs as a result of increase in headcounts to support the Group's daily operation and business development and office expenses.

Finance costs increased by 104.1%, from RMB21.36 million in 2013 to RMB43.59 million in 2014. The increase was mainly due to increase in use of discounted bills during the daily operation and increase in bank borrowing to finance the acquisition of assets in 2014.

Other expenses decreased by 36.2 % from RMB48.33 million in 2013 to RMB30.85 million in 2014. There was a decrease in other expenses because expenses relating to the initial public offering of the shares of the Company and a foreign exchange translation loss recognised in 2013, was not incurred and/or recognised in 2014.

The Group's profit before tax decreased by 2.2% from RMB324.09 million in 2013 to RMB317.02 million in 2014.

Income tax expenses decreased by 14.7% from RMB53.34 million in 2013 to RMB45.47 million in 2014, which was mainly due to reverse of overprovision of tax expenses in prior year and movement in deferred tax assets.

For the year 2014, the net income attributable to owners of the Company was approximately RMB271.55 million, representing a 0.3% increase from approximately RMB270.75 million in 2013. Basic earnings per share in 2014 amounted to approximately RMB0.211, compared to approximately RMB0.222 in 2013.

Liquidity and financial resources

As at 31 December 2014, the Group had RMB353.95 million in cash and cash equivalents (31 December 2013: RMB1,166.37 million), and RMB424.31 million in pledged/restricted bank deposits (31 December 2013: RMB191.00 million). The Group had trade and other payables in the amount of RMB1,377.72 million (31 December 2013: RMB1,750.01 million), bank borrowings due within one year in the amount of RMB220.50 million (31 December 2013: RMB343.45 million), and bank borrowings due after one year in the amount of RMB367.14 million (31 December 2013: nil).

Capital structure

As at 31 December 2014, the Group's total assets was RMB4,742.80 million (31 December 2013: RMB4,448.09 million), which was funded by the following: (1) share capital of RMB10.50 million (31 December 2013: RMB10.50 million), (2) reserves of RMB2,449.79 million (31 December 2013: RMB2,169.93 million) and (3) total liabilities of RMB2,282.51 million (31 December 2013: RMB2,267.66 million).

Contingent liabilities

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

Pledge of assets

As at 31 December 2014, the Group pledged certain of its land use rights, buildings, construction in progress, plant and machinery with an aggregate carrying value of approximately RMB172.86 million (31 December 2013: RMB183.82 million) to certain banks to secure certain credit facilities granted to the Group.

As at 31 December 2014, the Group also pledged bank deposits in the amount of approximately RMB181.56 million (31 December 2013: RMB191.00 million) to certain banks to secure certain credit facilities granted to the Group.

Gearing ratio

As at 31 December 2014, the debt-to-equity ratio, computed by dividing total liabilities by total equity attributable to owners of the Company, was approximately 0.93 (31 December 2013: 1.04). The decrease in the debt-to-equity ratio was mainly due to increase of total equity resulted from an increase of profit attributable to equity holders of the Company and relatively stable total liabilities in 2014.

As at 31 December 2014, the gearing ratio, computed by dividing bank borrowings by total equity attributable to owners of the Company, was approximately 24% (31 December 2013: 16%). The increase in the gearing ratio was mainly due to the increase in total bank borrowing as a result of the finance of the acquisition of property, plant and equipment during the year with bank borrowings.

Investment properties

During the year, the Group acquired a company which holds a premise located in Shenyang. In 2014, certain portion of the aforesaid premise was leased to BMW Brilliance Automotive and a third party, which generates rental income of approximately RMB12.29 million for the year ended 31 December 2014.

New product

The Group started to supply connection rods and N20 engines to BMW Brilliance Automotive in 2014. Depending on market sentiment, the Group will consider introducing some new engine models and/or new parts and components to the market in the coming year.

Foreign exchange risks

The Group's functional currency is RMB. Since the Group has certain assets and liabilities, such as receivables, payables, bank borrowings and cash and cash equivalents, denominated in foreign currencies, such as United States Dollar and Hong Kong Dollar, the Group is exposed to foreign currency translation risk.

The Group has and will continue to monitor its foreign exchange risks and may consider hedging its foreign currency exposure, if and when necessary. There were no hedging transactions outstanding as at 31 December 2014.

Employees and remuneration policy

As at 31 December 2014, the Group employed approximately 1,697 employees (31 December 2013: approximately 1,080). Employee costs amounted to approximately RMB165.19 million for the year ended 31 December 2014 (31 December 2013: approximately RMB87.67 million). The Group will endeavor to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' remuneration is based on their performance.

Significant investments

On 23 June 2014, the Group entered into an acquisition agreement in relation to the acquisition of entire equity interest in Xinchen Engine Shenyang Co., Ltd.*（新晨動力機械（瀋陽）有限公司）("**Shenyang Xinchen**") (previously known as CMT International Logistics Group Shenyang Co., Ltd.*（中床國際物流集團瀋陽有限公司）), which holds certain land and properties in Shenyang, the PRC. The directors of the Company considered that the acquisition represented a good opportunity for the Group to secure a parcel of land to strengthen its presence in Shenyang, where its major customers are located. As the manufacture bases of some of the Group's major customers are located at Shenyang and neighboring areas, the land and properties acquired would be used as one of the Group's manufacture and/or logistics bases, thereby reducing the Group's operating costs and enhancing the Group's profitability. The acquisition was completed on 15 August 2014.

On 24 June 2014, the Group entered into a supplemental sales and installation agreement, payment transfer agreement and assets transfer agreement for the purpose of acquiring a further connection rod production line to expand its production capacity of connection rods in response to the growing demand for connection rods. The acquisition was completed on 24 June 2014.

For further details of the abovementioned transactions, please refer to the announcements made by the Company dated 23 June 2014 and 24 June 2014, respectively.

Save as disclosed, there were no major acquisition and disposal of subsidiaries and associated companies undertaken by the Group during the year ended 31 December 2014.

Capital commitment

As at 31 December 2014, the Group had capital commitments of approximately RMB545.31 million (31 December 2013: RMB525.44 million), of which contracted capital commitments amounted to approximately RMB151.45 million (31 December 2013: RMB189.46 million), which is primarily related to the capital expenditure in respect of acquisition of property, plant and equipment, and new engine development.

USE OF PROCEEDS FROM GLOBAL OFFERING OF THE COMPANY'S SHARES

The Shares were listed on the Main Board of the Stock Exchange in March 2013. The net proceeds raised from the global offering of the Company's Shares amounted to approximately RMB587.18 million. The Group has applied the proceeds in the manner stated in the prospectus of the Company dated 28 February 2013 since the completion of the global offering. After the listing of the Shares and up to the year ended 31 December 2014, the Company has spent approximately RMB381.67 million on the expansion of the Group's production capacity, approximately RMB140.92 million on product development and approximately RMB5.00 million in connection with the construction of research and development centre. Currently, the Group is reviewing the development plan of the research and development centre. The Group will apply the remaining proceeds of approximately RMB59.59 million for the development of its research and development centre after the Group aligns the development plan of its research and development centre with the Group's long-term development plan.

* *The English names are transliteration of the Chinese names.*

Directors, Senior Management and Company Secretary

EXECUTIVE DIRECTORS

Mr. Wu Xiao An (also known as Mr. Ng Siu On),（吳小安）, aged 53, is the chairman of the Company. He was appointed as a director of the Company on 10 March 2011 and designated as an executive director of the Company on 24 April 2012. He has over 20 years of experience in the automotive industry and is primarily responsible for the overall strategic planning and business development of the Group. Since April 1998, he has been serving as a director of Southern State Investment Limited, a direct wholly-owned subsidiary of the Company. From April 1998 to September 2005, Mr. Wu had been a director of Mianyang Xinchen Engine Co., Ltd. ("**Mianyang Xinchen**"), and he was re-appointed as a director of Mianyang Xinchen in July 2011. Since February 2011, he has been a director of Brilliance Investment Holdings Limited. Since 2002, Mr. Wu has served various positions in Brilliance China Automotive Holdings Limited ("**Brilliance China**", a company listed on the Main Board of the Stock Exchange (stock code: 1114)), including the chairman of Brilliance China since June 2002, an executive director since January 1994 and vice chairman and the chief financial officer from January 1994 to June 2002. He has also been a director of Huachen Automotive Group Holdings Company Limited ("**Huachen**") since October 2002, a director of Shenyang Brilliance JinBei Automobile Co., Ltd. ("**Shenyang Jinbei**") since January 1994, and the chairman of BMW Brilliance Automotive Ltd. ("**BMW Brilliance Automotive**") since May 2003. From 1988 to 1993, he was the deputy manager of the Bank of China, New York Branch. Mr. Wu obtained a bachelor's degree of arts from Beijing Foreign Languages Institute（北京外國語學院）(now known as Beijing Foreign Studies University（北京外國語大學）) in 1985 and a master of business administration degree from Fordham University in New York in 1992.

Mr. Wang Yunxian（王運先）, aged 60, is the chief executive officer of the Company. He was appointed as a director of the Company on 10 March 2011 and designated as an executive director of the Company on 24 April 2012. He has over 38 years of experience in the PRC automotive industry and is primarily responsible for the business operation of the Group. Since May 2011, he has been a director of Xinhua Investment Holdings Limited. Since 1998, Mr. Wang held various positions in Mianyang Xinchen, including a director and vice general manager from April 1998 to March 2000, a director and general manager since March 2000 and supervisor of the national enterprise technology center of Mianyang Xinchen since March 2004. Since 1976, Mr. Wang held various positions in Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited ("**Xinhua Combustion Engine**"), including director, party secretary, general manager, vice general manager, head of sales department, production supervisor and technician, and he has resigned from his positions of director and general manager in Xinhua Combustion Engine on 22 March 2012 and 23 March 2012, respectively. Since January 2005, Mr. Wang has been a director and general manager of Mianyang Huarui Automotive Company Limited ("**Mianyang Huarui**"). In October 2004, Mr. Wang received the special government expert allowances (engineering class)（特殊津貼（工程類））from the State Council（國務院）. In 2005, Mr. Wang received the National Model Worker Award（全國勞動模範）issued by the State Council, as well as the title of Ten Outstanding Innovative Talents of Sichuan Province（四川省十大傑出創新人才）in December 2005. He graduated from Sichuan University of Science and Technology（四川工業學院）(now merged into Xihua University（西華大學）) in July 1986, and graduated from a postgraduate course in finance from the Chinese Academy of Social Sciences（中國社會科學院）in July 1998.

NON-EXECUTIVE DIRECTORS

Mr. Qi Yumin（祁玉民）, aged 55, was appointed as a director of the Company on 16 November 2011, and designated as a non-executive director of the Company on 24 April 2012. Since January 2006, Mr. Qi has served as an executive director, president and the chief executive officer of Brilliance China and as the chairman and president of Huachen since December 2005. Since 2009, he has been appointed chairman and a director of Shenyang Jinbei and two companies listed on the Shanghai Stock Exchange, namely Shenyang JinBei Automotive Company Limited（金杯汽車股份有限公司）and Shanghai Shenhua Holdings Co., Ltd.（上海申華控股股份有限公司）. Mr. Qi has been a director of BMW Brilliance Automotive since November 2006. From 1982 to 2004, Mr. Qi held various positions in Dalian Heavy Industries Co., Ltd.（大連重工集團有限公司）, including chairman and general manager. From October 2004 to December 2005, he was the vice mayor of Dalian municipal government. Mr. Qi graduated from Xi'an University of Technology（西安理工大學）(formerly known as Shanxi Institute of Mechanical Engineering（陝西機械學院）) Department of engineering and economics, with a major in machinery manufacturing management and engineering, in July 1982 and a master's degree in business administration from Dalian University of Technology（大連理工學院）in April 2004. He was qualified as a senior engineer (professor level) by the Personnel Department of Liaoning Province（遼寧省人事廳）in December 1992.

Mr. Tang Qiao, aged 60, was appointed and designated as a non-executive director of the Company on 4 September 2014. Mr. Tang is a postgraduate, senior economist, member of Communist Party of China, and National People's Congress of the People's Republic of China delegate. Since he began working in 1972, he has been appointed as the production deputy chief of Yi Bin Region Planning Economic Committee, the vice director of Yibin Machinery Factory, the planning chief of Yi Bin Region Planning Economic Committee, the deputy director and a member of Party Committee of the Statistical Bureau, the director and the vice deputy secretary of Yibin Paper Machinery Factory, the commissioner and the party secretary of Yi Bin Region Planning Commission, the director and the secretary of Party Committee of the Price Bureau, the director of Resources Unit, Changning County Party secretary, the deputy mayor and a member of Party Committee of Yibin Municipal Government and the deputy secretary of Party Committee of State-owned Assets Supervision and Administration Commission in Yibin City, and a member of the Standing Committee of the Yibin Municipal Committee. He was the vice secretary of the party committee, the director and the president of Sichuan Province Yibin Wuliangye Group Co., Ltd.（四川省宜賓五糧液集團有限公司）("**Wuliangye**") and the director and the chairman of Wuliangye Yibin Co., Limited（宜賓五糧液股份有限公司）("**Wuliangye Yibin**") since 2007. Wuliangye Yibin is a listed company on the Shenzhen Stock Exchange since 1998 with stock code 858. Mr. Tang was the vice secretary of the party committee, the director and the president of Wuliangye and the secretary of the party committee, the director and the chairman of Wuliangye Yibin since January 2011. He was the secretary of the party committee, the director and the president of Wuliangye and the secretary of the party committee and the chairman of Wuliangye Yibin since April 2011. He was the secretary of the party committee and the chairman of Wuliangye and the secretary of the party committee and the chairman of Wuliangye Yibin since June 2011. He is the secretary of party committee and the chairman of Wuliangye and the secretary of the party committee and the director of Wuliangye Yibin since September 2011. Mr. Tang was elected as the vice president of China National Food Industry Association in 2010.

On 29 April 2011, the China Securities Regulatory Commission (the "**CSRC**") issued an administrative decision letter to Wuliangye Yibin imposing warnings and fines on Wuliangye Yibin and eight officers (including Mr. Tang) for four incidents of omissions in disclosures of Wuliangye Yibin's public announcements between November 2007 and April 2009 and the annual report for the financial year 2007. The following are details of the four incidents:

(i) *Failure to disclose relevant information about an investment in a third party after the third party entered into bankruptcy proceedings in 2004*

The amount of the investment was RMB55 million. The non-disclosure was first raised by the Shenzhen Stock Exchange and the Sichuan Branch of the CSRC in March 2009 and subsequently disclosed by Wuliangye Yibin in its rectification announcement in March 2009. The CSRC concluded that the amount of the investment was not material, but nonetheless characterised the non-disclosure as a material omission.

(ii) *Failure to disclose on a timely basis relevant information about an investment in a third party after the third party entered into bankruptcy proceedings in 2007*

The amount of the investment was RMB87 million. Wuliangye Yibin made the relevant disclosure in its 2008 annual report. The CSRC characterised this as a failure to disclose information on a timely basis.

(iii) *Failure to correct on a timely basis a typographical error in its 2007 annual report*

The 2007 annual report wrongly disclosed "Revenue from Main Business" as RMB8,250,661,500 when it was RMB7,250,661,500. However, the figures for "Net Profit" and "Profit from Main Business" were correct. The correct disclosure was subsequently made in the interim report for the six months ended 30 June 2009. The CSRC characterised this as a failure to disclose information on a timely basis.

(iv) *Failure to disclose on a timely basis that a director was subject to criminal proceedings*

Wuliangye Yibin disclosed information about the proceedings involving a director in its 2007 annual report, which was filed two months after the proceedings commenced. The CSRC characterised this as a failure to disclose information on a timely basis.

The CSRC determined that since Mr. Tang was the chairman of the board of Wuliangye Yibin at the time, he should be perceived as being overall responsible for the disclosure obligations of Wuliangye Yibin and for establishing and maintaining an effective internal control system. As a result, Mr. Tang received a warning and a fine of RMB250,000 from the CSRC, together with Wuliangye Yibin and seven other senior management members. These fines were settled in 2011 and Mr. Tang continues to serve as director of Wuliangye Yibin.

Mr. Tang was appointed as chairman of Wuliangye Yibin in March 2007 and had no involvement with Wuliangye Yibin prior to such appointment. Some of the above non-disclosure issues arose in the period prior to his involvement with the company. In an effort to address the disclosure issues, Mr. Tang had in 2009 led the implementation of measures to improve Wuliangye Yibin's internal control systems and corporate governance.

Mr. Tang has been a director of Wuliangye Yibin since 2007 and is experienced with managing a listed company. He is also a director of Wuliangye, which is one of the controlling shareholders of the Company and has held key senior management roles within the Wuliangye group. Having a top senior management of the Wuliangye group also represented on the board would help represent the Company's interests within the Wuliangye group, and facilitate relations and communications between the Company and both of its key shareholders. Mr. Tang also has extensive experience in the local government and the Company believes that the appointment of such a senior figure to the board of directors of the Company (the "**Board**") would provide better communication channel, facilitate better relations with and obtain support from the local government.

The Company believes the CSRC disciplinary actions do not affect Mr. Tang's suitability to serve as a director of the Company. The Company notes in particular that the CSRC did not require Mr. Tang to step down and he continues to serve as a director of Wuliangye Yibin. The Company is of the view that Mr. Tang is a suitable candidate to serve as a director of the Company under the Rules Governing the Listing of Securities on the Stock Exchange ("the **Listing Rules**").

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chi Guohua (池國華), aged 40, was appointed and designated as an independent non-executive director of the Company on 22 November 2012. Mr. Chi is a certified public accountant (non-practicing member) in the PRC. Since March 2000, Mr. Chi has been serving as the teaching assistant, lecturer, associate professor and professor in the School of Accounting of Dongbei University of Finance and Economics (東北財經大學會計學院). Mr. Chi has been appointed as the doctoral supervisor of Financial Management Department by Dongbei University of Finance and Economics (東北財經大學) since 1 January 2013. Since March 2010, he has been the deputy head of Internal Control Research Center of the PRC (中國內部控制研究中心). Furthermore, since April 2012, Mr. Chi has been serving as an independent director of Dalian Tianbao Green Foods Co., Ltd. (大連天寶綠色食品股份有限公司), a company listed on the Shenzhen Stock Exchange. From February 2005 to February 2006, Mr. Chi was the head of the strategic investment department of Shenyang Machine Tool (Group) Co., Ltd. (瀋陽機床(集團)有限公司); and from March 2006 to March 2007, he was the financial adviser of Shenyang Machine Tool (Group) Group Ltd. (瀋陽機床(集團)集團公司). From November 2014 to October 2016, Mr. Chi was a consultant in the Committee on Internal Control Standards of Enterprise for the Ministry of Finance of the PRC (中國財政部企業內部控制標準委員會). Mr. Chi currently also holds positions in certain academic and professional organizations, including serving as a member of the Internal Control Committee of Accounting Society of China (中國會計學會內部控制專業委員會) since 2014 and a councillor of the Finance Cost Branch of Accounting Society of China (中國會計學會財務成本分會) since August 2010. Mr. Chi was awarded Qianren-level of the "Liaoning Baiqianwan Talents Program"(遼寧省"百千萬人才工程"千人層次) in November 2007, the leading accounting representative of the Ministry of Finance (中國財政部全國會計學術領軍人才) in November 2014, and an outstanding representative of tertiary education institution of Liaoning Province (遼寧省高等學校優秀人才) in August 2007. Mr. Chi obtained a post doctorate in Business Administration from the Xiamen University (廈門大學) in January 2008 and a doctorate in management (accounting studies) from Dongbei University of Finance and Economics (東北財經大學) in April 2005.

Mr. Wang Jun (王雋), aged 53, was appointed as an independent non-executive director of the Company on 24 April 2012. Mr. Wang has over 24 years of experience in the legal field, especially in corporate compliance operation, risk control, corporate law, litigation and arbitration. Since February 2009, Mr. Wang has been practising law at the Beijing Office of Dacheng Law Offices (北京大成律師事務所). From April 2000 to February 2009, he practised law at the Beijing Jian Yuan Law Offices (北京市建元律師事務所). From September 1987 to March 2000, he was employed by China University of Petroleum (中國石油大學) as a teacher. From September 1983 to September 1985, he served as the cadre of the Railway Transport High Court (鐵路運輸高級法院). Mr. Wang obtained a postgraduate degree in economic law in July 1987 and a bachelor's degree in law from the department of law in July 1983, both from the China University of Political Science and Law (中國政法大學).

Mr. Huang Haibo (黃海波), aged 60, was appointed as a director of the Company on 30 November 2011, and designated as an independent non-executive director of the Company on 24 April 2012. Mr. Huang has spent over 30 years researching and applying his expertise in automotives technology. Since September 1983, Mr. Huang has been serving as the teaching assistant, lecturer, associate professor and professor in the Department of Automotive Engineering of Sichuan University of Science and Technology (四川工業學院) (renamed as the Transport and Automotives Engineering School in Xihua University (西華大學) in 2003). From 2003 to 2012, he served as the dean in the Transport and Automotive Engineering School in Xihua University. Since July 2008 to August 2013, he served as an independent non-executive director of Hunan Jiangnan Red Arrow Co. Ltd. (湖南江南紅箭股份有限公司), a company listed on the Shenzhen Stock Exchange. He is the chairman of the Sichuan Xihua Vehicle Authentication Institution (四川西華機動車司法鑑定所) since August 2005 and a member of National Technical Committee on Operating Safe Technology and Testing Equipment of Motor Vehicles and of Standardization Administration of China (全國機動車運行安全技術檢測設備標準化技術委員會) since 2008. He received a master's degree in Beijing Institute of Agricultural Mechanization (北京農業機械化學院) in December 1983 and a doctorate degree in Engineering in Sichuan University (四川大學) in December 2004.

Mr. Wang Songlin（王松林）, aged 63, was appointed as an independent non-executive director of the Company on 24 April 2012. Mr. Wang has over 35 years of experience in the PRC automotive industry. From 2000 to 2011, May 2005 to March 2011, August 2007 to March 2012, and July 2009 to September 2010, Mr. Wang had been serving as the chairman of each of Beijing Zhongqi Jingtian Auto Trading Co., Ltd.（北京中汽京田汽車貿易有限公司）, Beijing Guoji Longsheng Automobile Co., Ltd.（北京國機隆盛汽車有限公司）, Beijing Guoji Fengsheng Automobile Co., Ltd.（北京國機豐盛汽車有限公司）and Changsha Qidian Automotive Products Co., Ltd.（長沙汽電汽車零部件有限公司）, respectively. Mr. Wang served as the deputy chief executive officer of China National Automotive Industry Corporation（中國汽車工業總公司）and the vice president of China National Machinery Industry Corporation（中國機械工業集團有限公司）. He is also currently a director of Sinomach Automobile Co., Ltd.（國機汽車股份有限公司）, a company listed on the Shanghai Stock Exchange. From June 2005 to April 2012, he served as a non-executive director of Guangzhou Automobile Group Co., Ltd.（廣州汽車集團股份有限公司）, a company listed on the Stock Exchange. From June 2004 to December 2011, Mr. Wang served as the deputy general manager of China National Machinery Industry Corporation（中國機械工業集團有限公司）. From August 1998 to June 2000, he was the party secretary and deputy general manager of China National Automotive Industry Import and Export Corporation（中國汽車工業進出口總公司）. He is currently the vice president of China Association of Automobile Manufacturers （中國汽車工業協會）, and the vice chairman of each of the Seventh Standing Council of the Society of Automotive Engineers of China（中國汽車工程學會第七屆常務理事會）and the Council of China Auto Talents Society（中國汽車人才研究會理事會）. Mr. Wang obtained a professional graduation certificate in casting technology and equipment from Harbin Institute of Technology（哈爾濱工業大學）in September 1978 and a postgraduate diploma in a master's course of technology and economics from Harbin Institute of Technology（哈爾濱工業大學）in April 1995.

SENIOR MANAGEMENT

Mr. He Xuzong（何旭宗）, aged 48, is the vice general manager of Mianyang Xinchen. Mr. He has over 24 years of experience in the automotive industry and is primarily responsible for product development of our Group. From November 2008 to January 2012, he served as the vice general manager of Xinhua Combustion Engine, and since January 2008, he has been the vice general manager of Mianyang Xinchen. From February 2004 to January 2008, he had been the assistant to the general manager and director of technology and quality of Mianyang Xinchen. From July 1989 to February 2004, he held various positions in Xinhua Combustion Engine, including technical engineer, managing deputy head of technology department, head of the technical center, and head of the product development department. Mr. He obtained a bachelor's degree in automotive engineering from Sichuan University of Science and Technology（四川工業學院）(now merged into Xihua University（西華大學）) in July 1989. Mr. He was qualified by Sichuan Province Title Reform Leading Group Office（四川省職稱改革工作領導小組辦公室）as a senior engineer in January 2002.

Mr. Song Ning（宋寧）, aged 51, is the vice general manager of Mianyang Xinchen. Mr. Song has over 28 years of experience in the automotive industry and is primarily responsible for production and safety management of our Group. From October 2001 to January 2012, he served as the vice general manager of Xinhua Combustion Engine, and since March 2000, he has been the vice general manager of Mianyang Xinchen. From April 1998 to October 2006, he was a director, and from May 1998 to March 2000, he was the head of the production support department of Mianyang Xinchen. From September 1985 to May 1998, he held various positions in Xinhua Combustion Engine, including technician, vice chief engineer, deputy head of workshop, head of technology and quality control department, head of workshop, head of chief engineer's office, head of technology development center, vice chief engineer and head of quality control. From March 2003 to August 2006, he served as the director of Xinhua Combustion Engine. Mr. Song was an engineering graduate from Sichuan University of Science and Technology（四川工業學院）(now merged into Xihua University（西華大學）) in 1985. He was qualified by Sichuan Province Title Reform Leading Group Office（四川省職稱改革工作領導小組辦公室）as a senior engineer in February 2001.

Mr. Ma Li（馬力）, aged 55, is the vice general manager of Mianyang Xinchen. Mr. Ma has over 31 years of experience in the automotive industry and is primarily responsible for marketing and spare parts business of our Group. Since March 2000, he has been the vice general manager of Mianyang Xinchen, and during the period from October 2001 to January 2012, he served as the vice general manager of Xinhua Combustion Engine concurrently. From January 2005 to March 2009, he also served as an executive director of Mianyang Huarui. From August 1982 to May 1998, he held various positions in Xinhua Combustion Engine, including technician, deputy head of supply office, managing deputy head of sales department and the head of sales department. Mr. Ma obtained a bachelor's degree in internal combustion engines in Chengdu Institute of Agriculture and Machinery（成都農業機械學院）(now merged into Xihua University（西華大學）) in July 1982, and received a postgraduate diploma in business management from Sichuan University（四川大學）in 1999. Mr. Ma was qualified as a senior engineer in May 1996.

Mr. Xu Bingchu（徐炳初）, aged 54, is the chief financial officer and the chief financial officer of Mianyang Xinchen. Mr. Xu has over 31 years of experience in financial management and is primarily responsible for financial management of our Group. Since April 2009, he has served as the chief financial officer of Mianyang Huarui, and since May 2002, he has been the chief financial officer of Mianyang Xinchen and Mianyang Brilliance Ruian Automotive Components Co., Ltd. ("**Mianyang Ruian**"). From May 2002 to July 2002, he was the chief financial officer of Xinhua Combustion Engine. From November 2000 to May 2002, Mr. Xu was the chief financial officer's assistant and the manager of finance department of Mianyang Xinchen and Mianyang Ruian concurrently. Prior to that, from September 1982 to October 2000, he assumed various positions in China State Shipbuilding Corporation（中國船舶工業總公司）, including head of the financial department and financial supervisor. Mr. Xu graduated from the Shanghai Maritime University（上海海事大學）(formerly known as Shanghai Harbor College（上海港灣專科學校）) in 1982, and obtained a master's degree in financial management from Chinese Academy of Social Sciences in July 1998.

Mr. Li Changzhen（李昌震）, aged 50, is the senior vice president of the Company. Mr. Li joined the Company in March 2012. Mr. Li is primarily responsible for the Group's strategic investment management. He has about 21 years' experience in mergers and acquisitions, and in capital markets. Mr. Li received Bachelor of Science and Master of Science from Tianjin University (1983, 1986), and Master of Science and PhD from State University of New York at Buffalo (1990, 1995).

Mr. Leung Man Ho（梁文豪）, aged 33, is the senior vice president of the Company. Mr. Leung joined the Company in February 2014. Mr. Leung is primarily responsible for the Group's investor relations, capital markets and financial reporting matters. He has over 10 years of corporate finance and merger and acquisition experience. Mr. Leung received Bachelor of Business Administration from City University of Hong Kong in 2004.

COMPANY SECRETARY

Ms. Ngai Ka Yan（魏嘉茵）, aged 32, is the company secretary of the Company. Ms. Ngai joined the Company in March 2015. Ms. Ngai obtained a Bachelor of Business degree from Queensland University of Technology in Australia and a Master of Corporate Governance degree from The Hong Kong Polytechnic University. Ms. Ngai is an associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. Ngai has extensive experience in company secretarial and compliance matters and has worked for various listed companies 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 31 December 2014.

PRINCIPAL ACTIVITIES

The Company is a holding company. The principal activities of the Group are the development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles and manufacture of engine parts and components of the passenger vehicles in the PRC. The principal activities of the Company's subsidiaries are set out in note 40 to the consolidated financial statements.

FINANCIAL RESULTS

The results of the Group for the year ended 31 December 2014 are set out in the consolidated financial statements of the Group on page 50.

CASH FLOW POSITION

The cash flow position of the Group for the year ended 31 December 2014 is set out and analysed in the consolidated statement of cash flows on pages 54 to 55.

DIVIDEND

The Board did not recommend the payment of any dividend in respect of the year ended 31 December 2014 (2013: Nil).

CLOSURE OF REGISTER OF MEMBERS

The Company's forthcoming annual general meeting will be held on Monday, 1 June 2015 at 9:00 a.m..

The Hong Kong branch register of members of the Company will be closed from Wednesday, 27 May 2015 to Monday, 1 June 2015, both dates inclusive, during which period no transfer of Shares will be registered. Only shareholders of the Company whose names appear on the register of members of the Company on Monday, 1 June 2015 or their proxies or duly authorised corporate representatives are entitled to attend the annual general meeting. In order to qualify for attending the annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 26 May 2015.

FIVE-YEAR FINANCIAL SUMMARY

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

DISTRIBUTABLE RESERVES

There is no distributable reserves of the Company as at 31 December 2014.

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 53.

PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment of the Group for the year ended 31 December 2014 are set out in note 13 to the consolidated financial statements.

INVESTMENT PROPERTIES

The details of investment properties of the Group are set out in note 15 to the consolidated financial statements.

CONTRACTS OF SIGNIFICANCE

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

(i) no contracts of significance in relation to the business of the Group, to which the Company or any of its subsidiaries was a party and in which a controlling shareholder of the Company or any of its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time throughout the year ended 31 December 2014; and

(ii) no contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries subsisted at the end of the year or at any time throughout the year ended 31 December 2014.

SHARE CAPITAL

Details of the Company's share capital as of 31 December 2014 are set out in note 28 to the consolidated financial statements.

SHARE INCENTIVE SCHEME ESTABLISHED BY LEAD IN

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

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

The terms of the Incentive Scheme and the trust arrangements are not subject to the provisions of Chapter 17 of the Listing Rules as these arrangements do not involve the grant of options by the Company to subscribe for Shares after the listing of the Company's shares on the Stock Exchange.

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

Name of Beneficiary	Total consideration paid	As at 1 January 2014	Exercised during the year	Outstanding as at 31 December 2014	Approximate percentage of issued share capital of the Company represented by the outstanding shares (Note)
Directors of the Company:					
Mr. Wu Xiao An	HK$9,000,000	4,992,025	3,328,016	1,664,009	0.12%
Mr. Wang Yunxian	HK$7,000,000	3,882,686	2,588,457	1,294,229	0.10%
Mr. Li Peiqi *(resigned on 4 September 2014)*	HK$7,000,000	3,882,686	2,588,457	1,294,229	0.10%
Director of Mianyang Xinchen:					
Mr. Zhang Zitao	HK$1,432,000	794,286	529,524	264,762	0.02%
Senior Management:					
Mr. He Xuzong	HK$3,300,000	1,830,409	1,220,272	610,137	0.04%
Mr. Song Ning	HK$2,100,000	1,164,806	776,536	388,270	0.03%
Mr. Lai Yong *(retired in September 2013)*	HK$2,850,000	1,580,808	1,053,871	526,937	0.04%
Mr. Ma Li	HK$2,300,000	1,275,740	850,492	425,248	0.03%
Mr. Xu Bingchu	HK$3,350,000	1,858,143	1,238,761	619,382	0.04%
42 other employees	HK$23,350,000	12,951,541	8,634,318	4,317,223	0.33%
Total:	HK$61,682,000	34,213,130	22,808,704	11,404,426	0.88%

Note: These percentages are calculated on the basis of 1,287,407,794 Shares in issue as at 31 December 2014.

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

On 17 April 2014, 2,984,575 Shares held under the Discretionary Trust were awarded to a third party at a subscription price of HK$1.0817 per Share and exercisable for 50% each of awarded Shares on the first and the second anniversary from 22 April 2014, being the date of acceptance of the award by the third party.

Other than disclosed above, no Shares were awarded under the Discretionary Trust for the year ended 31 December 2014.

SHARE OPTION SCHEME

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

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

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

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

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

The Share Option Scheme will remain in force for a period of 10 years from 13 March 2013. The period during which an option may be exercised will be determined by the directors of the Company in their absolute discretion, save that no option shall be exercised later than 10 years from the date of grant.

No share options had been granted by the Company under the Share Option Scheme for the year ended 31 December 2014 and no expenses were recognized by the Group for 2014 (2013: nil).

DIRECTORS

The directors of the Company who held office during the year ended 31 December 2014 and up to the date of this annual report were:

Executive directors:

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

Non-executive directors:

Mr. Qi Yumin
Mr. Tang Qiao *(appointed on 4 September 2014)*
Mr. Li Peiqi *(resigned on 4 September 2014)*

Independent non-executive directors:

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

Pursuant to Article 108 of the Articles of Association of the Company and code provision A.4.2 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin, will retire by rotation at the forthcoming annual general meeting of the Company to be held on 1 June 2015.

Each of Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin, being eligible, will offer themselves for re-election and the Board has recommended them for re-election at the forthcoming annual general meeting of the Company.

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

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

As at 31 December 2014, so far as known to the directors or chief executives of the Company, each of the following persons (other than a director or chief executive of the Company) had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (the "**SFO**"):

Name of Shareholder	Capacity	Number of Shares	Approximate percentage of shareholding[7]
Brilliance Investment Holdings Limited	Beneficial owner	400,000,000	31.07%
Brilliance China[1]	Interest in a controlled corporation	400,000,000	31.07%
Huachen[2]	Interest in a controlled corporation	400,000,000	31.07%
Xinhua Investment Holdings Limited	Beneficial owner	400,000,000	31.07%
Xinhua Combustion Engine[3]	Interest in a controlled corporation	400,000,000	31.07%
Sichuan Yibin Pushi Group Co., Ltd.[4]	Interest in a controlled corporation	400,000,000	31.07%
Wuliangye[5]	Interest in a controlled corporation	400,000,000	31.07%
Lead In[6]	Trustee	48,382,386	3.76%

Notes:

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

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

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

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

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

(6) Lead In is a trustee of the Fixed Trust and Discretionary Trust under the Incentive Scheme and is deemed or taken to be interested in approximately 3.76% of the issued share capital of the Company.

(7) These percentages are calculated on the basis of 1,287,407,794 Shares in issue as at 31 December 2014.

Save as disclosed herein, as at 31 December 2014, there was no other person so far as known to the directors or chief executives of the Company (other than a director or chief executive of the Company), as having an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2014, the interests and short positions of each director and chief executive of the Company and their respective associates in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange, are set out below:

Interest in the shares of the Company

Name of Director	Nature of interest	Number and class of Shares	Approximate percentage of shareholding[4]
Mr. Wu Xiao An (also known as Ng Siu On) [1][3]	Beneficial owner	6,656,032 ordinary	0.52%
	Trustee and interest in a controlled corporation	48,382,386 ordinary	3.76%
Mr. Wang Yunxian [2][3]	Beneficial owner	5,176,914 ordinary	0.40%
	Trustee and interest in a controlled corporation	48,382,386 ordinary	3.76%

Notes:

(1) Mr. Wu Xiao An is a trustee of the Fixed Trust and the Discretionary Trust (which in aggregate hold 48,382,386 Shares for the beneficiaries) under the Incentive Scheme and holds 50% interests in Lead in. Accordingly, Mr. Wu is deemed or taken to be interested in approximately 3.76% of the issued share capital of the Company. Mr. Wu is entitled to 1,664,009 Shares as a beneficiary under the Fixed Trust.

(2) Mr. Wang Yunxian is a trustee of the Fixed Trust and the Discretionary Trust (which in aggregate hold 48,382,386 Shares for the beneficiaries) under the Incentive Scheme and holds 50% interests in Lead in. Accordingly, Mr. Wang is deemed or taken to be interested in approximately 3.76% of the issued share capital of the Company. Mr. Wang is entitled to 1,294,229 Shares as a beneficiary under the Fixed Trust.

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

(4) These percentages are calculated on the basis of 1,287,407,794 Shares in issue as at 31 December 2014.

Save as disclosed above, as at 31 December 2014, none of the directors and chief executives of the Company or their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year ended 31 December 2014 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate; and none of the directors of the Company, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company has entered into a service agreement with the Company on 26 February 2013 (as supplemented by a second service agreement on 1 April 2013) for a term of three years commencing from 13 March 2013, and such service agreements shall be terminated in accordance with the terms of the service agreements.

Each of the non-executive directors and independent non-executive directors of the Company (except for Mr. Tang Qiao) was appointed to the Board pursuant to their respective letters of appointment dated 26 February 2013, for an initial term of three years commencing from 13 March 2013, and such appointment shall be terminated in accordance with the terms of the letters of appointment. Mr. Tang Qiao was appointed by the Board on 4 September 2014 pursuant to his letter of appointment, for an initial term of three years commencing from 4 September 2014, and such appointment shall be terminated in accordance with the terms of the letter of appointment.

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

For the year ended 31 December 2014, none of the directors of the Company was considered to have interests in business which competes or is likely to compete, either directly or indirectly, with the business of the Group and any other conflicts of interest.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities in 2014.

SPECIFIC PERFORMANCE BY THE CONTROLLING SHAREHOLDERS

On 28 October 2014, Mianyang Xinchen (as borrower) and the Company (as guarantor) entered into a banking facility agreement with a financial institution (as lender) for a term loan facility of up to US$60,000,000. The facility is repayable in full on the date falling 36 months from the first date of drawdown by five semi-annual instalments, the first instalment repayment commencing twelve months after the first date of drawdown. The facility will be used to finance the working capital and the capital expenditure requirements of the borrower. The facility has been drawn down in 2014. Pursuant to the facility letter, it shall be an event of default if: (1) Brilliance China holds less than 25% (directly or indirectly) of the shareholding interest in the Company in aggregate; or (2) Wuliangye holds less than 25% (directly or indirectly) of the shareholding interest in the Company in aggregate. If an event of default under the facility letter occurs, the lender may, by notice to the borrower, cancel the commitments under the facility letter and/or declare that all or part of the loan(s) together with interest accrued thereon and all other amounts accrued or payable under the facility letter to be immediately due and payable.

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

In 2014, the aggregate sales attributable to the Group's five largest customers represented approximately 70.8% of the Group's total turnover while the sales attributable to the Group's largest customer was approximately 24% of the Group's total turnover. The aggregate purchases attributable to the Group's five largest suppliers during the year represented approximately 40.4% of the Group's total purchases and the purchases attributable to the Group's largest supplier represented approximately 13.2% of the Group's total purchases.

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

PUBLIC FLOAT

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

UNDERTAKING FROM HUACHEN AND BRILLIANCE CHINA AND DEED OF NON-COMPETITION

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

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

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

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

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

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

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

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

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

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

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

The directors of the Company (including the independent non-executive directors) have reviewed the compliance with the Deed of Non-competition by the Controlling Shareholders and Huachen, the First Huachen and Brilliance China Undertaking and the Second Huachen and Brilliance China Undertaking by Huachen and Brilliance China and confirmed that the respective undertakings have been fully complied with and duly enforced during the year ended 31 December 2014.

CONNECTED TRANSACTIONS

During the year 2014 and up to the date of this annual report, the Company entered into various transactions which constituted connected transactions under Chapter 14A of the Listing Rules. Details of these transactions are summarised below:

Provision of technical consulting and advisory services, procurement of inventories and testing services of N20 engines with BMW Brilliance Automotive; and procurement of raw materials from Huachen

On 12 March 2014, the Company announced that the Company will procure related engine parts and components, inventories and testing services from BMW Brilliance Automotive and BMW Brilliance Automotive will provide technical consulting and advisory services in relation to the N20 engines to the Company pursuant to an engine assembly license agreement entered into among Bayerische Motoren Werke Aktiengesellschaft ("**BMW**"), BMW Brilliance Automotive and the Company dated 12 December 2012, together with the N20 engine technical consulting and advisory service framework agreement and the N20 engine parts supply framework agreement, as described in the prospectus of the Company dated 28 February 2013, for a total transaction value of RMB11,060,158. BMW Brilliance Automotive is a sino-foreign equity joint venture company incorporated in the PRC and is owned as to 50% by Shenyang Jinbei Automotive Industry Holdings Co., Ltd.*（瀋陽金杯汽車工業控股有限公司）("**Shenyang Jinbei Automotive**"), an indirect wholly-owned subsidiary of Brilliance China, and 50% by BMW Holding B.V. and therefore is a connected person of the Company.

On 12 March 2014, Mianyang Xinchen entered into a materials procurement agreement (the "**Materials Procurement Agreement**") with Huachen pursuant to which Mianyang Xinchen agreed to purchase and Huachen agreed to sell the connection rod roughcasts for the production of connection rods at the consideration of RMB12,987,000 for the three months ended 31 May 2014 or until the BBA Compliance Agreement (as defined below) is finalised (whichever is earlier). The Materials Procurement Agreement was terminated on 31 May 2014. Huachen, which owns approximately 42.48% of Brilliance China, is deemed as a connected person of the Company under the Listing Rules.

Acquisition of a connection rod production line

On 24 June 2014, Mianyang Xinchen entered into 1) an agreement with Alfing Kessler Sondermaschinen GmbH ("**Alfing**") and Huachen to amend, vary and modify the original sales and installment agreement dated 19 January 2013 entered between Alfing and Huachen (the "**Original Sales and Installment Agreement**"); and 2) a payment transfer agreement and an assets transfer agreement with Huachen, for purpose of acquiring a connection rod production line from Huachen. Pursuant to these agreements, interests and rights of Huachen under the Original Sales and Installment Agreement has been assigned and transferred to Mianyang Xinchen while Mianyang Xinchen agreed to fully repay Huachen the actual amount paid or payable by Huachen to Alfing pursuant to the Original Sales and Installment Agreement less the amount which was previous paid by Mianyang Xinchen to Huachen for the purchase of certain machinery and equipment in January 2014 and other miscellaneous payments paid or payable by Huachen as a result of performing its rights and obligations under the Original Sales and Installment Agreement. In addition, certain machinery and equipment for use in connection with the connection rod production line and other related assets were transferred from Huachen to Mianyang Xinchen pursuant to these agreements. The total consideration paid by Mianyang Xinchen under these agreements was approximately RMB165.38 million and was settled by setting of accounts receivable due from Huachen. The acquisition of a connection rod production line was completed on 24 June 2014. Please refer to the announcement of the Company dated 24 June 2014 for further details.

Acquisition of a crankshaft production line

On 21 January 2015, Mianyang Xinchen (including its branches) entered into the following agreements, including assets transfer agreement, agreement on operation site, consulting service and technical agreement, raw materials supply agreement and purchase agreement on finished crankshaft, with BMW Brilliance Automotive in connection with the acquisition by Mianyang Xinchen (including its branches) of the crankshaft production line, and subsequent arrangements for the operation of the crankshaft production line and supply of finished crankshaft to BMW Brilliance Automotive. The consideration for the said acquisition was estimated to be approximately RMB391.43 million. The agreements (except for the agreement on operation site which was not subject to approval by the shareholders of the Company) and the transactions contemplated thereunder were approved by the independent shareholders of the Company at the extraordinary general meeting held on 25 March 2015. Details of the transactions are set out in the announcement of the Company dated 21 January 2015 and the circular of the Company dated 18 February 2015.

CONTINUING CONNECTED TRANSACTIONS

In 2014, the Group conducted various transactions which constituted continuing connected transactions under Chapter 14A of the Listing Rules. All the continuing connected transactions during the year that need to be disclosed herein are in compliance with the Listing Rules. The actual monetary value of the continuing connected transactions of the Group for the financial year ended 31 December 2014 is set out below:

	Connected Person	Nature of Transaction	Actual monetary value for the financial year ended 31 December 2014 RMB'000
Continuing connected transactions exempt from the independent shareholders' approval requirements			
1.	Mianyang Ruian	Purchase of engine components from Mianyang Ruian	45,329
2.	Mianyang Jianmen Real Estate	Procurement of construction and building maintenance services from Mianyang Jianmen Real Estate	4,111
3.	Huachen	(i) Leasing of the production facilities and supply of relevant human resources to, (ii) procurement of supporting production materials for and supply of basic utilities to, and (iii) the use of production technology for production of engines by, Mianyang Xinchen	–
4.	Shenyang Brilliance Power	Rental of factory premises by Mianyang Xinchen	5,000
5.	Huachen	Management of an engine production line by Mianyan Xinchen	7,037
6.	Huachen	Procurement of materials from Huachen	12,278
7.	BMW Brilliance Automotive	Lease of certain portion of land and properties to BMW Brilliance Automotive	12,117
Non-exempt continuing connected transactions			
A.	***Transactions with Brilliance China group***		
8.	Shenyang Jinbei and Xing Yuan Dong	Sale of engines and engine components to Shenyang Jinbei, and engines to Xing Yuan Dong	337,699
B.	***Transactions with Wuliangye group***		
9.	Sichuan Pushi and Xinhua Combustion Engine	Purchase of crankshafts from Sichuan Pushi, and engine components from Xinhua Combustion Engine	183,172
C.	***Transactions with Huachen group***		
10.	Huachen, Mianyang Huarui, Mianyang Huaxiang and Shenyang Brilliance Power	Sale of engines and engine components to Huachen, Mianyang Huarui, Mianyang Huaxiang, and sale of engines to Shenyang Brilliance Power	682,984
D.	***Transactions with BMW Brilliance Automotive***		
11.	BMW Brilliance Automotive	Procurement of engine parts and components and raw materials for manufacturing engines and engine parts and components and the provision of the related services from BMW Brilliance Automotive or its subsidiaries	275,269
12.	BMW Brilliance Automotive	Sale of engine parts and components and raw materials for manufacturing engines and engine parts and components by the Group	405,774

Further information on transactions 1 to 12 are provided as follows:

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

On 25 February 2013, the Company entered into a purchase agreement with Brilliance China (the "**Brilliance China Purchase Agreement**"), pursuant to which the Company will continue to purchase various types of engine components from Brilliance China group companies for an initial period commencing from 13 March 2013 until 31 December 2015. Unless such agreement is terminated prior to its expiry date, the Brilliance China Purchase Agreement is renewable for additional terms of three years.

The annual caps of the continuing connected transactions contemplated under the Brilliance China Purchase Agreement for the two years ended 31 December 2015 are RMB65.6 million and RMB78.0 million, respectively. The total purchases from Mianyang Ruian for the year ended 31 December 2014 did not exceed the annual cap of RMB65.6 million.

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

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

On 25 February 2013, the Company entered into a procurement framework agreement with Wuliangye (the "**Wuliangye Procurement Agreement**"), pursuant to which the Company agreed to procure construction and maintenance services from Wuliangye group companies for an initial period commencing from 13 March 2013 until 31 December 2015. Unless such agreement is terminated prior to its expiry date, the Wuliangye Procurement Agreement is renewable for additional terms of three years.

The annual caps of the continuing connected transactions contemplated under the Wuliangye Procurement Agreement for the two years ending 31 December 2015 are RMB10.8 million and RMB10.8 million, respectively. The total procurement from Mianyang Jianmen Real Estate for the year ended 31 December 2014 did not exceed the annual cap of RMB10.8 million.

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

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

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

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

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

Pursuant to the Framework Agreement, Mianyang Xinchen agreed to supply such engines to Shenyang Brilliance Power Train Machinery Co., Ltd. ("**Shenyang Brilliance Power**").

The annual caps for the continuing connected transactions under the Framework Agreement, the Lease Agreement and the Materials Procurement Agreement for the two financial years ending 31 December 2015 will not exceed RMB44,101,862 and RMB48,640,164, respectively. The continuing connected transactions under the Framework Agreement for the year ended 31 December 2014 did not exceed the annual cap of RMB44,101,862.

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

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

Transaction 4: Shenyang Brilliance Power is a company owned as to 51% by Huachen and 49% by Brilliance China and therefore is a connected person of the Company.

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

The New Lease Agreement became effective immediately after the ownership of the relevant production lines and inventories had been transferred from Huachen to Mianyang Xinchen. The acquisition agreement for the above transfer of assets was approved by the independent shareholders of the Company at the extraordinary general meeting held on 16 January 2014 and completion of which took place in January 2014. The New Lease Agreement became effective in January 2014, and the Framework Agreement, the Lease Agreement and the Materials Procurement Agreement were terminated on the same day, while the Use of Technology Agreement remains effective (please refer to Transaction 3 above).

The annual caps of the continuing connected transaction contemplated under the New Lease Agreement for the two years ending 31 December 2015 are RMB4,999,920 and RMB4,999,920, respectively. The continuing connected transaction under the New Lease Agreement for the year ended 31 December 2014 did not exceed the annual cap of RMB 4,999,920.

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

Transaction 5: Huachen is deemed as a connected person of the Company as described in Transaction 3 above.

On 27 June 2014, Mianyang Xinchen (including its branches) and Huachen entered into a management entrustment agreement (the "**Management Entrustment Agreement**") pursuant to which Mianyang Xinchen (including its branches) agreed to be responsible for the management of an engine production line located at the E2 Factory for the period from 27 June 2014 to 31 December 2016.

The annual caps of the continuing connected transactions contemplated under the Management Entrustment Agreement for each of the three financial years ending 31 December 2014, 2015 and 2016 are RMB9,197,100, RMB10,729,950 and RMB12,262,800, respectively. The continuing connected transaction under the Management Entrustment Agreement for the year ended 31 December 2014 did not exceed the annual cap of RMB9,197,100.

Details of the Management Entrustment Agreement are set out in the announcement of the Company dated 27 June 2014.

Transaction 6: Huachen is deemed as a connected person of the Company as described in Transaction 3 above.

On 18 November 2014, Mianyang Xinchen (including its branches) entered into a procurement agreement (the "**Procurement Agreement**") with Huachen in connection with the purchase of the remaining portion of the materials, tools, equipments and repair parts and products for the production of E3 engines from Huachen for the period from 18 November 2014 to 31 December 2015.

The annual caps of the continuing connected transactions contemplated under the Procurement Agreement for each of the two financial years ending 31 December 2014 and 2015 are approximately RMB13,320,446 and approximately RMB6,576,832, respectively. The continuing connected transaction under the Procurement Agreement for the year ended 31 December 2014 did not exceed the annual cap of approximately RMB13,320,446.

Details of the Procurement Agreement are set out in the announcement of the Company dated 18 November 2014.

Transaction 7: BMW Brilliance Automotive is a sino-foreign equity joint venture company incorporated in the PRC and is owned as to 50% by Shenyang Jinbei Automotive, an indirect wholly-owned subsidiary of Brilliance China, and 50% by BMW Holding B.V. and therefore is a connected person of the Company. The principal activities of BMW Brilliance Automotive include but are not limited to manufacture and sale of BMW vehicles.

On 15 August 2014, the acquisition of Shenyang Xinchen was completed. Shenyang Xinchen has become an indirectly wholly owned subsidiary of the Company. According to the existing lease agreement dated 28 August 2012 (the "**BBA Lease Agreement**") (amended by the supplemental agreement dated 22 July 2013) entered between Shenyang Xinchen and BMW Brilliance Automotive, certain portion of land and properties located at No. 19, Road 13, Shenyang Econ-Tech Development Zone, Tiexi New District, Shenyang City, Liaoning Provision, the PRC, leased to BMW Brilliance Automotive for a term commencing from 28 August 2012 and expiring on 27 February 2018 for production and ancillary purposes.

The annual caps of the continuing connected transactions contemplated under the BBA Lease Agreement for the financial years ending 31 December 2014, 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018 shall not exceed RMB14,361,980, RMB33,143,030, RMB33,143,030, RMB33,143,030 and RMB5,523,838, respectively. The continuing connected transaction under the BBA Lease Agreement for the year ended 31 December 2014 did not exceed the annual cap of RMB14,361,980.

On 21 January 2015, Mianyang Xinchen (including its branches), Shenyang Xinchen and BMW Brilliance Automotive entered into an agreement on operation site (the "**Agreement on Operation Site**"). Pursuant to the Agreement on Operation Site, Mianyang Xinchen (including its branches) agreed to lease from Shenyang Xinchen the operation site for the operation, future expansion and upgrading of the crankshaft production line (the "**Operation Site**") acquired by Mianyang Xinchen (including its branches) from BMW Brilliance Automotive. BMW Brilliance Automotive and Shenyang Xinchen agreed to terminate the BBA Lease Agreement to the extent in relation to the Operation Site. BMW Brilliance Automotive shall continue to lease from Shenyang Xinchen the reduced lease area and shall continue to pay monthly rental to Shenyang Xinchen pursuant to the terms of the BBA Lease Agreement, based on the reduced leased area.

Details of the BBA Lease Agreement are set out in the announcement of the Company dated 15 August 2014 and 21 January 2015.

Transaction 8: Shenyang Jinbei is a non wholly-owned subsidiary of Brilliance China, a substantial shareholder of the Company. The principal business activities of Shenyang Jinbei include the manufacture and sale of minibuses and the provision of after-sale services. Shenyang Jinbei does not engage in the manufacture and sale of automotive engines. The automotive components produced by Shenyang Jinbei are solely for its own consumption.

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

On 25 February 2013, the Company entered into a sale framework agreement with Brilliance China (the "**Brilliance China Sale Agreement**"), pursuant to which the Company agreed to sell engine components and engines to Brilliance China group companies for an initial period commencing from 13 March 2013 until 31 December 2015. Unless such agreement is terminated prior to its expiry date, the Brilliance China Sale Agreement is renewable for additional terms of three years.

The annual caps of the continuing connected transactions contemplated under the Brilliance China Sale Agreement for the two years ending 31 December 2015 are RMB574.9 million and RMB667.6 million, respectively. The sales to Shenyang Jinbei and Xing Yuan Dang for the year ended 31 December 2014 did not exceed the annual cap of RMB574.9 million.

Transaction 9: Sichuan Yibin Pushi Automotive Components Co., Ltd. ("**Sichuan Pushi**") is a direct wholly-owned subsidiary of Pushi Group which owns approximately 93% of Xinhua Combustion Engine, a substantial shareholder of the Company, the ultimate holding company of which is Wuliangye. The principal business activities of Sichuan Pushi are the process and sale of automotive components and engine components. Xinhua Combustion Engine, being a substantial shareholder of the Company, is a connected person of the Company.

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

On 25 February 2013, the Company entered into a purchase framework agreement with Wuliangye (the "**Wuliangye Purchase Agreement**"), pursuant to which the Company agreed to purchase various gasoline and diesel engine components such as crankshafts, exhaust manifolds, cylinder chambers and cylinder heads from Wuliangye group companies for an initial period commencing from 13 March 2013 until 31 December 2015. Unless such agreement is terminated prior to its expiry date, the Wuliangye Purchase Agreement is renewable for additional terms of three years.

The annual caps of the continuing connected transactions contemplated under the Wuliangye Purchase Agreement for the two years ending 31 December 2015 are RMB231.8 million and RMB268.7 million, respectively. The total purchases from Sichuan Pushi and Xinhua Combustion Engine for the year ended 31 December 2014 did not exceed the annual cap of RMB231.8 million.

Transaction 10: Huachen is deemed as a connected person of the Company as described in Transaction 3 above. Mianyang Huarui is a wholly-owned subsidiary of Huachen. Mianyang Huaxiang Machinery Manufacturing Co., Ltd. ("**Mianyang Huaxiang**") is an indirect wholly-owned subsidiary of Huachen. Shenyang Brilliance Power is a connected person of the Company as described in Transaction 4 above.

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

On 25 February 2013, the Company entered into a sale framework agreement with Huachen (the "**Huachen Sale Agreement**"), pursuant to which the Company agreed to sell engines and engine components to Huachen group companies for an initial period commencing from 13 March 2013 until 31 December 2015. Unless such agreement is terminated prior to its expiry date, the Huachen Sale Agreement is renewable for additional terms of three years.

The annual caps of the continuing connected transactions contemplated under the Huachen Sale Agreement for the two years ending 31 December 2015 are RMB868.6 million and RMB1,044.3 million, respectively. The total sales to Huachen, Mianyang Huarui, Mianyang Huaxiang and Shenyang Brilliance Power for the year ended 31 December 2014 did not exceed the annual cap of RMB868.6 million.

Transactions 11 & 12: BMW Brilliance Automotive is a connected person of the Company as described in Transaction 7 above.

On 23 May 2014, the Company, Mianyang Xinchen (including its branches) and BMW Brilliance Automotive entered into the compliance agreement (the "**BBA Compliance Agreement**") in relation to the sale and purchase of engines, engine parts and components and raw materials for manufacturing engines and engines parts and components and the provision of related services.

On 21 January 2015, further to the BBA Compliance Agreement, Mianyang Xinchen (including its branches) and BMW Brilliance Automotive entered into three operational agreements, namely, a consulting service and technical support agreement in connection with consultancy service and technical support for the production of crankshafts from BMW Brilliance Automotive, a raw materials supply agreement in connection with procurement of raw materials from BMW Brilliance Automotive and a purchase agreement for finished crankshafts in connection with supply of finished crankshaft to BMW Brilliance Automotive. Given the Group expected the original annual caps in relation to the transactions contemplated under the BBA Compliance Agreement for the two financial years ending 31 December 2015 and 2016 will be exceeded. Therefore, the Group proposed to revise the original annual caps under the BBA Compliance Agreement, which was then approved by the independent shareholders of the Company at the extraordinary general meeting held on 25 March 2015.

The annual caps of the procurement of engine parts and components, raw materials for manufacturing engines and engine parts and components and related services by the Group contemplated under the BBA Compliance Agreement for the three years ending 31 December 2016 are approximately RMB447,976,479, RMB1,646,970,239 and RMB1,525,467,133, respectively. The continuing connected transactions in relation to the procurement of engine parts, components, raw materials for manufacturing engines and engine parts and components and related services by the Group contemplated under the BBA Compliance Agreement for the year ended 31 December 2014 did not exceed the annual cap of approximately RMB447,976,479.

The annual caps of the sale of engine parts and components, raw materials for manufacturing engines and engine parts and components by the Group contemplated under the BBA Compliance Agreement for the three years ending 31 December 2016 are approximately RMB518,326,709, RMB1,646,872,071 and RMB1,743,150,632, respectively. The continuing connected transactions in relation to the sale of engine parts and components and raw materials for manufacturing engines and engine parts and components by the Group contemplated under the BBA Compliance Agreement for the year ended 31 December 2014 did not exceed the annual cap of approximately RMB518,326,709.

Details of the BBA Compliance Agreement and the annual caps are set out in the announcements of the Company dated 23 May 2014, 28 May 2014 and 21 January 2015 and the circulars of the Company dated 28 May 2014 and 18 February 2015.

The independent non-executive directors of the Company confirmed that the above continuing connected transactions 1 to 12 have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better, and in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole. The independent non-executive directors of the Company further confirmed that the annual caps in respect of the above continuing connected transactions 1 to 12 are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The Company's external auditors, Deloitte Touche Tohmatsu, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions 1 to 12 disclosed above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

The above continuing connected transactions 1 to 12 are also regarded as "related party transactions" under the applicable accounting standards. Details of these transactions are further disclosed in note 35 to the consolidated financial statements of this annual report, except the sale of goods to a jointly controlled entity which did not constitute a connected transaction to the Group.

Save as disclosed above, in the opinion of the directors of the Company, there are no other related party transactions in note 35 to the consolidated financial statements which constituted connected transactions or continuing connected transactions of the Group or were required to be disclosed pursuant to Chapter 14A of the Listing Rules.

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

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 33 to 47 of this annual report.

OTHER INFORMATION

An amount bearing interest at 3% per annum is due from Xinhua Investment to Brilliance China. The amount is due in August 2015 and secured by all assets of Xinhua Investment.

AUDITORS

Deloitte Touche Tohmatsu, the auditors of the Company, will retire at the conclusion of the forthcoming annual general meeting of the Company and be eligible to offer themselves for re-appointment. A resolution will be submitted to the annual general meeting to be held on 1 June 2015 to seek shareholders' approval on the appointment of Deloitte Touche Tohmatsu as the Company's auditors until the conclusion of the next annual general meeting and to authorise the Board to fix their remuneration.

By order of the Board

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

Hong Kong,
25 March 2015

Corporate Governance Report

CORPORATE GOVERNANCE

The Company is committed to achieving and maintaining the highest standards of corporate governance consistent with the needs and requirements of the business and its shareholders, and in compliance with the "Corporate Governance Code" (the "**CG Code**") set out in Appendix 14 to the Listing Rules. The 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 31 December 2014, the Group has complied with all the code provisions as set out in the CG Code.

A. DIRECTORS

A.1 The Board

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

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

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

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

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

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

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

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

Participation of individual directors at the Board meetings in 2014 is as follows:

	Number of Board meetings attended/ Number of meetings eligible to attend	Attendance Rate
Executive directors:		
Mr. Wu Xiao An *(Chairman)*	4/4	100%
Mr. Wang Yunxian *(Chief Executive Officer)*	3/4	75%
Non-executive directors:		
Mr. Qi Yumin	3/4	75%
Mr. Li Peiqi *(resigned on 4 September 2014)*	3/3	100%
Mr. Tang Qiao *(appointed on 4 September 2014)*	1/1	100%
Independent non-executive directors:		
Mr. Chi Guohua	4/4	100%
Mr. Wang Jun	4/4	100%
Mr. Huang Haibo	4/4	100%
Mr. Wang Songlin	4/4	100%
Average attendance rate		94.44%

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

Participation of individual directors at the general meeting in 2014, including the annual general meeting held on 29 May 2014 and the extraordinary general meeting held on 17 June 2014, is as follows:

	Number of general meetings attended/ Number of meetings eligible to attend	Attendance Rate
Executive directors:		
Mr. Wu Xiao An *(Chairman)*	2/2	100%
Mr. Wang Yunxian *(Chief Executive Officer)*	2/2	100%
Non-executive directors:		
Mr. Qi Yumin	2/2	100%
Mr. Li Peiqi *(resigned on 4 September 2014)*	2/2	100%
Mr. Tang Qiao *(appointed on 4 September 2014)*	–	–
Independent non-executive directors:		
Mr. Chi Guohua	2/2	100%
Mr. Wang Jun	2/2	100%
Mr. Huang Haibo	2/2	100%
Mr. Wang Songlin	2/2	100%
Average attendance rate		100%

The Company considers that it has taken out appropriate insurance cover for its directors and officers in respect of legal actions may be taken against directors and officers. The Company reviews the extent of the insurance coverage every year and was satisfied with the insurance coverage for year 2014.

A.2 Chairman and Chief Executive Officer

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

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

Meeting was held by the chairman with the non-executive directors (including the independent non-executive directors) without the executive directors present in 2014 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: two executive directors, two non-executive directors and four independent non-executive directors. The current composition of the Board is as follows:

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

Pursuant to the Listing Rules, every listed issuer is required to have such number of independent non-executive directors representing at least one-third of the Board, and at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. Throughout the year 2014, the number of independent non-executive directors has met the minimum requirement under the Listing Rules. Mr. Chi Guohua is a certified public accountant (non-practicing member) in the PRC. Mr. Chi has over 12 years of experience in financial, internal control and strategic investment in the PRC. He currently also holds positions in certain academic and professional organizations in the PRC.

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

The Board members do not have any family, financial or business relations with each other. The biographies of our directors are set out on pages 10 to 14 of this annual report.

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

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

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

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

Mr. Tang Qiao was appointed as non-executive director of the Company on 4 September 2014 to fill the vacancy left by the resignation of Mr. Li Peiqi. Therefore, he was subject to election by the shareholders of the Company at the first general meeting after his appointment. Mr. Tang Qiao has retired and has offered himself for re-election at the extraordinary general meeting held on 25 March 2015.

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

To comply with code provision A.4.2 of the CG Code and in accordance with Article 108 of the Articles of Association of the Company, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin will retire by rotation at the forthcoming annual general meeting of the Company to be held on 1 June 2015 and have offered themselves for re-election at that annual general meeting.

A.5 Responsibilities of directors

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

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

In addition to directors' attendance at meetings and review of papers and circulars sent by management during 2014, each director of the Company has participated in the continuing professional development training arranged and funded by the Company as follows:

Name of Directors	**Type of training** *(Notes)*
Mr. Wu Xiao An	1 and 2
Mr. Wang Yunxian	1 and 2
Mr. Qi Yumin	1 and 2
Mr. Li Peiqi *(resigned on 4 September 2014)*	1 and 2
Mr. Tang Qiao *(appointed on 4 September 2014)*	1
Mr. Chi Guohua	1 and 2
Mr. Wang Jun	1 and 2
Mr. Huang Haibo	1 and 2
Mr. Wang Songlin	1 and 2

Notes:

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

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

The functions of non-executive directors of the Company include the functions as specified in code provision A.6.2(a) to (d) of the CG Code. Every director of the Company is aware that he should give sufficient time and attention to the affairs of the Company.

Except for Mr. Tang Qiao, who was appointed on 4 September 2014. all independent non-executive directors of the Company and the non-executive director of the Company have attended the 2014 AGM in person or by way of telephone conference as required by A.6.7 of the CG Code.

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

Having made specific enquiry of all directors, each director of the Company has confirmed that he has complied with the standards set out in the Model Code during the year ended 31 December 2014.

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

No incident of non-compliance of the Code for Securities Transactions by Employees by the employees of the Company and the directors and employees of its subsidiaries and its holding company during the year ended 31 December 2014 was noted by the Company.

A.6 Supply of and access to information

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

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

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

A.7 Non-executive Directors

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

B. BOARD COMMITTEES

B.1 Nomination Committee

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

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

In 2014, the Nomination Committee held two (2) meeting and discharged its responsibilities. Attendance of individual members at the Nomination Committee meeting is as follows:

	Number of meetings attended/ Number of meetings eligible to attend	**Attendance Rate**
Mr. Wang Jun *(chairman of the Nomination Committee)*	2/2	100%
Mr. Huang Haibo	2/2	100%
Mr. Wang Songlin	2/2	100%
Mr. Wu Xiao An	2/2	100%
Average attendance rate		100%

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

The work performed by the Nomination Committee in 2014 included:

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

– nominated one new non-executive director as a replacement of a resigned non-executive director;

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

– made recommendation to the Board for re-election of retiring directors at the annual general meeting of the Company held on 29 May 2014.

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

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

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

	Gender	Ethnicity	Age	Length of Service
Mr. Wu Xiao An	Male	Chinese	53	4 years
Mr. Wang Yunxian	Male	Chinese	60	4 years
Mr. Qi Yumin	Male	Chinese	55	3 years
Mr. Li Peiqi *(resigned on 4 September 2014)*	Male	Chinese	63	3 years
Mr. Tang Qiao *(appointed on 4 September 2014)*	Male	Chinese	60	1 year
Mr. Chi Guohua	Male	Chinese	40	3 years
Mr. Wang Jun	Male	Chinese	53	3 years
Mr. Huang Haibo	Male	Chinese	60	3 years
Mr. Wang Songlin	Male	Chinese	63	3 years

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

B.2 Remuneration Committee

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

In 2014, the Remuneration Committee held one (1) meeting and discharged its responsibilities. Attendance of individual members at the Remuneration Committee meeting is as follows:

	Number of meetings attended/ Number of meetings eligible to attend	Attendance Rate
Mr. Huang Haibo *(chairman of the Remuneration Committee)*	1/1	100%
Mr. Wang Jun	1/1	100%
Mr. Wang Songlin	1/1	100%
Mr. Wu Xiao An	1/1	100%
Average attendance rate		100%

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

The work performed by the Remuneration Committee in 2014 included:

- approved the remuneration of directors (including the independent non-executive directors);
- reviewed the directors' service agreements of the one non-executive director for a term of three years commencing from 4 September 2014;
- approved the bonus payment to the staff of the Group; and
- considered the grant of share options when necessary as a mean to provide incentives or rewards to the directors and/or employees of the Group.

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

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

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

B.3 Audit Committee

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

In 2014, the Audit Committee held two (2) meetings and discharged its responsibilities. Attendance of individual members at the Audit Committee meetings is as follows:

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

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

The following is a summary of the work performed by the Audit Committee in 2014:

– reviewed the auditors' management letter and the management's response;

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

– reviewed the audited financial statements and the final results announcement for the year ended 31 December 2013;

– reviewed the interim report and the interim results announcement for the six months ended 30 June 2014;

– met with the auditors to go through any significant audit issues or key findings noted during the audit of the Group's 2013 final results;

– met with the auditors to go through any significant key findings on the internal control and financial reporting matters based on the agreed-upon procedures performed for the Group's 2014 unaudited interim results;

– reviewed the continuing connected transactions; and

– made recommendations to the Board regarding the appointment of external auditors and auditors remuneration.

In 2014, all issues raised by the Audit Committee were addressed by the management. The work and findings of the Audit Committee were reported to the Board. In 2014, no issues brought to the attention of the management and the Board were of sufficient importance to require disclosure in this annual report.

The Audit Committee reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2014 in conjunction with the Company's external auditors. Based on the review and discussions with management, the Audit Committee was satisfied that the audited consolidated financial statements of the Group were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended 31 December 2014. The Audit Committee therefore recommended the audited consolidated financial statements of the Group for the year ended 31 December 2014 be approved by the Board.

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

The terms of reference of the Audit Committee are available on the website of the Company and the website of the Stock Exchange. This annual report has been reviewed by the Audit Committee.

B.4 Corporate Governance Function

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

C. ACCOUNTABILITY AND AUDIT

C.1 Financial reporting

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

The directors are responsible for overseeing all financial aspects of the Company and for keeping proper accounting records and preparing financial statements for each financial period, that give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2014, the directors have:

– approved the adoption of all applicable Hong Kong Financial Reporting Standards which are issued by the Hong Kong Institute of Certified Public Accountants;

– selected and applied consistently appropriate accounting policies;

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

– prepared the accounts on a going concern basis.

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

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

All directors of the Company acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2014. Currently, the Company's external auditors are Deloitte Touche Tohmatsu (the "**Auditors**").

In 2014, the audit and non-audit service fees paid or payable by the Company amounted to approximately HK$1,590,000 and HK$202,500, respectively. The non-audit services mainly included interim review of condensed consolidated financial statements and advisory service.

The statement of the Auditors about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on pages 48 to 49 of this annual report.

C.2 Internal controls

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

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

D. DELEGATION BY THE BOARD

Management functions

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

1. *Business strategy*

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

2. *Appointment*

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

3. *Board and senior management*

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

4. *Relations with the shareholders*

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

5. *Financial matters*

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

6. *Capital expenditures*

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

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

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

9. *Risk management*

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

10. *Internal controls and reporting system*

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

11. Use of the company seal(s).

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

E. COMPANY SECRETARY

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

F. COMMUNICATION WITH SHAREHOLDERS

F.1 Effective communication

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

In line with the practice of the Company, in respect of each matter to be considered at the annual general meetings and extraordinary general meetings, including the re-election of directors, a separate resolution will be proposed by the Chairman. Please see below for details of the general meetings held in 2014.

An annual general meeting of the Company was held on 29 May 2014 at which Mr. Wu Xiao An, the chairman of the Board and the chairman of each of the Audit Committee, Remuneration Committee and Nomination Committee, attended the meeting either in person or by way of telephone conference to answer questions raised by the shareholders at the meeting in accordance with code provision E.1.2 set out in the CG Code.

An extraordinary general meeting of the Company held on 17 June 2014, all directors of the Company attended either in person or by way of telephone conference to answer questions raised by the shareholders at the meeting. All members of the independent board committee also attended the meeting.

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

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

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

F.2 Voting by poll

In 2014, at the annual general meeting held on 29 May 2014 and the extraordinary general meeting held on 17 June 2014, the Chairman had provided an explanation of the procedures for conducting a poll at the commencement of the meetings. Poll results were posted on the website of the Stock Exchange and the website of the Company on the day of the holding of each of the shareholder's meeting.

G. SHAREHOLDERS' RIGHT

Shareholders' right to convene extraordinary general meetings

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

Procedures for putting forward proposals at shareholders' meetings

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

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

Shareholders' enquiries

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

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

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

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

H. INVESTOR RELATIONS

Constitutional Documents

Pursuant to a special resolution of the shareholders of the Company passed on 25 April 2012, the amended and restated memorandum and articles of association of the Company were adopted with effect from the 13 March 2013. During the year ended 31 December 2014, there was no change in the memorandum and articles of association of the Company.

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

Independent Auditor's Report

Deloitte.
德勤

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

We have audited the accompanying consolidated financial statements of Xinchen China Power Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 50 to 110, which comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2014, and of the Group's profit and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 March 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
Revenue	5	**2,652,446**	2,586,193
Cost of sales		**(2,122,096)**	(2,075,435)
Gross profit		**530,350**	510,758
Other income and gain	6	**44,133**	38,379
Selling and distribution expenses		**(64,420)**	(71,809)
Administrative expenses		**(117,913)**	(83,371)
Finance costs	7	**(43,591)**	(21,362)
Other expenses and losses		**(30,849)**	(48,328)
Share of result of a joint venture	17	**(694)**	(182)
Profit before tax		**317,016**	324,085
Income tax expense	8	**(45,470)**	(53,336)
Profit and total comprehensive income for the year attributable to owners of the Company	9	**271,546**	270,749
Earnings per share – Basic (RMB)	12	**0.211**	0.222

Consolidated Statement of Financial Position

At 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**951,903**	349,872
Prepaid lease payments	14	**96,619**	59,441
Investment properties	15	**233,381**	–
Intangible assets	16	**284,998**	177,636
Interest in a joint venture	17	**49,306**	49,259
Deferred tax assets	27	**6,923**	151
Deposits for acquisition of property, plant and equipment and prepaid lease payments		**–**	26,693
		1,623,130	663,052
CURRENT ASSETS			
Inventories	19	**572,247**	385,051
Prepaid lease payments	14	**2,308**	1,434
Trade and other receivables	20	**767,387**	896,220
Amounts due from related companies	21	**970,239**	1,113,544
Loan to a shareholder	18	**29,237**	31,426
Pledged/restricted bank deposits	22	**424,307**	190,996
Bank balances and cash	22	**353,947**	1,166,366
		3,119,672	3,785,037
CURRENT LIABILITIES			
Trade and other payables	23	**1,377,719**	1,750,005
Amounts due to related companies	24	**268,743**	94,125
Bank borrowings due within one year	25	**220,500**	343,450
Income tax payables		**5,518**	40,941
		1,872,480	2,228,521
NET CURRENT ASSETS		**1,247,192**	1,556,516
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,870,322**	2,219,568
NON-CURRENT LIABILITIES			
Bank borrowings due after one year	25	**367,140**	–
Deferred income	26	**42,889**	39,140
		410,029	39,140
NET ASSETS		**2,460,293**	2,180,428
CAPITAL AND RESERVES			
Share capital	28	**10,500**	10,500
Reserves		**2,449,793**	2,169,928
TOTAL EQUITY		**2,460,293**	2,180,428

The consolidated financial statements on page 50 to 110 were approved and authorised for issue by the Board of Directors on 25th March, 2015 and are signed on its behalf by:

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

Statement of Financial Position

At 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSET			
Investment in subsidiary	40	**826,212**	823,233
Property, plant and equipment		**1,321**	–
		827,533	823,233
CURRENT ASSETS			
Prepayments and other receivables		**6,343**	1,245
Amounts due from related companies/a subsidiary	21	**126**	99
Loan to a shareholder	18	**29,237**	31,426
Bank balances and cash	22	**122,533**	149,013
		158,239	181,783
CURRENT LIABILITIES			
Other payables	23	**648**	675
Amounts due to related companies	24	**1,432**	1,108
		2,080	1,783
NET CURRENT ASSETS		**156,159**	180,000
NET ASSETS		**983,692**	1,003,233
CAPITAL AND RESERVES			
Share capital	28	**10,500**	10,500
Reserves	29	**973,192**	992,733
TOTAL EQUITY		**983,692**	1,003,233

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Surplus reserves RMB'000 *(Note a)*	Deemed distribution to a shareholder RMB'000 *(Note b)*	Contribution from a shareholder RMB'000 *(Note c)*	Retained profits RMB'000	Total RMB'000
At 1 January 2013	7,693	122,388	193,457	198,699	(11,285)	–	811,549	1,322,501
Profit and total comprehensive income for the year	–	–	–	–	–	–	270,749	270,749
Issue of new shares	2,807	623,232	–	–	–	–	–	626,039
Transaction costs attributable to issue of shares	–	(38,861)	–	–	–	–	–	(38,861)
Transfer	–	–	–	47,705	–	–	(47,705)	–
At 31 December 2013	10,500	706,759	193,457	246,404	(11,285)	–	1,034,593	2,180,428
Profit and total comprehensive income for the year	–	–	–	–	–	–	271,546	271,546
Contribution from a shareholder	–	–	–	–	–	8,319	–	8,319
Transfer	–	–	–	43,743	–	–	(43,743)	–
At 31 December 2014	**10,500**	**706,759**	**193,457**	**290,147**	**(11,285)**	**8,319**	**1,262,396**	**2,460,293**

Notes:

(a) Surplus reserves comprise statutory surplus reserve and discretionary surplus reserve of Mianyang Xinchen Engine Co., Limited ("Mianyang Xinchen"), a major operating subsidiary of the Group and a Sino-foreign equity joint venture enterprise, which are non-distributable and the transfer to these reserves is determined according to the relevant laws in the People's Republic of China (the "PRC") and by the board of directors of Mianyang Xinchen in accordance with its Articles of Association. Statutory surplus reserve amounting to approximately RMB194,474,000 as at 31 December 2014 (2013: RMB165,312,000), can be used to make up for previous year's losses or convert into additional capital of Mianyang Xinchen. Discretionary surplus reserve amounting to approximately RMB95,673,000 as at 31 December 2014 (2013: RMB81,092,000) can be used to expand the existing operations of Mianyang Xinchen.

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

(c) Contribution from a shareholder represents the fair value adjustments on share awarded by Lead In Management Limited to a third party. Details of which are set out in Note 38.

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**317,016**	324,085
Adjustments for:			
Interest expenses		**43,591**	21,362
Interest income		**(9,852)**	(10,882)
Share based payments		**8,319**	–
Depreciation and amortisation		**63,676**	28,107
Amortisation of government grants		**(6,251)**	(5,678)
Provision for warranty, net of reversal		**9,327**	11,344
Allowance for provision of inventories		**856**	470
Share of result of a joint venture		**(47)**	182
Allowance for doubtful debts		**90**	100
Unrealised exchange loss		**2,189**	1,089
Gain on disposal of property, plant and equipment		**(63)**	(47)
Operating cash flows before movements in working capital		**428,851**	370,132
Increase in inventories		**(188,052)**	(170,793)
Decrease (increase) in trade and other receivables		**128,889**	(236,206)
(Decrease) increase in trade and other payables		**(378,416)**	314,945
Decrease (increase) in amounts due from related companies		**142,725**	(309,540)
Increase in amounts due to related companies		**179,179**	46,009
Cash generated from operations		**313,176**	14,547
Income tax paid		**(87,665)**	(62,452)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**225,511**	(47,905)
INVESTING ACTIVITIES			
Repayments from related parties		**580**	–
Interest received		**9,852**	10,882
Receipt from government grants		**10,000**	3,800
Purchase of property, plant and equipment		**(579,976)**	(20,058)
Deposits paid for acquisition of property, plant and equipment and prepaid lease payments		**–**	(20,412)
Proceeds for disposal of property, plant and equipment		**979**	143
Development costs paid		**(115,614)**	(91,877)
Withdrawal of pledged bank deposits		**1,036,609**	597,738
Placement of pledged bank deposits		**(1,269,920)**	(610,927)
Acquisition of a subsidiary	36	**(321,211)**	–
NET CASH USED IN INVESTING ACTIVITIES		**(1,228,701)**	(130,711)

Consolidated Statement of Cash Flows (Cont'd)

For the year ended 31 December 2014

	2014 RMB'000	2013 RMB'000
FINANCING ACTIVITIES		
Interest paid	**(48,858)**	(23,981)
New bank borrowings raised	**1,116,340**	374,450
Issuance of shares	**–**	626,039
Issuance costs	**–**	(38,861)
Repayment of bank borrowings	**(872,150)**	(225,950)
Repayment of advance to shareholders	**–**	(32,515)
Repayment of other loan	**–**	(4,000)
Advance from related companies	**–**	5,049
Repayment to a related company	**(4,561)**	–
NET CASH FROM FINANCING ACTIVITIES	**190,771**	680,231
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(812,419)**	501,615
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**1,166,366**	664,751
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**353,947**	1,166,366

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (2010 Revision) of the Cayman Islands on 10 March 2012. Brilliance China Automotive Holdings Limited ("Brilliance China", Brilliance China and its subsidiaries collectively referred to as "Brilliance China Group"), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and Sichuan Province Yibin Wuliangye Group Co., Ltd.* 四川省宜賓五糧液集團有限公司 ("Wuliangye", Wuliangye and its subsidiaries collectively referred to as "Wuliangye Group"), a state owned enterprises registered in the People's Republic of China (the "PRC"), are able to exercise significant influence over the Company. In March 2013, the Company completed the listing of its shares on the Main Board of the Stock Exchange. The addresses of the registered office and the principal place of business of the Company are disclosed in corporate information section of the annual report.

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

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

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

For the purpose of preparing and presenting the consolidated financial statements, the Group has adopted the Hong Kong Accounting Standards ("HKASs"), Hong Kong Financial Reporting Standards ("HKFRSs"), amendments and interpretations for the first time in this year, which are mandatorily effective for the accounting period beginning on 1 January 2014.

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

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

HKFRS 9	Financial Instruments[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[3]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to HKAS 1	Disclosure Inititative[5]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle[6]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle[5]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[5]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 July 2014
5 Effective for annual periods beginning on or after 1 January 2016
6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

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

Other than HKFRS15, the directors of the Company anticipate that the application of other new and revised standards, amendments and interpretations will have no material impact on the Group.

HKFRS 15 Revenue from Contracts with Customers

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

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

The principal accounting policies are set out below.

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

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of consolidation (Cont'd)

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

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

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

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

Interest in a joint venture

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

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

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

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

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

When a group entity transacts with its joint venture, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition

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

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

Service income is recognised when services are provided.

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

Property, plant and equipment

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Prepaid lease payments

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

Leasing

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

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

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

Foreign currencies

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

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

Borrowing costs

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Government grants

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

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

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

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

Retirement benefit costs

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

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

Investment properties

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Intangible assets

Research and development expenditure

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

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

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

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

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

Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their unit of production by reference to the expected saleable units of respective automotive engines. The expected saleable units are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Inventories

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

Financial instruments

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

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

Financial assets

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

Effective interest method

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

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

Loans and receivables

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

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (Cont'd)

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

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

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

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

Financial liabilities and equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Derecognition

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

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

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

Provision for warranty claims

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

Impairment of tangible and intangible assets

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of tangible and intangible assets (Cont'd)

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

Share-based payment transactions

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

Acquisition of assets through acquisition of a company

Where an acquisition of an asset or group of assets that does not constitute a business, the Group identify and recognise the individual identifiable assets acquired and liabilities assumed by allocating the purchase price to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Depreciation and impairment of property, plant and equipment

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

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

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

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

Amortisation and impairment of intangible assets

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

The Group tests whether intangible assets have suffered any impairment in accordance with its accounting policy. The recoverable amounts of intangible assets have been determined based on the discounted cash flow method. The directors consider that the recoverable amount exceeded the carrying amount of the intangible assets and, therefore, no impairment was recognised during the year.

The carrying amount of intangible assets is set out in Note 16.

Provision of inventories

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

The carrying amount of inventories is set out in Note 19.

Estimated impairment of trade receivables and amounts due from related companies

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of trade receivables and amounts due from related companies which are of trade nature is set out in Notes 20 and 21, respectively.

Provision for warranty claims

Provision for warranty is made based on the possible claims on the products by customers with reference to the warranty coverage period and the percentage of warranty expenses incurred over total sales amounts during the year. Where the actual claims are greater than expected, a material increase in warranty expenses may arise, which would be recognised in profit or loss for the period in which such a claim takes place. The carrying amount of provision for warranty claims is set out in Note 23.

5. REVENUE AND SEGMENT INFORMATION

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

Segment revenue and segment results

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

(1) Gasoline engines;

(2) Diesel engines; and

(3) Engine components and service income.

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

For the year ended 31 December 2014

	Gasoline engines RMB'000	**Diesel engines** RMB'000	**Engine components and service income** RMB'000	**Total** RMB'000
Segment revenue – external	1,950,290	423,311	278,845	2,652,446
Segment results	321,620	75,120	133,610	530,350
Unallocated income				44,133
Unallocated expenses				
Selling and distribution expenses				(64,420)
Administrative expenses				(117,913)
Finance costs				(43,591)
Other expenses and losses				(30,849)
Share of result of a joint venture				(694)
Profit before tax				317,016

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

Segment revenue and segment results (Cont'd)

For the year ended 31 December 2013

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

Other segment information included in the measurement of segment results:

	Gasoline engines RMB'000	Diesel engines RMB'000	Engine components and service income RMB'000	Unallocated RMB'000	Total RMB'000
For the year ended 31 December 2014					
Depreciation and amortisation	40,867	8,800	–	14,009	63,676
Provision of inventories	647	209	–	–	856
For the year ended 31 December 2013					
Depreciation and amortisation	16,968	3,069	–	8,070	28,107
Provision of inventories	397	73	–	–	470

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

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

Segment assets and liabilities

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

Geographical information

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

Information about major customers

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

6. OTHER INCOME AND GAIN

	2014	2013
	RMB'000	RMB'000
Bank interest income	**9,852**	10,882
Government grants (see Note 26)	**25,501**	21,144
Gain on disposal of property, plant and equipment	**63**	47
Rental income under operating lease, net outgoing expenses	**7,868**	–
Others	**849**	6,306
	44,133	38,379

7. FINANCE COSTS

	2014	2013
	RMB'000	RMB'000
Interest on borrowings wholly repayable within five years:		
Bank loans	**28,684**	13,953
Discounted bills	**20,174**	10,028
	48,858	23,981
Less: amounts capitalised	**(5,267)**	(2,619)
	43,591	21,362

Borrowing costs capitalised during the year arose on the general borrowing pool and were calculated by applying a capitalisation rate of 5.4% (2013: 5.9%) per annum to expenditure on qualifying assets.

8. INCOME TAX EXPENSE

	2014 RMB'000	2013 RMB'000
PRC Enterprise Income Tax		
Current tax	**53,376**	52,354
(Overprovision) underprovision in prior year	**(1,134)**	581
	52,242	52,935
Deferred tax (see Note 27)	**(6,772)**	401
	45,470	53,336

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

According to announcement of the State Administration of Taxation on issues concerning Enterprise Income Tax Related with enhancing the Western Region Development Strategy, Mianyang Xinchen was registered with the local tax authority to be eligible to the reduced 15% enterprise income tax rate from 2011 to 2020. Mianyang Xinchen has to be assessed by the tax authority every year and revised the approval document annually. Accordingly, Mianyang Xinchen was subject to 15% enterprise income tax rate for the year ended 31 December 2014 (2013: 15%).

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

The Group is subject to PRC dividend withholding tax on the dividends paid by Mianyang Xinchen as it is a tax resident in the PRC but Southern State, the immediate holding company of Mianyang Xinchen, is a non-PRC tax resident. As a result, the Group will be subject to the PRC dividend withholding tax of 10% when and if undistributed earnings of Mianyang Xinchen are declared to be paid as dividends out of profits that arose on or after 1 January 2008. Deferred tax has not been provided for in the consolidated financial statements in respect of the tax effect of temporary differences attributable to accumulated undistributed earnings of Mianyang Xinchen as at 31 December 2014 arising since 1 January 2008 amounting to approximately RMB137,337,000 (2013: RMB108,175,000), as the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The directors of Mianyang Xinchen plan to set aside such undistributed profits of Mianyang Xinchen for investment purpose.

8. INCOME TAX EXPENSE (Cont'd)

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

	2014	2013
	RMB'000	RMB'000
Profit before tax	**317,016**	324,085
Tax at PRC Tax rate of 15%	**47,552**	48,613
Tax effect of expenses not deductible for tax purpose	**3,026**	6,959
Tax effect of deductible temporary differences not recognised	**–**	5,173
Effect of different tax rate of a group entity operate in the PRC	**494**	–
Utilisation of deductible temporary differences previously not recognised	**–**	(5,628)
Tax effect of income not taxable for tax purpose	**(570)**	–
(Over)underprovision in prior year	**(1,134)**	581
Tax incentives on eligible expenditures *(Note)*	**(3,898)**	(2,362)
Income tax expense	**45,470**	53,336

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

9. PROFIT FOR THE YEAR

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

	2014 RMB'000	2013 RMB'000
Directors' remuneration (see Note 10)	**8,299**	7,646
Other staff costs	**138,046**	70,626
Contributions to retirement benefits scheme	**18,841**	9,399
Total staff costs	**165,186**	87,671
Share-based payment expenses (see Note 38)	**8,319**	–
Depreciation of property, plant and equipment	**50,999**	24,272
Depreciation of investment properties	**1,717**	–
Amortisation of prepaid lease payments	**2,708**	1,441
Amortisation of intangible assets (included in cost of sales)	**8,252**	2,394
Total depreciation and amortisation	**63,676**	28,107
Research expenses (included in other expenses and losses)	**23,847**	17,051
Auditors' remuneration	**1,082**	821
Exchange (gain)loss, net	**(2,100)**	19,093
Allowance for doubtful debts	**90**	100
Included in cost of sales:		
Cost of inventories recognised as expense	**2,122,096**	2,075,435
Allowance for provision of inventories (see Note 19)	**856**	470
Provision for warranty, net (see Note 23)	**10,741**	11,344
Included in other expenses and losses:		
Initial public offering expenses	**–**	11,443

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

Directors' and chief executive's emoluments

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

	2014 RMB'000	2013 RMB'000
Fees	653	299
Salaries and allowances	5,684	4,460
Discretionary bonus	1,949	2,878
Contributions to retirement benefits scheme	13	9
	8,299	7,646

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

Year ended 31 December 2014

	Fees RMB'000	Discretionary bonus RMB'000	Salaries and allowances RMB'000	Contributions to retirement benefit scheme RMB'000	Total RMB'000
Executive Directors					
Wu Xiao An 吳小安	137	991	3,072	13	4,213
Wang Yunxian 王運先*	160	661	2,612	–	3,433
Non-executive Directors					
Qi Yumin 祁玉民	–	–	–	–	–
Li Peiqi 李培奇 (Resigned on 4 September 2014)	–	165	–	–	165
Tang Qiao 唐橋 (Appointed on 4 September 2014)	–	–	–	–	–
Independent non-executive Directors					
Huang Haibo 黃海波	89	33	–	–	122
Wang Jun 王雋	89	33	–	–	122
Wang Songlin 王松林	89	33	–	–	122
Chi Guohua 池國華	89	33	–	–	122
	653	1,949	5,684	13	8,299

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

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

Year ended 31 December 2013

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

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

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

Employees' remuneration

Of the five highest paid individuals of the Group, two (2013: two) are directors of the Company whose emoluments are included above during the year ended 31 December 2014. The remunerations of the remaining three (2013: three) individuals are as follows:

	2014	2013
	RMB'000	RMB'000
Salaries and allowances	**2,884**	1,855
Discretionary bonus	**1,323**	639
Contribution to retirement benefits scheme	**13**	21
	4,220	2,515

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

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

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

	2014	2013
	No of employees	No of employees
RMB Nil to RMB1,000,000	**–**	2
RMB1,000,001 to RMB1,500,000	**2**	1
RMB1,500,001 to RMB2,000,000	**1**	–

During the years ended 31 December 2014 and 2013, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Senior management's remuneration

There are 6 (2013: 5) senior executives in the Group (excluding directors) and their remuneration by band for the year ended 31 December 2014 and 2013 is set out below:

	2014	2013
	No of employees	No of employees
RMB Nil to RMB1,000,000	**1**	4
RMB1,000,001 to RMB1,500,000	**4**	1
RMB1,500,001 to RMB2,000,000	**1**	–

11. DIVIDENDS

No dividend has been paid or declared by the Company during both years ended 31 December 2014 and 2013, nor has any dividend been proposed since the end of the reporting period.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to owners of the Company and weighted average number of shares of 1,287,407,794 (2013: 1,218,226,468) for the year ended 31 December 2014.

No diluted earnings per share is presented as there was no potential dilutive ordinary share outstanding during the year or as at the end of reporting periods.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Electronic equipment and others RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2013	187,980	339,743	23,469	9,246	30,694	591,132
Additions	–	–	1	31	62,498	62,530
Transfer	41,866	7,111	1,236	–	(58,145)	(7,932)
Disposals	–	(9)	(135)	(822)	–	(966)
At 31 December 2013	229,846	346,845	24,571	8,455	35,047	644,764
Additions	4,622	–	–	5,960	589,792	600,374
Additions through acquisition of a subsidiary *(Note 36)*	54,500	–	–	–	–	54,500
Transfer	37,394	392,274	51,679	–	(482,275)	(928)
Disposals	–	–	–	(1,962)	–	(1,962)
At 31 December 2014	**326,362**	**739,119**	**76,250**	**12,453**	**142,564**	**1,296,748**
DEPRECIATION						
At 1 January 2013	48,921	200,638	17,512	4,419	–	271,490
Provided for the year	3,966	17,276	2,112	918	–	24,272
Eliminated on disposals	–	(8)	(121)	(741)	–	(870)
At 31 December 2013	52,887	217,906	19,503	4,596	–	294,892
Provided for the year	12,050	32,145	6,302	502	–	50,999
Eliminated on disposals	–	–	–	(1,046)	–	(1,046)
At 31 December 2014	**64,937**	**250,051**	**25,805**	**4,052**	**–**	**344,845**
CARRYING VALUES						
At 31 December 2014	**261,425**	**489,068**	**50,445**	**8,401**	**142,564**	**951,903**
At 31 December 2013	176,959	128,939	5,068	3,859	35,047	349,872

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

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

Buildings for new factory premises	30 years
Buildings for staff quarter	50 years
Plant and machinery	10 years
Electronic equipment and others	5 years
Motor vehicles	6 years

The Group's buildings are located in the PRC and the carrying amount of the buildings amounting to RMB97,827,000 as at 31 December 2014 (2013: RMB101,842,000), is in the process of obtaining the property ownership certificate.

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

	2014	2013
	RMB'000	RMB'000
Buildings	**3,564**	1,276
Plant and machinery	**101,548**	121,669
Construction in progress	**8,309**	–
	113,421	122,945

14. PREPAID LEASE PAYMENTS

	RMB'000
CARRYING VALUES	
At 1 January 2013	62,316
Released to profit or loss	(1,441)
At 31 December 2013	60,875
Additions through acquisition of a subsidiary *(Note 36)*	40,760
Released to profit or loss	(2,708)
At 31 December 2014	98,927

14. PREPAID LEASE PAYMENTS (Cont'd)

	2014	2013
	RMB'000	RMB'000
Analysed for reporting purpose:		
Current assets	**2,308**	1,434
Non-current assets	**96,619**	59,441
	98,927	60,875

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

The Group has pledged land use rights with carrying values of approximately RMB59,435,000 as at 31 December 2014 (2013: RMB60,875,000), to secure general banking facilities granted to the Group.

15. INVESTMENT PROPERTIES

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives using the straight-line method.

	Total
	RMB'000
COST	
Additions through acquisition of a susidiary *(Note 36)* and at 31 December 2014	235,098
DEPRECIATION	
Provided for the period and at 31 December 2014	(1,717)
CARRYING VALUES	
At 31 December 2014	**233,381**

16. INTANGIBLE ASSETS

	Completed development costs RMB'000	Development costs in progress RMB'000	Total RMB'000
COST			
At 1 January 2013	53,716	71,222	124,938
Additions	–	91,877	91,877
At 31 December 2013	53,716	163,099	216,815
Additions	–	115,614	115,614
Transfer	106,049	(106,049)	–
At 31 December 2014	**159,765**	**172,664**	**332,429**
AMORTISATION			
At 1 January 2013	36,785	–	36,785
Charge for the year	2,394	–	2,394
At 31 December 2013	39,179	–	39,179
Charge for the year	8,252	–	8,252
At 31 December 2014	**47,431**	**–**	**47,431**
CARRYING VALUES			
At 31 December 2014	**112,334**	**172,664**	**284,998**
At 31 December 2013	14,537	163,099	177,636

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

17. INTEREST IN A JOINT VENTURE

	2014 RMB'000	2013 RMB'000
Cost of unlisted investment in a joint venture	**50,000**	50,000
Share of result and other comprehensive income	**(694)**	(148)
Unrealised profit	**–**	(593)
	49,306	49,259

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

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

	2014 RMB'000	2013 RMB'000
Current assets	**75,027**	88,298
– cash and cash equivalent	**47,447**	64,248
Non-current assets	**67,220**	64,616
Current liabilities	**(16,826)**	(27,453)
Non-current liabilities	**(25,222)**	(25,757)
Revenue	**21,504**	30,753
Profit (loss) for the year	**94**	(364)
Other comprehensive income	**–**	–

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

	2014 RMB'000	2013 RMB'000
Net assets of Dongfeng JV	**100,199**	99,704
Proportion of the Group's ownership interest in Dongfeng JV	**50%**	50%
Carrying amount of the Group's interest in Dongfeng JV, adjusting by unrealised profit *(Note)*	**49,306**	49,259

Note:

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

18. LOAN TO A SHAREHOLDER

The Group and the Company

As detailed in Note 38, the Company has two trust arrangements which entitle the Group's employees to subscribe for shares of the Company through Lead In Management Limited ("Lead In") for their services to the Group. Under loan agreements dated 18 October 2011, each of the two shareholders of the Company, namely Brilliance Investment Holdings Limited ("Brilliance Investment") and Xinhua Investment Holdings Limited ("Xinhua Investment"), advanced loans in equal amounts of HK$20,000,000 to the Company (collectively, the "Loans from Shareholders"). In return, (i) the Company lent an aggregate amount of HK$40,000,000, equal to the Loans from Shareholders, to Lead In (the "Loan to a shareholder") and (ii) Lead In used the funding obtained from the Company to subscribe for 36,977,960 shares of the Company under the Discretionary Trust *(see Note 38)*.

The Company has repaid loans from shareholders in October 2013.

All the loans are non-trade related, unsecured, interest free and will be repayable within one year from the date of loan agreements by the Company and Lead In and, accordingly, they are classified as current assets and current liabilities, respectively. The Loan to a shareholder was extended to October 2014 in 2013 and further extended to October 2015 in 2014.

19. INVENTORIES

	2014	2013
	RMB'000	RMB'000
Raw material and components	**222,730**	145,517
Work-in-progress	**27,298**	24,375
Finished goods	**322,219**	215,159
	572,247	385,051

The inventories are net of provision of RMB1,862,000 as at 31 December 2014 (2013: RMB1,006,000), which is determined with reference to the net realisable value of the inventory items. Additional provision of RMB856,000 was provided for during the year ended 31 December 2014 (2013: RMB470,000).

20. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise the following:

	2014 RMB'000	2013 RMB'000
Trade receivables	**241,347**	407,870
Less: Allowance for doubtful debts	**(346)**	(256)
Trade receivables, net	**241,001**	407,614
Bills receivable	**333,475**	421,009
Total trade and bills receivables	**574,476**	828,623
Prepayments for purchase of raw materials and engine components	**20,661**	18,358
Other receivables*	**172,250**	49,239
	767,387	896,220

* *Included in the balance is value added tax recoverable of RMB146,552,000 (2013: RMB24,396,000).*

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

	2014 RMB'000	2013 RMB'000
Within 1 month	**136,999**	165,083
Over 1 month but within 2 months	**47,042**	57,615
Over 2 months but within 3 months	**3,253**	22,328
Over 3 months but within 6 months	**18,772**	146,954
Over 6 months but within 1 year	**21,195**	13,688
Over 1 year	**13,740**	1,946
	241,001	407,614

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

	2014 RMB'000	2013 RMB'000
Within 3 months	**160,155**	327,096
Over 3 months but within 6 months	**170,937**	93,806
Over 6 months but within 1 year	**2,383**	107
	333,475	421,009

20. TRADE AND OTHER RECEIVABLES (Cont'd)

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

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

Included in the Group's trade receivables balances are debtors with aggregate carrying amount of approximately RMB91,737,000 at 31 December 2014 (2013: RMB190,324,000), which are past due as at the reporting date. Considering the high credibility of these customers, good track record with the Group and subsequent settlement, the management believes that no impairment allowance is necessary in respect of the remaining unsettled balances. The Group does not hold any collateral over these balances.

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

	2014 **RMB'000**	2013 RMB'000
Within 1 month	**7,490**	–
Over 1 month but within 2 months	**27,287**	5,408
Over 2 months but within 3 months	**3,253**	22,328
Over 3 months but within 6 months	**18,772**	146,954
Over 6 months but within 1 year	**21,195**	13,688
Over 1 year	**13,740**	1,946
	91,737	190,324

Movement in the allowance for doubtful debts:

	2014 **RMB'000**	2013 RMB'000
At beginning of year	**256**	156
Addition	**90**	100
At end of year	**346**	256

21. AMOUNTS DUE FROM RELATED COMPANIES

The Group

	2014 RMB'000	2013 RMB'000
Non-trade related	**503**	1,083
Trade related	**969,736**	1,112,461
	970,239	1,113,544

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

	2014 RMB'000	2013 RMB'000
Huachen group#		
Mianyang Huarui Automotive Company Limited ("Mianyang Huarui")* 綿陽華瑞汽車有限公司	**116,958**	131,733
Shenyang Brilliance Power Train Machinery Co., Ltd. ("Shenyang Brilliance") 瀋陽華晨動力機械有限公司	**311,792**	416,452
Mianyang Huaxiang Machinery Manufacturing Co., Ltd.* 綿陽華祥機械製造有限公司	**46,967**	29,739
Huachen Automotive Group Holdings Company Limited ("Huachen Automotive") 華晨汽車集團控股有限公司	**35,166**	3,164
	510,883	581,088
Brilliance China group		
Shenyang XingYuanDong Automobile Component Co., Ltd. ("XingYuan Dong") 瀋陽興遠東汽車零部件有限公司	**378,873**	451,072
Shenyang Brilliance JinBei Automobile Co., Ltd. 瀋陽華晨金杯汽車有限公司	**5,950**	6,121
BMW Brilliance Automotive Ltd.* ("BMW Brilliance Automotive") 華晨寶馬汽車有限公司	**56,545**	–
	441,368	457,193
Wuliangye group		
Mianyang Xinhua Internal Combustion Engine Joint-Stock Company Limited* ("Xinhua Combustion Engine") 綿陽新華內燃機股份有限公司	**–**	18,024
Mianyang Jianmen Real Estate Development and Construction Limited Liability Company* ("Mianyang Jianmen RE") 綿陽劍門房地產開發建設有限責任公司	**–**	8
Dongfeng JV		
Changzhou Dong Feng Xinchen Engine Co. Ltd.* 常州東風新晨動力機械有限公司	**17,485**	56,148
	969,736	1,112,461

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

The Group (Cont'd)

Analysed as:

	2014 **RMB'000**	2013 RMB'000
Trade receivables	**778,904**	839,510
Bills receivable	**190,832**	254,919
Prepayment	**–**	18,032
	969,736	1,112,461

* *English name for reference only*

\# *Huachen Automotive Group Holdings Company Limited* 華晨汽車集團控股有限公司 ("Huachen", Huachen and its subsidiaries collectively referred to as "Huachen group")*

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

	2014 **RMB'000**	2013 RMB'000
Within 3 months	**253,856**	515,766
Over 3 months but within 6 months	**197,155**	286,187
Over 6 months but within 1 year	**327,893**	37,492
Over 1 year	**–**	65
	778,904	839,510

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

	2014 **RMB'000**	2013 RMB'000
Within 3 months	**155,507**	154,149
Over 3 months but within 6 months	**33,000**	99,600
Over 6 months but within 1 year	**2,325**	1,170
	190,832	254,919

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

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

The Group (Cont'd)

Included above are trade receivables due from related companies with aggregate carrying amounts of approximately RMB525,048,000 at 31 December 2014 (2013: RMB323,744,000), which is past due as at the reporting date. The management of the Group has assessed these related companies to be financially sound and taking into consideration of the gradual and frequent repayments from those related companies, no impairment allowance is considered necessary in respect of these balances. In the opinion of the directors of the Company, the amounts due from related companies not past due nor impaired at the end of each reporting period are of good credit quality. The Group does not hold any collateral over these balances.

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

	2014 RMB'000	2013 RMB'000
Over 3 months but within 6 months	**197,155**	286,187
Over 6 months but within 1 year	**327,893**	37,492
Over 1 year	**–**	65
	525,048	323,744

The Company

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

22. PLEDGED/RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

The Group

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

	Bank balances	**Pledged/ restricted bank deposits**
At 31 December 2014	**0.01% – 0.35%**	**2.55% – 2.75%**
At 31 December 2013	0.01% – 0.35%	2.60% – 2.80%

RMB181,560,000 represents pledged bank deposits pledged to banks to secure bills payable issued to suppliers of the Group for the purchase of raw materials.

RMB242,747,000 represents restricted bank deposits with maturity range of 3 – 6 months.

22. PLEDGED/RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH (Cont'd)

The Company

Bank balances carry interest rates at 0.01% (2013: 0.01%) at 31 December 2014.

Balance denominated in foreign currencies:

	2014		2013	
	RMB'000	**RMB'000**	RMB'000	RMB'000
	Group	**Group**	Company	Company
Hong Kong Dollars ("HK$")	**120,779**	**120,701**	147,234	147,156
United State Dollars ("US$")	**4,027**	**1,828**	464,883	1,816

Other than Bank balances shown above, all other remaining bank balances are denominated in RMB.

23. TRADE AND OTHER PAYABLES

The Group

	2014	2013
	RMB'000	RMB'000
Trade payables	**383,155**	427,786
Bills payable	**698,183**	668,316
Total trade and bills payables	**1,081,338**	1,096,102
Accrued purchase of raw materials	**165,873**	538,393
Construction payables	**22,333**	9,842
Payroll and welfare payables	**42,271**	34,487
Advances from customers	**13,355**	9,437
Provision for warranty *(Note)*	**3,670**	5,084
Retention money	**42,013**	41,033
Other payables	**6,866**	15,627
	1,377,719	1,750,005

23. TRADE AND OTHER PAYABLES (Cont'd)

The Group (Cont'd)

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

	2014	2013
	RMB'000	RMB'000
Within 3 months	**146,827**	324,699
Over 3 months but within 6 months	**210,380**	85,793
Over 6 months but within 1 year	**15,378**	6,134
Over 1 year but within 2 year	**10,570**	11,160
	383,155	427,786

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

	2014	2013
	RMB'000	RMB'000
Within 3 months	**301,719**	296,284
Over 3 months but within 6 months	**325,281**	372,032
Over 6 months but within 1 year	**71,183**	–
	698,183	668,316

Note:

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

The movement of warranty provision are as follows.

	2014	2013
	RMB'000	RMB'000
At beginning of year	**5,084**	5,084
Warranty provision charged to profit or loss	**10,741**	11,344
Warranty claimed by customers	**(10,741)**	(11,344)
Reversal of warranty provision	**(1,414)**	–
At end of year	**3,670**	5,084

The Company

The other payables of the Company represents accrued service fees.

24. AMOUNTS DUE TO RELATED COMPANIES

The Group

Details of amounts due to related companies are as follows:

	2014 RMB'000	2013 RMB'000
Trade related:		
Huachen group		
Mianyang Huarui	**2**	3
Huachen Automotive	**369**	1,118
Shenyang Brilliance	**5,000**	–
Brilliance China group		
Xing Yuan Dong	**–**	1,409
Mianyang Brilliance Ruian Automotive Components Co., Ltd* ("Mianyang Ruian") 綿陽華晨瑞安汽車零部件有限公司	**24,314**	33,942
BMW Brilliance Automotive	**81,751**	–
Wuliangye group		
Xinhua Combustion Engine	**150,359**	37,144
Sichuan Yi Bin Pushen Automotive Components Co., Ltd* 四川省宜賓普什汽車零部件有限公司	**4,912**	14,371
Mianyang Jianmen RE	**265**	10
Mianyang Xinhua Automobile Sales and Service Co., Ltd.* 綿陽新華汽車銷售服務有限公司	**204**	–
	267,176	87,997
Non-trade related:		
Huachen group		
Huachen Automotive	**497**	–
Brilliance China group		
Brilliance China	**724**	408
Mianyang Ruian	**–**	2,437
BMW Brilliance Automotive	**318**	–
Wuliangye group		
Mianyang Jianmen RE	**–**	461
Xinhua Combustion Engine	**28**	2,822
	1,567	6,128
	268,743	94,125

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

The Group (Cont'd)

The trade related amounts are analysed as:

	2014 RMB'000	2013 RMB'000
Trade payables	**25,960**	17,299
Bills payable	**153,626**	34,511
Accrual	**87,590**	36,187
	267,176	87,997

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

	2014 RMB'000	2013 RMB'000
Within 3 months	**24,588**	15,464
Over 3 months but within 6 months	**1,370**	1,684
Over 6 months but within 1 year	**–**	91
Over 1 year	**2**	60
	25,960	17,299

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

	2014 RMB'000	2013 RMB'000
Within 3 months	**82,105**	11,937
Over 3 months but within 6 months	**59,410**	22,574
Over 6 months but within 1 year	**12,111**	–
	153,626	34,511

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

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

* *English name for reference only.*

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

The Company

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

25. BANK BORROWINGS

	2014 RMB'000	2013 RMB'000
Carrying amount repayable:		
Within one year	**220,500**	343,450
More than two years, but not more than five years	**367,140**	–
	587,640	343,450
Less: amounts shown under current liabilities	**(220,500)**	(343,450)
Amounts shown under non-current liabilities	**367,140**	–
Secured	**405,640**	131,450
Unsecured	**182,000**	212,000
	587,640	343,450

Other than RMB367,140,000 loan denominated in US$, i.e. US$60,000,000, the remaining loans are all denominated in RMB.

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

	2014	2013
Fixed-rate borrowings – RMB	**5.00% to 6.00%**	5.00% to 6.00%
Variable-rate borrowings – RMB	**Benchmark rate# x 100%**	Benchmark rate# x 100%
Variable-rate borrowings – US$	**LIBOR##+2.50%**	–

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

\## *London Inter-Bank Offer Rate*

The bank borrowings are secured by property, plant and equipment and land use rights as set out in Notes 13 and 14.

26. DEFERRED INCOME/GOVERNMENT GRANTS

	2014 RMB'000	2013 RMB'000
Amounts recognised in profit or loss during the year:		
Subsidies related to research activities *(Note a)*	**19,250**	13,950
Subsidies related to property, plant and equipment *(Note b)*	**6,251**	5,678
Other incentive subsidies *(Note c)*	**–**	1,516
	25,501	21,144

The movement of deferred income is as follows.

	2014 RMB'000	2013 RMB'000
At beginning of year	**39,140**	41,018
Receipt of subsidies related to property, plant and equipment	**10,000**	3,800
Amount credited to profit or loss during the year	**(6,251)**	(5,678)
At end of year	**42,889**	39,140

Notes:

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

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

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

There are no unfulfilled conditions or other contingencies attached to the grants. The subsidies were granted on a discretionary basis to the Group during the year ended 31 December 2013.

27. DEFERRED TAX ASSETS

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

	Temporary difference on			
	Development costs RMB'000	Inventories RMB'000	Deferred income RMB'000	Total RMB'000
At 1 January 2013	472	80	–	552
Charge to profit or loss	(472)	71	–	(401)
At 31 December 2013	–	151	–	151
Charge to profit or loss	2,662	128	3,982	6,772
At 31 December 2014	2,662	279	3,982	6,923

28. SHARE CAPITAL

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

	Number of shares	Amount HK$
Ordinary shares of HK$0.01 each		
Authorised:		
At date of incorporation, 1 January 2013, 31 December 2013 and 2014	8,000,000,000	80,000,000
Issued and fully paid:		
At 1 January 2012 and 31 December 2012	940,199,794	9,401,998
Issue of new shares on 12 March 2013 (i)	313,400,000	3,134,000
Issue of new shares on 9 April 2013 (ii)	33,808,000	338,000
At 31 December 2013, 1 January 2014 and 31 December 2014	1,287,407,794	12,874,078

	2014 RMB'000	2013 RMB'000
Share capital presented in consolidated statement of financial position	**10,500**	10,500

28. SHARE CAPITAL (Cont'd)

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

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

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

29. RESERVES

The Company

	Share premium RMB'000	Special reserve RMB'000 *(Note)*	Contribution from a shareholder RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2012	122,388	348,103	–	(21,650)	448,841
Loss and total comprehensive expense for the year	–	–	–	(40,479)	(40,479)
Issue of new shares	623,232	–	–	–	623,232
Transaction costs attributable to issue of shares	(38,861)	–	–	–	(38,861)
At 31 December 2013	706,759	348,103	–	(62,129)	992,733
Loss and total comprehensive expense for the year	–	–	–	(27,860)	(27,860)
Contribution from a shareholder	–	–	8,319	–	8,319
At 31 December 2014	706,759	348,103	8,319	(89,989)	973,192

Note: The reserve represents the difference between total equity of Southern State at the date obtaining entire issued share capital of Southern State from shareholders of the Company by the Company and at the consideration of US$1 upon group reorganisation underwent in 2011.

30. CAPITAL RISK MANAGEMENT

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

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

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

31. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The Group

	2014 **RMB'000**	2013 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**2,360,883**	3,338,337
Financial liabilities		
At amortised cost	**2,210,211**	2,169,131

The Company

	2014 **RMB'000**	2013 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**154,875**	180,538
Financial liabilities		
At amortised cost	**1,432**	1,108

(b) Financial risk management objectives and policies

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

31. FINANCIAL INSTRUMENTS (Cont'd)

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

Interest rate risk

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

Sensitivity analysis

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

Variable-rate borrowings

If interest rates of the variable-rate borrowings had been 50 basis points higher/lower than the lending benchmark interest rate stipulated by the People's Bank of China and all other variables were held constant, the Group's profit for the year ended 31 December 2014 would decrease/increase by approximately RMB1,560,000 (2013: RMB888,000).

Variable-rate bank balances

If interest rate of variable-rate bank balances had been 10 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2014 would increase/decrease by approximately RMB662,000 (2013: RMB981,000).

Credit risk

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

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

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

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

31. FINANCIAL INSTRUMENTS (Cont'd)

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

Credit risk (Cont'd)

The Group has concentration of credit risk as 80% (2013: 83%) of the Group's total trade receivables and amounts due from related companies (trade related) as at 31 December 2014 was due from the five largest customers. Those five largest customers are with good creditworthiness based on historical settlement record. In order to minimise the concentration of credit risk, the management has delegated staff responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure follow-up action is taken to recover overdue debts. The management also performs periodic evaluations and customer visits to ensure the Group's exposure to bad debts is not significant and adequate impairment losses are made for irrecoverable amount. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group had concentration of credit risk by geographical location as trade receivables and bills receivables comprise various debtors which are all located in PRC during the year ended 31 December 2014 and 2013.

Liquidity risk

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

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms as at 31 December 2014 and 2013. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are at floating rate, the undiscounted amount is derived from the interest rate at the end of the reporting period.

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

31. **FINANCIAL INSTRUMENTS** (Cont'd)

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

Liquidity risk (Cont'd)

Liquidity tables

The Group

	Weighted average interest rate %	Repayable on demand or within 3 months RMB'000	3 – 6 months RMB'000	6 months to 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2014							
Trade and other payables	–	1,187,955	–	–	–	1,187,955	1,187,955
Amounts due to related companies	–	268,743	–	–	–	268,743	268,743
Accrued purchase of raw material	–	165,873	–	–	–	165,873	165,873
Bank borrowings							
– Fixed rate	5.40	44,904	2,453	186,710	–	234,067	220,500
– Variable rate	2.60	2,389	2,389	4,778	376,048	385,604	367,140
Outstanding endorsed and discounted bills receivable	–	158,735	395,724	–	–	554,459	–
		1,828,599	400,566	191,488	376,048	2,796,701	2,210,211
At 31 December 2013							
Trade and other payables	–	708,201	457,826	15,976	11,160	1,193,163	1,193,163
Amounts due to related companies	–	69,716	24,258	91	60	94,125	94,125
Accrued purchase of raw material	–	538,393	–	–	–	538,393	538,393
Bank borrowings							
– Fixed rate	5.55	44,304	71,079	54,642	–	170,025	165,950
– Variable rate	5.62	2,493	101,968	78,472	–	182,933	177,500
Outstanding endorsed and discounted bills receivable	–	345,393	607,440	–	–	952,833	–
		1,708,500	1,262,571	149,181	11,220	3,131,472	2,169,131

31. FINANCIAL INSTRUMENTS (Cont'd)

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

Liquidity risk (Cont'd)

Liquidity tables (Cont'd)

The Company

	Weighted average interest rate %	Repayable on demand or within 3 months RMB'000	3 – 6 months RMB'000	6 months to 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2014							
Amounts due to related companies	–	1,432	–	–	–	1,432	1,432
		1,432	–	–	–	1,432	1,432
At 31 December 2013							
Amounts due to related companies	–	1,108	–	–	–	1,108	1,108
		1,108	–	–	–	1,108	1,108

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

31. FINANCIAL INSTRUMENTS (Cont'd)

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

Liquidity risk (Cont'd)

Currency Risk

The Group is exposed to the financial risk related to the fluctuation of foreign exchange rates. Certain subsidiaries of the Company operate in the PRC with functional currency of RMB. A significant change in the currency exchange rates between US$ relative to RMB could have a significant effect on the Group's results of operations, financial position or cash flows. The Group has not hedged its exposure and will consider hedging significant foreign currency exposure should the need arise.

US$ monetary assets and liabilities

	2014	2013
	RMB'000	RMB'000
Cash and cash equivalents	**4,027**	464,883
Borrowings	**(367,140)**	–
	(363,113)	464,883

Based on the above net exposures, and assuming that all other variables remain constant at year end, a 1% (2013:1%) depreciation/appreciation of the US$ against RMB would result in an increase/decrease in the Group's profit for the year of approximately RMB3,086,000 for the year ended 31 December 2014 and a decrease/increase in the Group's profit for the year of approximately RMB3,952,000 for the year ended 31 December 2013.

No sensitivity analysis on change of currency exchange rates betweeen HK$ relative to RMB is disclosed as the effect is minimal.

(c) Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

32. OPERATING LEASE

The Group as lessee

The minimum lease payment under operating lease in respect of office premises and production facilities amounted to RMB7,538,000 (2013: RMB10,553,000) for the year ended 31 December 2014.

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

	2014	2013
	RMB'000	RMB'000
Within one year	**7,398**	8,213
Between the second and fifth year inclusive	**–**	7,141
	7,398	15,354

Operating lease payments represent rental payable by the Group for certain office premises and factory premises. Leases are negotiated for original terms of 1 to 2 years with fixed rental.

The Group as lessor

Property rental income earned was RMB12,290,000 (2013: Nil) for the year ended 31 December 2014.

At the end of the reporting period, the Group had contracted with tenant for the following future minimum lease payments:

	2014	2013
	RMB'000	RMB'000
Within one year	**33,143**	–
Between the second and fifth year inclusive	**71,810**	–
	104,953	–

Operating lease income represents rental receivables by the Group for the investment properties with BMW Brilliance Automotive Ltd. in Shenyang, PRC.

33. CAPITAL COMMITMENTS

	2014 RMB'000	2013 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment, prepaid lease payments and intangible assets:		
– contracted for but not provided in the consolidated financial statements	**76,451**	114,463
– authorised but not contracted for in the consolidated financial statements	**393,854**	335,978
	470,305	450,441
Capital expenditure in respect of investment in a joint venture		
– contracted for but not provided in the consolidated financial statements	**75,000**	75,000

34. CONTINGENT LIABILITIES

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

	2014 RMB'000	2013 RMB'000
Settlement of trade and other payables	**406,026**	733,754
Discounted bills for raising of cash	**148,433**	219,079
Outstanding endorsed and discounted bills receivable with recourse	**554,459**	952,833

Maturity analysis of the outstanding endorsed and discounted bills receivable:

	2014 RMB'000	2013 RMB'000
Within 3 months	**158,735**	345,393
Over 3 months but within 6 months	**395,724**	607,440
	554,459	952,833

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

35. RELATED PARTY DISCLOSURES

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

	2014 RMB'000	2013 RMB'000
Sale of goods		
Brilliance China Group	743,473	372,645
Huachen Group	682,984	763,982
Dongfeng JV	16,314	27,230
	1,442,771	1,163,857
Purchase of goods		
Brilliance China Group	320,598	48,764
Huachen Group	24,693	–
Wuliangye Group	183,172	184,572
	528,463	233,336
Purchase of productions line and inventories*		
Huachen Group	394,281	–

* *RMB37,646,000 inventories inclusive.*

	2014 RMB'000	2013 RMB'000
Rental charged and auxiliary services		
Brilliance China Group	11,390	1,697
Huachen Group	12,037	17,966
Wuliangye Group	263	–
	23,690	19,663
Rental income		
Brilliance China Group	12,117	–
Maintenance and construction cost charged		
Wuliangye Group	4,111	3,339

35. RELATED PARTY DISCLOSURES (Cont'd)

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

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

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

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

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

Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	2014	2013
	RMB'000	RMB'000
Short-term benefits	**15,824**	10,717
Post-employment benefits	**39**	18
	15,863	10,735

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

36. ACQUISITION OF A COMPANY

On 15 August 2014, the Group acquired 100% of equity interest in CMT International Logistics Group Shenyang Co., Ltd. ("CMT")（中床國際物流集團瀋陽有限公司）, a company established in the PRC which mainly holds land and properties in Shenyang, for a cash consideration of RMB334,270,000 from an independent third party.

The acquisition did not constitute a business combination in accordance with HKFRS 3 "Business Combination" and such acquisition was regarded as acquisition of assets through purchase method.

36. ACQUISITION OF A COMPANY (Cont'd)

Assets and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Net assets recognised:	
Current assets:	
Prepayment and other receivables	146
Bank balances and cash	13,059
Non-current assets:	
Investment properties	235,098
Property, plant and equipment	54,500
Prepaid lease payments	40,760
Other payables	(9,293)
	334,270
Satisfied by:	
Cash consideration paid	334,270
Net cash outflow on acquisition of CMT:	
Cash consideration paid	(334,270)
Less: Cash and cash equivalents balances acquired	13,059
	(321,211)

37. RETIREMENT BENEFIT PLAN

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

38. SHARE-BASED PAYMENT TRANSACTIONS

Share Incentive Scheme

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

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

Share Incentive Scheme (Cont'd)

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

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

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

The shares of the Company under the Fixed Trust are subject to three vesting periods: (a) from the listing date of the Company until the expiry date of the six-month period from the listing date (the "Lock-up Period") (vesting period "a"); (b) the date following the first anniversary from the expiry date of the Lock-up Period (vesting period "b"); and (c) the date following the second anniversary from the expiry date of the Lock-up Period (vesting period "c"). The Fixed Trust will be terminated on (i) the date which is 10 years from the date of the trust deed (i.e. 25 October 2012); or (ii) the date on which the transfer of all the trust assets to the relevant Beneficiaries under the Fixed Trust is completed, whichever is earlier.

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

During the year ended 31 December 2014, 22,808,704 shares (2013: 22,808,704) were issued to the relevant Beneficiaries. No entitlement of interests in the shares of the Company under the Fixed Trust was outstanding by the end of December 2014 and 2013.

On 17 April 2014, 2,984,575 shares held under Discretionary Trust were awarded to a third party at a subscription price of HK$1.0817 per share and exercisable for 50% each of awarded shares at the first and second anniversary from 22 April 2014, the date of acceptance from the third party. The shares award is for the purpose of achieving a long run cooperation strategic partnership with the Company and the amount of approximately RMB8,319,000 (HK$10,500,000), representing the difference between closing price of the Company's share as quoted on the Stock Exchange on the acceptance date and the subscription price, is recognised as share-based payment expense for the Group.

Other than disclosed above, no shares were exercised, lapsed or forfeited under the Fixed Trust and the Discretionary Trust during the year ended 31 December 2014 and 2013.

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

Share Option Scheme

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

During the year ended 31 December 2014 and 2013, no share options were granted under the Share Option Scheme by the Company. In addition, as of 31 December 2014 and 2013, no share options under the Share Option Scheme were outstanding.

39. EVENTS AFTER THE REPORTING PERIOD

On 21 January 2015, Mianyang Xinchen and BMW Brilliance Automotive entered into an assets transfer agreement (the "Assets Transfer Agreement") pursuant to which BMW Brilliance Automotive will transfer to Mianyang Xinchen the crankshaft production line, the supporting equipment and facilities, the related spare parts (the "Acquired Assets") and related contracts in connection with the operation of the crankshaft production line (the "Transferred Contracts") and the call option to BMW Brilliance Automotive (the Assets Transfer Agreement, the Acquired Assets and the Transferred Contracts have same meaning as defined in the circular of the Company dated 18 February 2015).

The consideration for the Acquired Assets is estimated to be approximately RMB391,428,337. The consideration under the Assets Transfer Agreement will be settled by internal resources and bank borrowings. Details of which are set out in the circular of the Company dated 18 February 2015.

40. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation or establishment/ operation	Issued and fully paid share/ registered capital	Proportion of issued share/ registered capital held by the Company Directly	Proportion of issued share/ registered capital held by the Company Indirectly	Principal activities
Southern State	British Virgin Islands/ Hong Kong	US$1 Ordinary share	100%	–	Investment holding
Mianyang Xinchen[#]	PRC	US$100,000,000 Registered capital	–	100%	Development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles and manufacture of engine parts and components of the passenger
Xinchen Engine (Shenyang) Co., Limited* 新晨動力機械（沈陽）有限公司 *(Note)*	PRC	RMB253,000,000 Registered capital	–	100%	Rental under operating lease

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

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

* *English name for reference only.*

Note:

The subsidiary was a domestic limited liability company and acquired by Mianyang Xinchen on 15 August 2014.