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# POWER XINCHEN

新 晨 動 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)**

### ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2012

The board of directors (the “**Board**”) of Xinchen China Power Holdings Limited (the “**Company**”) announces the consolidated financial results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31st December, 2012 as follows:

#### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31st December 2012*

		Year ended 31st December,	
		2012	2011
	Notes	RMB'000	RMB'000
Revenue	4	2,572,741	2,307,748
Cost of sales		(2,054,954)	(1,831,140)
Gross profit		517,787	476,608
Other income	5	9,862	10,012
Selling and distribution expenses		(55,176)	(48,611)
General and administrative expenses		(73,955)	(62,638)
Finance costs	6	(27,331)	(37,520)
Other expenses	8	(29,125)	(33,212)
Share of result of a jointly controlled entity		34	–
Profit before tax		342,096	304,639
Income tax expense	7	(51,987)	(44,250)
Profit and total comprehensive income for the year attributable to owners of the Company	8	290,109	260,389
Earnings per share – Basic (RMB)	10	0.309	0.316

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31st December 2012

	<i>Notes</i>	<b>2012</b> <b>RMB'000</b>	2011 <i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>319,642</b>	278,262
Prepaid lease payments		<b>60,882</b>	62,323
Intangible assets		<b>88,153</b>	43,695
Investment in a jointly controlled entity		<b>49,441</b>	–
Deferred tax assets		<b>552</b>	1,030
Deposits for acquisition of property, plant and equipment and prepaid lease payments		<b>6,567</b>	13,009
		<b>525,237</b>	398,319
<b>CURRENT ASSETS</b>			
Inventories		<b>214,728</b>	221,202
Prepaid lease payments		<b>1,434</b>	1,434
Trade and other receivables	<i>11</i>	<b>660,114</b>	497,706
Amounts due from related companies	<i>12</i>	<b>804,004</b>	1,061,910
Loan to a shareholder		<b>32,515</b>	32,771
Pledged bank deposits		<b>177,807</b>	223,059
Bank balances and cash		<b>664,751</b>	327,747
		<b>2,555,353</b>	2,365,829
<b>CURRENT LIABILITIES</b>			
Trade and other payables	<i>13</i>	<b>1,337,637</b>	1,312,341
Amounts due to related companies		<b>43,067</b>	116,698
Loans from shareholders		<b>32,515</b>	32,771
Bank borrowings due within one year	<i>14</i>	<b>194,950</b>	163,950
Other loan		<b>4,000</b>	–
Other tax payables		<b>54,444</b>	43,300
Income tax payables		<b>50,458</b>	30,686
		<b>1,717,071</b>	1,699,746
<b>NET CURRENT ASSETS</b>		<b>838,282</b>	666,083
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,363,519</b>	1,064,402

	<i>Notes</i>	<b>2012</b> <b>RMB'000</b>	2011 <i>RMB'000</i>
<b>NON-CURRENT LIABILITIES</b>			
Other loan		–	4,000
Deferred income		<b>41,018</b>	28,010
		<u><b>41,018</b></u>	<u>32,010</u>
<b>NET ASSETS</b>		<u><b>1,322,501</b></u>	<u>1,032,392</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	<i>15</i>	<b>7,693</b>	7,693
Reserves		<b>1,314,808</b>	1,024,699
		<u><b>1,322,501</b></u>	<u>1,032,392</u>
<b>TOTAL EQUITY</b>		<u><b>1,322,501</b></u>	<u>1,032,392</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 10th March, 2011.

The principal activities of the Company are investment holding. The principal activity of its operating subsidiary, Mianyang Xincheng Engine Co, Ltd. (“Mianyang Xincheng”) is the development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles in the People’s Republic of China (the “PRC”).

### 2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Group Reorganization was completed on 29th August, 2011. The Group Reorganization mainly involved the insertion of investment holding companies between the two shareholders of Mianyang Xincheng and Mianyang Xincheng. Mianyang Xincheng was indirectly beneficially owned by Brilliance China Group and Wuliangye Group in equal shares before and upon the completion of the Group Reorganization. Accordingly, the consolidated financial statements of the Group have been prepared as if the Company had always been the holding company of Mianyang Xincheng.

\* English name for reference only.

### 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

For the purpose of preparing and presenting the consolidated financial statements, the Group has consistently adopted the Hong Kong Accounting Standards (“HKASs”), HKFRSs, amendments and Interpretations (“HK(IFRIC)-Int”), which are effective for the accounting period beginning on 1st January, 2012.

The Group has not early adopted these standards, amendments and interpretation that have been issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) but are not yet effective.

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

1 Effective for annual periods beginning on or after 1st January, 2013.

2 Effective for annual periods beginning on or after 1st January, 2015.

3 Effective for annual periods beginning on or after 1st July, 2012.

4 Effective for annual periods beginning on or after 1st January, 2014.

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

#### 4. REVENUE AND SEGMENT INFORMATION

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

##### Segment revenue and segment results

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

- (1) Gasoline engines;
- (2) Diesel engines; and
- (3) Engine components and service income.

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

##### For the year ended 31st December, 2012

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

Other segment information included in the measurement of segment results:

	<b>Gasoline engines</b>	<b>Diesel engines</b>	<b>Engine components and service income</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation and amortization	22,990	4,006	–	26,996
(Reversal of provision) provision of inventories	(577)	230	–	(347)

**For the year ended 31st December, 2011**

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

Other segment information included in the measurement of segment results:

	<b>Gasoline engines</b>	<b>Diesel engines</b>	<b>Engine components and service income</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation and amortization	16,880	16,862	–	33,742
Reversal of provision of inventories	(4,969)	(73)	–	(5,042)

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

## Segment assets and liabilities

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

## Geographical information

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

## Information about major customers

Revenue from customers contributing over 10% of the total sales in all reportable segments of the Group are as follows:

	Year ended 31st December,	
	2012	2011
	RMB'000	RMB'000
Brilliance China Group	500,065	416,192
Subsidiaries of Dongfeng Automobile Co., Ltd.* 東風汽車股份有限公司 (“Dongfeng”)	654,294	651,790
Huachen Group	654,409	661,627
	<u>654,409</u>	<u>661,627</u>

## 5. OTHER INCOME

	Year ended 31st December,	
	2012	2011
	RMB'000	RMB'000
Bank interest income	5,212	2,257
Government grants (see Note)	4,257	5,062
Imputed interest on loan to a related company	–	1,971
Gain on disposal of property, plant and equipment	267	–
Others	126	722
	<u>9,862</u>	<u>10,012</u>

Note:

Details of the government grants are set out below:

	Year ended 31st December,	
	2012	2011
	RMB'000	RMB'000
Subsidiaries related to research activities	300	1,350
Subsidiaries related to property, plant and equipment	3,957	3,569
Other incentive subsidiaries	–	143
	<u>4,257</u>	<u>5,062</u>

\* English name for reference only.



## 6. FINANCE COSTS

	Year ended 31st December,	
	2012	2011
	RMB'000	RMB'000
Interest on borrowings wholly repayable within five years:		
Bank loans	13,023	10,097
Loans from related companies	–	1,900
Discounted bills	16,751	34,954
	<u>29,774</u>	<u>46,951</u>
Less: amounts capitalized	(2,443)	(9,431)
	<u>27,331</u>	<u>37,520</u>

Borrowing costs capitalized during the year ended 31st December, 2012 arose on the general borrowing pool and were calculated by applying a capitalization rate of 6.5% (2011: 8.9%) per annum to expenditure on qualifying assets incurred during that year.

## 7. INCOME TAX EXPENSE

	Year ended 31st December,	
	2012	2011
	RMB'000	RMB'000
PRC Enterprise Income Tax		
Current tax	52,659	44,471
Overprovision in prior year	(1,150)	–
	<u>51,509</u>	<u>44,471</u>
Deferred tax expense (credit)	478	(221)
	<u>51,987</u>	<u>44,250</u>

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

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

## 8. PROFIT FOR THE YEAR

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

	Year ended 31st December,	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Directors' remuneration	738	846
Other staff costs	67,206	56,825
Contributions to retirement benefits scheme	8,847	5,514
	<u>76,791</u>	<u>63,185</u>
Total staff costs		
Depreciation of property, plant and equipment	31,988	30,646
Amortization of prepaid lease payments	1,441	1,401
Amortization of intangible assets (included in cost of sales)	1,960	10,036
	<u>35,389</u>	<u>42,083</u>
Total depreciation and amortization		
Research expenses (included in other expenses)	15,661	19,783
Amortization of capitalized development costs (included in total depreciation and amortization)	1,960	10,036
	<u>17,621</u>	<u>29,819</u>
Total research and development costs		
Auditors' remuneration	505	227
Exchange loss (gain), net	889	(666)
Allowance for (reversal of) doubtful debts	113	(7)
Included in cost of sales:		
Cost of inventories recognized as expense	2,054,954	1,831,140
Reversal of provision of inventories	(347)	(5,042)
Provision for warranty	12,469	8,149
Included in other expenses:		
Loss on disposal of property, plant and equipment	–	232
Factory reallocation expenses ( <i>Note a</i> )	–	2,276
Initial public offering expenses	13,464	10,879
	<u>13,464</u>	<u>10,879</u>

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

## 9. DIVIDENDS

No dividend has been paid or declared by the Company during both years ended 31st December 2012 and 2011, nor has any dividend been proposed since the end of the reporting period.

## 10. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the profit for the year attributable to owners of the Company and weighted average number of shares of 940,199,794 (2011: 823,815,000) for the year ended 31st December, 2012. The weighted average number of shares for the year ended 31st December, 2011 has been adjusted for the capital injection for that year.

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

## 11. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise the following:

	<b>At 31st December,</b>	
	<b>2012</b>	<b>2011</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Trade receivables	<b>389,584</b>	245,480
Less: Allowance for doubtful debts	<b>(156)</b>	(43)
	<hr/>	<hr/>
Trade receivables, net	<b>389,428</b>	245,437
Bills receivable	<b>257,642</b>	241,542
	<hr/>	<hr/>
Total trade and bills receivables	<b>647,070</b>	486,979
Prepayments for purchase of raw materials and engine components	<b>1,953</b>	3,059
Other receivables	<b>11,091</b>	7,668
	<hr/>	<hr/>
	<b>660,114</b>	497,706
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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.

	<b>At 31st December,</b>	
	<b>2012</b>	<b>2011</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Within 1 month	<b>167,808</b>	178,905
Over 1 month but within 2 months	<b>26,339</b>	39,838
Over 2 months but within 3 months	<b>26,229</b>	21,809
Over 3 months but within 6 months	<b>83,672</b>	4,726
Over 6 months but within 1 year	<b>84,915</b>	2
Over 1 year	<b>465</b>	157
	<hr/>	<hr/>
	<b>389,428</b>	245,437
	<hr/>	<hr/>

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

	<b>At 31st December,</b>	
	<b>2012</b>	2011
	<b>RMB'000</b>	<i>RMB'000</i>
Within 3 months	<b>124,613</b>	172,836
Over 3 months but within 6 months	<b>133,029</b>	68,706
	<u><b>257,642</b></u>	<u>241,542</u>

## 12. AMOUNTS DUE FROM RELATED COMPANIES

	<b>At 31st December,</b>	
	<b>2012</b>	2011
	<b>RMB'000</b>	<i>RMB'000</i>
Trade receivables	<b>736,134</b>	892,816
Bills receivable	<b>67,870</b>	169,094
	<u><b>804,004</b></u>	<u>1,061,910</u>

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.

	<b>At 31st December,</b>	
	<b>2012</b>	2011
	<b>RMB'000</b>	<i>RMB'000</i>
Within 3 months	<b>374,753</b>	473,345
Over 3 months but within 6 months	<b>241,056</b>	182,851
Over 6 months but within 1 year	<b>120,070</b>	232,406
Over 1 year	<b>255</b>	4,214
	<u><b>736,134</b></u>	<u>892,816</u>

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

	<b>At 31st December,</b>	
	<b>2012</b>	2011
	<b>RMB'000</b>	<i>RMB'000</i>
Within 3 months	<b>65,500</b>	159,962
Over 3 months but within 6 months	<b>2,370</b>	9,132
	<u><b>67,870</b></u>	<u>169,094</u>

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

### 13. TRADE AND OTHER PAYABLES

	<b>At 31st December,</b>	
	<b>2012</b>	2011
	<b>RMB'000</b>	<i>RMB'000</i>
Trade payables	<b>346,874</b>	559,447
Bills payable	<b>385,419</b>	413,158
	<hr/>	<hr/>
Total trade and bills payables	<b>732,293</b>	972,605
Accrued purchase of raw materials	<b>496,231</b>	255,479
Construction payables	<b>41,477</b>	11,272
Payroll and welfare payables	<b>37,521</b>	37,257
Advances from customers	<b>4,752</b>	4,732
Provision for warranty	<b>5,084</b>	5,280
Other payables	<b>20,279</b>	25,716
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	<b>1,337,637</b>	1,312,341
	<hr/>	<hr/>

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:

	<b>At 31st December,</b>	
	<b>2012</b>	2011
	<b>RMB'000</b>	<i>RMB'000</i>
Within 3 months	<b>200,568</b>	440,911
Over 3 months but within 6 months	<b>100,334</b>	98,943
Over 6 months but within 1 year	<b>45,972</b>	19,593
	<hr/>	<hr/>
	<b>346,874</b>	559,447
	<hr/>	<hr/>

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

	<b>At 31st December,</b>	
	<b>2012</b>	2011
	<b>RMB'000</b>	<i>RMB'000</i>
Within 3 months	<b>146,434</b>	74,833
Over 3 months but within 6 months	<b>238,985</b>	338,325
	<hr/>	<hr/>
	<b>385,419</b>	413,158
	<hr/>	<hr/>

#### 14. BANK BORROWINGS

	At 31st December,	
	2012	2011
	RMB'000	RMB'000
Bank borrowings repayable within one year shown under current liabilities	<b>194,950</b>	163,950
Secured	<b>152,950</b>	121,950
Unsecured	<b>42,000</b>	42,000
	<b>194,950</b>	163,950

All bank borrowings are denominated in RMB.

#### 15. 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		
Authorized:		
At date of incorporation, 31st December, 2011 and 2012	<b>8,000,000,000</b>	<b>80,000,000</b>
Issued and fully paid:		
Issue of new shares at date of incorporation	1,000	10
Issue of new shares on 29th August, 2011	1,000	10
Capitalization issue on 25th October, 2011	799,998,000	7,999,980
Issue of new shares on 31st October, 2011	46,200,000	462,000
Issue of new shares on 31st October, 2011	93,999,794	939,998
At 31st December, 2011 and 2012	<b>940,199,794</b>	<b>9,401,998</b>
		<b>2012 and 2011 RMB'000</b>
Presented in financial statements		<b>7,693</b>

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

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

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

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

The Company has listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 13th March, 2013 (the “Listing”), accordingly, the Put Option has been lapsed on the same day.

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

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

## 16. RELATED PARTY DISCLOSURES

	Year ended 31st December,	
	2012	2011
	RMB'000	RMB'000
<b>Sale of goods</b>		
Brilliance China Group	500,065	416,192
Huachen Group	654,409	661,627
Wuliangye Group	233	–
Jointly controlled entity	83,648	–
	<u>1,238,355</u>	<u>1,077,819</u>
<b>Purchase of goods</b>		
Brilliance China Group	48,939	39,274
Huachen Group	10	7
Wuliangye Group	154,283	154,639
	<u>203,232</u>	<u>193,920</u>
<b>Rental charged</b>		
Wuliangye Group	<u>100</u>	<u>100</u>
<b>Maintenance and construction cost charged</b>		
Wuliangye Group	<u>7,330</u>	<u>5,547</u>
<b>Interest expense charged</b>		
Brilliance China Group	–	900
Wuliangye Group	–	1,000
	<u>–</u>	<u>1,900</u>

## 17. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 31st December, 2012, the Group had the following significant events:

In February 2013, Brilliance Investment, Brilliance China, Xinhua Investment, Xinhua Combustion Engine, Sichuan Yibin Pushi Group Co., Ltd. and Wuliangye entered into a deed of indemnity in favor of the Group in respect of, amongst others, (i) taxation resulting from income, profits or gains earned, accrued or received as well as any claim to which the Group may be subject on or before the date on which the Listing becomes unconditional (the “Effective Date”) which might be payable by the Group; (ii) Hong Kong estate duty which might be payable by the Group, by reason of any transfer of property (within the meaning of Section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong, as amended by the Revenue (Abolition of Estate Duty) Ordinance) to the Group on or before the Effective Date; and (iii) all claims, liabilities and expenses incurred by the Group in connection with the failure to obtain state-owned land use right certificates from the relevant competent governmental authorities in the PRC in relation to any of the properties owned by the Group in the PRC.



In March 2013, the Company completed the Listing on the Stock Exchange with the issue of 313,400,000 new shares of the Company at HK\$2.23 each to public shareholders. The Company intends to use the net proceeds to fund the expansion of production capacity, new product development activities and construction of a research and development centre.

## **MANAGEMENT'S DISCUSSION & ANALYSIS**

### **Business Review**

As at 31st December, 2012, the Group achieved total annual consolidated sales of RMB2,572.7 million, representing an increase of 11.5% when compared to the corresponding period last year (RMB2,307.7 million), including revenue from sales of gasoline engines of RMB2,058.9 million, revenue from sales of diesel engines of RMB470.4 million and revenue from sales of engine components and services of RMB43.4 million, representing 80.0%, 18.3% and 1.7% of the total amount respectively.

The annual cost of sales in 2012 amounted to RMB2,055.0 million, up by 12.2% when compared to RMB1,831.1 million recorded in the corresponding period last year, slightly exceeded the growth in revenue by 0.7%. This was mainly because the increase in sales of light-duty gasoline engines (lower than 1.6 litre) with lower profit margin increased, resulting in a decrease of 0.6% in overall profit margin (20.1% in 2012 vs 20.7% in 2011).

In 2012, we recorded other income of RMB9.862 million, representing a slight decrease when compared to RMB10.012 million in 2011, which was mainly due to the decrease in interest income after the full repayment of principal and interests owed from related companies.

The annual interest income (excluding the interest on loans to related companies) increased from last year's RMB2.257 million to RMB5.212 million in 2012, which was mainly due to an increase in net cash of the Company and the transfer from short-term demand deposit to time deposit. In addition, we issued bank notes to suppliers for payment for goods by pledging our deposit as guarantee, which resulted in an increase in interest income.

Selling and distribution expenses increased from RMB48.611 million in 2011 to RMB55.176 million in 2012, representing 2.1% and 2.1% of sales income in 2011 and 2012 respectively, which was due to an increase in revenue.

General and administrative expenses increased from RMB62.638 million in 2011 to RMB73.955 million in 2012, up by RMB11.317 million or 18.1%, which was mainly because of (i) the increased tax in respect of the Company's property and land leases accounted for 26% of the expenses as a result of the increase in related leases; (ii) the salaries of researchers and external experts increased due to the enhancement of the Company's consolidated ability of research and development, with related fees accounting for 45% of the expenses.

In 2012, finance costs amounted to RMB27.331 million, down by 27.2% when compared to RMB37.52 million of the corresponding period last year, which was attributable to the decrease in the Company's discounting cost during the year due to (i) discount rate lowered by financial institutes and (ii) a drop in discounted amount arising from the improvement of the Company's cash flow.

Other expenses in 2012 amounted to RMB29.125 million, representing a decrease of 12.3% when compared to RMB33.212 million of the corresponding period last year, which was attributable to the reduction in expenses for engineering material for research and development.

The Group's profit before tax in 2012 amounted to RMB342.096 million, representing an increase of 12.3% when compared to RMB304.639 million in 2011.

Income tax expense in 2012 amounted to RMB51.987 million, an increase of RMB7.737 million from 2011, which was the expense (net of non-deductible profits) measured based on the preferential tax rate 15% for high-tech enterprises. The Company's consolidated income tax rate was 15.2%, up by 0.7 percentage points when compared to last year's 14.5%.

As at 31st December, 2012, net earnings attributable to owners of the Group was RMB290.109 million, representing an increase of 11.4% when compared to RMB260.389 million in 2011. Basic earnings per share in 2012 was RMB0.309, representing a decrease of RMB0.007 per share when compared to RMB0.316 per share in 2011, which was due to the dilutive effect from the additional issue of shares in 2011.

### **Liquidity and financial resources**

As at 31st December, 2012, the Group had RMB664.8 million in cash and cash equivalents, and RMB177.8 million in pledged bank deposits. The Group had trade and other payables RMB1,337.6 million, and bank borrowings due within one year RMB195 million, but had no long-term bank borrowing outstanding as at 31st December, 2012.

### **Capital structure**

As at 31st December, 2012, the Group's total assets was RMB3,081 million (31st December, 2011: RMB2,764 million), which was funded by the following: (1) share capital RMB7.7 million, (2) reserves RMB1,315 million, (3) debt RMB1,758 million; and the corresponding numbers as at 31st December 2011 were: RMB7.7 million, RMB1,025 million, and RMB1,732 million, respectively.

### **Contingent Liabilities**

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

## **Pledge of Assets**

As at 31st December, 2012, the Group pledged certain of its buildings, plant and machinery with an aggregate carrying value of approximately RMB139.4 million to certain banks to secure certain credit facilities granted to the Group.

As at 31st December, 2012, the Group also pledged bank deposits approximately RMB178 million to certain banks to secure certain credit facilities granted to the Group.

## **Gearing Ratio**

As at 31st December, 2012, the Debt-to-Equity ratio, computed by dividing total liabilities by total equity attributable to owners of the company, was approximately 1.33 (31st December, 2011: 1.68). The decrease in the Debt-to-Equity ratio was mainly due to the increase in the reserves.

As at 31st December, 2012, the Quick ratio, computed by way of dividing current assets (deducted inventories) by current liabilities, was approximately 1.36 (31st December, 2011: 1.26). The reason for the increase in the Quick ratio was primarily that the inventory was controlled at lower level than that of one year ago (RMB215 million vs. RMB221 million), while the cash position was strengthened substantially (RMB665 million vs. RMB328 million).

## **New product**

A new model of diesel engine D20A was introduced to the market in 2012. Depending on market situation, the Groups will consider introducing some new engine models to the market in the coming year.

## **Significant Investments**

During the year, the construction of the first phase production facility of Dongfeng JV has started and a total of RMB50 million has been spent in acquiring land rights and buying machinery.

## **Plans for capital expenditures**

The Groups plans a budget of RMB393.5 million in capital investments for the coming year, of which RMB166.4 million on production capacity expansion, RMB80.9 million on product development, RMB71.2 million on new R&D center, and RMB75 million on Dongfeng JV.

## **Foreign Exchange Risks**

The Group considers that the effect caused by exchange rate fluctuation on the Groups' financial performance is insignificant. In the future, however the Group may consider hedging its foreign currency exposure should the need arise. As at 31st December, 2012, there were no hedging transactions outstanding.

## **Employees and Remuneration Policy**

As at 31st December, 2012, the Group employed approximately 1,020 employees (31st December, 2011: approximately 948). Employee costs amounted to approximately RMB76.8 million for the year ended 31st December, 2012 (31st December, 2011: approximately RMB63.2 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.

## **Future Business Development**

In the year ahead, the Group will attain good progress in its capacity expansion, research capability enhancement and product quality and so forth. The Group will also pursue economy of scale with its enriched product portfolio, on the back of the product platform currently in place. The Group will further strengthen its sales efforts and uplift its after-sales services to drive further growth in sales. Finally, the Group will also commence the research on the feasibility of those businesses involving engine key parts.

## **DIVIDEND**

The directors did not recommend the payment of any dividend in respect of the year ended 31st December, 2012 (2011: Nil).

## **CLOSURE OF REGISTER OF MEMBERS**

The Company's forthcoming annual general meeting will be held on Thursday, 23rd May, 2013 at 9:00 a.m..

The Hong Kong branch register of members of the Company will be closed from Tuesday, 21st May, 2013 to Thursday, 23rd May, 2013, both dates inclusive, during which period no transfer of shares will be registered. Only shareholders of the Company whose names appear on the register of members of the Company on Thursday, 23rd May, 2013 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 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 20th May, 2013.

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

The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13th March, 2013 (the "Listing Date"). Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities in 2012.

## **COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

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. The Company has adopted the code provisions set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). The Company has complied with all code provisions of the CG Code since the Listing Date and up to the date of this announcement.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE “MODEL CODE”)**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry with all directors of the Company, all directors confirmed that they have complied with the required standard set out in the Model Code since the Listing Date and up to the date of this announcement.

## **REVIEW OF FINANCIAL STATEMENTS**

The audit committee of the Company has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial report matters, including the consolidated financial statements of the Group for the year ended 31st December, 2012.

At present, the audit committee comprises 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.

## **PUBLICATION OF ANNUAL REPORT**

The 2012 annual report of the Company containing the information required by the Listing Rules will be published on the websites of the Stock Exchange and the Company in due course.

## **BOARD OF DIRECTORS**

As at the date of this announcement, the Board comprises two executive directors: Mr. Wu Xiao An (also known as Mr. Ng Siu On) (*Chairman*) and Mr. Wang Yunxian (*Chief Executive Officer*); two non-executive directors: Mr. Qi Yumin and Mr. Li Peiqi; and four independent non-executive directors: Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin.

By Order of the Board  
**Xinchen China Power Holdings Limited**  
**Wu Xiao An**  
(also known as Ng Siu On)  
*Chairman*

Hong Kong, 27th March, 2013