



# 上海柴油机股份有限公司

## SHANGHAI DIESEL ENGINE CO., LTD.

### Important Notice

1. The Board of Directors and the Board of Supervisors, along with their directors, supervisors and senior executives, hereby guarantee that the 2013 Annual Report is free from false statement, misleading information or material omission, and assume relevant separate and joint responsibilities in regard to the truth, the accuracy and the integrity of the contents of the report.

2. The director Mr. Gu Qing didn't attend the board meeting due to official business, and delegated the authority in writing to director Mr. Jiang Kai for exercising voting rights on behalf of him, other members of Board attended the board meeting.

3. The independent auditor of the Company, Ernst & Young Hua Ming LLP issued an unqualified auditors' report on the financial statements of the Company for the year ended 31 December 2013.

4. Chairman of the Board, Mr. Xiao Guopu and that in-charge of the accounting functions, Mr. Jiang Baoxin and Mr. Sun Yu acknowledge this report is truly and fairly presented.

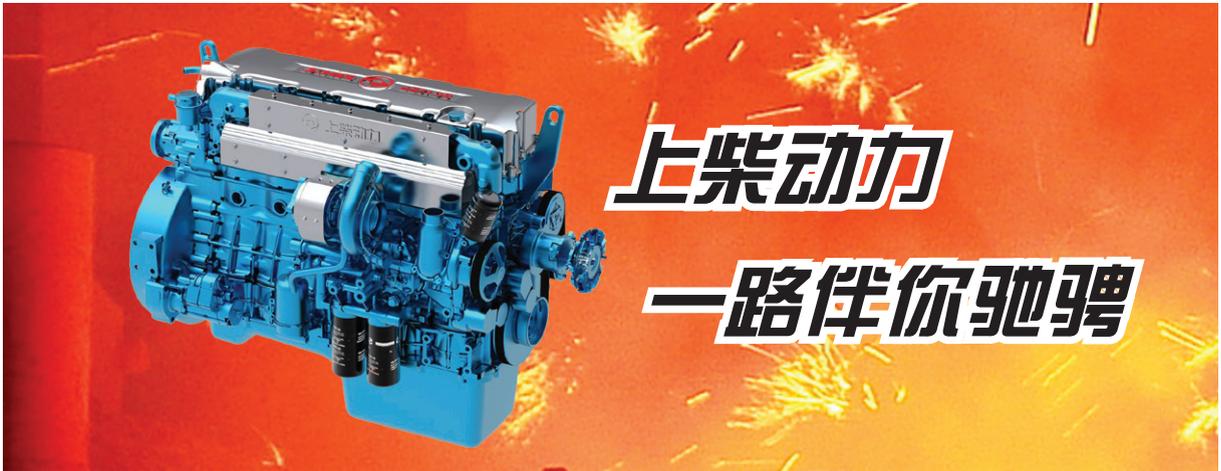
5. The plan of profit distribution or plan of transferring reserve to share capitals was reviewed and approved by the board of directors: As audited by Ernst & Young Hua Ming LLP, the consolidated net profit attributable to parent company is RMB 205,333,855.82, and the net profit of the parent company is RMB 220,233,840.60 for the year 2013, being distributed to statutory surplus reserves of RMB 22,023,384.06, added with the prior years' retained earnings of RMB 611,624,138.27, deducted by the distribution of cash dividend of RMB 61,297,991.86 for the year 2012, the retained earnings available for distribution to shareholders are RMB 748,536,602.95 at the end of year 2013. The capital reserve of the parent company is RMB 1,126,952,784.00 at the end of year 2013.

The current number of the Company's shares is 866,689,830, and the Company's 2013 profit distribution plan is to allot cash dividend at RMB 0.59 (tax inclusive) per 10 shares based on the total share capital at the date of registration for profit distribution. The undistributed earnings are carried forward for future distribution. The proposal is to be approved by the 2013 Annual General Meeting.

6. The perspective statement described in this report, such as future plans and development strategy etc., does not constitute the Company's substantial commitment to investors, and we kindly alert investors to be aware of the investment risk.

7. There was no deployment of the fund for non-business purposes by the Controlling Shareholder or its related companies.

8. There was no non-compliance with the Company's policy in relation to granting guarantee to external parties.



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## Section I. Definitions and major risk warning

### I. Definitions

In this report, unless the context suggests otherwise, the following terms have the following meaning:

Definitions

SDEC, the Company	refer to	Shanghai Diesel Engine Co., Ltd.
Controlling Shareholder, SAIC	refer to	SAIC Motor Corporation Limited
Reporting Period	refer to	Year 2013
Articles of Association	refer to	the Articles of Association of Shanghai Diesel Engine Co., Ltd.
RMB	refer to	Renminbi Yuan

### II. Reminder of major risks

The Company's future business prospects predicted in this report are based on the current macroeconomics and market conditions. It doesn't constitute performance commitments made by the Company. The Company has elaborated the risk factors in this report. Please refer to content of the risk that the Company may encounter in the section "Discussion and analysis of Prospects for the Company's Future Development" in the Board of Directors' Report.

## Section II. Corporate Information

### I. Corporate Profile

Company's legal Chinese name:	上海柴油机股份有限公司
Chinese abbreviation	上柴股份
Company's legal English name	Shanghai Diesel Engine Co., Ltd.
English abbreviation	SDEC
Legal representative	Mr. Xiao Guopu

### II. Contacts

	Secretary to Board of Directors	Representative of Securities Affairs
Name	Wang Hongbin	Zhang Jiang
Address	2636 Jun Gong Road, Yang Pu District, Shanghai	2636 Jun Gong Road, Yang Pu District, Shanghai
Telephone	(021) 60652288	(021) 60652207
Fax	(021) 65749845	(021) 65749845
Email address	sdecsh@sdec.com.cn	sdecsh@sdec.com.cn

### III. Address

Registered address	2636 Jun Gong Road, Yang Pu District, Shanghai
Zip code of registered address	200438
Office address	2636 Jun Gong Road, Yang Pu District, Shanghai
Zip code of office address	200438
Website	www.sdec.com.cn
Email	sdecsh@sdec.com.cn

### IV. Information disclosure and the place for inspection

Appointed news papers for information disclosure	Shanghai Securities News, Hongkong Wen Wei Po
The website appointed by China Securities Regulatory Committee for publication of annual report	Shanghai Stock Exchange - www.sse.com.cn
The place for inspecting annual report	The office of Board Secretary

### V. Stock Information

Stock Information			
Category	Stock Exchange	Share Abbreviation	Share Code
A share	Shanghai Stock Exchange	Shanghai Diesel	600841
B share	Shanghai Stock Exchange	Shanghai Diesel B	900920

### VI. The Changes of Registration during the Reporting Period

#### (I) Basic Information

There is no change of registration during the reporting period.

#### (II) Initial Registration's Information

On 27 December 1993, the Company was incorporated and the registration number of the Company's business license was "Gong Shang Qi Gu Fen Hu Zi 00023". The registered capital of the Company was RMB329,424.4 thousand when the Company was founded. Please refer to the Basic Information in this report for the detailed information of the initial registration.

- (III) The changes of main business since the Company became public  
The main business hasn't changed since the Company became public.
- (IV) The changes of Controlling Shareholder since the Company became public  
The Company was incorporated on 27 December 1993 as approved by Shanghai Economic Committee and Shanghai Securities Management Office in Hu Jing Qi (1993) No.411 and Hu Zheng Ban (1993) No. 111. The Company was incorporated after the reorganization and restructure, initiated by the sole founder Shanghai Diesel Engine Factory. The Company's original shareholder was Shanghai Dongfeng Machinery (Group) Company Ltd. ("Dongji Group"). Pursuant to the approval of related authority, the stated owned shares of the Company were transferred from Dongji Group to Shanghai Electric (Group) Corporation ("SHE Group Corporation") in 2003 upon the reorganization of SHE Group Corporation.  
In 2004, pursuant to the related authority's approval, the state-owned share of the Company was transferred from SHE Group Corporation to Shanghai Electric Group Co., Ltd. ("SHE Group") (on 27 October 2004, SHE Group Corporation was reorganized to be Shanghai Electric Group Co., Ltd., "SE Group"). After the transaction, the state-owned shareholder of the Company changed to SHE Group.  
In December 2008, SHE Group transferred its 50.32% of the Company's equity to SAIC Motor Corporation Limited ("SAIC"). After this transaction, SAIC became the controlling shareholder of the Company and Shanghai Automotive Industry Corporation ("SAI Corporation") became the ultimate controller of the Company.

**VII. Other information**

The accounting firm appointed by the Company (domestic)

Name	Ernst & Young Hua Ming LLP
Office address	Level 16, Ernst & Young Tower, Oriental Plaza, No.1 East Chang An Avenue, Dong Cheng District, Beijing
Signing Accountants	Yuan Yongmin, Li Bo

The sponsor fulfilling the continuous supervisory responsibilities during the Reporting Period

Name	Dong Guan Securities Co., Ltd
Office address	JinyuanCenter, No 1 South Ke Yuan Road, Dongguan City, Guangdong Province.
Name of sponsor representatives	Yao Genfa, PanYunsong
Period of continuous supervision	From the effective date of the sponsorship agreement, through the remaining period after the completion of non-public offering of shares, to the end of the next complete financial year.

### Section III. Financial Highlights

#### I. Three-year financial highlights

(I) Major Accounting Data				Unit: RMB
Major Accounting Data	2013	2012	Change (%)	2011
Revenue	2,980,858,886.92	3,029,962,800.96	-1.62	4,634,955,294.75
Net profit attributable to shareholders	205,333,855.82	203,709,733.71	0.80	207,306,920.41
Net profit attributable to shareholders excluding extraordinary items	182,931,563.75	163,507,041.12	11.88	189,287,099.23
Net cash flow from operating activities	162,840,869.01	394,284,437.94	-58.70	473,599,269.06
	2013-12-31	2012-12-31	Change (%)	2011-12-31
Shareholders' equity attributable to shareholders	3,312,611,728.50	3,173,829,812.00	4.37	2,180,981,146.66
Total assets	5,472,309,620.41	4,965,717,042.89	10.20	4,010,856,413.12

#### (II) Key Financial Data

Key Financial Indices	2013	2012	Change (%)	2011
Basic earnings per share (RMB/Share)	0.24	0.24	-2.10	0.27
Diluted earnings per share (RMB/Share)	NA	NA	NA	NA
Basic earnings per share excluding profit from extraordinary items (RMB/Share)	0.21	0.19	8.67	0.25
Weighted average return on net assets (%)	6.34	7.07	Decrease by 0.73 percentage points	9.80
Weighted average return excluding extraordinary items on net assets (%)	5.65	5.67	Decrease by 0.02 percentage points	8.95

Note: During the Reporting Period, the Company repurchased part of the Company's Bshares and completed the process of cancellation, the total share capital changed from 869,092,530 shares to 866,689,830 shares. According to the relevant requirements of the accounting standards, the Company recalculated the earnings per share based on the adjusted weighted average number of shares.

**II. Extraordinary items:** Unit: RMB

	2013	2012	2011
Loss on disposal of non-current assets	-605,876.47	5,305,580.46	24,130.45
Government grants and subsidies recognized in current income (exclusive of government grants and subsidies relating to ordinary business of the Company)	22,410,811.17	36,680,416.44	2,326,000.00
Changes in the fair value of holding the financial assets and financial liabilities, and investment profit from disposal of financial assets, financial liabilities and held for sale financial assets, except for the effective hedging related to the normal business	444,464.59	-	5,773,599.04
Reversal of impairment provision for accounts receivable which was separately tested for impairment	923,367.20	5,321,276.18	2,258,282.19
Other non-operating income and expenses besides above items	3,433,469.62	-137,193.00	112,897.67
Other P&L items according with non-recurring profit and loss	-	-	10,526,377.14
Impact of equity attributable to minority interest	64,503.44	864,893.97	501,314.03
Taxation impact	-4,268,447.48	-7,832,281.46	-3,502,779.34
<b>Total</b>	<b>22,402,292.07</b>	<b>40,202,692.59</b>	<b>18,019,821.18</b>

**III. Financial instruments at fair value** Unit: RMB

Item	Opening balance	Closing balance	Movement	Impact on current year profit
Available-for-sale financial assets	38,512,872.50	24,930,130.00	-13,582,742.50	-
Other current assets	16,433,490.00	-	-16,433,490.00	444,464.59
<b>Total</b>	<b>54,946,362.50</b>	<b>24,930,130.00</b>	<b>-30,016,232.50</b>	<b>444,464.59</b>

## Section IV. Board of Directors' Report

### I. Discussion and analysis on the operating results of the Company during the Reporting Period by Board of Directors

#### 1. Operations

In 2013, affected by the domestic macro-control, the growth of domestic fixed asset investment and automotive industry slowed down, the engineering machinery industry remained the overall declining trend, and the industry competition intensified. The Company sold diesels of 65,858 units in current year and increased by 2.84% as compared to last year. Due to the impact of product sales structure adjustments, the operating revenue amounted to RMB2,981.00 million and decreased by 1.62% as compared to last year.

Faced with severe and complex situation, the Company continued to uphold the Scientific Outlook on Development. Based on the work theme of "improve the innovation ability to enhance strength; improve the adaptation ability to promote the development; improve the management and control ability to reduce risks", the Company strengthened the scientific decision-making and standardised operation, as well as constantly strived to improve the level of governance. Faced with the overall decline in the market of engineering machinery and vehicle-diesel, the Company responded actively, advanced the development rapidly in adjustments, continued to conduct stable adjustments in development and unswervingly take the way of development with quality and efficiency. The Company constantly took sales as the leading indicator, management as driving force and corporate culture as catalyst, focused on consolidating internal management: (1) strive to enlarge the market share, consolidate and expand both old markets and emerging markets; (2) improve the application supporting capacity to meet the needs of customer; (3) accelerate the construction of new plants' capacity and speed up the new product project; (4) pay close attention to the product quality management, and guarantee the quality of new products; (5) thoroughly implement the lean production to reduce cost and enhance efficiency firmly; (6) strengthen the human resource management and improve the appraisal and distribution system. All the key work was carried out steadily with the effort of all staffs in the Company.

In 2013, faced with the overall unfavourable market environment, the company put more emphasis on cost deduction of raw material and focused on budget control. Meanwhile, the income of subsidiary increased as compared to last year and net profit attributed to equity holders of parent company came to RMB 205,333.90 thousand, with an increase of 0.8% over last year.

In terms of technology development, the company kept on carrying out technical innovation, accelerated the development of new products and the upgrade of existing products, built the full series product platform, advanced the construction of productivity rapidly and tried to meet the market demand by means of the variety and wide range of complete product chain. In 2013, the project of development and industrialization of R series Guo 4 Diesel Engine for light vehicles won the third prize of "2013 China Annual Automotive Industry Science and Technology Award". The brand "Dongfeng" was awarded as the famous brand in Shanghai again by The Trademark Review and Adjudication Board. The D series diesel engine of "Shangchai Power" brand was awarded as the 2012 China Annual high-quality brand of engineering industry in the election activity held by China Machinery Industry Federation and China's Machinery Industry Brand Strategy Promote Committee. The diesel engine of "Dongfeng" brand was awarded as the Customer Satisfaction Product in the 8th National Meeting of User Committee and 2013 National Customer Satisfaction Project Promotion Conference. The project "Research and Development of DME engine with High Efficiency and Low Emissions" cooperated by the Company and Shanghai Jiao Tong University won the first prize of Shanghai Technology Invention Award issued by Shanghai Municipal Government.

In terms of internal control, according to the Basic Standards of Enterprise Internal Control together with related supporting guidance and the requirement of annual internal control standards implement plan, on the basis of complement of risk review and continuously improving the internal control risks list, the Company conducted the supervision and inspection of internal control by below six means: System and Process Review, Risk Pool Critical Control Inspection, Information System User Authority Audit, Internal Control Risk Evaluation, Major issues

Supervision. The Company cleared the solution of risks and prevented the corporate risk effectively and timely by recognizing and analysing risks in the risk evaluation system. In the year of 2013, the Company is on the way of promoting the completeness of risk list of risk pool, strengthening the implement of internal control regimes and optimizing the overall quality of internal control management while continuously improving the institutional system.

## 2. The repurchase of part of the Company's B shares

To strengthen the confidence of public investor towards the Company, promote the corporate value and maximize shareholders' interests, the Company held the 2013 First Extraordinary General Meeting on 22 February 2013, and approved The Proposal to Repurchase Part of the Company's Domestically Listed Foreign Currency Shares (B shares). As at 21 November 2013, the period of repurchasing expired, the repurchase process completed. The amount of shares the Company repurchased is 2,402,700 shares, representing the proportion of the Company's total share capital (869,092,530 shares) of 0.2765%, the highest price for repurchasing is USD0.748 per share, the lowest price is USD0.680 per share, and the total payment amounted to USD1.7621 million (including commissions, etc.). The Company has completed the cancellation procedure during the Reporting Period, reducing the share capital from 869,092,530 shares to 866,689,830 shares, of which the B shares reduced from 347,200,000 shares to 344,797,300 shares.

## 3. Cash dividend plan in 2012

On 26 June 2013, the 2012 Annual General Meeting was held and approved the Proposal of 2012 Profit Distribution. The General Meeting agreed to allot cash dividend at RMB0.71 (tax inclusive) per 10 shares based on the total share capital at the date of registration for profit and minus the B shares have been transferred to the exclusive account of share repurchases, and the undistributed earnings were carried forward for future distribution. The above cash dividend plan was completed in 2013.

### (I). Analysis of main business

#### 1. Analysis of changes of income statement and cash flow statement

Unit: RMB

Subject	2013	2012	Fluctuation (%)
Operating Revenue	2,980,858,886.92	3,029,962,800.96	-1.62
Operating Cost	2,333,380,894.18	2,404,784,827.59	-2.97
Operating Expenses	175,136,932.62	157,469,783.41	11.22
General and administrative expenses	308,560,267.42	328,266,597.59	-6.00
Financial expenses	-38,611,467.77	-37,667,397.50	NA
Net cash flows from operating activities	162,840,869.01	394,284,437.94	-58.70
Net cash flows from investing activities	-494,472,054.49	-639,027,723.22	NA
Net cash flows from financing activities	-102,265,844.49	820,337,659.29	-112.47
R&D expenditures	115,896,868.22	133,701,398.55	-13.32
Impairment losses on assets	21,630,816.18	-2,136,658.69	NA
Investment income	28,813,596.01	9,280,392.85	210.48
Non-operating income	26,509,493.89	48,314,516.88	-45.13

- 1) Decrease of operating revenue as compared to last year was mainly because the Company's current period production and operation is relatively stable, although the sales volume increases, the sales revenue decreased slightly due to the influence of structural changes of sales.
- 2) Decrease of operating cost as compared to last year was mainly due to the decline in operating revenue and cost deduction.
- 3) Increase of operating expenses as compared to last year was mainly due to the increase of product warranty and maintenance fee.

- 4) Decrease of general and administrative expenses as compared to last year was mainly due to the reduction of R&D investment as the release of new products.
- 5) Decrease of financial expenses as compared to last year was mainly due to the increase in interest income.
- 6) Decrease of net cash flows from operating activities as compared to last year was mainly due to the increase in receivables.
- 7) Increase of net cash flows from investing activities as compared to last year was mainly due to the decrease in the investment of construction in process and the investment occurred this year towards MHI Engine.
- 8) Decrease of net cash flows from financing activities as compared to last year was mainly due to the funds raised from the non-public offering of A shares last year, besides, the repayment of long-term borrowings and the payment of cash dividend caused the decrease of cash flows.
- 9) Decrease of R&D expenditures as compared to last year was mainly due to the reduction of R&D projects.
- 10) Increase of impairment losses on assets as compared to last year was mainly due to the impairment provided for Xia Gong Share this year.
- 11) Increase of investment income as compared to last year was mainly because the associate (MHI Turbo) entered high-growth period, and presented a substantial increase in profit
- 12) Decrease of non-operating income as compared to last year was mainly due to the decline of government grants received and recognized during the year.

## 2. Revenue

### (1) Analysis of factors which drove the revenue fluctuation

The Company's core products are the diesel engines and its accessories. The sales of diesel engines were mainly affected by the construction machinery industry and automotive industry. In 2013, influenced by the decline in the growth of real estate and infrastructure investment, the Company's sales volume of diesel engines increased slightly. But due to the influence of structural changes of sales, the sales revenue decreased slightly.

### (2) Analysis of fluctuation in revenues based on physical sales of products

project	Production(unit)			Sales(unit)			Inventory(unit)		
	2013	2012	Fluctuation (%)	2013	2012	Fluctuation (%)	2013	2012	Fluctuation (%)
Diesel engine	64,498	63,633	1.36	65,858	64,038	2.84	3,876	5,236	-25.97
Total	64,498	63,633	1.36	65,858	64,038	2.84	3,876	5,236	-25.97

### (3) Analysis of order

The Company has three kinds of sales model, including OEM, regional agency and direct sales from sales department. The Company planned and operated the production according to the sales volume, and the sales orders were closely related to the conditions of the industry.

### (4) Major Customers

Unit: RMB

Name of customers	Operating revenue	The proportion to total sales (%)
First	503,410,422.46	16.89
Second	227,301,469.09	7.63
Third	220,766,685.19	7.41
Fourth	109,872,313.52	3.69
Fifth	93,014,874.19	3.12
Total	1,154,365,764.45	38.74

The sales of the five major customers amounted to RMB1,154million, accounting for 38.74% of the total sales.

## 3. Cost

## (1) Analysis of cost

Unit: RMB'0000

## By Industry

	Cost Structures	2013	Proportion of totalcosts (%)	2012	Proportion of totalcosts (%)	Fluctuation (%)
Diesel engines and its accessories	Raw Materials	198,912.79	86.42	206,754.45	87.13	-3.79
Diesel engines and its accessories	Labour Cost	13,660.06	5.93	14,438.99	6.08	-5.39
Diesel engines and its accessories	Fuel and Power	3,282.15	1.43	3,178.96	1.34	3.25
Diesel engines and its accessories	Manufacturing Overhead	14,318.96	6.22	12,937.93	5.45	10.67

## By Products

	Cost Structures	2013	Proportion of totalcosts (%)	2012	Proportion of totalcosts (%)	Fluctuation (%)
Diesel engines and its accessories	Raw Materials	198,912.79	86.42	206,754.45	87.13	-3.79
Diesel engines and its accessories	Labour Cost	13,660.06	5.93	14,438.99	6.08	-5.39
Diesel engines and its accessories	Fuel and Power	3,282.15	1.43	3,178.96	1.34	3.25
Diesel engines and its accessories	Manufacturing Overhead	14,318.96	6.22	12,937.93	5.45	10.67

## (2) Major Suppliers

Unit: RMB

Name of suppliers	Purchase amount	Proportion to total purchase (%)
First	90,276,911.24	3.83
Second	75,937,817.40	3.22
Third	62,656,649.56	2.66
Fourth	52,844,765.38	2.24
Fifth	52,449,848.27	2.23
Total	334,165,991.85	14.18

The purchases from the five major suppliers amounted to RMB334,165,991.85, accounting for 14.18% of the total purchases.

## 4. Expenses

Unit: RMB

	Jan- Dec 2013	Jan- Dec 2012	Fluctuation (%)
Operating expenses	175,136,932.62	157,469,783.41	11.22
General and administrative expenses	308,560,267.42	328,266,597.59	-6.00
Financial expenses	-38,611,467.77	-37,667,397.50	NA

- 1) Increase of operating expenses as compared to last year was mainly due to the increase of product warranty and maintenance fee.
- 2) Decrease of general and administrative expenses as compared to last year was mainly due to the reduction of R&D investment as the release of new products.
- 3) Decrease of financial expenses as compared to last year was mainly due to the increase in interest income.

## 5. R&D expenditure

(1) Summary of expenditure	Unit: RMB
Expensing of R&D expenditures in current period	115,896,868.22
R&D expenditures in total	115,896,868.22
Proportion to net asset (%)	3.50
Proportion to operating revenue (%)	3.89

(2) Note: The wages of R&D staff are included in the R&D expenditures.

## 6. Cash flow

	Jan- Dec 2013	Jan- Dec 2012	Fluctuation (%)
Net cash flows from operating activities	162,840,869.01	394,284,437.94	-58.70
Net cash flows from investing activities	-494,472,054.49	-639,027,723.22	NA
Net cash flows from financing activities	-102,265,844.49	820,337,659.29	-112.47

- 1) Decrease of net cash flows from operating activities as compared to last year was mainly due to the increase in receivables.
- 2) Increase of net cash flows from investing activities as compared to last year was mainly due to the decrease in the investment of construction in process and the investment occurred this year towards MHI Engine.
- 3) Decrease of net cash flows from financing activities as compared to last year was mainly due to the funds raised from the non-public offering of A shares last year, besides, the repayment of long-term borrowings and the payment of cash dividend caused the decrease of cash flows.

## 7. Other Information

(1) Details in changes of profit composition or sources of profit

In 2013, there is no significant change in the Company's profit composition or sources of profit.

(2) Details in progress of the Company's financing events and major asset restructures

The Company completed the 2011 non-public offering of A shares on 23 March 2012. The Company issued, in a way of non-public offering, 62,873,551 ordinary shares, and raised net fund of RMB818,149,600.84. Up to the end of the report period, all three projects have been constructed in progress.

(3) Details in development strategies and progress of operating plans

The Company adhered to the core value of "create the market-oriented demand, meet the customer-centralized demand, serve the employee-fundamental demand", made the strategy of simultaneous development of both construction machinery diesel engines and vehicle engines, steadily pushed forward the development of the Company by developing the products and reengineering the process.

The Company put forward a plan with operating revenue of 3,300 million at the beginning of 2013, and the actual operating revenue was 2,981 million in 2013. The main reason for not achieving the target was the decline in the whole industry and sales structural adjustment of the Company, although the sales volume increased, the sales revenue decreased slightly.

**(II) Operating activities analysis by industry, product or region****1. Principal operating activities by industry and product**

Unit: RMB

Principal operating activities by industry						
Industry	Operating revenue	Operating cost	Profit margin (%)	Operating revenue change (%)	Operating cost change (%)	Profit margin change (%)
Diesel engine and accessories	2,930,513,449.49	2,301,739,637.46	21.46	-1.85	-3.01	Increased by 0.93 percent points
Principal operating activities by product						
Product	Operating revenue	Operating cost	Profit margin (%)	Operating revenue change (%)	Operating cost change (%)	Profit margin change (%)
Diesel engine	2,618,027,674.55	2,042,061,348.98	22.00	-0.95	-2.83	Increased by 1.50 percent points
Accessories and others	312,485,774.94	259,678,288.48	16.90	-8.79	-4.42	Decreased by 3.80 percent points

**2. Principal operating activities by region**

Unit: RMB'0000

Region	Operating income	Operating income change (%)
Domestic	289,921.09	-0.17
Foreign	8,164.80	-0.04

**(III) Analysis of Assets and liabilities****1. Analysis of Assets and liabilities**

Unit: RMB

Accounts	Year end 2013	Proportion to total assets (%)	Year end 2012	Proportion to total assets (%)	Fluctuation (%)
Notes receivable	1,504,477,216.74	27.49	932,626,267.69	18.78	61.32
Accounts receivable	261,654,382.64	4.78	158,012,085.68	3.18	65.59
Other current assets	171,247.68	0.00	16,582,645.00	0.33	-98.97
Available-for-sale financial assets	24,930,130.00	0.46	38,512,872.50	0.78	-35.27
Long-term equity investment	213,287,406.87	3.90	55,531,119.93	1.12	284.09
Notes payable	568,263,631.46	10.38	152,755,633.05	3.08	272.01
Other payables	97,595,517.36	1.78	154,733,717.96	3.12	-36.93

- Increase of notes receivable as compared to last year was mainly due to increase in the proportion of receiving notes and the decrease in proportion of using bank notes with endorsements for payment.
- Increase of accounts receivable as compared to last year was mainly due to the increased sales of bus engine during the fourth quarter, which caused the increase of accounts receivable balance within credit period.
- Decrease of other current assets as compared to last year was mainly due to the disposal of additional shares of Xia Gong Share the Company subscribed in 2012.
- Decrease of available-for-sale financial assets as compared to last year was mainly because the fair values of available-for-sale financial assets decrease.
- Increase of long-term equity investments as compared to last year was mainly due to both the investment towards MHI Engine and the capital increase of MHI Turbo.
- Increase of notes payable as compared to last year was mainly due to increase in the proportion of issuing bank notes to make payments.

- 7) Increase of other payables as compared to last year was mainly due to the decrease of payables balance to construction project during this period.

**2. Assets measured at fair value and measurement changes of prime assets** Unit: RMB

	Opening balance	Closing balance	Fluctuation
Available-for-sale financial assets	38,512,872.50	24,930,130.00	-13,582,742.50
Other current assets	16,433,490.00	0.00	-16,433,490.00
<b>Total</b>	<b>54,946,362.50</b>	<b>24,930,130.00</b>	<b>-30,016,232.50</b>

Note: Other current assets were the additional shares of Xia Gong Share subscribed by the Company, which were approved by the 2012 5th Extraordinary Meeting of the Board of Directors, and the shares were expected to be sold in the short term. The Company subscribed 2.351 million shares of Xia Gong Share, and sold the shares in January 2013 to recover the investment, the income gained RMB 444.50 thousand from this transaction. So the shares are listed as other current assets.

**(IV) Core competitiveness analysis**

The Company's principal operating activities are the design, production and sales of diesel engines for construction machinery, vehicles or ships, and generator sets. Our products spread throughout the field of construction machinery, trucks, buses, agricultural machinery, ships, mobile power station. The diesel engine produced by the Company has advantages of high power, high torque, high reliability, low fuel consumption, low emission, low noise and high cost performance, etc., becoming the preferred driving forces by domestic and foreign machine (car) manufacturers. In recent years, the Company actively promotes sustainable development, and has developed some green, energy-saving and environment friendly engines reaching the country IV emission standards, such as the natural gas engine, the DME engine and hybrid engines.

**1. Brand advantage**

The Company was formerly known as Shanghai Diesel Engine Factory, founded in April 1947. In 1958, the Company's own design and manufacture of China's first 6135 diesel engine, initially laid the basic position of the Company in the construction machinery industry, creating a precedent for China's middle-bore diesel engines. China's first No.50 loader large, bulldozer heavy truck and many other devices were all equipped with the engine of the Company. The Company has been committed to the development and production of the internal combustion engine, in the forefront of the industry throughout the country in terms of advances in technology, product innovation, process quality and enterprise scale. The Company's products are brand-name products. Brand of Dongfeng is well-known in China. The Company also won the "brand-name products in Jiangsu, Zhejiang, Anhui and Jiangxi Shanghai 50 Best Enterprise", "Shanghai Foreign Investment Enterprise", "National Machinery Industry civilized unit", "the best industrial enterprises in Shanghai image unit" and so on, more than 10 times continuously was named "Shanghai Model Unit".

**2. R&D advantage**

The Company has a state-level technology center and post-doctoral workstations, has a strong R&D team with strong R&D strength. The Company has a number of invention patents and utility model patents and design patents. The Company pays high attention to technological innovation and patent protection; conforms to the pace of technological progress in diesel engines; promotes product innovation and technology upgrading in the result of all main products are up to the requirements of the national emission standard, and new progress in research and development, which laid a good foundation for the Company's sustainable development.

**3. Marketing advantage**

The Company's marketing network has coverage in all prefecture-level cities, major cities and important regions.

In addition, the Company's overseas service network has taken shape. The Company has established the functional central system whose core service is to service network planning and service on-site management; implemented managing methods based on control of unsatisfied servicing ratio as key performance indicators; strengthen the analysis and solution of the problem of unsatisfactory, so that pieces of work can be done in closed loop. In the meantime, through the coaching, etc, the Company help the dealers to expand sales and improve profitability, promotes win-win situation on both sides. The Company continually holds ongoing customer satisfaction activities, oriented to the market and customer needs, and strives to establish a rapid response mechanism, fast and efficient solution for the demand and quality feedback from both the dealers and the consumers, and constantly improve the level of quality of service, to provide the customers with better services. The Company introduced a service called "easy + people", which is fast, professional and sentimental. The service builds good reputation in users, builds a harmonious customer relationship. "easy + people" brand has a well-known reputation in the market.

#### 4. Management advantage

The Company's senior management has a high level of expertise and extensive experience in management; operate and manage in strict accordance with the modern enterprise system; adhering to the market-oriented management philosophy, making the Company maintained a clear competitive advantage. The Company has successfully implemented SAP projects, including sales management, project management, materials management, financial management and other core modules; established a logistics system with simple and efficient planning and control; established a financial system with strict and standard accounting and financial management, to integrate a core system platform to better support the Company's future business development. The Company used value chain management tools and TOC (Theory of Constraints) to optimize key business processes from order to delivery, and refined through a number of process indicators, increase evaluation efforts, and effectively improve the overall operational efficiency.

### (V) Investment Analysis

#### 1. Overall Analysis on Equity Investment

Unit: RMB

Investee	Accounting method	Closing balance	Movement	Opening balance	Shareholding percentage (%)
Shanghai MHI Engine Co., Ltd.	Equity method	89,497,832.61	89,497,832.61	0	50
Shanghai MHI Turbocharger Co., Ltd.	Equity method	113,761,182.26	68,258,454.33	45,502,727.93	40
Tianjin Lovol Heavy Machinery Co., Ltd.	Cost method	10,000,000.00	0	10,000,000.00	2.19
Shanghai Bank	Cost method	28,392.00	0	28,392.00	---
Total	/	213,287,406.87	157,756,286.94	55,531,119.93	/

Increase of Long-term equity investments as compared to the opening balance was mainly due to: (1) the Company invested RMB 100,000,000.00 towards the joint venture Shanghai MHI Engine Co., Ltd with the shareholding ratio of 50%, and Shanghai MHI Engine Co., Ltd. obtained the Business License issued by the Shanghai Municipal Administration for Industry and Commerce on 21 January 2013; (2) the Company conducted capital increase towards Shanghai MHI Turbocharger Co., Ltd. in 2013, meanwhile the profit shared from MHI Turbo increased this year.

(1) Shareholding of stocks of other listed company

Code	Abbreviation	Initial investment cost	The proportion of the investee's equity (%)	Book value at year end	Profit or loss	Equity changes	Account	Source of shares
600815	Xia Gong Share	43,809,000.00	0.54	20,461,380.00	257,700.00	6,615,159.00	Available-for-sale financial assets	Subscribe private placement
600815	Xia Gong Share	15,093,420.00	-	0.00	444,464.59	-1,139,059.50	Other current assets	Subscribe public issues
600845	BaoXin Software	550,000.00	0.05	4,468,750.00	41,112.50	1,684,986.88	Available-for-sale financial assets	Former corporate restricted shares
Total		59,452,420.00	/	24,930,130.00	743,277.09	7,161,086.38	/	/

(2) Trading of shares of other listed company

Abbreviation	Opening balance (shares)	Shares bought during the Reporting Period	The amount of cash used (RMB)	Shares sold during the Reporting Period	Closing balance (shares)	Profit gained from the investment (RMB)
Xia Gong Share	7,505,000			2,351,000	5,154,000	444,464.59

The 2012 5th Extraordinary Meeting of the Board of Directors approved the Proposal of participating in subscribing the additional public shares of Xia Gong Share, and agreed to sell the shares in the short term. The Company subscribed 2.351 million shares of Xia Gong Share, and sold the shares in January 2013 to recover the investment, the income gained RMB 444.50 thousand from this transaction.

**2. Non-financial corporation's trust management and investment in derivatives**

(1) Trust management

During the Reporting Period, the Company had no trust management.

(2) Entrusted loans

Entrusted loan projects

Unit: RMB'0000

Borrower	Amount	Period	Interest rate%	Purpose of the loan	Collateral or guarantor	Overdue	Related party transaction	Extension	Lawsuits	Source of Capital	Relationship
Shanghai Diesel Haian Co., Ltd.	9,000	1 year	4.48	Construction	No	No	No	No	No	Own fund	Wholly-owned subsidy
Shanghai Diesel Haian Co., Ltd.	8,000	3 years	4.48	Construction and Liquidity	No	No	No	No	No	Own fund	Wholly-owned subsidy

The 3rd Meeting of the 7th Board of Directors agreed to provide the entrusted loan to wholly-owned subsidy Shanghai Diesel Haian Co., Ltd., the accumulated amount was limited to be no more than RMB 300 million and the period was limited to be no longer than 3 years, the approval of implement was authorized to General Manager of the Company. At the end of the reporting period, the balance of entrusted loans provided to Shanghai Diesel Haian Co., Ltd. is RMB 170,000,000.00, of which:

The Company delegated BOC Haian Branch to provide entrusted loans amounting to RMB 90,000,000.00 in three times respectively on 23 January 2013, 28 March 2013 and 24 December 2013. The period of all above-mentioned loans is 1 year and the annual interest rate is 4.48%.

The Company delegated ICBC Haian Branch to provide entrusted loans amounting to RMB 80,000,000.00 on 18 December 2013. The period of above-mentioned loans is 3 year and the annual interest rate is 4.48%.

### 3. Use of raised fund

#### (1) Overall status of use of raised fund

Unit: RMB'0000

Year raised	Way of raising	The total funds raised	Funds used in current year	Accumulative funds used	Funds unused	The usage and destination of the unused funds
2012	Non-public offering	81,814.96	16,495.00	78,409.00	4,418.59	According to the "tripartite regulatory agreement on special account for raised funds", entered into among the Company, the sponsor Dongguan Securities Co., Ltd and Ningbo Bank Co., Ltd., Shanghai Xuhui Branch, the Company has opened a special account for storage and use of raised funds in 2011 non-public offering of A shares.
Total	/	81,814.96	16,495.00	78,409.00	4,418.59	/

The Company's 2011 non-public offering of A shares:

- On 23 March 2012, the Company published an announcement of "result of non-public offering of shares and changes in share capital". Based on the result of non-public offering of shares, the Company issued, in a way of non-public offering, 62,873,551 ordinary shares and raised fund of RMB846,277,996.46, after deducting underwriting fees of RMB21,156,949.91 and other issue expenses of RMB6,971,445.71, the net amount of raised fund was RMB818,149,600.84. The non-public offering of shares has been audited by Ernst & Young Hua Ming in verification report "Ernst & Young Hua Ming (2012) Yan ZiNo. 60462488\_B02".
- To ensure the invested projects construct smoothly, the Company used its own funds for pre-investment before the non-public offering funds in place. From 1 March 2011 to 10 April 2012, the pre-investment expenditure was RMB353,224.90 thousand in the Company's own fund. On 25 April 2012, the Board of Directors of the Company, in the second extraordinary Board Meeting of year 2012, reviewed and approved the proposal of "replacement of own fund used for pre-investment with funds raised by non-public offering of shares", decided to replace the Company's own fund of RMB353,224.90 thousand with funds raised by non-public offering of shares. Ernst & Young Hua Ming conducted a special audit and issued a special audit report "Ernst & Young Hua Ming (2012) Zhuan ZiNo.60462488\_B02" for the verification of the own fund used in the pre-investment.
- As at 31 December 2013, the Company has used the funds from non-public offering of shares amounting to RMB 784,090.00 thousand (including the replacement of RMB353,224.90 thousand), the interest income generated by the funds amounted to RMB 10,126.30 thousand, and the remaining unused balance was RMB44,185.90 thousand.

#### (2) Raised fund used on committed projects

Unit: RMB'0000

Project name	Changes in projects	Planned input amount of raised funds	Usage of raised funds in current period	Accumulative usage of raised funds	Whether comply with planned progress	Progress of the project
Heavy vehicle-diesel engine project	No	37,318.02	7,806.64	36,920.53	Yes	NA
Medium-light diesel engine project	No	30,393.62	8,134.18	27,950.41	Yes	NA
Development and Manufacturing of light diesel engine project	No	14,103.32	554.18	13,538.06	Yes	-338.07
Total	/	81,814.96	16,495.00	78,409.00	/	/

Up to the disclosure of this report, all above three projects have been constructed in progress.

**4. Analysis of major subsidiaries and jointstock companies**

Unit: RMB'0000

Company name	Major business	Registered capital	Total assets	Net assets	Net profit
Dongfeng Diesel Engine Sales	Sales of diesel and spare accessories	500	8,645.57	11,882.33	236.10
Shanghai Yihua Power Station Engineering Co., Ltd.	Manufacturing and selling diesel generator	2,000	7,189.92	7,090.49	61.62
Dalian Shangchai Diesel Power Co., Ltd.	Manufacturing and selling diesel engines	30,000	4,562.97	1,793.23	-771.11
Shanghai Diesel Haian Co., Ltd.	Manufacturing and selling casting products	30,000	42,193.96	27,564.85	-1,330.58
Shanghai MHI Engine Co., Ltd.	Manufacturing and selling diesel accessories	20,000	20,499.86	17,899.57	-2,100.43
Shanghai MHI Turbocharger Co., Ltd.	Manufacturing and selling diesel accessories	2,059.50 (USD'0000)	75,140.06	28,440.30	9,643.12

**5. Projects constructed with own funds**

Unit: RMB'0000

Project name	Project amount	Project progress	Investment in current period	Accumulative investment
Marine electric & electronic technical transformation project	7,705		1,758	5,659
Small diesel engine project	30,996		7,612	10,055
Sporadic investment in fixed assets	11,500	In progress	2,510	8,115
Equipment renewal project	1,561	In progress	425	1,382
Haian cast base project	59,796	In progress	9,865	38,986
Total	111,558	/	22,170	64,197

**II. Discussion and analysis of prospects for the Company's future development**
**(I) Development trend and market competition patterns in the industry**

In 2013, the national economy improved steadily, and GDP increased 7.7% as compared to last year. In 2014, the favourable aspect is that in general, the overall tone of the national macroeconomic policy is still maintaining the continuity and stability, the national economy will present steady development trend which will bring continuous developing opportunities to the Company. On the other hand, the environment the Company met is still severe. The economic restructuring and the policy-orientation of the macro-control switch to adjust the domestic estate and fix assets investment is still going on, and the competition in domestic engine industry is increasingly fierce.

In 2014, faced with the serious external environment, the Company will continue making efforts to explore the market, develop new products, improve products quality, promote lean production, reduce costs together with enhancing efficiency, and strive for a better business performance.

**(II) Company development strategy**

The Company will continuously insist core values of “create the market-oriented demand, meet the customer-centralized demand, serve the employee-fundamental demand”, realize the development strategy of simultaneously developing the mechanical engineering diesel engines and vehicle diesel engines, improve the development of company steadily through the products development and process reengineering.

**(III) Operating plan**

In 2014, the Company will continue to adhere to the scientific outlook on development, fully implement the Party's

policies and decisions of 18th national conference. Centering on the working theme of “Improving the force through ideological construction, creating the vitality through economic construction, strengthening the composure through institutional construction”, in 2014, the Company will: (1) take more efforts on marketing and focus on breakthrough major markets; (2) strengthen the management of platform project and improve the capability of supporting R&D; (3) strengthen internal constitution management and continue to optimize working flows; (4) improve the management of quality and make public reputation of products quality; (5) strengthen the management of subsidies and accelerate the process of achieving return on the investment; (6) thoroughly implement the lean production and improve the ability of process controlling; (7) Strengthen the control of capital budget to reduce costs and enhance efficiency firmly; (8) Promote the employee’s capability, improve the appraisal and distribution system and strive for a better business performance in 2014.

In 2014, the Company plans to achieve the sales of 80,889 units of diesel engines, revenue of RMB3,322.00million and operating cost of RMB2,764.00million.

**(IV) Financing demand for maintaining current business and completing ongoing investments**

According to the development strategy of the Company, in order to protect the financing demand of operation and project construction, the Company will solve the problem of funds required for future development through its own funds and applications for bank loans.

The Company will run the fund operation rationally according to the production and operation of the demand and turnover situation, strengthen the management of capital turnover, in order to ensure prompt arrangement of funding requirements of each projects.

**(V) Potential risks**

Domestic engine industry will continue to present in the pattern of fierce competition in the next few years, and the Company will face increasing pressure from the market. The scale of operation is too small, the internal management including human resources, quality, etc. and the enterprise culture construction is still behind the goal of the Company development strategy. All weaknesses need to be enhanced and improved in the future.

**III. The explanation of “non-standard audit report” by the board of directors**

**(I). The explanation of “non-standard audit report” by the board of directors and the board of supervisors**

N/A

**(II). Analysis of the impact of changes in accounting policies, accounting estimates and accounting methods by the board of directors**

N/A

**(III). Analysis of the reasons and impact of adjustment of previous period by the board of directors**

N/A

**IV. Profit distribution and capital reserve increase plan**

**(I). Formulation, application and adjustment of cash dividends**

1. The Company has always cared about reasonable return to the investor, and the articles of association regulated that the Company's profit distribution should pay much attention to the reasonable return on investor. The profit distribution policy should maintain continuity and stability on the basis of net assets and cash flows can ensure the business operation. The Company can carry out interim or annual dividend distribution in cash if the Company making profit and the cash flow meets the needs of normal operation and long-term investment planning development. If the Company making profit but with no distribution, the board of directors should disclose the reason and the purposes of holding the capital in the annual report. The distribution of the dividend is standard and the proportion

is clear, the process and mechanism of related decision-making is completed, independent directors gave opinions on the board, the Company protected the interests of small and medium-sized shareholders by listening to advices on telephone. The Company will combine the practical situation and the wills of the investors, refine the dividend distribution policy to improve the transparency by refining the related rules and regulations, strictly stick to the relevant procedures, keep the stability and sustainability of dividend distribution policy, make investors have clear expectations about the future dividends, increase returns to shareholders.

2. On 26 June 2013, the 2012 Annual General Meeting was held and approved the proposal of 2012 profit distribution to allot cash dividend at RMB0.71 (tax inclusive) per 10 shares based on the total share capital at the date of registration for profit and minus the B shares have been transferred to the exclusive account of share repurchases, and the undistributed earnings were carried forward for future distribution. During the Reporting Period, the above cash dividend and transfer to share capital were completed.

**(II) The Company should disclose the detail reasons, usage and usage plan of undistributed profit if the undistributed profit is positive but there is no plan of cash dividends.**

N/A

**(III) Resolutions or proposals on profit distribution or transfer of capital reserve into share capital in prior three years**

Unit: RMB

Year	No. of bonus shares per 10 shares (shares)	Dividend per 10 shares (tax inclusive)	No. of transferred shares from capital reserves (shares)	Cash dividends (tax inclusive)	Consolidated net profit attributed to shareholders during the year	Ratio to consolidated net profit attributable to shareholders (%)
2013	0	0.59	0	51,134,699.97	205,333,855.82	30.21
2012	0	0.71	0	61,297,991.86	203,709,733.71	30.09
2011	0	0.50	6	27,159,141.55	207,306,920.41	13.10

Due to the repurchase of part of the Company's domestically listed foreign shares (B shares), according to the regulations such as "SSE Business Guidelines for Shares Repurchase by Listed Companies through Auction Trading (Revised in 2013)", the cash paid during the shares repurchase process should be regarded as cash dividend, and should be combined with the cash dividend in annual profit distribution. The cash paid for the B shares repurchase was RMB10,891,053.63, after the aggregation, the ratio of cash dividend in 2013 to consolidated net profit attributable to shareholders is 30.21%.

**V. The condition of actively fulfilling the social responsibilities**

**(I). The condition of fulfilling corporate social responsibilities**

Details please refer to the report of "Social Responsibilities of Shanghai Diesel Engine Co., Ltd. in 2013" published in the Shanghai Stock Exchange website (www.sse.com.cn) on 15 March 2014.

**VI. Other disclosure matters**

The wholly-owned subsidiary of the Company, Shanghai Diesel Car Trading Co., Ltd., completed the cancellation procedure in 2013, and it was no longer consolidated into the Company's consolidated financial statements since March 2013.

## Section V. Significant Events

### I. Significant litigation, arbitration and events media widely questioned

There are no significant litigation, arbitration and events media widely questioned during the Reporting Period.

### II. Situation of funds occupied and repaid progress in the Reporting Period.

N/A

### III. Bankruptcy, restructuring and related events

There is no bankruptcy, restructuring and related events during the Reporting Period.

### IV. Asset transactions enterprise merger events

N/A

### V. Company equity incentive conditions and their influence

N/A

### VI. Significant related party transactions

#### (I) Related party transactions related to daily operations

Unit: RMB

Related party	Relation	Type of transaction	Details of transaction	Pricing	Amount	Percentage in the same nature transactions %
Shanghai Automotive Import and Export Co., Ltd (“Automobile Import and Export”)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	151,846,654.22	6.45
Shanghai MHI Turbocharger Co., Ltd. (“MHI Turbo”)	Associate	Purchase of goods	Purchase of goods and receiving services	Market price	41,316,204.37	1.75
Anyue Automotive Materials Co., Ltd (“Anyue Automotive Materials”)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	16,005,452.61	0.68
Shanghai Valeo Automotive Electrical System Co., Ltd. (“Valeo”)	Joint venture of the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	11,042,809.60	0.47
Federal-Mogul Shanghai Bearing Co., Ltd. (“Federal-Mogul”)	Associate of the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	6,901,233.36	0.29
Shanghai Xingfu Motorcycle Co. Ltd. (“Xingfu Motor”)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	6,595,611.72	0.28
KolbenschmidtPierburg Shanghai Nonferrous Components Co., Ltd (Pierburg Nonferrous Components”)	Associate of the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	6,173,829.91	0.26
Shanghai Kolbenschmidt Piston Co., Ltd. (“Kolben”)	Joint venture of the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	5,285,152.00	0.22
Shanghai Sanden Behr Automotive Air Conditioning Co., Ltd. (“Sanden Behr”)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	5,256,756.85	0.22
Shanghai Automotive Industry Activity Center Co., Ltd. (“SAIC Activity Center”)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	4,409,735.48	0.19
Shanghai Sachs Power Assembly parts system Co., Ltd. (“Sachs Power”)	Joint venture of the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	2,594,826.63	0.11

Related party	Relation	Type of transaction	Details of transaction	Pricing	Amount	Percentage in the same nature transactions %
Shanghai Anyue Energy-saving technology Co., Ltd (“Anyue Energy-saving”)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	2,248,938.45	0.10
China Spring Corporation Limited (“China Spring”)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	2,164,725.70	0.09
Shanghai Automotive Gear Works No. 3 (“SAIC Gear”)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	2,132,900.68	0.09
Shanghai Automotive Powder Metallurgy Co., Ltd (“Automotive Powder”)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	1,180,256.60	0.05
Shanghai Automotive Information Industry Investment Co., Ltd (“Information Industry Investment”)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	632,777.72	0.03
Shanghai MHI Engine Co., Ltd (“MHI Engine”)	Joint Venture	Purchase of goods	Purchase of goods and receiving services	Market price	589,294.87	0.03
United Automotive Electronic System Co., Ltd. (“United Automotive Electronic”)	Joint venture of the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	261,068.00	0.01
Shanghai Sandmann Foundry Co., Ltd. (“Sandmann”)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	26,811.00	0
DIAS Automotive Electronic System Co., Ltd. (“DIAS”)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	24,000.00	0
SAIC Commercial Vehicle Co., Ltd. (“SAIC Commercial Vehicle”)	Company controlled by the parent company	Sales of goods	Sale of diesels	Market price	227,301,469.09	7.63
Shanghai Sunwin Bus Co., Ltd. (“Sunwin Bus”)	Joint venture of the parent company	Sales of goods	Sale of diesels	Market price	70,919,349.28	2.38
SAIC IvecoHongyan Commercial Vehicle Co., Ltd. (“IvecoHongyan”)	Joint venture of the parent company	Sales of goods	Sale of diesels	Market price	35,466,052.06	1.19
Shanghai MHI Engine Co., Ltd (“MHI Engine”)	Joint Venture	Sales of goods	Sale of diesels	Market price	4,969,672.89	0.17
Shanghai Pengpu Machine Building Plant Co., Ltd (“Pengpu Machine”)	Company controlled by the parent company	Sales of goods	Sale of diesels	Market price	3,131,320.92	0.11
SAIC Motor Corporation Limited (“SAIC”)	Controlling Shareholder	Sales of goods	Sale of diesels	Market price	3,046,575.34	0.10
Nanjing Iveco Automotive Co., Ltd. (“Nanjing Iveco”)	Joint venture of the parent company	Sales of goods	Sale of diesels	Market price	1,301,892.12	0.04
SAIC Commercial Vehicle Co., Ltd. (“SAIC Commercial Vehicle”)	Company controlled by the parent company	Other income	Lease of property	Market price	125,000.00	1.22
Shanghai MHI Engine Co., Ltd (“MHI Engine”)	Joint Venture	Other income	Lease of property	Market price	5,565,858.33	54.33
SAIC Motor Corporation Limited (“SAIC”)	Controlling Shareholder	Other expenditure	Lease of land	Market price	9,500,000.00	100
SAIC Finance Co., Ltd. (“SAIC Finance”)	Company controlled by the parent company	Other income	Interest on bank deposit	Deposit rate of People's Bank of China	2,461,975.73	6.74

Related party	Relation	Type of transaction	Details of transaction	Pricing	Amount	Percentage in the same nature transactions %
Shanghai Automotive Industry Activity Center Co., Ltd. (“SAIC Activity Center”)	Company controlled by the parent company	Receiving services	Ticket agency	Market price	4,200,895.00	23.82
Shanghai Automotive Group Company Limited Training Center (“SAIC Training Center”)	Company controlled by the parent company	Receiving services	Training expense	Market price	292,100.00	12.80
Shanghai Anji Automotive Parts Logistics Co., Ltd (“Anji Automotive”)	Company controlled by the parent company	Receiving services	Freight	Market price	771,080.21	11.11
Shanghai Automotive News Co., Ltd. (“SAIC News”)	Company controlled by the parent company	Other expenditure	Advertisement expenses	Market price	89,622.64	1.45
Shanghai Anji Trading Automotive Sale Services Co., Ltd (“Anji Trading”)	Company controlled by the parent company	Rendering services	Power sales	Market price	46,170.86	2.03
Shanghai MHI Engine Co., Ltd (“MHI Engine”)	Joint Venture	Rendering services	Power sales	Market price	293,890.91	12.91
Shanghai MHI Engine Co., Ltd (“MHI Engine”)	Joint Venture	Other income	IT service fee	Market price	1,954,528.30	100
Total				/	638,126,493.45	-

On June 26, 2013, the 2012 Annual General Meeting reviewed and approved the Proposal of Daily Related Party Transactions in 2013. Pursuant to this, it was estimated that the regular transaction amount is RMB565.94 million under the “Framework Agreement on Supply of Accessories and Spare Parts”, RMB207.20 million under “Framework Agreement on Production Service”, RMB10.00 million with daily average bank balances no more than RMB300.00 million under “Framework Agreement on Financial Services”, RMB12.00 million under “Framework Agreement on Lease of Land and Building”, RMB 66.40 million with MHI Turbo and RMB32.00 million with MHI Engine. To summaries, the total amount of related party transaction was estimated to be RMB893.53 million. In year 2013, the Company’s actual related party transactions amounted to RMB 638,126.50 thousand, of which, supplement of accessories and spare parts amounting to RMB390,806.70 thousand, rendering of production service amounting to RMB180,543.40 thousand, financial service with SAIC Finance amounting to RMB2,462.00 thousand, lease of land and building amounting to RMB9,625.00 thousand and the transactions with MHI Turbo amounting to RMB41,316.20 thousand, the transaction with MHI Engine amounting to RMB 13,373.20 thousand.

The price of purchasing, selling and services between the Company and related parties, including SAIC, SAIC Finance, etc., follows the rules as below: If there is national pricing, it would be determined by national pricing; If there is no national price, it would be determined by market price; if there is no market price, it would refer to the actual cost plus appropriate expenses which are determined by both sides; If some special services could not be priced according to the principle of “cost plus expenses”, it would be negotiated by both sides. The pricing of financial services provided by SAIC Finance is performed in accordance with the pricing requirement of CBRC. The above-mentioned related party transaction is the necessary, ordinary and continuous transaction of the Company and the subsidiaries, it would not affect the independence of the Company, and the corporate business would not form the dependence or be controlled by the related party for this kind of transactions, it would not cause harm to the interests of other shareholders either.

## VII. Significant contracts and its implementation

### (I) Mandate, contract and lease events

#### 1. Mandate

There is no mandate events occurred during the year.

#### 2. Contract

There is no contract events occurred during the year.

#### 3. Lease

Unit: RMB'0000

Name of Lessor	Name of Lessee	Leased Assets	Amount of Leased Assets	Begging date of Lease	Termination date of Lease	Whether is related party transactions	Relationship to the Company
SAIC	the Company	land-use right	950	1 January 2012	31December 2031	Yes	Controlling Shareholder

In 2012, the Company entered into the Land Lease Agreement with the Controlling Shareholder, SAIC. The Company leased several pieces of land located on No.2636 Jun Gong Road, No. 200 and No.148 Yin Hang Road, with 610,676.60 square meters in aggregate, from 1 January 2012 to 31 December 2031 with annual rental of RMB9.50 million. The rental would be adjusted every three years. The land rental for year 2013 was RMB9.50 million.

### (II) Guarantee commitments

N/A

### (III) Other significant contracts

There are no other significant contracts during the year.

## VIII. Implementation of commitments

### (1) The commitments made by the Company, shareholders with more than 5% shares interest in the Company, Controlling Shareholder and actual controllers of the Company in the Reporting Period or brought forward to the Reporting Period

Commitment background	Commitment types	Committed party	Contents of commitments	Period	Whether the performance period	Whether seriously performed timely
Commitments made in acquisition report or equity movement report	Resolve horizontal competition	SAIC	As long as SAIC is the Controlling Shareholder of SDEC, SAIC should take the following ways to avoid the horizontal competition: (1) The potential immaterial horizontal competition between SDEC and SAIC Fiat Powertrain Hongyan Co., Ltd. ("SAIC Powertrain") does not constitute a horizontal competition relationship between the listed company and its parent company itself and its subsidiaries. SAIC would not damage the interest of SDEC and its minority shareholders via the horizontal competition. (2) Except for SAIC Powertrain, SAIC and its subsidiaries would no longer involve in any business that competes with SDEC.	Long-term	Yes	Yes

Commitment background	Commitment types	Committed party	Contents of commitments	Period	Whether the performance period	Whether seriously performed timely
Commitments made in acquisition report or equity movement report	Resolve horizontal competition	SAI Corporation	As long as SAI Corporation continues to serve as the Controlling Shareholder of SAIC, also SAIC completes the equity acquisition of SDEC and continues to serve as the Controlling Shareholder of SDEC, SAICorporation would no longer involve in any business that competes with SDEC, and ensure that SAICorporation’s wholly-owned, controlling subsidiaries would no longer operate any business which competes with SDEC. In addition, SAICorporation will continue to strictly comply with the commitment to avoid horizontal competition with SAIC made during the reorganization of SAIC.	Long-term	Yes	Yes
	Resolve related party transactions	SAIC	Except for the regular related party transactions between SAIC and SDEC to meet the daily operation requirement, they should try their best to avoid any irregular related party transactions; for those regular and unavoidable irregular related party transactions with reasonable causes, SAIC commit to complying with the principle of impartiality, fairness and openness, and entering into the agreement pursuant to the law, fulfilling the legal procedures and obligations of information disclosure according to related laws and regulations and the relevant provisions made by Shanghai Stock Exchange. SAIC should assure that interests of SDEC and other shareholders would not be impaired.	Long-term	Yes	Yes

Commitment background	Commitment types	Committed party	Contents of commitments	Period	Whether the performance period	Whether seriously performed timely
Commitments made in acquisition report or equity movement report	Resolve related party transactions	SAI Corporation	As long as SAICorporation continues to serve as the Controlling Shareholder of SAIC, as well asSAIC completes the acquisition of SDEC and continues to serve as the Controlling Shareholder of SDEC: (1) except for the regular related party transactions to meet the daily operation requirement, SAI Corporation itself should try its best to avoid any irregular related party transactions with SAIC and SDEC. SAI Corporation would also require its wholly-owned, controlling subsidiaries to do so; for those regular and unavoidable irregular related party transactions with reasonable causes, SAI Corporation commits to complying with the principle of impartiality, fairness and openness, and entering into the agreement pursuant to the law, fulfilling the legal procedures and obligations of information disclosure according to related laws and regulations and the relevant provisions made by Shanghai Stock Exchange. SAI Corporation should assure that interests of the listed companies and other shareholders would not be impaired. (2) SAICorporationshould urge SAIC and SDEC further improve theircorporate governance structures, comply with the related laws and regulations and the requirements of regulatory authorities about the related transactions. At the same time, SAICorporation will conscientiously fulfil the obligation of recusal to ensure the norm of consideration procedure about the related transactions. (3). SAI Corporation should urge SAIC and SDEC to further improve the transparency of related party transactions' disclosure, strengthen the supervision of related transactions, disclose the decision procedures, price-making principles, price-making method and its impacts etc. of the related party transactions, which have significant impacts on the operating results or operating development, in a timely manner according to the regulators' requirements, so as to protect the medium and minority shareholders' interests.	Long-term	Yes	Yes

**IX. Appointment and dismissal of auditors**

Unit: RMB'0000

Auditors changed or not	No
Domestic auditors	Current appointment Ernst & Young Hua Ming LLP
Remuneration to domestic auditors	105
Service years of domestic auditors	10 years

In 2013, the Company appointed Ernst & Young Hua Ming LLP as the annual financial report auditor of the Company, the wholly-owned subsidiary Shanghai Dongfeng Diesel Engine Trading Co., Ltd, the wholly-owned subsidiary Shanghai Diesel Haian Co., Ltd. And the auditor of the special report for raised funds, and the total remuneration amounts to RMB1,050,000.00 (excluding tax).

	Name	Remuneration
Internal control auditor	Ernst&Young Hua Ming LLP	28.3
Finance advisor	China International Capital Corporation Limited	58

**X. Punishment and rectification of the Company and its Directors, Supervisors, Senior Management, Shareholders holding more than 5% of the shares and Actual Controllers**

During the year, the Company and its Directors, Supervisors, Senior Management, Shareholders holding more than 5% of the shares and Actual Controllers were not subject to the inspection, administrative punishment, publicly criticism by the China Securities Regulatory Commission or publicly being condemnation by the Shanghai Stock Exchange.

**XI. Other significant matters**

There are no other significant matters during the year

## Section VI. Changes in share capital and shareholders information

### I. Changes in share capital

#### (I) Changes in share capital

##### 1. Changes in share capital

(Unit:share)

	Before change		Increase/(decrease)					After change	
	Quantity	Percentage (%)	New share	Bonus share	Reserves increase capital	Others	Subtotal	Quantity	Percentage (%)
I. Restricted shares	100,597,682	11.57				-70,880,000	-70,880,000	29,717,682	3.43
1. State shares									
2. State-owned legal person shares	29,717,682	3.42						29,717,682	3.43
3. Other domestic shares	70,880,000	8.15				-70,880,000	-70,880,000		
Of which: Domestic non-State-owned legal person shares	64,960,000	7.47				-64,960,000	-64,960,000		
Domestic natural person shares	5,920,000	0.68				-5,920,000	-5,920,000		
II. Tradable shares	768,494,848	88.43				68,477,300	68,477,300	836,972,148	96.57
1. A shares	421,294,848	48.48				70,880,000	70,880,000	492,174,848	56.79
2. B shares	347,200,000	39.95				-2,402,700	-2,402,700	344,797,300	39.78
III.Total	869,092,530	100.00				-2,402,700	-2,402,700	866,689,830	100.00

##### 2. Description of changes in share capital

###### (1) The restricted period of 2011 Non-public offering shares expired

The Company completed the issuance of 2011 non-public offering shares on 23 March 2012, and issued, in a way of non-public offering, 62,873,551 ordinary Ashares, of which the restricted period of 18,573,551 shares subscribed by shareholding company SAIC is 36 months, the restricted period of 44,300,000 shares subscribed by other purchasing parties is 12 months and the relieve date of these shares is 25 March 2013. On 15 June 2012, the Company completed the 2011 Profit Distribution and Transfer Capital Reserve into Share Capital Plan, allotted cash dividend at RMB0.50 (tax inclusive) per 10 shares, meanwhile, transferred the capital reserve into share capital at 6 additional shares per 10 shares, after the completion of above-mentioned transfer capital reserve into share capital plan, the restricted shares subscribed by shareholding company SAIC increased to 29,717,682 shares, restricted shares subscribed by other purchasing parties increased to 70,880,000 shares. As of 25 March 2013, 70,880,000 shares subscribed by purchasing parties except SAIC turned into tradable shares from restricted shares.

###### (2) The repurchase of part of the Company's domestically listed foreign shares

The 2013 First Extraordinary General Meeting approved The Proposal to repurchase part of the Company's Domestically Listed Foreign Currency Shares (B Shares) on 22 February 2013. As at 21 November 2013, the period of repurchasing expired, the repurchase process completed. The amount of shares the Company repurchased is 2,402,700 shares, representing the proportion of the Company's total share capital (869,092,530 shares) of 0.2765%, the highest price for repurchasing is USD0.748 per share, the lowest price is USD0.680 per share, and the total payment amounted to USD1.7621 million (including commissions, etc.). The Company has completed the cancellation procedure during the Report Period, reducing the share capital from 869,092,530 shares to 866,689,830 shares, of which the B shares reduced from 347,200,000 shares to 344,797,300 shares.

##### 3. The impact of share capital change on the latest year and the latest period of earnings per share, net assets per share and other financial indicators

Due to the completion of repurchasing and cancellation of part of the Company's domestically listed foreign shares (B shares) in 2013, the Company wrote off 2,402,700 shares, reducing the Company's share capital from 869,092,530 shares to 866,689,830 shares. Ceteris paribus, this change in share capital helps to improve the Company's net assets per share and earnings per share.

**(II) Changes in restricted shares** (Unit:share)

Shareholders	Year-beginning restricted shares	Released restricted shares	Increase restricted shares	Year-end restricted shares	Restricted reason	Relieve date
SAIC	29,717,682	0		29,717,682	Subscribed the Company's shares in a way of non-public offering, the restricted period is 36 months starting from 23 March 2012, expected to be tradable on 23 March 2015	23 March 2015
Wu Xi Weifu High-Technology Group Co., Ltd.	23,680,000	23,680,000			Subscribed the Company's shares in a way of non-public offering, the restricted period is 12 months starting from 23 March 2012, became tradable on 25 March 2013	25 March 2013
China Universal Asset Management Co., Ltd. - China Merchants Bank - China Resources SZITIC Trust Co., Ltd.	17,600,000	17,600,000			Subscribed the Company's shares in a way of non-public offering, the restricted period is 12 months starting from 23 March 2012, became tradable on 25 March 2013	25 March 2013
Yantai Plains Real Estate Co., Ltd.	11,840,000	11,840,000			Subscribed the Company's shares in a way of non-public offering, the restricted period is 12 months starting from 23 March 2012, became tradable on 25 March 2013	25 March 2013
Shenzhen Pingan Innovation Capital Investment Co. Ltd.	11,840,000	11,840,000			Subscribed the Company's shares in a way of non-public offering, the restricted period is 12 months starting from 23 March 2012, became tradable on 25 March 2013	25 March 2013
Zhang Song Mei	5,920,000	5,920,000			Subscribed the Company's shares in a way of non-public offering, the restricted period is 12 months starting from 23 March 2012, became tradable on 25 March 2013	25 March 2013
Total	100,597,682	70,880,000		29,717,682	/	/

**II. Issuance and listing of shares**

**(I) Issuance information within the latest three years up to the end of the Reporting Period:**

(Unit: share) RMB

Types of stock and derivative securities	Release date	Issue price (or Interest rate)	The number of issued stock	Listing date	Approved number of listing transactions
Types of stock					
A-share	22 March 2012	13.46 Yuan / Share	62,873,551	23 March 2012	62,873,551

On 17 January 2012, the Company acquired the “Approval on Shanghai Diesel Engine Co., Ltd. of non-public offering” issued by China Securities Regulatory Commission (ZhengJian Xu Ke [2012] No.59). Pursuant to the approval document, the Company completed the non-public offering of Ashares on 23 March 2012, the Company issued, in a way of non-public offering, 62,873,551 ordinary shares (A shares) to six specific investors including SAIC.

**(II). Total number of shares, share structures and assets and liabilities structures:**

After the 2011 non-public offering of Ashares, the Company’s asset-liability ratio decreased due to the increase of total assets and shareholders’ equity after the non-public offering.

**(III). Employee-held shares:**

There were no employee-held shares at the end of the Reporting Period.

**III. Information of shareholders and actual controllers**

**(I) The number of shareholders and their holding positions**

(Unit: Share)

Number of shareholders as of the Reporting Period							40,572
Number of shareholders at the end of the fifth trading day before the annual report announcement							41,499
Shareholding information of the top ten largest shareholders							
Name of shareholder	Nature of shareholder	% of shares held	Number of shares held	Movement during the year	Restricted shares held	Pledged or frozen shares	
SAIC	State-owned	48.05	416,452,530	0	29,717,682	None	
Wuxi Weifu High-Technology Group Co., Ltd.	Others	2.73	23,680,000	0		Unknown	
Yunan International Trust Co., Ltd. - Mega Trust Investment No. 6 Securities Investment Collective Money Trust Plan	Others	2.07	17,964,202	17,964,202		Unknown	
BochkInvestment Funds-Bochk China Golden Dragon Fund	Others	1.07	9,299,206	9,299,206		Unknown	
China Universal Asset Management Co., Ltd. - China Merchants Bank - China Resources SZITIC Trust Co., Ltd.	Others	0.89	7,700,000	-9,900,000		Unknown	
Liu Zhiqiang	Others	0.83	7,221,500	1,021,500		Unknown	
Tairen China Fund Limited	Others	0.35	3,013,696	3,013,696		Unknown	
The Libra Greater China Fund Ltd	Others	0.32	2,768,910	2,768,910		Unknown	
BOCI Securities Limited	Others	0.30	2,591,387	-1,946,298		Unknown	
HSBC Broking Securities (Asia) Limited Clients Account	Others	0.27	2,369,388	549,943		Unknown	

Shareholding information of the top ten largest shareholders of tradable shares		
Name of shareholder	Number of tradable shares held	Type of share
SAIC	386,734,848	A shares
Wuxi Weifu High-Technology Group Co., Ltd.	23,680,000	A shares
Yunan International Trust Co., Ltd. - Mega Trust Investment No. 6 Securities Investment Collective Money Trust Plan	17,964,202	A shares
BochkInvestment Funds-Bochk China Golden Dragon Fund	9,299,206	B shares
China Universal Asset Management Co., Ltd. - China Merchants Bank - China Resources SZITIC Trust Co., Ltd.	7,700,000	A shares
Liu Zhiqiang	7,221,500	B shares
Tairen China Fund Limited	3,013,696	B shares
The Libra Greater China Fund Ltd	2,768,910	B shares
BOCI Securities Limited	2,591,387	B shares
HSBC Broking Securities (Asia) Limited Clients Account	2,369,388	B shares
Note:	Between SAIC and the other 9 largest shareholders, there is no related party relationship or joint action as regulated by the "Administration of the Takeover of Listed Companies Procedures". It is unknown whether there is related party relationship or joint action among the other 9 largest shareholders.	

## Shareholding information of the top ten largest shareholders of restricted shares

Name of Shareholders	Number of restricted shares held	Marketable Status		Trading Limited Conditions
		Marketable Time	Additional Marketable Number	
SAIC	29,717,682	23 March 2015	29,717,682	The transfer is prohibited in 36 months since the non-public offering.

**IV. Information of Controlling Shareholder and actual controller****(I). Controlling Shareholder**

1. Legal Person		RMB
Name	SAIC	
Corporate representative	Mr. Hu Maoyuan	
Date of incorporation	24 November 1997	
Incorporation code	13226025-0	
Registered capital	11,025,566,629.00	
Principal activities	Manufacturing and sales of automobiles, motorcycles, tractors and related machineries and accessories; domestic trading (except for specific regulation); consultancy service; exportation of self-produced products and technologies and the importation of self-used machinery, accessories, raw /auxiliary materials and technologies (except for goods or technologies forbidden by the government for trading, exportation or importation); the Company, including the members controlled by the Company, also engaged in automotive and machinery leasing, investment, publication, advertising on self-owned medias, and the exportation and importation of goods and technologies (When need the allowance from government, according to the government approval documents).	
Operating result	Details please refer to the 2012 annual report of SAIC (600104).	
Financial position	Details please refer to the 2012 annual report of SAIC (600104).	

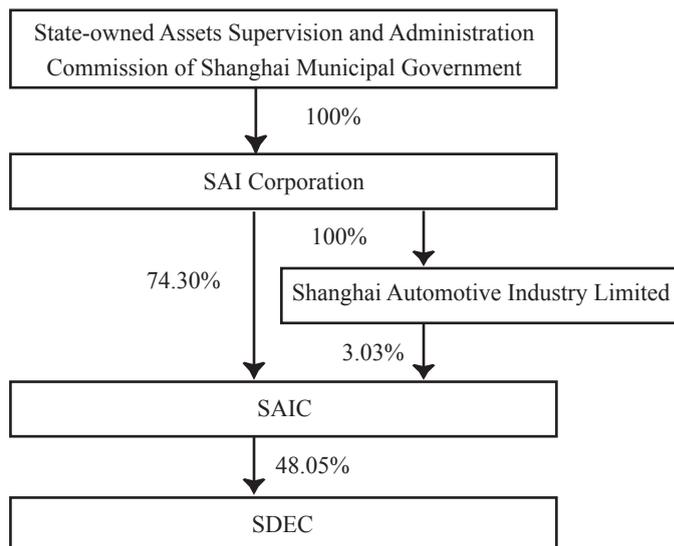
Cash flow and future development strategy	Details please refer to the 2012 annual report of SAIC (600104).
Companies controlled and invested during the Reporting Period	Domestic listed company controlled: HuayuAutomotive Systems Co., Ltd.

**(II). Actual Controller**

1. Legal Person

Name	SAI Corporation
Corporate representative	Mr. Hu Maoyuan
Date of incorporation	1 March 1996
Incorporation code	13222217-4
Registered capital	21,599,175,737.00
Principal activities	Manufacturing research and development, sales and investment in automobile, tractor and motorcycle; operating and management of state owned assets; domestic trading (except for special regulations); and consulting service.
Operating result	SAI Corporation achieved the consolidated sales revenue of RMB481.10 billion and the consolidated net profit attributable to parent company of RMB15.60 billion in year 2012.
Financial position	The consolidated total assets of SAI Corporation were RMB322.60 billion and the consolidated shareholders' equity attributable to parent company RMB95.80 billion at the end of 2012.
Cash flow and future development strategy	The cash and cash equivalents of SAI Corporation itself were RMB1.9 billion at the end of 2012.
Companies controlled and invested during the Reporting Period	Domestic listed company controlled: SAIC

2. Relationship between the Company and the actual controller



**V. Other legal person shareholders who hold more than 10% of total shares.**

There were no other legal person shareholders who held more than 10% of the Company's shares as at the year end.

## Section VII. Directors, Supervisors, Senior Executives, and Employees

### I. Change of shareholding and remuneration

#### (I). Shareholding and remuneration details of Directors, Supervisors and Senior Management

(Unit:share)

Name	Position	Gender	Age	Term of office	Shares held at beginning of the year	Shares held at end of the year	Movement during the year	Reason for the movement	Remuneration obtained from the Company (RMB'10K) (Per-tax)	Remuneration from Controlling Shareholder (RMB'10K)
Xiao Guopu	Chairman of the Board	Male	59	2012.5.18-2015.5.17	0	0	0		0	168.00
Gu Feng	Director	Male	41	2012.5.18-2015.5.17	0	0	0		0	144.94
Cheng Jinglei	Director	Male	46	2012.5.18-2015.5.17	0	0	0		0	122.57
Gu Qing	Director	Male	47	2012.5.18-2015.5.17	0	0	0		0	122.57
Jiang Kai	Director and General Manager	Male	54	2013.8.9-2015.5.17	0	0	0		33.22	0
Jiang Baoxin	Director and Chief Financial Controller	Male	44	2012.5.18-2015.5.17	16,000	16,000	0		63.17	0
Ouyang Minggao	Independent Director	Male	55	2012.5.18-2015.5.17	0	0	0		6	0
Yan Yiming	Independent Director	Male	50	2012.5.18-2015.5.17	0	0	0		6	0
Sun Yong	Independent Director	Male	53	2013.6.26-2015.5.17	0	0	0		6	0
Zhou Langhui	Chairman of the Supervisor Committee	Male	42	2012.5.18-2015.5.17	0	0	0		0	153.93
Zhu Xian	Supervisor	Male	59	2012.5.18-2015.5.17	0	0	0		0	122.57
Shi Yimeng	Supervisor	Male	58	2012.5.18-2015.5.17	16,000	16,000	0		77.03	0
Jin Gang	Vice General Manager	Male	41	2012.5.18-2015.5.17	16,000	16,000	0		63.17	0
Zhu Jiankang	Vice General Manager	Male	49	2012.5.18-2015.5.17	16,000	16,000	0		63.17	0
Qian Jun	Vice General Manager	Male	52	2012.5.18-2015.5.17	16,000	16,000	0		75.49	0
Wang Hongbin	Board Secretary	Male	40	2012.5.18-2015.5.17	16,000	16,000	0		29.21	0
Wang Xiaoqiu	Former Director and Former General Manager	Male	50	2012.5.18-2013.8.9	32,000	32,000	0		66.43	0
Total	/	/	/	/	128,000	128,000	0	/	488.89	834.58

**Xiao Guopu:** once being the General Manager and Vice Chairman of the Communist Party of SAIC-Volkswagen Sales Co., Ltd. and the Vice President of SAI Corporation. Presently acting as the Vice President of SAIC.

**Gu Feng:** once being the deputy manager of Finance Department of SAI Corporation; once being the Deputy Manager of Finance Department and the Executive Director of Capital Operation Department of SAIC. Presently acting as the Chief Financial Controller of SAIC.

**Cheng Jinglei:** once being the Manager of Technology Quality Department of SAI Corporation; the Vice President of Automotive Engineering Institute; the Manager of Technology Quality Department of SAIC; Deputy Executive Dean, Vice Chief Engineer and the Dean of Automotive Engineering Institute. Presently acting as the Vice Chief Engineer, Executive Director of Strategy and Business Planning Department of SAIC.

**Gu Qing:** once being the Vice General Manager of Shanghai Sun Win Bus Co., Ltd.; Vice Director of Chief Engineer Office and Vice Leader of New Energy Promoting Team of SAIC; Vice Director of Commercial Vehicle Business Department and Vice Director and Director of Commercial Vehicle Technical Center of SAIC. Presently acting as the

Chairman of the Communist Party, Chairman of Discipline Inspection Commission, Chairman and deputy director of Union of Commercial Vehicle Technical Center.

**Jiang Kai:** once being the Vice General Manager and the Chairman of the Communist Party Branch of Shanghai Volkswagen Powertrain Co., Ltd., Mr. Jiang Kai served as the General Manager of the Company since 9 August 2013, and was elected as the Director by the 2013 Second Extraordinary General Meeting at 16 September 2013.

**Jiang Baoxin:** once being the Senior Financial Manager of Shanghai General Automobile Co., Ltd. Bei Sheng Branch; Executive Financial Controller and the Chief Financial Controller of Ssangyong Motor Co., Ltd.; Chief Financial Controller of SAIC Commercial Vehicle Business Department. Presently acting as the Director and the Chief Financial Controller of SDEC.

**Ouyang Minggao:** once being the Associate Professor, Professor and the Tutor of Ph.D of Tsinghua University. Presently acting as the Special Engaged Professor of Chang Jiang Scholar of Ministry of Education; member of the Administration Committee and the Deputy Director of Academy Committee of Tsinghua University; Professor and the Tutor of Ph.D of Tsinghua University; Director of Auto Safety and Energy Saving State Key Laboratory; the member of the Standing Committee of the Chinese People's Political Consultative Conference; Vice Executive Director of Society of Automotive Engineers of China; Expert team leader of "Electric Vehicles", which is a major science and technology project of the 12th Five-Year.

**Yan Yiming:** once being the partner of Shanghai AllBright Law Offices and being the Director of Shanghai YanYiMing Law Firm since 2005.

**Sun Yong:** presently serving as the managing partner of Zhonghua Certified Public Accountants, member of Shanghai Stock Exchange Listing Committee, executive director of Shanghai Institute of Certified Public Accountants, Director of China Association of Certified Public Accountants, Certified General Accountants Association professional member of the Steering Committee and mentor of Shanghai Technological Entrepreneurship, Mr. Sun Yong was elected as the Independent Director by the 2012 Annual General Meeting at 26 June 2013.

**Zhou Langhui:** once being the Minister of Cadres' Organization, Vice Director of Communist Party, Director of Discipline Inspection Commission of SAI Corporation; Vice Director of Communist Party and Director of Discipline Inspection Commission of SAIC and the General Manager of Shanghai Kolben Schmitt Pistons Co., Ltd., Presently acting as the Vice President of SAIC.

**Zhu Xian:** once being the Vice Finance Officer of Shanghai General Motors Co., Ltd.; Vice General Manager of Shanghai Automotive Asset Management Co., Ltd.; Vice President of Ssangyong Motor Co., Ltd. Presently acting as the Supervisor, Director of Audit Office of SAIC.

**Shi Yimeng:** once being the Minister of the Publicity Ministry, Director of Communist Party office, Vice Minister and Minister of Communist Affairs Department, Vice Chairman of Communist Party, Chairman of Union, Chairman of Discipline Inspection Commission of SDEC. Presently acting as the Chairman of the Communist Party of SDEC.

**Jin Gang:** once being the General Manager, Manager of Overseas Department of SDEC. Presently acting as the Vice General Manager of SDEC.

**Zhu Jiankang:** Once being the Leader of the Labor & Material Department, Minister of the Production and Manufacturing Department and the Minister of Purchase Department. Presently acting as the Vice General Engineer and Vice General Manager of SDEC.

**Qian Jun:** once being the Deputy Manager of the Quality Department of Shanghai General Motors Co., Ltd.; Manager of the Quality and After Sales Service Department of Shanghai General Motors Co., Ltd.; Chief Officer of the Motor Plant of Manufacturing Department of the Business Vehicle Branch of SAIC. Presently acting as the Vice General Manager of SDEC.

**Wang Hongbin:** once being the technology engineer, Senior Project Manager, Representative on security matters of SDEC. Presently acting as the Board Secretary of SDEC.

**Wang Xiaoqiu:** once being the Vice General Manager of Shanghai Automobile Co., Ltd; General Manager of Shanghai Automobile Manufacturing Co., Ltd; Vice General Manager and General Manager of SAIC Passenger Car Branch, Director and General Manager of SDEC. Mr. Wang Xiaoqiu resigned from the Director and General Manager of the Company due to job changes at 9 August 2013.

## II. Employment of directors, supervisors, and senior executives in service or leaving the Company during thereport period

### (I). Posts in the shareholding company

Name	Shareholder name	Position	Date of appointment
Xiao Guopu	SAIC	Vice President	24 May 2012
Gu Feng	SAIC	Chief Financial Controller	24 May 2012
Cheng Jinglei	SAIC	Vice General Engineer, Executive Director of Strategy and Business Planning Department	June 2005
Gu Qing	SAIC	Director of Communist Party of Commercial Vehicle Technology Center	8 September 2010
Zhou Langhui	SAIC	Vice President	24 May 2012
Zhu Xian	SAIC	Supervisor, Director of Audit Office	24 May 2012

### (II). Posts in other companies

As at the end of ReportingPeriod, there are no positions held by the directors, supervisors and senior executives in other companies.

## III. Remunerations of Directors, Supervisors and Senior Executives

Decision procedures for remunerations of Directors, Supervisors and Senior Management	Remunerations of Directors and Supervisors are decided by the Annual General Meeting; Remuneration to Senior Executives is decided according to the remuneration policy of the Company and reviewed by the Board of Remuneration and Examination Committee.
The basis of remuneration of Directors, Supervisors and Senior Management	(1). The remuneration of the Directors, Supervisors and Senior Management working at the Company is determined according to actual position with reference to the remuneration policy;(2). After being appointed by the Company, the Independent Directors' annual allowanceis RMB60,000.00 for each.
Remuneration payable to Directors, Supervisors and Senior Executives	Refer to "Shareholding and remuneration details of Directors, Supervisors and Senior Management".

## IV. Appointment and resignation of directors, supervisors and senior management

Name	Position	Type	Reason of the change
Sun Yong	Independent Director	Appointment	Appointed to be the Independent Director of 7th Board of Directors by 2012 Annual General Meetingon 26 June 2013.
Wang Xiaoqiu	Former Director and Former General Manager	Resignation	Mr. Wang Xiaoqiu resigned from the Director and General Manger of the Company due to job changes on 9 August 2013
Jiang Kai	Director and General Manager	Appointment	Mr. Jiang Kai was appointed as General Manager of the Company by 2013 3rdinterim meeting of the Board of Directors on 9 August 2013, and was elected as the Director of 7th Board of Directorsby the 2013 Second Extraordinary General Meeting on 16 September 2013.

## V. Appointment and resignation of core team member and key technical personnel

No core team member and key technical personnel appointed or resigned during the Reporting Period.

## VI. Employee information of parent company and significant subsidiaries

### (I). Employee information

Number of employees of the parent company		2,055
Number of employees of the significant subsidiaries		60
Total number of employees		2,115
<b>Specialization</b>		
Category		Headcount
Production		997
Sales		205
Technician		491
Finance		39
Management and others		383
Total		2,115
<b>Education</b>		
Category		Headcount
Doctor degree		3
Master degree		51
Bachelor degree		490
Technical or mechanical degree		437
Secondary technical degree and below		1,134
Total		2,115

### (II). Remuneration policy

According to the policy of the salary increase of Shanghai working staff, as well as the Company's economic results and salary level, the Company has been gradually implementing the remuneration allocation policy, establishing the reasonable allocation of remuneration, stable increase in a long period and harmony working relationship, through the systematic remuneration management, so as to improve the Company's sustainable development.

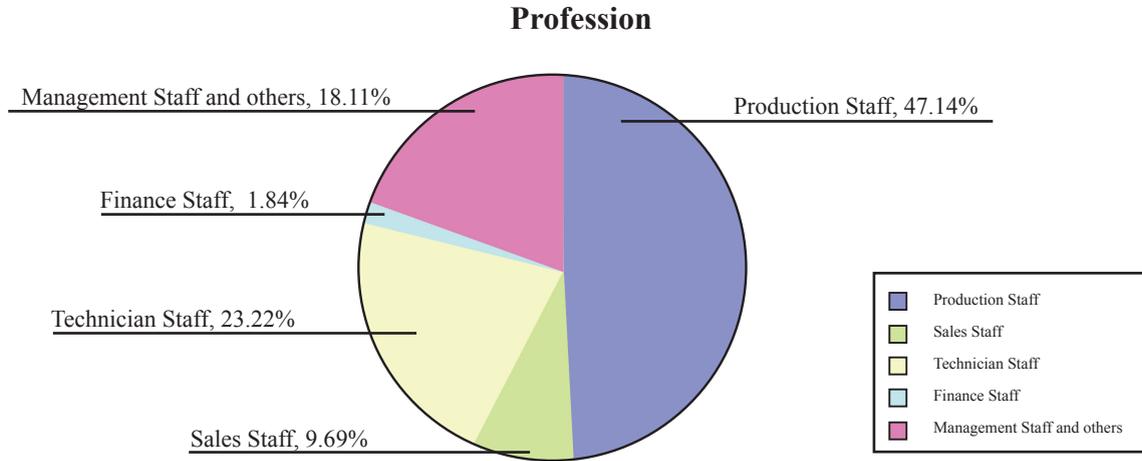
Under the general principle of "Scientific and Market-driven", the company combined it with the current situation and established an efficient pension system which could reflect the position contribution and employee value. The Company optimized the distribution structure towards professional personnel, management personnel and production operators, strengthened the incentives to key core talents and focused on improving front-line workers' wages to achieve the increase of employee income together with corporate benefits and maintain market competitiveness of all talents.

### (III). Training program

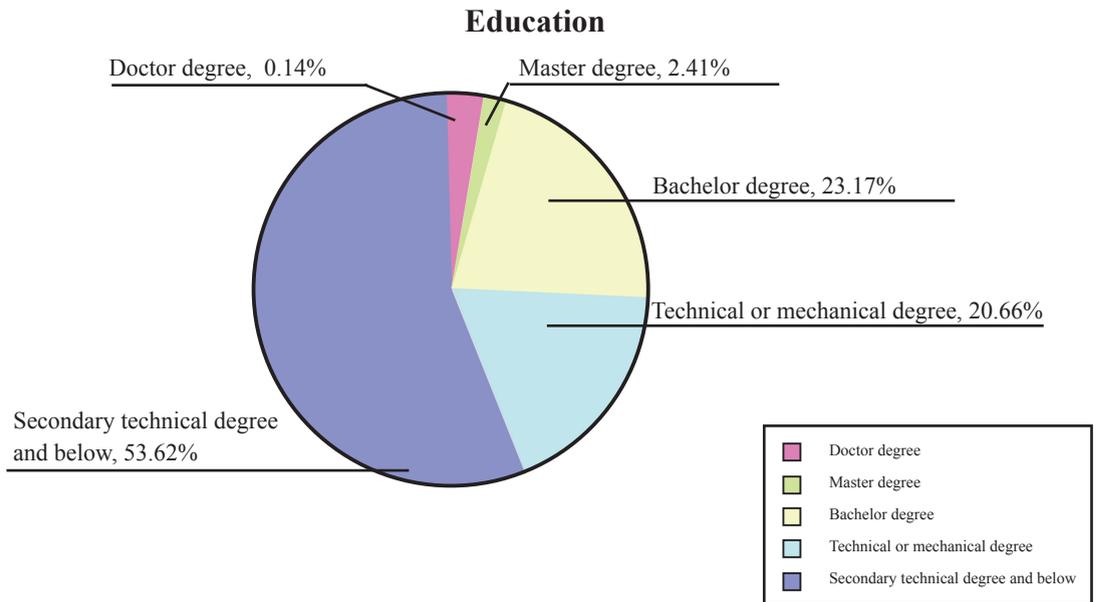
The Company respects the inherent demand of qualified personnel, and play the guidance role of the skilled staff's career development, and evaluates performance of professional skills. The grading system helped employees to combine company's requirement and personal needs and stimulate employees to improve their professional knowledge.

To accomplish the target of meeting the requirement of positions, developing skills for positions and adapting to the needs of the corporate development, the Company took an emphasize on improving "core abilities". In details, the Company focused on managements' overall abilities, production staffs' efficiency and technicians' operating skills.

(IV). Profession chart:



(V). Education chart:



## Section VIII. Corporate governance

### 1. Status of corporate governance and registration of insiders

During the Reporting Period, the Company strengthened the corporate governance according to the “CompanyLaw”, the “Securities Law” and other relevant laws, regulations and requirements; the Annual General Meeting, the Board of Directors, the Supervisor Committee and Management of the Company were all properly operated within the regulation of the relevant laws and requirements; the publication of information and management of investor relationship, insider registration etc. were also operated properly.

### 1. Shareholders and general meeting

During the Reporting Period, the Company held 3 general meetings, i.e. 2013 First Extraordinary General Meeting, 2012 Annual General Meeting, 2013 Second Extraordinary General Meeting. The relevant procedures of convention and holding of the Annual General Meeting complied with the relevant provisions of the Articles of Association and the “Rules of the Annual General Meeting”. The legal interest of the shareholders is protected. The resolutions passed during the Annual General Meeting have been strictly executed.

### 2. Directors and Board of Directors

During the Reporting Period, the Company held 6 board meetings. The Directors fulfilled their duty with conscientiousness, honesty and diligence. The three Independent Directors of the Company also did their duty with conscientiousness and diligence, and expressed the independent opinions on the nomination of Directors and Senior Management, daily related party transactions and the appointment of the auditors etc. to ensure a scientific decision of the Board of Directors.

### 3. Supervisors and the supervisory committee

During the Reporting Period, the Supervisor Committee held 5 meetings. The Supervisors fulfilled their duty with conscientiousness, honesty and diligence; held the Supervisor meetings regularly, attended the Board meetings and provided suggestion and advices accordingly; inspected and examined independently and effectively on the execution of duties by Directors and Senior Management and the corporate finance.

### 4. Information disclosure and transparency

The Company disclosed information in accordance with the “Companylaw”, the “Rules of Securities Exchange” and the related provisions and regulations strictly. All information which should be disclosed has been disclosed in compliance with the rules. The Company also welcomed the visiting and inquiries from the shareholders.

## II. Annual General Meeting

Session	Held date	Proposal details	Resolution results	Disclosure newspapers	Disclosure date
2013 First Extraordinary General Meeting	22 February 2013	The Proposal to repurchase part of the Company’s Domestically Listed Foreign Currency Shares (B Shares), The Proposal to Get the Authorization of the General Meeting to Handle Specific Matters of Repurchasing B Shares	Reviewed and approved all proposals.	Shanghai Stock Exchange: <a href="http://www.sse.com.cn">http://www.sse.com.cn</a>	26 February 2013

Session	Held date	Proposal details	Resolution results	Disclosure newspapers	Disclosure date
2012 Annual General Meeting	26 June 2013	2012 Board of Directors' Report, 2012 Board of Supervisors' Report, 2012 Finance Results Report and 2013 Financial Budget Report, the Proposal about 2012 Profit Distribution, the Proposal to Engage Auditors for 2013 Financial Statement Audit, the Proposal to Engage Auditors for 2013 Internal Control Audit, Summary and Work Report of Independent Directors, 2012 Annual Report and the Abstracts, the Proposal of Daily Related Party Transactions in 2013, the Proposal about the By-election of Independent Directors	Reviewed and approved all proposals.	Shanghai Stock Exchange: <a href="http://www.sse.com.cn">http://www.sse.com.cn</a>	27 June 2013
2013 Second Extraordinary General Meeting	16 September 2013	The proposal to change of the director of the company	Reviewed and approved all proposals.	Shanghai Stock Exchange: <a href="http://www.sse.com.cn">http://www.sse.com.cn</a>	17 September 2013

### III. Fulfilment of the duty of Directors

#### (I). Attendance of the Board meeting and Annual General Meeting

Name of director	Attendance of the Board meeting							Attendance of the Annual General Meeting
	Independent directors or not	Number of Board meetings Directors should attend	Presence in person	Presence via tele-conference	Presence by proxy	Absence	Absence for two consecutive meetings	Number of general meetings attended
Xiao Guopu	No	6	6	3	0	0	No	3
Gu Feng	No	6	6	3	0	0	No	2
Cheng lei	No	6	5	3	1	0	No	1
Gu Qing	No	6	6	3	0	0	No	3
Jiang Kai	No	1	1	0	0	0	No	1
Jiang Baoxin	No	6	6	3	0	0	No	3
Ouyang Minggao	Yes	6	6	3	0	0	No	1
Yan Yiming	Yes	6	6	3	0	0	No	2
Sun Yong	Yes	3	3	1	0	0	No	2
Former Director: Wang Xiaoqiu	No	3	3	2	0	0	No	1
Number of board meetings during the year								6
Including: On-spot meetings								3
Tele-conference meetings								3

**(II). Situations that Independent Directors disagree with the Company's proposals**

During the Reporting Period, the Independent Directors did not raise objection to any board or non-board proposals of the Company.

**IV. The set-up and improvement of the working protocol of Audit Committee and its main work and duty fulfilment report**

During the Reporting Period, Board Strategy Committee, the Audit Committee, Nomination Committee, the remuneration and Evaluation Committee in accordance with the provisions of the articles of Association and in the work of the Special Committee rules work seriously, the specialized Committee observations and recommendations have been made by the Board of Directors adopt

**V. Board of supervisors discovering the Company's existing risks**

During the Reporting Period, the Supervisor Committee did not raise objection on matters of supervision.

**VI. Performance evaluation and motivation system for Senior Management**

The Company applies Annual Salary System to its Senior Management. The annual salary is determined by the Board of Remuneration and Examination Committee based on the annual performance assessment of the Senior Management which effectively motivated the Senior Management..

## Section IX. Internal Control

### I. Board of Directors' statement on responsibility for internal control and establishment of internal control system

#### 1. Board of Directors' statement on responsibility for internal control:

The Board of Directors is responsible for establishing, improving and effectively implementing of the Company's internal control system, evaluating the effectiveness of internal control system, as well as, faithfully disclosing the internal control evaluation report according to the standard system of Enterprise Internal Control. The Board of Supervisors is responsible for supervising the establishment and implementation of internal control by the Board of Directors. The Board of Directors and the Board of Supervisors, along with their directors, supervisors and senior executives, hereby guarantee that the contents of the report is free from false statement, misleading information or grave material omission, and assume relevant separate and joint responsibilities in regard to the truth, the accuracy and the integrity of the contents of the report.

The objective of internal control is to reasonably assurance the compliance of operation and management, the security of assets, the accuracy and completeness of the financial report and related information, improve the efficiency and effectiveness of operation, promote the realization of the development strategy. Due to the inherent limitations in internal control, only reasonable assurance could be provided for achieving above-mentioned objective. Besides, because the changes of situation may make internal control becomes inappropriate, or reduce the extent of following the control policies and procedures, speculating the effectiveness of future internal control according to the internal control evaluation results has certain risks.

#### 2. Board of Directors' statement on establishment of internal control system:

Board of Directors has evaluated internal control related to financial reporting in accordance with Basic Standards for Enterprise Internal Control, and believed it was efficient at 31 December 2013 (base date). In the process of self-assessment, the Company did not identify any material deficiencies in the design and implementation of internal control, and the internal control system is complete and effectively implemented. There are no major flaws on the design or implementation of internal control noted during the self-assessment process (Details refer to "Shanghai Diesel Engine Co., Ltd. Self-evaluation Report on the Internal Control for 2013"). Ernst & Young Hua Ming LLP has been appointed to evaluate the effectiveness of the internal control over the financial reporting and issued a standard unqualified audit opinion.

Please refer to the attachments for Shanghai Diesel Engine Co., Ltd. Self-evaluation Report on the Internal Control.

### II. Related information explanation over the internal control audit report

Detailed information please refer to "Internal Control Audit Report" issued by Ernst & Young Hua Ming LLP, disclosed on the Shanghai Stock Exchange Website ([www.sse.com.cn](http://www.sse.com.cn)) on 15 March 2014.

Please refer to the attachments for Internal Control Audit Report.

### III. The establishment of Responsibility Inquisition System for material mistaken noted in the annual report information disclosure

It is regulated in "Measures on Information Disclosure Matters" that the responsible person for material misstatements in annual report which materially impact the Company or investors or cause material losses should be investigated and be punished in both administration and economy perspectives. During the Reporting Period, there were no correction of material accounting errors, omission of significant information and modification to operating performance forecast.

## Section X. Financial Statements

Annual financial statements of the Company for the year ended 31 December 2013 has been audited by Certified Public Accountants, Mr. Yuan Yongmin and Mr. Li Bo of Ernst & Young Hua Ming LLP and expressed a standard unqualified audit opinion.

### 1. Auditors' Report

Ernst & Young Hua Ming Shen Zi (2014) No 60462488\_B01

#### To the shareholders of Shanghai Diesel Engine Company Limited

We have audited the accompanying financial statements of Shanghai Diesel Engine Company Limited, which comprise the consolidated and the Company's balance sheets as at 31 December 2013, and the consolidated and the Company's income statements, the consolidated and the Company's statements of changes in equity and the consolidated and the Company's cash flow statements for the year then ended and notes to the financial statements.

#### Management's Responsibility for the Financial Statements

The management is responsible for preparation and fair presentation of the financial statements. This responsibility includes (1) preparing and fairly presenting the financial statements in accordance with Accounting Standards for Business Enterprises; (2) designing, implementing and maintaining internal control as management determines necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Chinese Auditing Standards issued by the Chinese Institute of Certified Public Accountants. Those standards require that we comply with Code of Ethics for Chinese Certified Public Accountants and plan and perform the audit to obtain a reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal control relevant to the entity's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements present fairly, in all material aspects, the consolidated and company's financial position of Shanghai Diesel Engine Company Limited as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

Ernst & Young Hua Ming LLP  
Beijing, the People's Republic of China

Chinese Certified Public Accountant: Yuan Yongmin  
Chinese Certified Public Accountant: Li Bo

13 March 2014

## 2. Financial Statements

## CONSOLIDATED BALANCE SHEET

31 December 2013

Shanghai Diesel Engine Co., Ltd.

RMB

Item	2013	2012
<b>Current assets:</b>		
Cash	1,541,183,655.07	1,976,954,447.34
Notes receivable	1,504,477,216.74	932,626,267.69
Accounts receivable	261,654,382.64	158,012,085.68
Prepayments	2,162,201.10	2,287,553.69
Other receivables	4,661,698.69	1,828,251.87
Inventories	262,964,256.86	309,377,078.67
Other current assets	171,247.68	16,582,645.00
Total current assets	3,577,274,658.78	3,397,668,329.94
<b>Non-current assets:</b>		
Available-for-sale financial assets	24,930,130.00	38,512,872.50
Long-term equity investments	213,287,406.87	55,531,119.93
Investment properties	7,237,901.48	1,005,826.89
Fixed assets	644,902,973.80	503,098,002.75
Construction in progress	898,566,385.33	873,452,413.60
Intangible assets	26,438,931.81	15,875,858.69
Goodwill	-	-
Deferred tax assets	79,671,232.34	80,572,618.59
Total non-current assets	1,895,034,961.63	1,568,048,712.95
Total assets	5,472,309,620.41	4,965,717,042.89
<b>Current liabilities:</b>		
Notes payable	568,263,631.46	152,755,633.05
Accounts payable	654,299,171.94	610,012,168.57
Advances from customers	12,787,321.08	22,751,910.28
Employees' remuneration payable	91,317,145.56	107,470,273.28
Taxes payable	-32,389,748.23	-45,342,697.11
Other payables	97,595,517.36	154,733,717.96
Other current liabilities	596,860,999.61	572,229,792.11
Total current liabilities	1,988,734,038.78	1,574,610,798.14
<b>Non-current liabilities:</b>		
Long-term borrowings	-	30,000,000.00
Other non-current liabilities	162,177,038.30	174,711,163.67
Total non-current liabilities	162,177,038.30	204,711,163.67
Total liabilities	2,150,911,077.08	1,779,321,961.81
<b>Shareholders' equity:</b>		
Share capital	866,689,830.00	869,092,530.00
Capital reserves	1,127,823,025.46	1,129,251,227.77
Special reserves	2,406,856.75	3,829,901.90
Surplus reserves	476,588,472.47	454,565,088.41
Retained earnings	839,103,543.82	717,091,063.92
Equity attributable to parent company	3,312,611,728.50	3,173,829,812.00
Minority interests	8,786,814.83	12,565,269.08
Total shareholders' equity	3,321,398,543.33	3,186,395,081.08
Total liabilities and shareholders' equity	5,472,309,620.41	4,965,717,042.89

Xiao Guopu  
Legal Representative

Jiang Baoxin  
Principal in Charge of Accountancy

Sun Yu  
Principal in Charge of Accounting  
Departments

**BALANCE SHEET**

31 December 2013

Shanghai Diesel Engine Co., Ltd.

RMB

	2013	2012
<b>Current assets:</b>		
Cash	1,444,625,412.22	1,889,849,962.82
Notes receivable	1,504,477,216.74	932,226,267.69
Accounts receivable	264,175,702.35	161,423,793.00
Prepayments	1,771,629.10	1,896,981.69
Other receivables	4,391,125.88	1,647,059.46
Inventories	254,940,661.83	306,874,855.54
Other current assets	170,013,860.00	16,444,790.00
Total current assets	3,644,395,608.12	3,310,363,710.20
<b>Non-current assets:</b>		
Available-for-sale financial assets	24,930,130.00	38,512,872.50
Long-term equity investments	558,779,361.77	404,023,074.83
Investment properties	7,237,901.48	1,005,826.89
Fixed assets	622,639,882.10	473,139,493.51
Construction in progress	508,403,917.43	564,350,875.63
Intangible assets	96,591.46	154,691.50
Deferred tax assets	98,943,180.31	99,844,566.55
Total non-current assets	1,821,030,964.55	1,581,031,401.41
Total assets	5,465,426,572.67	4,891,395,111.61
<b>Current liabilities:</b>		
Notes payable	568,263,631.46	152,755,633.05
Accounts payable	710,489,833.32	666,101,219.30
Advances from customers	11,448,115.83	18,463,171.71
Employees' remuneration payable	91,244,145.56	107,390,273.28
Taxes payable	33,848,617.50	5,895,641.03
Other payables	70,218,064.68	126,937,761.46
Other current liabilities	596,562,579.85	571,647,603.22
Total current liabilities	2,082,074,988.20	1,649,191,303.05
<b>Non-current liabilities:</b>		
Other non-current liabilities	162,177,038.30	174,711,163.67
Total non-current liabilities	162,177,038.30	174,711,163.67
Total liabilities	2,244,252,026.50	1,823,902,466.72
<b>Shareholders' equity:</b>		
Share capital	866,689,830.00	869,092,530.00
Capital reserves	1,126,952,784.00	1,128,380,986.31
Special reserves	2,406,856.75	3,829,901.90
Surplus reserves	476,588,472.47	454,565,088.41
Retained earnings	748,536,602.95	611,624,138.27
Total shareholders' equity	3,221,174,546.17	3,067,492,644.89
Total liabilities and shareholders' equity	5,465,426,572.67	4,891,395,111.61

Xiao Guopu  
 Legal Representative

Jiang Baoxin  
 Principal in Charge of Accountancy

Sun Yu  
 Principal in Charge of Accounting  
 Departments

## CONSOLIDATED INCOME STATEMENT

2013

Shanghai Diesel Engine Co., Ltd.

RMB

	2013	2012
Revenue	2,980,858,886.92	3,029,962,800.96
Including: Operating revenue	2,980,858,886.92	3,029,962,800.96
Cost	2,808,254,684.24	2,858,667,266.74
Including: Operating cost	2,333,380,894.18	2,404,784,827.59
Business tax and surcharges	8,157,241.61	7,950,114.34
Operating expenses	175,136,932.62	157,469,783.41
General and administrative expenses	308,560,267.42	328,266,597.59
Financial expenses	-38,611,467.77	-37,667,397.50
Impairment losses on assets	21,630,816.18	-2,136,658.69
Add: Investment income	28,813,596.01	9,280,392.85
Including: investment income from associates and jointly ventures	28,070,318.92	8,760,601.27
Operating profit/(loss)	201,417,798.69	180,575,927.07
Add: Non-operating income	26,509,493.89	48,314,516.88
Less: Non-operating expenses	1,271,089.57	6,465,712.98
Including: loss on disposal of non-current assets	1,135,408.70	6,292,768.98
Total profit	226,656,203.01	222,424,730.97
Less: Income tax expense	25,100,801.44	23,785,816.41
Net profit	201,555,401.57	198,638,914.56
Net profit attributable to parent company	205,333,855.82	203,709,733.71
Minority interests	-3,778,454.25	-5,070,819.15
Earnings per share		
Basic earnings per share	0.24	0.24
Dilute earnings per share	NA	NA
Other comprehensive income	7,060,150.32	-5,069,220.78
Total comprehensive income	208,615,551.89	193,569,693.78
Total comprehensive income attributable to parent company	212,394,006.14	198,640,512.93
Total comprehensive income attributable to minority shareholders	-3,778,454.25	-5,070,819.15

Xiao Guopu  
Legal Representative

Jiang Baoxin  
Principal in Charge of Accountancy

Sun Yu  
Principal in Charge of Accounting  
Departments

**INCOME STATEMENT**

2013

Shanghai Diesel Engine Co., Ltd.

RMB

	2013	2012
Operating revenue:	2,961,208,002.35	3,004,463,066.11
Less: Operating cost	2,321,182,439.50	2,388,061,332.70
Business tax and surcharges	8,014,510.40	7,727,610.71
Operating expenses	170,667,728.84	153,288,269.05
General and administrative expenses	283,991,290.89	309,491,767.99
Financial expenses	-40,803,615.83	-35,623,069.20
Impairment losses on assets	22,818,095.31	2,367,157.27
Add: Investment income	25,813,596.01	9,280,392.85
Including: investment income from associates and jointly ventures	28,070,318.92	8,760,601.27
Operating profit/(loss)	221,151,149.25	188,430,390.44
Add: Non-operating income	23,931,791.58	55,885,128.77
Less: Non-operating expenses	1,139,408.70	4,700,623.25
Including: loss on disposal of non-current assets	1,135,408.70	4,689,179.25
Total profit	243,943,532.13	239,614,895.96
Less: Income tax expense	23,709,691.53	25,353,679.28
Net profit	220,233,840.60	214,261,216.68
Other comprehensive income	7,060,150.32	-5,069,220.78
Total comprehensive income	227,293,990.92	209,191,995.90

Xiao Guopu  
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Sun Yu  
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 Departments

## CONSOLIDATED CASH FLOW STATEMENT

2013

Shanghai Diesel Engine Co., Ltd.

RMB

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from sale of goods or rendering of services	2,790,555,290.50	3,755,816,939.27
Cash received relating to other operating activities	78,059,325.01	70,085,392.96
Sub-total of cash inflows from operating activities	2,868,614,615.51	3,825,902,332.23
Cash paid for purchase of goods and services	1,975,263,497.67	2,675,509,475.14
Cash paid to and on behalf of employees	354,392,389.56	376,214,062.21
Cash paid for all types of taxes	90,194,778.35	112,356,545.43
Cash paid relating to other operating activities	285,923,080.92	267,537,811.51
Sub-total of cash outflows from operating activities	2,705,773,746.50	3,431,617,894.29
Net cash flows from operating activities	162,840,869.01	394,284,437.94
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash received from sale of investments	15,537,884.59	0.00
Cash received from return on investments	298,812.50	542,212.50
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	2,290,733.12	27,978,297.87
Sub-total of cash inflows from investing activities	18,127,430.21	28,520,510.37
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	382,913,516.70	652,454,813.59
Cash paid for investments	129,685,968.00	15,093,420.00
Sub-total of cash outflows from investing activities	512,599,484.70	667,548,233.59
Net cash flows from investing activities	-494,472,054.49	-639,027,723.22
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Cash received by investors	0.00	818,149,600.84
Cash received from borrowings	0.00	30,000,000.00
Sub-total of cash inflows from financing activities	0.00	848,149,600.84
Cash repayments of borrowings	30,000,000.00	0.00
Cash paid for distribution of dividends or profits and for interest expenses	61,374,791.86	27,811,941.55
Cash paid relating to other financing activities	10,891,052.63	0.00
Sub-total of cash outflows from financing activities	102,265,844.49	27,811,941.55
Net cash flows from financing activities	-102,265,844.49	820,337,659.29
<b>EFFECT OF CHANGES IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS</b>	-1,873,762.30	47,617.17
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	-435,770,792.27	575,641,991.18
Add: Opening balance of cash and cash equivalents	1,976,954,447.34	1,401,312,456.16
<b>CLOSING BALANCE OF CASH AND CASH EQUIVALENTS</b>	1,541,183,655.07	1,976,954,447.34

Xiao Guopu  
Legal Representative

Jiang Baoxin  
Principal in Charge of Accountancy

Sun Yu  
Principal in Charge of Accounting  
Departments

**CASH FLOW STATEMENT**

2013

Shanghai Diesel Engine Co., Ltd.

RMB

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from sale of goods or rendering of services	2,755,535,027.42	3,721,941,541.60
Cash received relating to other operating activities	75,643,128.54	65,081,965.61
Sub-total of cash inflows from operating activities	2,831,178,155.96	3,787,023,507.21
Cash paid for goods and services	1,941,319,235.31	2,665,230,355.58
Cash paid to and on behalf of employees	349,339,221.61	373,611,796.84
Cash paid for all types of taxes	87,209,527.18	98,407,402.46
Cash paid relating to other operating activities	264,938,826.82	295,023,649.10
Sub-total of cash outflows from operating activities	2,642,806,810.92	3,432,273,203.98
Net cash flows from operating activities	188,371,345.04	354,750,303.23
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash received from sale of investments	15,537,884.59	0.00
Cash received from return on investments	298,812.50	542,212.50
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	2,192,504.56	27,292,496.65
Cash received relating to other investing activities	80,000,000.00	0.00
Sub-total of cash inflows from investing activities	98,029,201.65	27,834,709.15
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	277,876,322.50	414,315,899.93
Cash paid for acquisition of investments	129,685,968.00	15,093,420.00
Cash paid relating to other investing activities	250,000,000.00	0.00
Sub-total of cash outflows from investing activities	657,562,290.50	429,409,319.93
Net cash flows from investing activities	-559,533,088.85	-401,574,610.78
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Cash received by absorbing investments	0.00	818,149,600.84
Sub-total of cash inflows from financing activities	0.00	818,149,600.84
Cash paid for distribution of dividends or profits and for interest expenses	61,297,991.86	27,159,141.55
Cash paid relating to other financing activities	10,891,052.63	0.00
Sub-total of cash outflows from financing activities	72,189,044.49	27,159,141.55
Net cash flows from financing activities	-72,189,044.49	790,990,459.29
<b>EFFECT OF CHANGES IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS</b>	-1,873,762.30	47,617.17
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	-445,224,550.60	744,213,768.91
Add: Opening balance of cash and cash equivalents	1,889,849,962.82	1,145,636,193.91
<b>CLOSING BALANCE OF CASH AND CASH EQUIVALENTS</b>	1,444,625,412.22	1,889,849,962.82

Xiao Guopu  
 Legal Representative

Jiang Baoxin  
 Principal in Charge of Accountancy

Sun Yu  
 Principal in Charge of Accounting  
 Departments

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

2013

Shanghai Diesel Engine Co., Ltd.

RMB

	2013							Total Shareholders' equity
	Attributable to parent company					Retained earnings	Minority interests	
	Share capital	Capital reserves	Special Reserve	Surplus reserves				
I. Closing balance in 2012	869,092,530.00	1,129,251,227.77	3,829,901.90	454,565,088.41	717,091,063.92	12,565,269.08	3,186,395,081.08	
II. Opening balance in 2013	869,092,530.00	1,129,251,227.77	3,829,901.90	454,565,088.41	717,091,063.92	12,565,269.08	3,186,395,081.08	
III. Changes during the year	-2,402,700.00	-1,428,202.31	-1,423,045.15	22,023,384.06	122,012,479.90	-3,778,454.25	135,003,462.25	
(I). Net profit					205,333,855.82	-3,778,454.25	201,555,401.57	
(II). Other comprehensive income		7,060,150.32					7,060,150.32	
Subtotal (I) & (II)		7,060,150.32			205,333,855.82	-3,778,454.25	208,615,551.89	
(III). Capital injected and decreased by shareholders	-2,402,700.00	-8,488,352.63					-10,891,052.63	
I. Capital injected by shareholders	-2,402,700.00	-8,488,352.63					-10,891,052.63	
(IV). Profit distribution				22,023,384.06	-83,321,375.92		-61,297,991.86	
1. Appropriation to surplus reverses				22,023,384.06	-22,023,384.06			
2. Distribution to shareholders					-61,297,991.86		-61,297,991.86	
(V). Special reserve			-1,423,045.15				-1,423,045.15	
1. Accrual			4,903,206.35				4,903,206.35	
2. Use			6,326,251.50				6,326,251.50	
IV. Closing balance in 2013	866,689,830.00	1,127,823,025.46	2,406,856.75	476,588,472.47	839,103,543.82	8,786,814.83	3,321,398,543.33	

Xiao Guopu  
Legal Representative

Jiang Baoxin  
Principal in Charge of Accountancy

Sun Yu  
Principal in Charge of Accounting Departments

RMB

	2012							Total Shareholders' equity
	Attributable to parent company						Minority interests	
	Share capital	Capital reserves	Special Reserve	Surplus reserves	Retained earnings			
I. Closing balance in 2011	480,309,280.00	704,954,097.71		433,138,966.74	562,578,802.21	17,645,243.30	2,198,626,389.96	
II. Opening balance in 2012	480,309,280.00	704,954,097.71		433,138,966.74	562,578,802.21	17,645,243.30	2,198,626,389.96	
III. Changes during the year	388,783,250.00	424,297,130.06	3,829,901.90	21,426,121.67	154,512,261.71	-5,079,974.22	987,768,691.12	
(I). Net profit					203,709,733.71	-5,070,819.15	198,638,914.56	
(II). Other comprehensive income		-5,069,220.78					-5,069,220.78	
Subtotal (I) & (II)		-5,069,220.78			203,709,733.71	-5,070,819.15	193,569,693.78	
(III). Capital injected and decreased by shareholders	62,873,551.00	755,276,049.84				-9,155.07	818,140,445.77	
I. Capital injected by shareholders	62,873,551.00	755,276,049.84					818,149,600.84	
2. Others						-9,155.07	-9,155.07	
(IV). Profit distribution				21,426,121.67	-48,585,263.22		-27,159,141.55	
I. Appropriation to surplus reverses				21,426,121.67	-21,426,121.67		-	
2. Distribution to shareholders					-27,159,141.55		-27,159,141.55	
(V). Internal transfer	325,909,699.00	-325,909,699.00					-	
I. Transfer of capital reserve into share capital	325,909,699.00	-325,909,699.00					-	
(VI). Special reserve			3,829,901.90				3,829,901.90	
I. Accrual			6,484,604.32				6,484,604.32	
2. Use			-2,654,702.42				-2,654,702.42	
(VII). Others								
IV. Closing balance in 2012	869,092,530.00	1,129,251,227.77	3,829,901.90	454,565,088.41	717,091,063.92	12,565,269.08	3,186,395,081.08	

Xiao Guopu

Legal Representative

Jiang Baoxin

Principal in Charge of Accountancy

Sun Yu

Principal in Charge of Accounting Departments

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

2013

Shanghai Diesel Engine Co., Ltd.

RMB

	2013					
	Share capital	Capital reserves	Special Reserve	surplus reserves	Retained earnings	Total Shareholders' equity
I. Closing balance in 2012	869,092,530.00	1,128,380,986.31	3,829,901.90	454,565,088.41	611,624,138.27	3,067,492,644.89
II. Opening balance in 2013	869,092,530.00	1,128,380,986.31	3,829,901.90	454,565,088.41	611,624,138.27	3,067,492,644.89
III. Changes during the year	-2,402,700.00	-1,428,202.31	-1,423,045.15	22,023,384.06	136,912,464.68	153,681,901.28
(I). Net profit					220,233,840.60	220,233,840.60
(II). Other comprehensive income		7,060,150.32				7,060,150.32
Subtotal (I) & (II)		7,060,150.32			220,233,840.60	227,293,990.92
(III). Capital injected and decreased by shareholders	-2,402,700.00	-8,488,352.63				-10,891,052.63
I. Capital injected by shareholders	-2,402,700.00	-8,488,352.63				-10,891,052.63
(IV). Profit distribution				22,023,384.06	-83,321,375.92	-61,297,991.86
1. Appropriation to surplus reverses				22,023,384.06	-22,023,384.06	
2. Distribution to shareholders					-61,297,991.86	-61,297,991.86
(V). Special reserve			-1,423,045.15			-1,423,045.15
1. Accrual			4,903,206.35			4,903,206.35
2. Use			6,326,251.50			6,326,251.50
IV. Closing balance in 2013	866,689,830.00	1,126,952,784.00	2,406,856.75	476,588,472.47	748,536,602.95	3,221,174,546.17

Xiao Guopu

Legal Representative

Jiang Baoxin

Principal in Charge of Accountancy

Sun Yu

Principal in Charge of Accounting Departments

RMB

	2012						
	Share capital	Capital reserves	Special Reserve	surplus reserves	Retained earnings	Total Shareholders' equity	
I. Closing balance in 2011	480,309,280.00	712,557,468.14		433,138,966.74	445,948,184.81	2,071,953,899.69	
II. Opening balance in 2012	480,309,280.00	712,557,468.14		433,138,966.74	445,948,184.81	2,071,953,899.69	
III. Changes during the year	388,783,250.00	415,823,518.17	3,829,901.90	21,426,121.67	165,675,953.46	995,538,745.20	
(I). Net profit					214,261,216.68	214,261,216.68	
(II). Other comprehensive income		-5,069,220.78				-5,069,220.78	
Subtotal (I) & (II)		-5,069,220.78			214,261,216.68	209,191,995.90	
(III). Capital injected and decreased by shareholders	62,873,551.00	755,276,049.84				818,149,600.84	
1. Capital injected by shareholders	62,873,551.00	755,276,049.84				818,149,600.84	
(IV). Profit distribution				21,426,121.67	-48,585,263.22	-27,159,141.55	
1. Appropriation to surplus reverses				21,426,121.67	-21,426,121.67	-	
2. Distribution to shareholders					-27,159,141.55	-27,159,141.55	
(V). Internal transfer	325,909,699.00	-325,909,699.00				-	
1. Transfer of capital reserve into share capital	325,909,699.00	-325,909,699.00				-	
(VI). Special reserve			3,829,901.90			3,829,901.90	
1. Accrual			6,484,604.32			6,484,604.32	
2. Use			2,654,702.42			2,654,702.42	
(VII). Others		-8,473,611.89				-8,473,611.89	
IV. Closing balance in 2012	869,092,530.00	1,128,380,986.31	3,829,901.90	454,565,088.41	611,624,138.27	3,067,492,644.89	

Xiao Guopu

Legal Representative

Jiang Baoxin

Principal in Charge of Accountancy

Sun Yu

Principal in Charge of Accounting Departments

**Section XI. References**

1. Financial statements signed and sealed by the legal representative, principal in charge of accountancy and principal in charge of accounting departments.
2. Original copy of auditors' report signed and sealed by the auditors and Certified Public Accountants.
3. Original copies of all publications and announcements published in newspapers designated by China Securities Regulatory Commission during the Reporting Period.

Chairman of the Board: Xiao Guopu

Shanghai Diesel Engine Co.,Ltd.

13March 2014

The report has Chinese and English versions. If there any discrepancies between the two, please to Chinese version.