1. CORPORATE INFORMATION

Brilliance China Automotive Holdings Limited (the "Company") was incorporated in Bermuda on 9th June, 1992 with limited liability. The Company's American depositary shares ("ADSs") are traded on The New York Stock Exchange Inc. and its shares are traded on The Stock Exchange of Hong Kong Limited (the "SEHK").

The Company is an investment holding company. The principal activities of the Company's subsidiaries (together with the Company referred to as the "Group") are the manufacture and sale of minibuses, sedans and automotive components in the People's Republic of China (the "PRC").

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the SEHK. A summary of the significant accounting policies adopted by the Group is set out below.

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2005 financial statements, except for the adoption of Amendments to HKAS 39 Financial Instruments: Recognition and Measurement & HKFRS 4 Insurance Contracts "Financial Guarantee Contracts" (the "Amendments").

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder of the contract for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts were previously disclosed as contingent liabilities only because they did not fall within the scope of HKAS 39. Following the introduction of the Amendments, financial guarantee contracts should be treated as financial liabilities. Financial guarantee contracts should be measured initially at fair value and subsequently at the higher of (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised over the life of the guarantee on a straight-line basis.

The adoption of the Amendments does not have any significant impact on the results of the Group because the directors are of the opinion that the fair value of the financial guarantee contracts of the Group is not significant.

(b) Basis of measurement

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(c) Basis of consolidation

(i) *Consolidation*

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intercompany transactions and balances and any unrealised gains or losses arising from intercompany transactions are eliminated on consolidation.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity, separate from equity attributable to equity holders of the Company.

Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and equity holders of the Company.

Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(ii) *Subsidiaries*

Subsidiaries are those entities in which the Company has the power to govern the financial and operating policies so as to obtain benefits from their activities.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less accumulated impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. Results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(iii) *Associates and jointly controlled entities*

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(c) Basis of consolidation (Cont'd)

(iii) *Associates and jointly controlled entities* (Cont'd)

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activities of the entity and none of the participating parties has unilateral control over the economic activities.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year.

Unrealised profits and losses resulting from transactions between the Group and its associates or jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

(iv) *Translation of foreign currencies*

Items included in the financial statements of each of the Group entities, including the Company, subsidiaries, associates and jointly controlled entities, are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

Transactions in currencies other than the functional currencies are translated into functional currencies at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in other currencies at the balance sheet date are re-translated into functional currencies at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

The Group prepares consolidated financial statements in Renminbi, the presentation currency. For the purpose of consolidation, the assets and liabilities of the Group entities that have functional currency different from the presentation currency are translated into the presentation currency at the rates of exchange ruling at the balance sheet date whilst the income and expenses are translated at the average exchange rates. Exchange differences, if any, are recognised as a separate component of equity.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Intangibles

(i) *Goodwill*

Goodwill arising on acquisition of a subsidiary, an associate or a jointly controlled entity prior to 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the acquiree at the date of acquisition.

Goodwill arising on acquisition of a subsidiary, an associate or a jointly controlled entity on and after 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

For goodwill capitalised prior to 1st January, 2005, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill and goodwill arising on and after 1st January, 2005, if any, are tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired. An impairment loss on goodwill is not reversed in a subsequent period.

Capitalised goodwill arising on acquisition of a subsidiary is presented separately in the consolidated balance sheet. Capitalised goodwill arising on acquisition of an associate or a jointly controlled entity is included in the cost of the investment of the relevant associate or jointly controlled entity.

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

(ii) *Research and development costs*

Research costs are charged to the income statement as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so; and costs are identifiable and there is an ability to sell or use the asset for generating of future economic benefits. Such development costs are recognised as an asset less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight-line basis over a period which reflects the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are charged to the income statement as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(iii) *Acquired intangible assets*

Acquired intangible assets with finite useful life are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight-line basis over the estimated useful lives of 7 to 10 years.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(e) Property, plant and equipment

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

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

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

Buildings	5%
Machinery and equipment (excluding special tools and moulds)	10%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

The costs of special tools and moulds included in machinery and equipment less accumulated impairment losses are depreciated over their estimated production volume.

(f) Construction-in-progress

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

(g) Land lease prepayments

Lease prepayments represent amounts paid for land use rights. Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to the income statement from the date of initial recognition on a straight-line basis over the respective periods of the rights.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(h) Financial instruments

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

(i) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated at this category or not classified in any of the other categories of financial assets. They are measured at fair value with changes in value recognised as a separate component of equity until the assets are sold, collected or otherwise disposed of, or until the assets are determined to be impaired, at which time the cumulative gain or loss previously recognised directly in equity is transferred to the income statement. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses.

(ii) *Accounts and other receivables*

Accounts and other receivables are stated at amortised cost using effective interest method less impairment losses. Advances and receivables that are without fixed or determinable repayment term are stated at cost less impairment losses.

(iii) *Impairment of financial assets*

At each balance sheet date, the Group assesses whether there is objective evidence that financial assets, other than those at fair value through profit or loss, are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial assets' original effective interest rate.

When an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and current fair value, less any previously recognised impairment loss, is transferred from equity to the income statement. Reversal of impairment loss of available-for-sale equity instrument is recognised in equity. Reversal of impairment loss of available-for-sale debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

For an available-for-sale financial asset that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(h) Financial instruments (Cont'd)

(iv) *Derivative financial instruments*

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in the income statement, except when the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(v) *Convertible bonds*

— *Convertible bonds that contain an equity component*

Convertible bonds that can be converted into share capital at the option of the holders, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount recognised as the liability component is recognised as the equity component.

Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The finance cost recognised in the income statement is calculated using the effective interest method. The equity component is recognised as a separate component of equity until either the bond is converted, redeemed or bought back.

If the bond is converted, the amount previously recognised in equity, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed or bought back, the amount previously recognised in equity is released directly to retained earnings.

— *Other convertible bonds*

Convertible bonds which do not contain any equity component are accounted for as liabilities with embedded derivatives.

At initial recognition the embedded conversion option of the convertible bonds and the liability component is measured at fair value and presented as part of derivative financial instruments (see note 2(h)(iv)). Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(h) Financial instruments (Cont'd)

(v) *Convertible bonds* (Cont'd)

— *Other convertible bonds* (Cont'd)

The derivative component is subsequently remeasured in accordance with note 2(h)(iv). The liability component is subsequently carried at amortised cost. The interest expense recognised in the income statement on the liability component is calculated using the effective interest method.

If the bond is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised or bought back in the income statement.

(vi) *Other financial liabilities*

The Group's other financial liabilities include accounts and notes payables, other payables, bank loans and other borrowings. These financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

(vii) *Financial guarantee contracts*

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

(i) Impairment of other assets

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

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(i) Impairment of other assets (Cont'd)

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

(j) Inventories

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

(k) Cash and cash equivalents and short-term deposits

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

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

(l) Provisions

Provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditure for which a provision has been recognised is charged against the related provision in the year in which the expenditure is incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Group expects a provision is to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Group recognises a provision for repairs or replacement of products still under warranty at the balance sheet date. Minibuses are sold with 24-month or 50,000 kilometres (2005: Same) first-to-occur limited warranty. Zhonghua and Junjie sedans are sold with 36-month or 60,000 kilometres (2005: Same) first-to-occur limited warranty. Zunchi sedans are sold with 10-year or 200,000 kilometres (2005: Same) first-to-occur limited warranty. During the warranty period, the Group pays service stations for parts and labour costs covered by the warranty.

The costs of the warranty obligation are accrued at the time the sales are recognised, based on the estimated costs of fulfilling the total obligations, including handling and transportation costs. The factors used to estimate warranty expenses are reviewed periodically in light of actual experience.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(l) Provisions (Cont'd)

Movements in the provision for warranty during the year are as follows:

	2006 RMB'000	2005 RMB'000
As at 1st January,	**22,460**	21,058
Accrual for warranties during the year	**42,102**	32,396
Settlements during the year	**(37,214)**	(30,994)
As at 31st December,	**27,348**	22,460

(m) Government grants

Conditional government grant is recognised in the balance sheet initially as deferred government grants when there is reasonable assurance that the grants will be received and that the Group will comply with the conditions attached. Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the costs of construction-in-progress, development of new or improved products, property, plant and equipment and land lease prepayments are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

Unconditional grant is recognised in the income statement as revenue when the grant becomes receivable.

(n) Operating leases

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

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

(o) Employee benefits

(i) *Employee leave entitlements*

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(o) Employee benefits (Cont'd)

(ii) *Bonus plans*

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

(iii) *Pension obligations*

The Group's contributions to defined contribution retirement plans administered by the government of the PRC are recognised as an expense in the income statement. The assets of the schemes are held separately from those of the Group in independently administered funds. Further information is set out in Note 35.

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

(iv) *Share-based payments*

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

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the year in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award. During the vesting period, the number of share options that is expected to vest ultimately is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, with a corresponding adjustment to the share options reserve within equity.

(p) Income tax

Income tax in the income statement comprises current and deferred taxes. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(q) Contingent liabilities and contingent assets

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

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

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When the inflow is virtually certain, an asset is recognised.

(r) Revenue recognition

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

(i) *Sale of goods*

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

(ii) *Interest income*

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

(iii) *Dividend income*

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

(iv) *Subsidy income*

Accounting policy for recognition of subsidy income is set out in note 2(m) to the financial statements.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(s) Borrowing costs

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

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

All other borrowing costs are charged to the income statement in the period in which they are incurred.

(t) Segment reporting

In accordance with the Group's internal financial reporting requirements, management determines that business segments be presented as the primary reporting format. As the Group's sale and manufacturing bases are located in the PRC, management considers that secondary reporting format by geographical segments is not necessary.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, property, plant and equipment, land lease prepayments, construction-in-progress, inventories, receivables and operating cash, and exclude corporate assets. Segment liabilities comprise operating liabilities, and exclude corporate liabilities. Capital expenditure comprises additions to long-term prepayments, intangible assets, property, plant and equipment, land lease prepayments and construction-in-progress.

(u) Related parties

A party is related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(ii) the party is an associate of the Group;

(iii) the party is a joint venture in which the Group is a venturer;

(iv) the party is a member of the key management personnel of the Group or its shareholders;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or any entity that is a related party of the Group.

3. FUTURE CHANGES IN HKFRSs

At the date of authorisation of these financial statements, the Group has not early adopted the following new/revised HKFRSs that may have an impact on the Group but not yet effective for the current financial year. The Group is in the process of assessing the possible impact on the future adoption of these new/revised HKFRSs, but is not yet in a position to reasonably estimate their impact on the Group's financial statements.

	Effective for accounting periods beginning on or after
HKAS 1 (Amendment) "Capital Disclosures"	1st January, 2007
HKFRS 7 "Financial Instruments: Disclosures"	1st January, 2007
HKFRS 8 "Operating Segments"	1st January, 2009
HK(IFRIC) — Int 8 "Scope of HKFRS 2"	1st May, 2006
HK(IFRIC) — Int 9 "Reassessment of Embedded Derivatives"	1st June, 2006
HK(IFRIC) — Int 10 "Interim Financial Reporting and Impairment"	1st November, 2006

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

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

(i) Depreciation and amortisation

The net book value of the Group's property, plant and equipment and intangible assets as at 31st December, 2006 was approximately RMB3,627 million and RMB803 million respectively. The Group depreciates its property, plant and equipment on a straight line basis, after taking into account their estimated residual value, at the rates of 5% to 20% per annum. The intangible assets are amortised on a straight-line basis over their estimated useful lives of 7 to 20 years. The estimated useful lives reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment and intangible assets.

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

(ii) Impairment test of assets

The Group determines whether an asset is impaired at least on an annual basis or where an indication of impairment exists. This requires an estimation of the value in use of the asset. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Details of the basis and assumptions used in estimating the recoverable amounts of the Group's property, plant and equipment, intangible assets, goodwill in subsidiaries, associates and jointly controlled entities are set out in notes 14(e) and 22.

(iii) Allowances for inventories

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

(iv) Allowances for bad and doubtful debts

The policy for allowance for the Group's bad and doubtful debts is based on the evaluation of collectability and aging analysis of accounts. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(v) Warranty provisions

The Group makes provisions under the warranties it gives on sale of its minibuses and sedans and related parts taking into account the Group's recent claim experience. As the Group is continually upgrading its product designs and launching new models it is possible that the past claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years. Details of provisions are set out in Note 2(l).

(vi) Fair value of embedded conversion option of convertible bonds due 2011 and share options

There are a number of assumptions used in estimating the fair value of embedded conversion option of convertible bonds due 2011 and share options, details of which are set out in Note 32(b) and Note 36(b) respectively.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

(i) Currency risk

Since all operating subsidiaries, associates and jointly controlled entities of the Group operate in the PRC, receivables are largely denominated in Renminbi. Although certain payables are denominated in foreign currencies such as Japanese Yen, U.S. Dollar and Euro for purchases of equipment and components from overseas, the amounts are not considered significant to the total payables. The recent appreciating trend of Renminbi versus the Japanese Yen, U.S. Dollar or Euro made purchases of foreign-produced components and payments denominated in foreign currencies less expensive to the Group, thereby marginally improving its results of operations.

(ii) Interest rate risk

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

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

Interest rate risk from borrowings is generally lowered by the issue of long-term convertible bonds with fixed coupon rate for long-term funding requirements as compared with bank borrowings with floating interest rate.

(iii) Credit risk

The Group's credit risk primarily consists of receivable from a variety of customers including state and local agencies, municipalities and private industries.

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

The Group reviews regularly the recoverable amount of each individual receivable and adequate provision is made for balance determined to be not recoverable.

The Group has no significant concentration of credit risk except that about 25% and 15% (2005: 35% and Nil) of total accounts and notes receivables as at 31st December, 2006 were due from Shanghai Shenhua Holdings Co., Ltd. and Shenyang Hua Yi Xin Automotive Trading Limited respectively.

In 2006, sales to Shanghai Shenhua Holdings Co., Ltd. and Shenyang Hua Yi Xin Automotive Trading Limited accounted for 8% and 7% (2005: 26% and Nil) of total sales of the Group respectively.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

(iv) Liquidity risk

In managing liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by the management to finance the Group's operations, expected expansion and product developments. The Group relies on borrowings as a significant source of liquidity. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

6. TURNOVER, REVENUE AND SEGMENT INFORMATION

Turnover represents the invoiced value of goods, net of consumption tax, discounts and returns. Turnover and revenue recognised by category are as follows:

	2006 **RMB'000**	2005 RMB'000
Turnover		
Sales of minibuses and automotive components	**5,294,625**	4,605,850
Sales of sedans	**5,190,129**	863,140
	10,484,754	5,468,990
Other revenue		
Subsidy income	**50,176**	3,139
Others	**240,990**	132,793
	291,166	135,932
Interest income *(Note 8)*	**90,738**	60,189
Total revenues	**10,866,658**	5,665,111

6. TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

In accordance with the Group's internal financial reporting requirements, the Group determines that business segments be presented as the only reporting format.

The Group operates in the PRC under the following three main business segments:

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

(2) the manufacture and sale of Zhonghua sedans; and

(3) the manufacture and sale of BMW sedans.

Business segments — 2006

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of Zhonghua sedans RMB'000	Manufacture and sale of BMW sedans RMB'000	Total RMB'000
Segment sales	5,533,953	5,190,129	—	10,724,082
Intersegment sales	(239,328)	—	—	(239,328)
	5,294,625	5,190,129	—	10,484,754
Segment results	239,718	(750,827)	—	(511,109)
Unallocated costs				(3,750)
Operating loss				(514,859)
Interest income				90,738
Interest expenses				(235,418)
Changes in fair value of embedded conversion option of convertible bonds due 2011				(73,202)
Share of results of:				
Associates	(266)	50,184	—	49,918
Jointly controlled entities	(7,290)	—	106,692	99,402
Impairment loss on goodwill in a jointly controlled entity	(73,343)	—	—	(73,343)
Loss before taxation				(656,764)
Taxation				(47,879)
Loss for the year				(704,643)

6. TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

Business segments — 2006 (Cont'd)

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of Zhonghua sedans RMB'000	Manufacture and sale of BMW sedans RMB'000	Total RMB'000
Segment assets	5,847,712	5,291,807	—	11,139,519
Interests in associates	14,087	352,563	—	366,650
Interests in jointly controlled entities	315,846	—	708,170	1,024,016
Unallocated assets				2,333,006
Total assets				14,863,191
Segment liabilities	2,139,575	3,095,067	—	5,234,642
Unallocated liabilities				3,603,409
Total liabilities				8,838,051
Other disclosures:				
Capital expenditure	60,363	323,335	—	383,698
Depreciation of property, plant and equipment	223,233	375,708	—	598,941
Amortisation of land lease prepayments	2,485	1,573	—	4,058
Amortisation of intangible assets	7,895	137,623	—	145,518
Impairment losses on property, plant and equipment	17,362	11,798	—	29,160
Impairment loss on goodwill in a jointly controlled entity	73,343	—	—	73,343

6. TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

Business segments — 2005

	Manufacture and sale of minibuses and automotive components RMB'000 *(Restated)*	Manufacture and sale of Zhonghua sedans RMB'000 *(Restated)*	Manufacture and sale of BMW sedans RMB'000	Total RMB'000 *(Restated)*
Segment sales	4,837,379	863,140	—	5,700,519
Intersegment sales	(231,529)	—	—	(231,529)
	4,605,850	863,140	—	5,468,990
Segment results	151,403	(943,318)	—	(791,915)
Unallocated costs				(59,835)
Operating loss				(851,750)
Interest income				60,189
Interest expenses				(234,849)
Share of results of:				
Associates	—	28,387	668	29,055
Jointly controlled entities	(11,642)	—	31,582	19,940
Impairment loss on goodwill in a jointly controlled entity	(179,030)	—	—	(179,030)
Loss before taxation				(1,156,445)
Taxation				(89,097)
Loss for the year				(1,245,542)

6. TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

Business segments — 2005 (Cont'd)

	Manufacture and sale of minibuses and automotive components RMB'000 *(Restated)*	Manufacture and sale of Zhonghua sedans RMB'000 *(Restated)*	Manufacture and sale of BMW sedans RMB'000	Total RMB'000 *(Restated)*
Segment assets	6,375,277	4,485,942	—	10,861,219
Interests in associates	—	344,070	13,826	357,896
Interests in jointly controlled entities	538,853	—	601,478	1,140,331
Unallocated assets				2,447,500
Total assets				14,806,946
Segment liabilities	2,772,088	956,685	—	3,728,773
Unallocated liabilities				4,360,723
Total liabilities				8,089,496
Other disclosures:				
Capital expenditure	113,309	607,839	—	721,148
Depreciation of property, plant and equipment	245,435	152,205	—	397,640
Amortisation of land lease prepayments	2,848	1,038	—	3,886
Amortisation of intangible assets	4,747	154,173	—	158,920
Impairment losses on property, plant and equipment	48,299	—	—	48,299
Impairment losses on intangible assets	—	300,000	—	300,000
Impairment loss on goodwill in a subsidiary	50,000	—	—	50,000
Impairment loss on goodwill in a jointly controlled entity	179,030	—	—	179,030

7. OPERATING LOSS

Operating loss is stated after charging and crediting the following:

	Notes	**2006 RMB'000**	2005 RMB'000
Charging:			
Depreciation of property, plant and equipment	16	**598,941**	397,640
Amortisation of land lease prepayments	18	**4,058**	3,886
Amortisation of intangible assets (a)	14	**145,518**	158,920
Impairment losses on property, plant and equipment (b)	16	**29,160**	48,299
Staff costs (excluding directors' emoluments)	12(a)	**419,054**	321,478
Cost of inventories		**9,918,696**	4,964,761
Provision for inventories		**184,358**	105,465
Provision for doubtful debts:			
— Accounts receivable		**14,456**	1,176
— Other receivables		**13,816**	42,252
— Advances to affiliated companies		**—**	7,275
— Amounts due from affiliated companies		**—**	5,000
Bad debts written-off		**—**	3,158
Auditors' remuneration		**5,181**	3,586
Research and development costs (b)		**81,388**	99,703
Training expenses		**1,453**	1,169
Operating lease charges in respect of:			
— Land and buildings		**14,697**	16,149
— Machinery and equipment		**377**	213
Loss on disposal of an associate		**709**	—
Write off of property, plant and equipment		**8,251**	—
Crediting:			
Gain on buy back of convertible bonds due 2008	32(a)	**6,910**	—
Gain on disposal of an associate		**384**	—
Gain on disposal of property, plant and equipment, net		**3,055**	341
Gain on disposal of a jointly controlled entity		**—**	2,098
Write back of provision for inventories sold		**163,094**	39,638
Write back of provision for doubtful debts:			
— Accounts receivable		**—**	528
— Other receivables		**76**	6,931
Exchange gain, net		**33,078**	21,487

(a) amortisation of intangible assets in relation to production was included in "Cost of sales"; amortisation of intangible assets for other purposes was included in "General and administrative expenses".

(b) included in "General and administrative expenses".

8. INTEREST INCOME

	2006 RMB'000	2005 RMB'000
Interest income from:		
— bank deposits	**82,104**	60,189
— deposits placed with an agent for buy back of convertible bonds due 2008	**8,634**	—
	90,738	60,189

9. INTEREST EXPENSES

	2006 RMB'000	2005 RMB'000
Interest expenses on:		
— bank loans wholly repayable within one year	**30,841**	14,738
— discounted bank guaranteed notes	**67,759**	161,743
— amortised redemption premium on convertible bonds	**126,836**	64,914
— sale and lease back arrangement *(Note 16(b))*	**16,748**	17,329
Less: interest expense capitalised in construction-in-progress at a rate of 3.3% (2005: 3.3%) per annum	**(6,766)**	(23,875)
	235,418	234,849

10. TAXATION

Taxation on profits arose in the PRC has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the jurisdictions in which the Group operates.

The taxation charged to the consolidated income statement represents:

	2006 RMB'000	2005 RMB'000
Current tax		
PRC enterprise income tax		
Current year	**33,913**	32,128
Under/(Over) provision in prior year	**13,966**	(44,250)
	47,879	(12,122)
Deferred taxation		
Deferred taxation relating to the origination and reversal of temporary differences	**—**	101,219
Total income tax expense in the consolidated income statement	**47,879**	89,097

10. TAXATION (Cont'd)

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

	2006 RMB'000	2005 RMB'000
Loss before taxation	**(656,764)**	(1,156,445)
Calculated at a weighted average statutory taxation rate in the PRC of 2.36% (2005: 9.96%)	**(15,478)**	(115,217)
Effect of tax holiday	**(41,952)**	(36,715)
Expenses not deductible for taxation purpose	**52,394**	56,495
De-recognition of previously recognised deferred tax assets	**—**	101,219
Unrecognised temporary differences	**5,470**	26,587
Unrecognised tax losses	**33,479**	100,978
Under/(Over) provision in prior year	**13,966**	(44,250)
Tax expense for the year	**47,879**	89,097

Income Tax

The Company was incorporated under the laws of Bermuda and has received an undertaking from the Ministry of Finance in Bermuda pursuant to the provisions of the Exempted Undertakings Tax Protection Act, 1966, which exempts the Company and its shareholders, other than shareholders ordinarily residing in Bermuda, from any Bermuda taxes computed on profit, income or any capital asset gain or appreciation, or any tax in the nature of estate duty or inheritance tax, at least until year 2016.

No provision for Hong Kong profits tax has been made to the Company as the Company has no estimated assessable profits for the year.

The subsidiaries are subject to state and local income taxes in the PRC at their respective tax rates, based on the taxable income reported in their statutory financial statements in accordance with the relevant state and local income tax laws applicable.

Shenyang Brilliance JinBei Automobile Co., Ltd. ("Shenyang Automotive") is subject to state and local income taxes in the PRC at standard rates of 15% and 3% respectively in accordance with enterprise income tax laws applicable to Sino-foreign equity joint venture enterprises. Shenyang Automotive is exempted from local income tax of 3% as it was designated as "Technologically-Advanced Enterprise". As a result, the effective enterprise income tax rate for Shenyang Automotive for the year ended 31st December, 2006 was 15% (2005: 15%).

Ningbo Yuming Machinery Industrial Co., Ltd. ("Ningbo Yuming") and Ningbo Brilliance Ruixing Auto Components Co., Ltd. ("Ningbo Ruixing") are subject to state and local income taxes in the PRC at standard rates of 30% and 3% respectively in accordance with enterprise income tax laws applicable. Pursuant to the relevant income tax laws in the PRC, the applicable state and local income tax rates were reduced to 15% and 1.5%, respectively. As a result, the effective enterprise income tax rate for Ningbo Yuming and Ningbo Ruixing for the year ended 31st December, 2006 was 16.5% (2005: 16.5%).

10. TAXATION (Cont'd)

Income Tax (Cont'd)

Shenyang XingYuanDong Automobile Component Co., Ltd. ("Xing Yuan Dong") and Shenyang Brilliance Dongxing Automotive Component Co., Ltd. ("Dongxing Automotive") are subject to state and local income taxes in the PRC at standard rates of 30% and 3% respectively in accordance with enterprise income tax laws applicable. Xing Yuan Dong and Dongxing Automotive received official designation by the local tax authority as a "New and Technologically-Advanced Enterprise" and a foreign-invested enterprise engaged in manufacturing activities. As a result, the effective enterprise income tax rate for Xing Yuan Dong and Dongxing Automotive for the year ended 31st December, 2006 was 16.5% (2005: 16.5%).

Mianyang Brilliance Ruian Automotive Components Co., Ltd. ("Mianyang Ruian") is subject to state and local income taxes in the PRC at standard rates of 30% and 3% respectively in accordance with enterprise income tax laws applicable. In 2001, Mianyang Ruian received official designation by the local tax authority as a foreign-invested enterprise engaged in manufacturing activities. In 2004, Mianyang Ruian was also designated as an "encouraged industries under Catalogue for the Guidance of Foreign Investment Industries" and located in the Western area of the PRC. Pursuant to the relevant income tax laws in the PRC, from 2004 to 2010, the applicable state income tax rate for Mianyang Ruian is 15%. As a result, the effective tax rate for Mianyang Ruian was 18% for the year ended 31st December, 2006 (2005: 7.5%).

Shenyang ChenFa Automobile Component Co., Ltd. ("Shenyang ChenFa") is subject to state and local income taxes in the PRC at standard rates of 30% and 3% respectively in accordance with enterprise income tax laws applicable. In 2005, Shenyang ChenFa received official designation by the local tax authority as a foreign-invested enterprise engaged in manufacturing activities. Pursuant to the relevant income tax laws in the PRC, Shenyang ChenFa is exempted from state enterprise income tax for two years starting from the first profitable year in 2004 followed by 50% reduction of state enterprise income tax for the next three years. In addition, Shenyang ChenFa is also exempted from local enterprise income tax for the five-year period. As a result, the effective tax rate for Shenyang ChenFa was 7.5% for the year ended 31st December, 2006 (2005: 0%).

Other principal subsidiaries operating in the PRC are subject to state and local income taxes in the PRC at standard rates of 30% and 3% respectively, based on the respective taxable income reported in their statutory financial statements in accordance with the relevant state and local income tax laws applicable to foreign-invested enterprises.

Value Added Tax ("VAT") and Consumption Tax

The general VAT rate applicable to sales and purchases of minibuses, sedans and automotive components in the PRC is 17% (2005: 17%).

Sale of minibuses and sedans is also subject to consumption tax at standard rates of 5% to 12% in 2006 (2005: 5% to 8%).

11. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to the equity holders of the Company includes a loss of approximately RMB605.1 million (2005: profit of RMB184.2 million) which has been dealt with in the financial statements of the Company.

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

(a) Staff costs (excluding directors' emoluments)

	2006 **RMB'000**	2005 RMB'000
Wages, salaries and performance related bonuses	**318,070**	230,775
Pension costs — defined contribution plans	**36,126**	33,071
Staff welfare costs	**61,994**	57,632
Share-based payments	**2,864**	—
	419,054	321,478

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

The aggregate amounts of emoluments paid and payable to the directors of the Company during 2006 are as follows:

	Fees RMB'000	Salaries and other benefits RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2006				
Executive directors				
Mr. Wu Xiao An	—	4,484	12	4,496
Mr. Qi Yumin	—	2,466	—	2,466
Mr. He Guohua	—	1,470	—	1,470
Mr. Wang Shiping	—	1,233	—	1,233
Mr. Lei Xiaoyang	—	1,233	—	1,233
	—	10,886	12	10,898
Non-executive directors				
Mr. Wu Yong Cun (resigned on 23rd June, 2006)	152	—	—	152
Mr. Xu Bingjin	103	—	—	103
Mr. Song Jian	103	—	—	103
Mr. Jiang Bo	103	—	—	103
	461	—	—	461
	461	10,886	12	11,359

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

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

During the year, the Company granted share options to its executive directors, details of which are as follows:

Name of directors	Number of share options	Fair value of share options RMB'000
Mr. Wu Xiao An	**8,000,000**	**2,806**
Mr. Qi Yumin	**7,000,000**	**2,455**
Mr. He Guohua	**3,000,000**	**1,052**
Mr. Wang Shiping	**3,000,000**	**1,052**
Mr. Lei Xiaoyang	**3,000,000**	**1,052**
	24,000,000	**8,417**

Details of the share options are set out in Note 36(b) to the financial statements.

The aggregate amounts of emoluments paid and payable to the directors of the Company during 2005 are as follows:

	Fees RMB'000 *(Restated)*	Salaries and other benefits RMB'000	Pension scheme contributions RMB'000	Total RMB'000 *(Restated)*
2005				
Executive directors				
Mr. Wu Xiao An	—	3,978	13	3,991
Mr. Qi Yumin	—	—	—	—
Mr. He Guohua	—	358	—	358
Mr. Wang Shiping	30	—	—	30
Mr. Lei Xiaoyang	103	—	—	103
Mr. Lin Xiaogang	—	—	—	—
Mr. Hong Xing	—	1,584	6	1,590
Mr. Su Qiang (also known as Mr. So Keung)	—	1,208	5	1,213
Mr. He Tao (also known as Mr. Ho To)	—	126	1	127
	133	7,254	25	7,412
Non-executive directors				
Mr. Wu Yong Cun	—	—	—	—
Mr. Xu Bingjin	82	—	—	82
Mr. Song Jian	65	—	—	65
Mr. Jiang Bo	103	—	—	103
	250	—	—	250
	383	7,254	25	7,662

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

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

During the year, no emoluments were paid to the directors as inducement to join or upon joining the Group or as compensation for loss of office (2005: Same).

No directors waived their emoluments during the year (2005: Same).

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

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

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

— Non-executive directors are compensated with reference to their qualifications, expertise and experience and the amount of time allocated to the affairs of the Group.

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

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

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

(c) Five highest paid individuals

Details of emoluments paid to the five highest paid individuals (including directors and other employees) are as follows:

	2006	2005
	RMB'000	RMB'000
		(Restated)
Fees	**—**	133
Salaries and other benefits	**10,288**	10,439
Performance related bonus	**598**	818
Contributions to pension schemes	**12**	38
Share-based payments	**8,417**	—
	19,315	11,428

	2006	2005
Number of directors	**5**	2
Number of employees	**—**	3

The emoluments represent the amounts paid to or receivable by the individuals in the respective financial year, which include the benefits derived from the share options granted *(Note 36(b))*.

The emoluments of the highest paid employees analysed by the number and emolument ranges are set out below.

	Number of employees	
	2006	2005
Emoluments bands		
HK$1,000,001 — HK$1,500,000	**—**	2
HK$2,500,001 — HK$3,000,000	**—**	1
	—	3

During the year, no emoluments were paid to the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office (2005: same).

13. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of approximately RMB398,422,000 (2005: RMB649,608,000), divided by the 3,668,390,900 shares (2005: 3,668,390,900 shares) outstanding during the year.

Diluted loss per share for the years ended 31st December, 2006 and 2005 is the same as the basic loss per share as the average market price of the Company's shares during the years was lower than the conversion price of the Group's convertible bonds and the effect of the assumed conversion of the potential ordinary shares from exercising the Company's share options is anti-dilutive.

14. INTANGIBLE ASSETS

The Group

	Sedan design rights RMB'000	Components and parts technology rights RMB'000	Sedan development costs RMB'000	Engine development costs RMB'000	Others RMB'000	Total RMB'000
	(Note a)	*(Note b)*	*(Note c)*	*(Note d)*		
Cost						
As at 1st January, 2005	681,100	820,000	254,059	155,651	11,243	1,922,053
Additions	—	—	85,789	49,687	9,380	144,856
As at 31st December, 2005	681,100	820,000	339,848	205,338	20,623	2,066,909
As at 1st January, 2006	681,100	820,000	339,848	205,338	20,623	2,066,909
Additions	—	—	68,925	63,708	17,610	150,243
As at 31st December, 2006	**681,100**	**820,000**	**408,773**	**269,046**	**38,233**	**2,217,152**
Accumulated amortisation and impairment losses						
As at 1st January, 2005	354,358	391,584	61,000	—	2,960	809,902
Amortisation	66,575	87,298	—	—	5,047	158,920
Impairment losses	89,000	116,000	95,000	—	—	300,000
As at 31st December, 2005	509,933	594,882	156,000	—	8,007	1,268,822
As at 1st January, 2006	509,933	594,882	156,000	—	8,007	1,268,822
Amortisation	47,767	75,039	12,278	6,329	4,105	145,518
As at 31st December, 2006	**557,700**	**669,921**	**168,278**	**6,329**	**12,112**	**1,414,340**
Net book value						
As at 31st December, 2006	**123,400**	**150,079**	**240,495**	**262,717**	**26,121**	**802,812**
As at 31st December, 2005	171,167	225,118	183,848	205,338	12,616	798,087

14. INTANGIBLE ASSETS (Cont'd)

The Group (Cont'd)

Notes:

(a) Sedan design rights represent acquired rights, titles and interest in certain design and engineering agreements and technical assistance agreements in relation to Zhonghua sedans.

(b) Components and parts technology rights represent rights, titles and interests in the interior design of the components and spare parts of Zhonghua sedans injected by a joint venture partner as capital into a subsidiary of the Company in 2004.

(c) Sedan development costs represent costs of development of new models of Zhonghua sedans.

(d) Engine development costs represent the costs incurred in developing the Group's first own engine. The costs include fees for design and development of the engine paid to FEV Motorentechnik GmbH, an internationally-recognised leader in the design and development of internal combustion engines, as well as self incurred development costs.

(e) Due to the continuing losses incurred by the manufacture and sale of Zhonghua sedans division, the Group has assessed the recoverable amounts of the assets in relation to Zhonghua sedans (mainly include property, plant and equipment and intangible assets) on the basis of value in use calculation. Since it is the Group's plan to install the self-developed engine (as mentioned in (d) above) in Zhonghua sedans, its recoverable amount is assessed together with the Zhonghua sedans.

The value in use calculation is based on cash flow projections covering a 5-year period as approved by the management. The cash flow projections are determined on the basis of past performance and management's expectations for market developments. There have been a number of assumptions used in estimating the recoverable amounts of the relevant assets. Key assumptions include an estimated sales volume of approximately 105,000 units in 2007 (included 20,000 units of Zhonghua sedans installed with the self-developed engine), and thereafter projected by an average annual growth rate of 6%, as well as a discount rate of 9% to reflect the risks involved. Judgement is required to determine the key assumptions adopted in the cash flow projections and changes in the key assumptions can significantly affect these cash flow projections.

The Company

The intangible assets of the Company represent engine design fees and development costs paid.

15. GOODWILL

	2006	2005
	RMB'000	RMB'000
Cost, net of accumulated amortisation		
As at 1st January, and 31st December,	**345,529**	345,529
Accumulated impairment losses		
As at 31st December,	**(50,000)**	(50,000)
Net book value		
As at 31st December,	**295,529**	295,529

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000	Machinery and equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost					
As at 1st January, 2005	1,121,399	3,429,016	390,231	101,715	5,042,361
Additions	31,876	126,773	19,293	22,791	200,733
Transfer from construction-in-progress *(Note 17)*	108,213	519,373	30,098	512	658,196
Disposals	(6,062)	(7,706)	(8,485)	(7,612)	(29,865)
Reclassification	—	12,008	(12,100)	92	—
As at 31st December, 2005	1,255,426	4,079,464	419,037	117,498	5,871,425
As at 1st January, 2006	1,255,426	4,079,464	419,037	117,498	5,871,425
Additions	15,563	152,202	17,836	7,805	193,406
Transfer from construction-in-progress *(Note 17)*	60,694	175,579	24,107	1,156	261,536
Disposals/Write off	(95,845)	(23,665)	(3,536)	(10,326)	(133,372)
Reclassification	(1,799)	(1,099)	2,898	—	—
As at 31st December, 2006	**1,234,039**	**4,382,481**	**460,342**	**116,133**	**6,192,995**

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

The Group (Cont'd)

	Buildings RMB'000	Machinery and equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Accumulated depreciation and impairment losses					
As at 1st January, 2005	202,978	1,155,143	141,968	44,659	1,544,748
Charge for the year	60,621	261,860	58,459	16,700	397,640
Eliminated on disposals	(3,133)	(6,376)	(5,791)	(5,420)	(20,720)
Reclassification	—	10,473	(10,556)	83	—
Impairment losses	—	46,693	1,606	—	48,299
As at 31st December, 2005	260,466	1,467,793	185,686	56,022	1,969,967
As at 1st January, 2006	260,466	1,467,793	185,686	56,022	1,969,967
Charge for the year	60,479	462,193	60,218	16,051	598,941
Eliminated on disposals/Write off	(14,179)	(8,172)	(3,128)	(7,092)	(32,571)
Reclassification	—	(50)	50	—	—
Impairment losses	—	28,997	163	—	29,160
As at 31st December, 2006	**306,766**	**1,950,761**	**242,989**	**64,981**	**2,565,497**
Net book value					
As at 31st December, 2006	**927,273**	**2,431,720**	**217,353**	**51,152**	**3,627,498**
As at 31st December, 2005	994,960	2,611,671	233,351	61,476	3,901,458

Notes:

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

(b) Shenyang Automotive transferred the legal titles and ownership of certain buildings with an aggregate net book value of approximately RMB134,348,000 (2005: RMB142,556,000) to BMW Brilliance Automotive Ltd. ("BMW Brilliance") at a consideration of approximately RMB174,373,000 and entered into an agreement with BMW Brilliance to lease-back a substantial portion of the buildings. The agreement includes an option that BMW Brilliance can require Shenyang Automotive to purchase back the buildings at the purchase price less depreciation upon the occurrence of certain events, including the passing of a valid resolution pursuant to the joint venture contract by the board of directors of BMW Brilliance. For financial reporting purposes, the buildings remained as assets of the Group and the portion of the consideration received from BMW Brilliance up to 31st December, 2006 of approximately RMB113,343,000 (2005: RMB74,605,000) was treated as a financing and will be partially offset against the lease rental payable in future years (Note 38(h)). The remaining consideration payable of approximately RMB61,030,000 (2005: RMB99,768,000) will be received from BMW Brilliance and accounted for as additional financing.

17. CONSTRUCTION-IN-PROGRESS

	2006 RMB'000	2005 RMB'000
As at 1st January,	**454,591**	789,145
Additions	**40,049**	323,642
Transfer to property, plant and equipment *(Note 16)*	**(261,536)**	(658,196)
As at 31st December,	**233,104**	454,591

18. LAND LEASE PREPAYMENTS

The carrying value of land lease prepayments represents unamortised costs paid for land use rights in the PRC under medium term leases of not more than 50 years. The amount to be amortised within the next twelve months after the balance sheet date amounting to RMB4,058,000 (2005: RMB4,059,000).

	2006 RMB'000	2005 RMB'000
Cost		
As at 1st January,	**143,015**	91,098
Additions	**—**	51,917
As at 31st December,	**143,015**	143,015
Accumulated amortisation		
As at 1st January,	**18,858**	14,972
Charge for the year	**4,058**	3,886
As at 31st December,	**22,916**	18,858
Net book value		
As at 31st December,	**120,099**	124,157

19. INTERESTS IN SUBSIDIARIES

	2006	2005
	RMB'000	RMB'000
		(Restated)
Unlisted investments, at cost	**4,193,288**	4,192,888
Amounts due from subsidiaries:		
— interest bearing *(Note a)*	**1,777,929**	1,871,764
— non-interest bearing *(Note b)*	**1,891,625**	1,673,352
Accumulated impairment losses	**(700,000)**	—
	7,162,842	7,738,004

Notes:

(a) The amounts are interest-bearing at rates ranging from 3.875% to 5.750% (2005: 3.063% to 5.841%) per annum, unsecured and repayable within 1 to 2 years.

(b) The amounts are unsecured, interest-free and without fixed repayment term.

Details of the Company's principal subsidiaries as at 31st December, 2006 were as follows:

Name of company	Place of establishment/ incorporation	Registered capital/ issued and fully paid capital	Legal structure	Percentage of effective equity interest/voting right attributable to the Company: Directly	Indirectly	Principal activities
Shenyang Automotive	Shenyang, the PRC	US$444,160,000	Equity joint venture	51%	—	Manufacture, assembly and sale of minibuses and sedans
Ningbo Yuming	Ningbo, the PRC	US$22,500,000	Wholly foreign owned enterprise	—	100%	Manufacture and sale of automotive components
Xing Yuan Dong	Shenyang, the PRC	US$150,000,000	Wholly foreign owned enterprise	100%	—	Manufacture and trading of automotive components
Ningbo Ruixing	Ningbo, the PRC	US$5,000,000	Wholly foreign owned enterprise	100%	—	Manufacture and trading of automotive components
Mianyang Ruian	Mianyang, the PRC	US$5,000,000	Wholly foreign owned enterprise	100%	—	Manufacture and trading of automotive components

19. INTERESTS IN SUBSIDIARIES (Cont'd)

Name of company	Place of establishment/ incorporation	Registered capital/ issued and fully paid capital	Legal structure	Percentage of effective equity interest/voting right attributable to the Company: Directly	Percentage of effective equity interest/voting right attributable to the Company: Indirectly	Principal activities
Dongxing Automotive	Shenyang, the PRC	RMB12,000,000	Wholly foreign owned enterprise	—	100%	Manufacture and trading of automotive components and remodeling minibuses and sedans
Shenyang Jindong Development Co., Ltd.	Shenyang, the PRC	RMB10,000,000	Equity joint venture	—	75.5%	Trading of automotive components
Shenyang Jianhua Motors Engine Co., Ltd.	Shenyang, the PRC	RMB155,032,500	Equity joint venture	—	60.8%	Investment holding
China Brilliance Automotive Components Group Limited	Bermuda	US$12,000	Company with limited liabilities	100%	—	Investment holding
Southern State Investment Limited	British Virgin Islands	US$1	Company with limited liabilities	100%	—	Investment holding
Beston Asia Investment Limited	British Virgin Islands	US$1	Company with limited liabilities	100%	—	Investment holding
Pure Shine Limited	British Virgin Islands	US$1	Company with limited liabilities	100%	—	Investment holding
Key Choices Group Limited	British Virgin Islands	US$50,000	Company with limited liabilities	100%	—	Investment holding
Brilliance China Automotive Finance Ltd.	British Virgin Islands	US$50,000	Company with limited liabilities	100%	—	Financing
Brilliance China Finance Limited	British Virgin Islands	US$50,000	Company with limited liabilities	100%	—	Financing
Shenyang ChenFa	Shenyang, the PRC	US$8,000,000	Wholly foreign owned enterprise	100%	—	Development, manufacture and sale of engines components

19. INTERESTS IN SUBSIDIARIES (Cont'd)

Name of company	Place of establishment/ incorporation	Registered capital/ issued and fully paid capital	Legal structure	Percentage of effective equity interest/voting right attributable to the Company Directly	Indirectly	Principal activities
Shenyang XinJinBei Investment and Development Co., Ltd. ("SXID")	Shenyang, the PRC	RMB1,500,000,000	Company with limited liabilities	—	100%	Investment holding
Shenyang JinBei Automotive Industry Holdings Co., Ltd. ("SJAI")	Shenyang, the PRC	RMB1,500,000,000	Company with limited liabilities	—	99%	Investment holding
Shanghai Hidea Auto Design Co., Ltd.	Shanghai, the PRC	US$2,000,000	Equity joint venture	—	63.25%	Design of automotive
Shenyang Brilliance Power Train Machinery Co., Ltd.	Shenyang, the PRC	US$29,900,000	Equity joint venture	49%	26.01%	Manufacture and sale of power train

Except for the subsidiaries incorporated in Bermuda and the British Virgin Islands which principally operate in Hong Kong, all other subsidiaries principally operate in the PRC.

20. INTERESTS IN ASSOCIATES

	2006	2005
	RMB'000	RMB'000
Share of net assets other than goodwill	**339,996**	331,242
Goodwill, net of accumulated amortisation	**26,654**	26,654
	366,650	357,896

20. INTERESTS IN ASSOCIATES (Cont'd)

Details of the Group's associates as at 31st December, 2006 were as follows:

Name of company	Place of principal operations and establishment	Registered capital/ issued and paid up capital	Legal structure	Percentage of effective equity interest/voting right held indirectly	Principal activities
Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd. ("Shenyang Aerospace") *(Note (1))*	Shenyang, the PRC	RMB738,250,000	Equity joint venture	12.77%	Manufacture and sale of automotive engines
Shenyang JinBei Vehicle Dies Manufacturing Co., Ltd.	Shenyang, the PRC	RMB29,900,000	Equity joint venture	48%	Manufacture and sale of automotive components

Combined financial information of the associates for the year ended 31st December, 2006 is summarised as follows:

	2006	2005
	RMB'000	RMB'000
Non-current assets	**1,906,025**	2,020,235
Current assets	**889,889**	908,750
Current liabilities	**(634,616)**	(940,641)
Non-current liabilities	**(580,000)**	(470,967)
Net assets	**1,581,298**	1,517,377
Turnover	**2,113,735**	1,807,849
Net profit	**192,279**	131,955
Net profit attributable to the Group	**49,918**	29,055

Notes:

(1) On 29th September, 2005, the Group entered into an agreement with a shareholder of Shenyang Aerospace to dispose of 2% of the Group's interest in Shenyang Aerospace for a cash consideration of RMB50 million. The disposal is yet to be completed as at the date of these financial statements.

(2) During the year, the Group disposed of two associates, Chongqing FuHua Automotive Sales Service Co., Ltd. and Chongqing Baosheng Automotive Sale and Service Co., Ltd. to affiliated companies of Shanghai Shenhua Holdings Co., Ltd. and other third parties for a consideration of approximately RMB9 million and RMB4.5 million respectively.

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2006	2005
	RMB'000	RMB'000
Share of net assets other than goodwill	**949,745**	992,717
Goodwill, net of accumulated amortisation	**326,644**	326,644
Accumulated impairment losses *(Note)*	**(252,373)**	(179,030)
	74,271	147,614
	1,024,016	1,140,331

Note: The amount represents impairment loss on goodwill relating to Shenyang Xinguang Brilliance Automobile Engine Co., Ltd. (Note 22).

Details of the Group's jointly controlled entities as at 31st December, 2006 were as follows:

Name of company	**Place of principal operations and establishment**	**Registered capital/ issued and paid up capital**	**Legal structure**	**Percentage of effective equity interest/voting right held indirectly**	**Principal activities**
Mianyang Xinchen Engine Co. Ltd. ("Mianyang Xinchen") *(Note)*	Mianyang, the PRC	US$24,120,000	Equity joint venture	50%	Manufacture and sale of automotive engines for minibuses and light duty trucks
Shenyang Xinguang Brilliance Automobile Engine Co., Ltd. ("Xinguang Brilliance")	Shenyang, the PRC	US$7,220,000	Equity joint venture	50%	Manufacture and sale of automotive engines for minibuses and light duty trucks
BMW Brilliance	Shenyang, the PRC	US$174,000,000	Equity joint venture	49.5%	Manufacture and sale of BMW sedans

Note: On 7th August, 2006, the Group entered into an agreement with an independent third party to dispose of 3.5% of the Group's interest in Mianyang Xinchen for a cash consideration of approximately RMB16.4 million. The disposal is yet to be completed as at the date of these financial statements.

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Cont'd)

Extracts of financial information of BMW Brilliance for the year ended 31st December, 2006 based on its financial statements audited by certified public accountants other than Moores Rowland Mazars are as follows:

	2006 **RMB'000**	2005 RMB'000
Non-current assets	**1,846,791**	1,269,342
Current assets	**5,216,688**	3,364,290
Current liabilities	**(4,926,526)**	(2,987,117)
Non-current liabilities	**(700,000)**	(420,000)
Net assets	**1,436,953**	1,226,515
Turnover	**8,062,524**	5,864,005
Net profit	**200,764**	59,260
Net profit attributable to the Group	**106,692**	31,582

Combined financial information of other jointly controlled entities for the year ended 31st December, 2006 is summarised as follows:

	2006 **RMB'000**	2005 RMB'000
Non-current assets	**254,485**	241,398
Current assets	**834,369**	674,354
Current liabilities	**(604,129)**	(418,630)
Non-current liabilities	**(979)**	—
Net assets	**483,746**	497,122
Turnover	**890,562**	733,043
Net loss	**(13,376)**	(25,706)
Net loss attributable to the Group	**(7,290)**	(11,642)
Impairment loss on goodwill *(Note 22)*	**(73,343)**	(179,030)
	(80,633)	(190,672)

22. IMPAIRMENT OF GOODWILL

For impairment test purposes, goodwill in a subsidiary, an associate and a jointly controlled entity as set out in notes 15, 20 and 21 have been allocated to the following two cash generating units ("CGUs"). The carrying values of goodwill, net of accumulated amortisation, as at 31st December, 2006 allocated to these CGUs are as follows:

	2006			2005		
	Manufacture and sale of minibuses and automotive components RMB'000	**Manufacture and sale of Zhonghua sedans RMB'000**	**Total RMB'000**	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of Zhonghua sedans RMB'000	Total RMB'000
A subsidiary	**295,529**	**—**	**295,529**	295,529	—	295,529
An associate	**—**	**26,654**	**26,654**	—	26,654	26,654
A jointly controlled entity	**74,271**	**—**	**74,271**	147,614	—	147,614
	369,800	**26,654**	**396,454**	443,143	26,654	469,797

The recoverable amounts of goodwill in the CGUs are determined by value in use calculations. Details of value in use calculation for manufacture and sale of Zhonghua sedans are set out in Note 14(e).

The value in use calculation of manufacture and sale of minibuses and automotive components is based on cash flow projections covering a 5-year period as approved by the management. The cash flow projections are determined on the basis of past performance and management's expectations for market developments. There have been a number of assumptions used in estimating the recoverable amounts of the relevant assets. Key assumptions include an estimated sales volume of approximately 80,000 units of minibuses in 2007, and thereafter projected by an average annual growth rate of 7.6%, as well as a discount rate of 9% to reflect the risks involved. Judgement is required to determine the key assumptions adopted in the cash flow projections and changes in the key assumptions can significantly affect these cash flow projections.

Based on the business valuations, the following impairment losses have been recognised during the year.

	2006			2005		
	Manufacture and sale of minibuses and automotive components RMB'000	**Manufacture and sale of Zhonghua sedans RMB'000**	**Total RMB'000**	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of Zhonghua sedans RMB'000	Total RMB'000
A subsidiary	**—**	**—**	**—**	50,000	—	50,000
A jointly controlled entity *(Note 21)*	**73,343**	**—**	**73,343**	179,030	—	179,030
	73,343	**—**	**73,343**	229,030	—	229,030

As the carrying amounts of goodwill allocated to the above CGUs have been reduced to their recoverable amounts, any adverse change in the assumptions used in the calculation of recoverable amounts would trigger recognition of additional impairment loss of goodwill.

23. PREPAYMENTS FOR A LONG-TERM INVESTMENT

On 29th December, 2003, SJAI (a 99% indirectly-owned subsidiary of the Company) and SXID (an indirectly wholly-owned subsidiary of the Company) entered into agreements with the respective sellers in relation to the acquisition of the entire equity interests of Shenyang Automobile Industry Asset Management Company Limited ("SAIAM") and Shenyang XinJinBei Investment Co., Ltd. ("SXI"), respectively (the "Acquisitions"). SAIAM owns 24.38% while SXI owns 8.97% of the equity interest in Shenyang JinBei Automotive Company Limited ("JinBei"), a company listed on the Shanghai Stock Exchange. The consideration for the Acquisitions was RMB600 million, which was determined after arm's length negotiations between the parties by taking into account the respective financial position of SAIAM and SXI.

Although the Acquisitions have been approved by State-owned Assets Supervision and Administration Commission of Liaoning Provincial Government and the State-Owned Assets Supervision and Administration Commission of the State Council, the transfer of the entire interest of SAIAM and SXI is subject to the granting of a waiver to SXID and SJAI from making an offer for all of the shares of JinBei under Regulation on Acquisitions of Listed Companies by the China Securities Regulatory Commission. Upon completion of the Acquisitions, the Group will be effectively interested in an aggregate of approximately 33.05% of the issue share capital of JinBei.

As at 31st December, 2006 and 2005, the consideration of RMB600 million paid to the shareholders of SAIAM and SXI was recorded as prepayments for a long-term investment. The directors have assessed the fair value of the underlying shares of JinBei and are satisfied that the recoverability of the prepayments is supported by the underlying shares of JinBei.

24. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2006	2005
	RMB'000	RMB'000
Equity investments		
Unlisted, at cost	**4,138**	4,138
Listed in Hong Kong, at fair value	**19,598**	18,546
	23,736	22,684

25. PLEDGED SHORT-TERM BANK DEPOSITS

Pledged short-term bank deposits as at 31st December, 2006 were pledged for the following purposes.

	2006	2005
	RMB'000	RMB'000
Issue of bank guaranteed notes to trade creditors *(Note)*	**1,207,209**	1,450,451
Bank loans granted to JinBei *(Note 41(a))*	**312,260**	311,461
Bank loans granted to the Group *(Note 31)*	**105,680**	170,737
	1,625,149	1,932,649

Note: In addition to short-term bank deposits, as at 31st December, 2006, the Group also pledged bank guaranteed notes receivable from third parties and affiliated companies of approximately RMB233 million (2005: RMB238 million) for issue of bank guaranteed notes.

26. INVENTORIES

	2006 RMB'000	2005 RMB'000
Raw materials	**717,933**	659,742
Work-in-progress	**174,796**	64,312
Finished goods	**654,390**	501,776
	1,547,119	1,225,830
Less: provision for inventories	**(200,276)**	(179,012)
	1,346,843	1,046,818

As at 31st December, 2006, the carrying amount of inventories that were stated at net realisable value amounted to approximately RMB441.6 million (2005: RMB340.1 million).

27. ACCOUNTS RECEIVABLE

An aging analysis of accounts receivable is set out below:

	2006 RMB'000	2005 RMB'000
Less than six months	**588,458**	111,536
Between six months to one year	**34,642**	997
Between one to two years	**7,226**	3,081
Above two years	**64,655**	57,711
	694,981	173,325
Less: provision for doubtful debts	**(62,823)**	(48,367)
	632,158	124,958

A substantial amount of the accounts receivable is denominated in Renminbi. The Group's credit policy is set out in note 5(iii).

28. NOTES RECEIVABLE

All notes receivable are denominated in Renminbi and are primarily notes received from customers for settlement of accounts receivable balances. As at 31st December, 2006, all notes receivable were guaranteed by established banks in the PRC with maturities of less than six months from 31st December, 2006.

29. OTHER RECEIVABLES

	2006 RMB'000	2005 RMB'000
Advance to SAIAM *(Note)*	**300,000**	300,000
Receivable from a jointly controlled entity	**36,727**	50,510
Others	**169,015**	159,512
	505,742	510,022
Less: provision for doubtful debts	**(82,725)**	(78,003)
	423,017	432,019

All other receivables are denominated in Renminbi.

Note: The amount represents an advance to SAIAM which will become a subsidiary of the Group after the completion of the acquisition of SAIAM as detailed in Note 23.

30. ACCOUNTS PAYABLE

An aging analysis of accounts payable is set out below:

	2006 RMB'000	2005 RMB'000
Less than six months	**2,265,630**	889,390
Between six months to one year	**12,714**	5,343
Between one to two years	**10,582**	24,045
Above two years	**10,341**	10,114
	2,299,267	928,892

Accounts payable with balances denominated in currencies other than Renminbi are considered not significant.

31. SHORT-TERM BANK BORROWINGS

RMB100,000,000 (2005: RMB157,500,000) of the bank borrowings is secured by the Group's short-term bank deposits of RMB105,680,000 (2005: RMB170,737,000) (see Note 25), interest-bearing at rates ranging from 5.58% to 6.12% per annum and repayable on 23rd February, 2007. The remaining RMB400,000,000 (2005: RMB339,000,000) is unsecured, interest-bearing at rates ranging from 6.435% to 6.732% per annum and repayable from 18th June, 2007 to 27th September, 2007.

32. CONVERTIBLE BONDS

(a) Convertible bonds due 2008

	2006	2005
	RMB'000	RMB'000
At beginning of year	**1,589,614**	1,519,490
Buy back	**(665,958)**	—
Redemption	**(939,351)**	—
Amortisation	**50,755**	109,048
Exchange difference arising on translation	**(35,060)**	(38,924)
At balance sheet date	**—**	1,589,614

On 28th November, 2003, the Company, through its wholly owned subsidiary, Brilliance China Automotive Finance Ltd., issued zero coupon guaranteed convertible bonds due 2008 with principal amount of US$200,000,000 (equivalent to approximately RMB1,654.3 million). The convertible bonds due 2008 are listed on the Luxembourg Stock Exchange.

The convertible bonds due 2008 are convertible into fully paid ordinary shares of US$0.01 each of the Company at an initial conversion price of HK$4.60 per share, subject to the following two events, at any time on or after 8th January, 2004, and up to and including 14th November, 2008, unless the convertible bonds due 2008 previously have been redeemed or previously have matured.

(i) The convertible bonds due 2008 will mature on 28th November, 2008. At any time from 28th November, 2005 through 14th November, 2008, all, or from time to time, some of the aggregate outstanding principal amount of the convertible bonds due 2008 is redeemable at the option of Brilliance China Automotive Finance Ltd. at the early redemption amount if the closing price of the shares of the Company on the SEHK for each of the last 20 consecutive trading days has been at least 130% of the conversion price or if at least 90% in principal amount of the convertible bonds due 2008 has been converted, redeemed or purchased and cancelled. Unless previously converted, redeemed or purchased and cancelled, the convertible bonds due 2008 will be redeemed at 100% of their outstanding principal amount on 28th November, 2008.

(ii) All or some of the convertible bonds due 2008 may be redeemed at the option of the relevant holder on 28th November, 2006 at 102.27% of their principal amount. The convertible bonds due 2008 may also be redeemed, in whole or in part, at the option of the holders at the early redemption amount on the occurrence of a change of control of the Company. The convertible bonds due 2008 may also be redeemed at the option of the holders if the shares of the Company cease to be listed or admitted to trading in the SEHK.

During the year, the Group, through its agent, entered into transactions to buy back the convertible bonds due 2008 with par value and carrying amount of US$82,790,000 (equivalent to approximately RMB660,576,000) and US$83,465,000 (equivalent to approximately RMB665,958,000) respectively. Total consideration for the buy back was US$82,590,000 (equivalent to approximately RMB658,969,000). The remaining outstanding convertible bonds due 2008 with par value and carrying amount of US$117,210,000 (equivalent to approximately RMB918,520,000) and US$119,868,000 (equivalent to approximately RMB939,351,000) respectively have been redeemed by the Group at a consideration of US$119,868,000 (equivalent to approximately RMB939,351,000).

32. CONVERTIBLE BONDS (Cont'd)

(a) Convertible bonds due 2008 (Cont'd)

The Group allocated the consideration and any transaction costs for the buy back to the liability and equity components of the convertible bonds due 2008 at the date of the transaction. The fair value of the liability component at the transaction date was calculated as the present value of the principal payments plus redemption premium, discounted at the market interest rate applicable to similar liabilities that do not have a conversion option while any residual amount is allocated to the equity component. Since the consideration approximated the fair value of the liability component at the transaction dates, the whole amount of the consideration was allocated to the liability component.

As a result of the buy back transactions, the Group recorded a gain of approximately RMB7 million during the year.

(b) Convertible bonds due 2011

	2006 **RMB'000**	2005 RMB'000
Liability component		
Fair value at inception	**1,379,287**	—
Issuing costs	**(28,856)**	—
Amortisation	**76,081**	—
Gain on foreign currency translation	**(31,090)**	—
	1,395,422	—
Fair value of embedded conversion option		
Fair value at inception	**81,492**	—
Changes in fair value	**73,202**	—
Gain on foreign currency translation	**(3,046)**	—
	151,648	—
	1,547,070	—

On 7th June, 2006, the Group, through a wholly-owned subsidiary, Brilliance China Finance Limited, issued zero coupon guaranteed convertible bonds due 2011 with principal amount of US$182,678,000 (equivalent to approximately RMB1,461 million). The convertible bonds due 2011 are listed on the Singapore Exchange Securities Trading Limited.

The convertible bonds due 2011 are convertible into fully paid ordinary shares of US$0.01 each of the Company at an initial conversion price of HK$1.93 per share, subject to adjustment in certain events, at any time on or after 6th July, 2006, and up to and including 8th May, 2011, unless the convertible bonds due 2011 previously have been redeemed or previously have matured.

32. CONVERTIBLE BONDS (Cont'd)

(b) Convertible bonds due 2011 (Cont'd)

Conversion price reset

If the average of the closing price (the "Average Market Price") of the shares of the Company for the period of 20 consecutive trading days immediately prior to the reset dates (being 10th March, 2007 and 10th March, 2008) is less than the conversion price on the applicable reset date, the conversion price shall be adjusted on the applicable reset date so that the Average Market Price of the shares of the Company will become the adjusted conversion price with effect from the applicable reset date provided that, among other things, any such adjustment to the conversion price in no event shall be less than 68% (for the 10th March, 2007 reset date) and 75% (for the 10th March, 2008 reset date) of the conversion price prevailing on the applicable reset date and that the conversion price shall not be reduced below the then par value of the shares unless under applicable law then in effect the convertible bonds due 2011 could not be converted at such reduced conversion price into legally issued, fully-paid and non-assessable shares.

Redemption

The convertible bonds due 2011 will mature on 7th June, 2011. All but not some of the aggregate outstanding principal amount of the convertible bonds due 2011 is redeemable at the option of Brilliance China Finance Limited at the early redemption amount (calculated at principal amount of the convertible bonds due 2011 plus a yield at 7% per annum, compounded semi-annually):

(i) on or at any time after 7th June, 2008 and prior to 7th June, 2009, if the closing price of the shares of the Company on the SEHK for each of the last 30 consecutive trading days has been at least 145% of the applicable early redemption amount divided by the conversion ratio (principal amount of the convertible bonds due 2011 divided by the conversion price);

(ii) on or at any time after 7th June, 2009 and prior to 8th May, 2011, if the closing price of the shares of the Company on the SEHK for each of the last 30 consecutive trading days has been at least 130% of the applicable early redemption amount divided by the conversion ratio; or

(iii) at any time, if more than 90% in principal amount of the convertible bonds due 2011 has been converted, redeemed or purchased and cancelled.

Unless previously converted, redeemed or purchased and cancelled, the convertible bonds due 2011 will be redeemed at 141.060% of their outstanding principal amount on 7th June, 2011.

The convertible bonds due 2011 may be redeemed in whole but not in part at the option of the relevant holder on 7th June, 2009 at 122.926% of their principal amount. The convertible bonds due 2011 may also be redeemed in whole but not in part at the option of the holders at the early redemption amount on the occurrence of a change of control of the Company, or if the shares of the Company cease to be listed or admitted to trading in the SEHK.

The convertible bonds due 2011 contain a liability component and an embedded conversion option, which are required to be accounted for separately in accordance with HKAS 39.

Fair value of the embedded conversion option is provided by professional valuers using the Black-Scholes option pricing model. Key assumptions used in estimating the fair value include (1) the conversion price will not be adjusted or reset, and remains at HK$1.93 per share throughout the life of the convertible bonds due 2011; and (2) the bondholders will not exercise their rights to require the Brilliance China Finance Limited to redeem the convertible bonds due 2011 at 122.926% of the principal amount on 7th June, 2009.

32. CONVERTIBLE BONDS (Cont'd)

(b) Convertible bonds due 2011 (Cont'd)

Redemption (Cont'd)

During the year, the change in fair value of the embedded conversion option amounted to approximately RMB73.2 million.

The fair value of the liability component as at 31st December, 2006 was approximately US$181,293,000 (equivalent to approximately RMB1,417,258,000).

33. ADVANCES FROM A SUBSIDIARY

Advances from a subsidiary are unsecured, interest-free and expected not to be repaid within the next twelve months from 31st December, 2006. The advances were used to finance certain subsidiaries of the Company.

34. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method on balance sheet approach using the principal taxation rate of the relevant entities within the Group.

As at 31st December, 2006, the Group has unrecognised temporary differences and tax losses of approximately RMB888,501,000 (2005: RMB852,032,000) and RMB1,399,365,000 (2005: RMB1,239,123,000), respectively, available to offset against future taxable profits. The unrecognised temporary differences have no expiry date under current legislation but the unrecognised tax losses of RMB565,939,000 (2005: RMB565,939,000), RMB610,235,000 (2005: RMB673,184,000) and RMB223,191,000 will expire in year 2009, year 2010 and year 2011 respectively.

35. RETIREMENT PLAN AND EMPLOYEES' BENEFITS

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 19% to 23% (2005: 20%) of salaries, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

The Group's Hong Kong employees are covered by the mandatory provident fund which is managed by an independent trustee. The Group and its Hong Kong employees each makes monthly mandatory contributions to the scheme at 5% of the employees' salary with the maximum amount of HK$1,000 by the Group and the employees per month. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the fund.

The Group's contributions for staff in Hong Kong and the PRC for the year ended 31st December, 2006 were approximately RMB36.1 million (2005: RMB33.1 million).

36. SHARE CAPITAL AND SHARE OPTIONS

(a) Share capital

	2006		2005	
	Number of shares '000	**Amount '000**	Number of shares '000	Amount '000
Authorised:				
Ordinary shares of US$0.01 each *(Note)*	**5,000,000**	**US$50,000**	5,000,000	US$50,000
Issued and fully paid:				
Ordinary shares of US$0.01 each				
As at 1st January, and 31st December,	**3,668,391**	**RMB303,388**	3,668,391	RMB303,388

Note: At a special general meeting held on 12th February, 2007, shareholders of the Company approved the increase of the authorised share capital of the Company from US$50,000,000 to US$80,000,000 by the creation of an additional 3,000,000,000 shares of par value of US$0.01 each.

(b) Share options

Original share option scheme approved in 1999

On 18th September, 1999, the Company approved a share option scheme (the "Original Scheme") under which the directors may, at their discretion, at any time during the ten years from the date of approval of the scheme, invite employees of any member company of the Group, including executive directors, to take up share options of the Company. The maximum number of shares on which options may be granted may not exceed 10% of the issued share capital of the Company excluding any shares issued on the exercise of options from time to time. The exercise price in relation to each option offer shall be determined by the directors at their absolute discretion, but in any event shall not be less than the greater of (i) 80 percent of the average of the official closing price of the shares on SEHK for the five trading days immediately preceding the relevant offer date or (ii) the nominal value of the shares. The directors may determine and adjust the period within which the relevant grantee may exercise his or her option and the proportion of the options to be exercised in each period, so long as the period within which the option must be exercised is not more than ten years from the date of grant of the option.

Movements of outstanding share options granted under the Original Scheme during the year are as follows:

	Number of share options	
	2006	2005
As at 1st January,	**2,800,000**	14,490,000
Cancelled/Lapsed during the year	**—**	(11,690,000)
As at 31st December,	**2,800,000**	2,800,000

Each of the outstanding share options under the Original Scheme entitle the holder to subscribe for one ordinary share of the Company at HK$1.896, exercisable from 2nd June, 2001 to 1st June, 2011.

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

(b) Share options (Cont'd)

New share option scheme approved in 2002

On 28th June, 2002, the Company adopted a new share option scheme (the "New Scheme") in compliance with the amendments to Chapter 17 of the listing rules of the SEHK which came into effect on 1st September, 2001. The New Scheme came into effect on 15th July, 2002 and the Original Scheme (as described above) was terminated on the same date. Any new share options granted after 15th July, 2002 will be in accordance with the terms of the New Scheme, but the outstanding share options granted under the Original Scheme will not be affected. Pursuant to the New Scheme, the Company's Board of Directors may grant options to the participants (including the Group's employees, non-executive directors, suppliers and customers, etc.) to subscribe for the Company's shares at a price which shall not be lower than the higher of:

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

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

(iii) the nominal value of the shares.

Movements of outstanding share options granted under the New Scheme during the year are as follows:

	Number of share options	
	2006	2005
Granted during the year and as at 31st December,	**35,750,000**	—

Each of the outstanding share options under the New Scheme entitle the holder to subscribe for one ordinary share of the Company at HK$1.32, exercisable from 28th December, 2006 to 27th December, 2016.

In accordance with the terms of the share-based arrangement, options issued during the year vest at the date of grant.

The fair value of the share options granted during the year is HK$11,221,493 (equivalents to approximately RMB11,281,000), which was calculated using the Black-Scholes option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural consideration. Due to the restriction on the transferability of the share options, the option holders tend to early exercise the options on hand. Therefore, management considers it is appropriate to assume that the option holders will exercise their options earlier as it is the only way for them to realise their option value. Such expected time of exercise constitutes the expected tenors of the options, which are adopted in the calculation of the fair value of the options. The expected tenors for options held by the directors and other employees are two years and one year respectively. Expected volatility is based on the historical price volatility over the past 260 days.

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

(b) Share options (Cont'd)

Call Option Agreements

On 18th December, 2002, Huachen Automotive Group Holdings Company Limited ("Huachen") entered into a principal agreement (the "Principal Agreement") with the Chinese Financial Education Development Foundation (the "Foundation"), the then substantial shareholder, to purchase from the Foundation a total of 1,446,121,500 ordinary shares, representing approximately 39.446% of the then issued share capital of the Company and the Foundation's entire shareholding interests in the Company. Completion of the Principal Agreement took place upon signing.

On 18th December, 2002, each of Mr. Wu Xiao An, Mr. Su Qiang (also known as Mr. So Keung), Mr. Hong Xing and Mr. He Tao (also known as Mr. Ho To) (the "Management Directors") entered into a call option agreement ("Call Option Agreements") with Huachen, immediately after the Principal Agreement was entered into and after completion of the sale and purchase of the ordinary shares pursuant thereto. Pursuant to the terms of the Call Option Agreements, Huachen granted to each of the Management Directors a call option in respect of a specified number of shares, totalling 346,305,630 shares in aggregate and representing approximately 9.446% of the then issued share capital of the Company, at an exercise price of HK$0.95 per share. Each call option is exercisable in whole or in part at any time during the period of 3 years commencing from the date falling 6 months after the earlier of: (a) the end of the general offer made to the remaining shareholders by Huachen and the Management Directors dated 18th December, 2002 (the "Offer"); and (b) the close of the Offer in accordance with the offer document issued by the offerors in respect of the Offer as required under the Hong Kong Code on Takeovers and Mergers. The Offer closed on 6th February, 2003.

Under the terms of the Call Option Agreements, the Management Directors may elect to pay the exercise price in full or to pay 10% of the exercise price at the time of exercise of the option. If the Management Directors elect the latter payment option, the balance of the exercise price will be payable within a 3-year period after the date of completion of the purchase of the relevant shares pursuant to the exercise of such option, and the share will be pledged as security in favour of Huachen until full payment of the exercise price.

The call options lapsed on 6th August, 2006 and none of them was exercised during the year ended 31st December, 2006 (2005: Nil).

37. RESERVES

The Group

	Equity component of convertible bonds RMB'000	Share premium RMB'000	Investment revaluation reserve RMB'000	Cumulative translation adjustments reserve RMB'000	Dedicated capital *(Note a)* RMB'000	Share options reserve RMB'000	Capital reserve *(Note b)* RMB'000	Retained earnings *(Note c)* RMB'000	Proposed dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
As at 1st January, 2005	114,205	2,038,423	15,410	39,179	158,352	—	120,000	4,158,960	19,450	6,663,979	1,066,350	7,730,329
Distributions during the year	—	—	—	—	—	—	—	—	(19,450)	(19,450)	(24,048)	(43,498)
Loss for the year	—	—	—	—	—	—	—	(649,608)	—	(649,608)	(595,934)	(1,245,542)
Transfer to dedicated capital	—	—	—	—	9,279	—	—	(9,279)	—	—	—	—
Change in fair value of available-for-sale financial assets	—	—	(27,227)	—	—	—	—	—	—	(27,227)	—	(27,227)
As at 31st December, 2005	114,205	2,038,423	(11,817)	39,179	167,631	—	120,000	3,500,073	—	5,967,694	446,368	6,414,062
As at 1st January, 2006	114,205	2,038,423	(11,817)	39,179	167,631	—	120,000	3,500,073	—	5,967,694	446,368	6,414,062
Loss for the year	—	—	—	—	—	—	—	(398,422)	—	(398,422)	(306,221)	(704,643)
Equity component of convertible bonds due 2008 transferred to retained earnings upon buy back/ redemption	(114,205)	—	—	—	—	—	—	114,205	—	—	—	—
Share option cost	—	—	—	—	—	11,281	—	—	—	11,281	—	11,281
Transfer to dedicated capital	—	—	—	—	16,562	—	—	(16,562)	—	—	—	—
Change in fair value of available-for-sale financial assets	—	—	1,052	—	—	—	—	—	—	1,052	—	1,052
As at 31st December, 2006	**—**	**2,038,423**	**(10,765)**	**39,179**	**184,193**	**11,281**	**120,000**	**3,199,294**	**—**	**5,581,605**	**140,147**	**5,721,752**

(a) As stipulated by the relevant laws and regulations for foreign-invested enterprises in the PRC, the Company's subsidiaries are required to maintain discretionary dedicated capital, which includes a general reserve fund, an enterprise expansion fund and a staff welfare and incentive bonus fund. The dedicated capital is to be appropriated from statutory net profit as stipulated by statute or by the board of directors of respective subsidiaries and recorded as a component of shareholders' equity. For the year ended 31st December, 2006, appropriations of approximately RMB16.6 million (2005: RMB9.3 million) to the general reserve fund were made by subsidiaries of the Company and no appropriation to the enterprise expansion fund was made by the subsidiaries (2005: Nil). Under HKFRSs, the appropriation for the staff welfare and incentive bonus fund is charged to the income statement.

37. RESERVES (Cont'd)

The Group (Cont'd)

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

(c) Distributions received from the Company's subsidiaries are denominated in U.S. Dollar and are translated at the prevailing unified exchange rate in the PRC. Total accumulated distributable profits of these subsidiaries under HKFRSs as at 31st December, 2006 amounted to approximately RMB1,157.7 million (2005: RMB927.1 million). The distributable profits of subsidiaries under PRC GAAP are different from the amounts reported under HKFRSs. In addition, included in the Group's retained earnings is an amount of RMB941,000 which is non-distributable under the relevant laws and regulations in the PRC.

The Company

	Share premium RMB'000	**Investment revaluation reserve** RMB'000	**Cumulative translation adjustments reserve** RMB'000	**Retained earnings** RMB'000	**Proposed dividend** RMB'000	**Total** RMB'000
As at 1st January, 2005	2,038,423	15,410	39,179	4,047,644	19,450	6,160,106
Change in fair value of available-for-sale financial assets	—	(27,227)	—	—	—	(27,227)
Distributions during the year	—	—	—	—	(19,450)	(19,450)
Profit for the year	—	—	—	184,178	—	184,178
As at 31st December, 2005	2,038,423	(11,817)	39,179	4,231,822	—	6,297,607
As at 1st January, 2006	2,038,423	(11,817)	39,179	4,231,822	—	6,297,607
Change in fair value of available-for-sale financial assets	—	1,052	—	—	—	1,052
Loss for the year	—	—	—	(605,123)	—	(605,123)
As at 31st December, 2006	**2,038,423**	**(10,765)**	**39,179**	**3,626,699**	**—**	**5,693,536**

The directors consider that the Company had approximately RMB3,655.1 million (2005: RMB4,259.2 million) available for distribution to shareholders.

38. RELATED PARTY TRANSACTIONS

(a) Name and relationship

Name	**Relationship**
JinBei	A shareholder of Shenyang Automotive
Shanghai Shenhua Holdings Co., Ltd. ("Shanghai Shenhua")	Common directorship of certain directors of the Company
Brilliance Holdings Limited ("BHL")	Common directorship of certain directors of the Company

An affiliated company is a company in which one or more of the directors or substantial shareholders of the Company have direct or indirect beneficial interests in the company or are in a position to exercise significant influence over the company. Parties are also considered to be affiliated if they are subject to common control or common significant influence.

Save as disclosed elsewhere in the financial statements, significant transactions with affiliated parties (these affiliated companies and the Company have certain directors in common and/or other relationships as specified) are detailed as follows.

38. RELATED PARTY TRANSACTIONS (Cont'd)

(b) Particulars of significant transactions between the companies comprising the Group and affiliated companies in the ordinary course of business during the year are summarised below:

	2006 **RMB'000**	2005 RMB'000
Sales of goods:		
— JinBei and its affiliated companies	**178,414**	69,432
— Shanghai Shenhua and its affiliated companies	**1,052,689**	1,469,402
— Jointly controlled entities	**124,433**	63,180
— Associates	**61,713**	7,825
Purchases of goods:		
— JinBei and its affiliated companies	**895,457**	383,808
— Shanghai Shenhua and its affiliated companies	**16,668**	85,354
— Affiliated companies of BHL	**117,336**	66,441
— Jointly controlled entities	**417,448**	382,059
— Associates	**525,430**	142,162
— Affiliated companies of the joint venture partner of Xinguang Brilliance	**68**	761
— Shareholders of Shenyang Aerospace and their affiliated companies	**90,505**	1,987
Interest to a jointly controlled entity	**16,748**	17,329
Operating lease rental on land and buildings charged by:		
— a jointly controlled entity	**908**	2,206
— Shanghai Shenhua and its affiliated companies	**1,148**	—
— JinBei and its affiliated companies	**60**	—
Mould testing income from a jointly controlled entity	**4,320**	—
Operating lease rental from a jointly controlled entity	**34,863**	15,078
Subcontracting charge to a jointly controlled entity	**254,479**	112,160
Service income from a jointly controlled entity	**35,067**	43,671
Proceeds from sale of property, plant and equipment to a jointly controlled entity	**80,332**	263

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

38. RELATED PARTY TRANSACTIONS (Cont'd)

(c) As at 31st December, 2006, amounts due from affiliated companies consisted of the following:

	2006 **RMB'000**	2005 RMB'000
Due from related parties:		
— Shanghai Shenhua and its affiliated companies	**431,310**	276,763
— Affiliated companies of JinBei	**93,446**	62,877
— An affiliated company of BHL	**55,040**	54,222
— Jointly controlled entities	**21,470**	13,380
— An associate	**—**	1,505
— BMW Brilliance		
— Accounts receivable	**247,564**	192,185
— Consideration receivable arising from the disposal of machinery and equipment	**134,527**	269,003
Dividend receivable from a jointly controlled entity	**76,173**	—
Dividend receivable from an associate	**21,000**	—
	1,080,530	869,935
Less: provision for doubtful debts	**(29,720)**	(29,720)
	1,050,810	840,215

(i) The amounts due from affiliated companies are unsecured, non-interest bearing and with no fixed repayment term.

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

	2006 **RMB'000**	2005 RMB'000
Less than six months	**773,810**	474,141
Between six months to one year	**66,485**	26,320
Between one to two years	**79,609**	321,817
Over two years	**160,626**	47,657
	1,080,530	869,935

38. RELATED PARTY TRANSACTIONS (Cont'd)

(d) As at 31st December, 2006, the notes receivable from affiliated companies arising from trading activities consisted of the following:

	2006 RMB'000	2005 RMB'000
Notes receivable from related parties:		
— Affiliated companies of JinBei	**16,620**	9,446
— Shanghai Shenhua	**63,750**	328,482
— Associates	**—**	1,000
— Jointly controlled entities	**1,107**	42
	81,477	338,970

All the notes receivable from affiliated companies are guaranteed by banks in the PRC and have maturities of six months or less from 31st December, 2006.

(e) As at 31st December, 2006, the advances to affiliated companies consisted of:

	2006 RMB'000	2005 RMB'000
Advances to related parties:		
— An associate	**179**	7,199
— Jointly controlled entities	**6,374**	27
— Affiliated companies of BHL	**15,273**	15,273
— Shanghai Shenhua and its affiliated companies	**14,044**	9,045
— JinBei and its affiliated company	**23,740**	16,185
— Other affiliated company	**689**	452
	60,299	48,181
Less: provision for doubtful debts	**(2,214)**	(9,250)
	58,085	38,931

Advances to affiliated companies are unsecured, non-interest bearing and with no fixed repayment term except for an unsecured advance to JinBei of RMB5 million which is interest-bearing at 5.4% per annum and has 6 months repayment term (2005: advances to affiliated companies were unsecured, non-interest bearing and with no fixed repayment term).

In July 2006, the Group advanced a sum of RMB150 million to an affiliated company of JinBei, which was fully repaid within the same month.

38. RELATED PARTY TRANSACTIONS (Cont'd)

(f) As at 31st December, 2006, amounts due to affiliated companies arising from trading activities consisted of the following:

	2006 RMB'000	2005 RMB'000
Due to related parties:		
— Associates	**95,819**	28,747
— Jointly controlled entities	**585,124**	436,276
— Affiliated companies of Shanghai Shenhua	**10,719**	4,191
— Affiliated companies of JinBei	**281,721**	142,438
— Affiliated companies of BHL	**—**	22,025
— Other affiliated companies	**9,910**	130
	983,293	633,807

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

	2006 RMB'000	2005 RMB'000
Less than six months	**951,464**	568,692
Between six months to one year	**27,769**	64,563
Between one to two years	**3,074**	335
Over two years	**986**	217
	983,293	633,807

(g) As at 31st December, 2006, the notes payable to affiliated companies arising from trading activities consisted of the following:

	2006 RMB'000	2005 RMB'000
Notes payable to related parties:		
— Affiliated companies of BHL	**—**	43,462
— An affiliated company of JinBei	**7,249**	8,139
— An associate	**18,039**	486
— A jointly controlled entity	**12,000**	22,005
	37,288	74,092

38. RELATED PARTY TRANSACTIONS (Cont'd)

(h) As at 31st December, 2006, the advances from affiliated companies consisted of:

	2006 **RMB'000**	2005 RMB'000
Advances from related parties:		
— Associates	**—**	607
— A jointly controlled entity	**1,279**	—
— BHL and its affiliated company	**12,728**	28,558
— Affiliated companies of Shanghai Shenhua	**820**	236
— JinBei and its affiliated companies	**6,925**	1,088
— Financing received from BMW Brilliance *(Note 16(b))*	**113,343**	74,605
	135,095	105,094

Saved for the advances from BMW Brilliance as detailed in Note 16(b), other advances from affiliated companies are unsecured, non-interest bearing and with no fixed repayment term.

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

(j) Compensation benefits to key management personnel excluding directors.

	2006 **RMB'000**	2005 RMB'000 *(Restated)*
Short-term employee benefits	**7,599**	7,433

39. CONSOLIDATED CASH FLOW STATEMENTS

(a) Cash generated from operations

	2006 **RMB'000**	2005 RMB'000
Loss before taxation	**(656,764)**	(1,156,445)
Share of results of:		
Jointly controlled entities	**(99,402)**	(19,940)
Associates	**(49,918)**	(29,055)
Interest income	**(90,738)**	(60,189)
Interest expenses	**235,418**	234,849
Write back of provision for inventories sold	**(163,094)**	(39,638)
Depreciation of property, plant and equipment	**598,941**	397,640
Amortisation of intangible assets	**145,518**	158,920
Amortisation of land lease prepayments	**4,058**	3,886
Share option cost	**11,281**	—
Write off of other non-current assets	**1,798**	—

39. CONSOLIDATED CASH FLOW STATEMENTS (Cont'd)

(a) Cash generated from operations (Cont'd)

	2006 **RMB'000**	2005 RMB'000
Provision for impairment loss on goodwill in a subsidiary	**—**	50,000
Gain on disposals of property, plant and equipment	**(3,055)**	(341)
Write off of property, plant and equipment	**8,251**	—
Gain on disposal of a jointly controlled entity	**—**	(2,098)
Government grant recognised	**(1,850)**	(941)
Gain on disposal of an associate	**(384)**	—
Loss on disposal of an associate	**709**	—
Write back of provision for doubtful debts	**(76)**	(7,459)
Provision for inventories	**184,358**	105,465
Provision for impairment loss on goodwill in a jointly controlled entity	**73,343**	179,030
Provision for impairment losses on property, plant and equipment	**29,160**	48,299
Provision for impairment losses on intangible assets	**—**	300,000
Provision for doubtful debts and write off of bad debts	**14,456**	1,176
Provision for advances to affiliated companies	**—**	7,275
Provision for amount due from affiliated companies	**—**	5,000
Provision for other receivables	**13,816**	42,252
Gain on buy back of convertible bonds due 2008	**(6,910)**	—
Change in fair value of embedded conversion option of convertible bonds due 2011	**73,202**	—
Increase in accounts receivable	**(521,656)**	(69,974)
Decrease in notes receivable	**179,837**	243,394
Decrease in notes receivable from affiliated companies	**257,493**	306,173
Increase in amounts due from affiliated companies	**(191,724)**	(79,804)
Decrease (Increase) in other receivables	**61,581**	(4,701)
(Increase) Decrease in prepayments and other current assets	**(84,966)**	28,069
(Increase) Decrease in inventories	**(321,608)**	464,057
Increase (Decrease) in notes and accounts payable	**1,487,870**	(333,250)
Decrease in notes payable to affiliated companies	**(36,804)**	(47,070)
Increase in amounts due to affiliated companies	**363,459**	171,871
Increase in customer advances	**106,800**	53,489
Increase in other payables	**25,566**	43,423
Decrease in accrued expenses and other current liabilities	**(106,684)**	(8,277)
(Increase) Decrease in other taxes recoverable	**(116,064)**	39,702
(Decrease) Increase in other taxes payable	**(35,854)**	75,304
Unrealised gain on exchange	**(69,382)**	(39,001)
Cash generated from operations	**1,319,982**	1,061,091

(b) Major non-cash transactions

During the year ended 31st December, 2006, the Group entered into an agreement with an affiliated company to offset accounts receivable from the affiliated company with the Group's accounts payable to that affiliated company of approximately RMB86 million.

40. COMMITMENTS

(a) Capital commitments

	2006 **RMB'000**	2005 RMB'000
Contracted but not provided for:		
— Construction projects	**30,781**	58,544
— Acquisition of plant and machinery	**130,407**	112,396
— Others	**25,072**	77,318
	186,260	248,258
Authorised but not contracted for:		
— Construction projects and acquisition of plant and machinery	**1,004,312**	1,532,703

(b) Operating lease commitments

As at 31st December, 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of leased properties as follows:

	2006 **RMB'000**	2005 RMB'000
Within one year	**18,943**	13,501
In the second to fifth years inclusive	**28,680**	22,996
Over five years	**40,526**	35,944
	88,149	72,441

(c) Future operating lease arrangements

As at 31st December, 2006, the Group had future aggregate minimum lease receivable under non-cancellable operating leases as follows:

	2006 **RMB'000**	2005 RMB'000
Within one year	**19,611**	14,152
In the second to fifth years inclusive	**56,697**	56,607
Over five years	**90,952**	104,960
	167,260	175,719

41. CONTINGENCIES

(a) As at 31st December, 2006, the Group had provided the following guarantees:

— Corporate guarantees for revolving bank loans and bank guaranteed notes of approximately RMB120 million (2005: RMB120 million) drawn by affiliated companies of Shanghai Shenhua;

— A joint and several corporate guarantee with a shareholder of Shenyang Aerospace on a long-term bank loan of approximately RMBNil (2005: RMB111 million) drawn by Shenyang Aerospace which will expire in 2008;

— Corporate guarantees for bank loans amounting to RMB295 million (2005: RMB295 million) drawn by JinBei. Bank deposits of RMB312 million (2005: RMB311 million) was pledged as collateral for the corporate guarantees as detailed in Note 25.

(b) On or about 25th October, 2002, the Company was served with a claim lodged by Mr. Yang Rong ("Mr. Yang") in the Labour Tribunal in Hong Kong against the Company for alleged wrongful repudiation and/or breach of his employment contract. The claim was for approximately US$4.3 million (equivalent to approximately RMB35.6 million) with respect to loss of salary. In addition, Mr. Yang claimed unspecified damages in respect of bonuses and share options. The claim was dismissed by the Labour Tribunal in Hong Kong on 28th January, 2003. Mr. Yang subsequently applied for a review of this decision. At the review hearing on 4th July, 2003, the Labour Tribunal ordered the case to be transferred to the High Court in Hong Kong. The claim has therefore been transferred to the High Court and registered as High Court Action No. 2701 of 2003 (the "Action").

On 16th September, 2003, a Statement of Claim was served on the Company. On 4th November, 2003, the Company filed a Defence and Counterclaim with the High Court. Mr. Yang filed a Reply to Defence and Defence to Counterclaim on 26th April, 2004. On 21st July, 2004, Mr. Yang obtained leave from the Court to file an Amended Reply to Defence and Defence to Counterclaim. The Company filed and served a Reply to Defence to Counterclaim on 4th September, 2004. Pleadings closed on 18th September, 2004. The parties filed and served Lists of Documents on 26th October, 2004 and witness statements were exchanged on 28th February, 2005.

The parties applied by consent to adjourn *sine die* a checklist hearing fixed for 20th April, 2005, as the respective parties anticipated that they would be filing supplemental evidence and amending their pleadings. The Court approved the application and made an Order on 19th April, 2005 that the checklist hearing be vacated and adjourned *sine die* with liberty to restore.

Pursuant to a request made by Mr. Yang on 2nd June, 2005 for further and better particulars of the Defence and Counterclaim, the Company filed and served its Answer to Mr. Yang's request on 4th July, 2005.

On 17th August, 2005, in compliance with its continuing discovery obligations, the Company filed and served a Supplemental List of Documents. Subsequently, on 5th September, 2005, Mr. Yang also filed and served a Supplemental List of Documents.

There has been no material progress in the litigation.

The directors of the Company do not believe the Action will have any significant impact on the financial position of the Company and of the Group. The directors of the Company intend to continue vigorously defending the Action.

42. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements set out on pages 44 to 111 were approved and authorised for issue by the Board of Directors on 20th April, 2007.