

Report of Directors

The directors of the Company present this report together with the audited financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2005.

PRINCIPAL ACTIVITIES

The Company is a holding company. The principal activities of its subsidiaries are set out in note 21 to the financial statements. The operating businesses of the Group are divided primarily into the manufacture and sale of (1) minibuses and automotive components and (2) sedans.

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

In May 1998, the Company acquired indirect interests in two components suppliers: a 51% equity interest in Ningbo Yuming, a wholly foreign-owned PRC enterprise primarily engaged in the production of automobile window molding, stripping and other auto components; and a 50% equity interest in Mianyang Xincheng Engine Co. Ltd., a Sino-foreign equity joint venture manufacturer of gasoline engines for use in passenger vehicles and light duty trucks. In October 1998, June 2000 and July 2000, the Company established Xing Yuan Dong, Ningbo Ruixing and Mianyang Ruian, respectively, as its wholly owned subsidiaries to centralize and consolidate the sourcing of auto parts and components for Shenyang Automotive. In 2001, in order to maintain their preferential tax treatment from the PRC government, all three companies began manufacturing automotive components as well.

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

In May 2002, Shenyang Automotive obtained the approval from the Chinese Government to produce and sell its Zhonghua sedans in the PRC. The Zhonghua sedans were launched in the market in August 2002.

On 27th March, 2003, the Company, through its indirect subsidiary, Shenyang JinBei Automotive Industry Holdings Co., Ltd. (“SJAI”), entered into a joint venture contract with BMW Holding BV to produce and sell BMW-designed and branded sedans in the PRC. The registered capital and total investment cost of the joint venture is Euro 150 million and Euro 450 million, respectively. At that time, the Company’s effective interests in SJAI and the joint venture with BMW were 81% and 40.5%, respectively. On 28th April, 2003, the Company increased its effective interests in SJAI from 81% to 89.1% and thereby increased its effective interests in the

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joint venture with BMW from 40.5% to 44.55%. On 16th December, 2003, the Company further increased its effective interests in SJAI from 89.1% to 98.0% and thereby increased its effective interests in the joint venture with BMW from 44.55% to 49.0%.

On 29th December, 2003, the Company entered into agreements in relation to the proposed acquisition of an indirect 40.1% interests in Shenyang JinBei Automotive Co., Ltd. ("JinBei"), the joint venture partner of Shenyang Automotive and a supplier of automotive components for the Group's minibuses and sedans. Upon obtaining the approvals from the relevant government authorities and completion of the proposed acquisition, the Company's effective interests in Shenyang Automotive will increase from 51.0% to approximately 70.7%.

On 19th October, 2004, the Company, through its direct subsidiary, Beston Asia Investment Limited, entered into an agreement with Ms. Chen Qiuling for the acquisition of her 49% interests in Ningbo Yuming. Approvals of the acquisition were obtained from the relevant PRC government authorities on 25th November, 2004 and Ningbo Yuming became a wholly owned subsidiary of the Company.

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TURNOVER AND CONTRIBUTION

The Group's turnover and contribution to profit from operations for the year ended 31st December, 2005, analysed by product category, are as follows:

	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	4,837,379	863,140	—	5,700,519
Intersegment sales	(231,529)	—	—	(231,529)
	4,605,850	863,140	—	5,468,990
Segment results	201,403	(643,318)	—	(441,915)
Impairment losses on intangible assets	—	(300,000)	—	(300,000)
Impairment loss on goodwill in a subsidiary	(50,000)	—	—	(50,000)
Unallocated costs				(59,835)
Operating loss				(851,750)
Interest income				60,189
Interest expense				(234,849)
Share of results of:				
Jointly controlled entities	(11,642)	—	31,582	19,940
Associates	—	28,387	668	29,055
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)
Loss attributable to minority interests				595,934
Loss attributable to equity holders of the Company				(649,608)

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FINANCIAL RESULTS

The results for the Group for the year ended 31st December, 2005, are set out in the financial statements of the Group on page 44.

CASH FLOW POSITION

The cash flow position of the Group for the year ended 31st December, 2005 is set out and analysed in the consolidated cash flow statement on pages 48 and 49 and in note 40 to the financial statements.

DIVIDEND

The directors do not recommend the payment of dividend in respect of the year ended 31st December, 2005.

CLOSURE OF REGISTER OF MEMBERS

The Hong Kong branch register of members of the Company will be closed from Wednesday, 21st June, 2006 to Friday, 23rd June, 2006, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending the forthcoming annual general meeting of the Company, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 20th June, 2006.

FIVE-YEAR FINANCIAL SUMMARY

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

RESERVES

Movements in the reserves of the Group and the Company during the year ended 31st December, 2005 are set out in note 38 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment of the Group for the year ended 31st December, 2005 are set out in note 18 to the financial statements.

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Particulars of the subsidiaries, associates and jointly controlled entities are set out in notes 21, 22 and 23, respectively to the financial statements.

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SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and share options as of 31st December, 2005 are set out in note 37 to the financial statements.

On 2nd June, 2001, share options were granted to certain directors and employees entitling them to subscribe for ordinary shares of US\$0.01 each in the share capital of the Company (the "Shares") at HK\$1.896 per Share, totaling 31,800,000 Shares in aggregate, in accordance with the share option scheme of the Company adopted on 18th September, 1999, which came into effect on 20th October, 1999 (the "1999 Share Option Scheme"). Such share options vested immediately upon the grant and are exercisable within a period of ten years.

On 28th June, 2002, the 1999 Share Option Scheme was terminated. Pursuant to Clause 13.1 of the 1999 Share Option Scheme, all the share options granted prior to such termination shall continue to be valid and exercisable in accordance with the terms of the 1999 Share Option Scheme. A new share option scheme was adopted at a special general meeting of shareholders on 28th June, 2002 (the "New Share Option Scheme") in compliance with the amendments to Chapter 17 of the Listing Rules, which came into effect on 1st September, 2001. The New Share Option Scheme came into effect on 15th July, 2002.

During the year ended 31st December, 2005, a total of 11,690,000 share options granted to former directors and a former employee of the Company had lapsed in accordance with the terms of the 1999 Share Option Scheme. No options had been granted under the New Share Option Scheme.

Details of the share options outstanding as at 31st December, 2005 under the 1999 Share Option Scheme are set out as follows:

Category and name of participant

Director	Number of share options
Wu Xiao An (also known as Ng Siu On)	2,800,000
Total	2,800,000

During the year ended 31st December, 2005, none of the above share options had been exercised. Accordingly, the weighted average closing price of the Shares immediately before the dates on which the share options were exercised is not disclosed herein.

The directors consider that it is not appropriate to state the value of the outstanding share options given that the variables which are critical for the calculation of the value of such outstanding share options cannot be determined. The variables which are critical for the determination of the value of such share options include the subscription price for the shares upon the exercise of the subscription rights attaching to the share options,

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which may be adjusted under certain circumstances, and whether or not such share options will be exercised by the grantees. The directors are of the view that the value of the share options depends on a number of variables which are either difficult to ascertain or can only be ascertained subject to a number of theoretical bases and speculative assumptions, and accordingly, believe that any calculation of the value of the share options would not be meaningful.

DIRECTORS

The directors of the Company who held office during the year ended 31st December, 2005 and up to the date of this report are:

Executive directors:

Mr. Wu Xiao An

(also known as Mr. Ng Siu On) (*Chairman*)

Mr. Qi Yumin (*Chief Executive Officer*)

(appointed on 6th January, 2006)

Mr. He Guohua

(appointed on 16th September, 2005)

Mr. Wang Shiping

(appointed on 16th September, 2005)

Mr. Lei Xiaoyang

(redesignated as an executive director on 20th June, 2005)

Mr. Lin Xiaogang

(resigned effective 6th January, 2006)

Mr. Hong Xing

(resigned effective 20th June, 2005)

Mr. Su Qiang (also known as Mr. So Keung)

(resigned effective 10th May, 2005)

Mr. He Tao (also known as Mr. Ho To)

(resigned effective 14th January, 2005)

Non-executive director:

Mr. Wu Yong Cun

Independent non-executive directors:

Mr. Xu Bingjin

Mr. Song Jian

Mr. Jiang Bo

Pursuant to bye-law 102(B) of the bye-laws of the Company, Mr. He Guohua and Mr. Wang Shiping, both of whom were appointed by the Board as an addition to the Board after the annual general meeting held on 24th June, 2005, will hold office until the forthcoming annual general meeting of the Company.

Mr. Wu Xiao An (also known as Mr. Ng Siu On) and Mr. Wu Yong Cun will retire by rotation in accordance with bye-law 99 of the bye-laws of the Company at the forthcoming annual general meeting of the Company.

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Each of Mr. Wu Xiao An (also known as Mr. Ng Siu On), Mr. He Guohua and Mr. Wang Shiping, being eligible, will offer themselves for re-election and the Board has recommended them for election at the forthcoming annual general meeting of the Company. Mr. Wu Yong Cun has indicated his intention not to be re-elected at the forthcoming annual general meeting of the Company.

Details of the directors standing for re-election at the forthcoming annual general meeting are set out in the circular dated 28th April, 2006 sent together with this annual report.

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

As at 31st December, 2005, so far as is known to the directors or chief executives of the Company, the following persons other than a director or chief executive of the Company had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (the "SFO"):

Name of shareholders	Number of shares held/Approximate shareholding percentage					
	Long position		Short position		Lending pool	
		%		%		%
Huachen Automotive Group Holdings Company Limited ("Huachen")	1,446,121,500	39.42	—	—	—	—
Templeton Asset Management Ltd.	215,388,000	5.87	—	—	—	—
Brandes Investment Partners, L.P.	306,052,000	8.34	—	—	—	—

Save as disclosed herein, as at 31st December, 2005, there was no other person so far known to the directors or chief executives of the Company, other than a director or chief executive of the Company as having an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

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DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31st December, 2005, the interests and short positions of each director, chief executive and their respective associates in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange, are set out below:

Name of director	Type of interests	Number of Shares held		Approximate shareholding percentage	Number of share options granted	Number of Shares to be acquired under a call option agreement
		Long position	Short position			
Wu Xiao An (also known as Ng Siu On)	Personal	—	—	—	2,800,000	92,911,266

Note: Pursuant to the call option agreement dated 18th December, 2002, Huachen has granted to Mr. Wu Xiao An (also known as Mr. Ng Siu On) a call option to acquire up to 92,911,266 Shares, representing approximately 2.533% of the existing issued share capital of the Company, at HK\$0.95 per Share, exercisable in whole or in part at any time during a period of three years commencing from the date falling six months after 6th February, 2003. During the year ended 31st December, 2005, the call option had not been exercised by Mr. Wu.

Save as disclosed above, as at 31st December, 2005, none of the directors, chief executives of the Company or their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31st December, 2005 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate; and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' INTERESTS IN CONTRACTS

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

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DIRECTORS' SERVICE CONTRACTS

Mr. Wu Xiao An (also known as Mr. Ng Siu On), an executive director as at the date of this annual report, has entered into a service agreement with the Company dated 1st March, 2006 for a term of three years commencing from 1st March, 2006.

On 1st March, 2006, Mr. Qi Yumin, an executive director as at the date of this annual report, has also entered into a service agreement with the Company for a term of three years commencing from 6th January, 2006.

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

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the year.

ANALYSIS OF INTEREST CAPITALISED

Details of interest capitalised are set out in note 10 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which oblige the Company to offer new shares on a pro-rata basis to existing shareholders. Such obligations are provided for in the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

During 2005, the aggregate sales attributable to the Group's five largest customers, excluding the Group's associates and jointly controlled entities, represented approximately 36.03% of the Group's turnover while the sales attributable to the Group's largest customer was approximately 26.37% of the Group's turnover. The aggregate purchases attributable to the Group's five largest suppliers, excluding the Group's associates and jointly controlled entities, during the year represented approximately 12.95% of the Group's total purchases and the purchases attributable to the Group's largest supplier represented approximately 5.18% of the Group's total purchases.

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

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PUBLIC FLOAT

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

CONNECTED TRANSACTIONS

On-going Connected Transactions for a period of three financial years ended 31st December, 2005

On 26th February, 2003, waivers were granted by the Stock Exchange from strict compliance with the requirements as stipulated in Chapter 14 of the then Listing Rules in respect of the on-going connected transactions for a period of three financial years ended 31st December, 2005, subject to certain conditions.

Details of the on-going connected transactions entered into by the Group in the year 2005 (the “2005 On-going Connected Transactions”) are as follows:

	RMB'000
Purchases of materials and component parts by Shenyang Automotive from subsidiaries and associates of JinBei	265,832
Purchases of materials and component parts by Xing Yuan Dong from subsidiaries and associates of JinBei	108,727
Purchases of materials and component parts by Dongxing Automotive from subsidiaries and associates of JinBei	7,075
Sales of automotive component parts by Shenyang Automotive to subsidiaries and associates of JinBei	69,332

The independent non-executive directors of the Company have reviewed and confirmed that each of the 2005 On-going Connected Transactions to which any member of the Group was a party:

1. had been entered into by the Group in the ordinary and usual course of its business;
2. had been entered into either (a) on normal commercial terms, (b) on terms not less favourable than those available to or from (as the case may be) independent third parties, or (c) where there is no available comparison for the purpose of determining whether (a) or (b) is satisfied, on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
3. had not exceeded the relevant annual caps as approved by the Stock Exchange.

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The auditors of the Company have reviewed the 2005 On-going Connected Transactions and confirmed to the directors that:

1. the directors had approved the 2005 On-going Connected Transactions;
2. the 2005 On-going Connected Transactions had been entered into in accordance with the terms of the related agreements governing such transactions; and
3. the 2005 On-going Connected Transactions had not exceeded the relevant annual caps as approved by the Stock Exchange.

Post balance sheet events

Continuing Connected Transactions for a period of three financial years ending 31st December, 2008

On 10th February, 2006, independent shareholders of the Company approved the entering into of a number of continuing connected transactions as stipulated in Chapter 14A of the Listing Rules (the “Continuing Connected Transactions”) by certain subsidiaries of the Company for a period of three financial years ending 31st December, 2008:

- Purchases of materials and automotive components by each of Shenyang Automotive, Xing Yuan Dong, Dongxing Automotive, Ningbo Yuming and Chenfa from JinBei and its subsidiaries and associates (other than Shenyang Automotive)
- Purchases of materials and automotive components by each of ChenFa, Dongxing Automotive and Shenyang Brilliance Power Train Machinery Co., Ltd. (“Shenyang Brilliance Power”) from Shenyang Automotive
- Sale of automobiles and automotive components by Shenyang Automotive to JinBei and its subsidiaries and associates (other than Shenyang Automotive)
- Sale of materials and automotive components by Xing Yuan Dong to JinBei and its subsidiaries and associates (other than Shenyang Automotive)
- Sale of materials and automotive components by each of Ningbo Yuming, Dongxing Automotive, Xing Yuan Dong, ChenFa and Shenyang Brilliance Power to Shenyang Automotive

For particulars of the materials and automotive components to be purchased from/sold to the connected parties and the maximum monetary value of the Continuing Connected Transactions for each financial year from 2006 to 2008 are set out in the circular of the Company dated 23rd January, 2006.

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Financial assistance for 2006

On 10th February, 2006, independent shareholders of the Company also approved the entering into of guarantee agreements by certain subsidiaries of the Company with connected parties for provision of the following financial assistance for a term of one year commencing from 1st January, 2006 to 31st December, 2006:

- Provision of cross guarantee between Xing Yuan Dong and Shenyang Automotive for each other's banking facilities in the amount of RMB350 million; and
- Provision of cross guarantee between Xing Yuan Dong and JinBei for each other's banking facilities in the amount of RMB385 million.

Save as disclosed above, in the opinion of the directors, the transactions disclosed as related party transactions in note 39 to the financial statements do not constitute connected transactions as defined under the Listing Rules in force at the timing of the entering into of the relevant transactions.

AUDITORS

Moores Rowland Mazars were first appointed as auditors of the Company in 2004 upon the resignation of PricewaterhouseCoopers.

Moores Rowland Mazars will retire and be eligible to offer themselves for re-appointment. A resolution will be submitted to the forthcoming annual general meeting to authorise the Board to appoint auditors and to fix their remuneration.

By order of the Board

Wu Xiao An

(also known as Ng Siu On)

Chairman

Hong Kong,

21st April, 2006