Notes to the Financial Statements

For the year ended 31st December, 2005

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 all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs), Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), 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 and methods adopted in the 2004 financial statements except that the Group has changed certain of its accounting policies following the adoption of new/revised HKFRSs which become effective for accounting periods beginning on or after 1st January, 2005. Details of the major changes in accounting policies following the adoption of these HKFRSs are summarised in note 3 to the financial statements.

(b) Basis of preparation

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

(c) Preparation of financial statements

At 31st December, 2005, the Group had net current liabilities of approximately RMB909 million which include convertible bonds of approximately RMB1,590 million subject under their terms to redemption at the option of the bond holders on 28th November, 2006. In preparing the financial statements, the directors have given careful consideration to current and future liquidity of the Group and its ability to redeem convertible bonds as and when the bond holders exercise their option to redeem the convertible bonds on 28th November, 2006.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(c) Preparation of financial statements (Cont'd)

Management of the Group is in negotiation with various banks for new financing for the potential redemption of the convertible bonds and for additional working capital. Management is confident that the Group will obtain adequate financing prior to any redemption and has also obtained an undertaking from a major shareholder to provide financial support to the Group, if necessary. The directors are of the opinion that the Group will have adequate financial resources to support its future operations. Accordingly, the financial statements have been prepared on a going concern basis.

(d) 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 statement of changes in equity within equity, separate from equity attributable to the 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 the 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.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Basis of consolidation (Cont'd)

(ii) *Subsidiaries*

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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. The 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 the 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.

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 activity 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.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Basis of consolidation (Cont'd)

(iv) *Translation of foreign currencies*

Items included in the financial statements of each of the Group's 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 rate. Exchange differences arising, if any, are recognised as a separate component of equity.

(e) 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.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(e) Intangibles (Cont'd)

(i) *Goodwill* (Cont'd)

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 the profit or loss on disposal.

(ii) *Research and development costs*

Research costs are charged to 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 that will generate probable 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 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)

(f) 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. Major costs incurred in restoring assets to their normal working conditions are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other 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 from the date on which they are available for use after taking into account of their estimated residual values of 10%, using the straight-line method, at the following rates per annum:

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 productive volume.

The residual value and the useful life of property, plant and equipment and depreciation method are reviewed annually.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(g) Construction-in-progress

Construction-in-progress represents factories and office buildings on which construction work has not been completed and machinery pending installation and which, upon completion, management intends to hold for production or own-use purpose. 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 any 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.

(h) 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.

(i) Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments and on the trade date basis. Financial assets and financial liabilities are initially measured at the fair value of the consideration given and except for financial assets or financial liabilities at fair value through profit or loss, including transaction costs directly attributable to the acquisition. The derecognition of a financial asset takes place when the Group's contractual rights to future cash flows from the financial asset expire or the Group transfers the contractual rights to future cash flows to a third party. The Group derecognises financial liability when, and only when the liability is extinguished. The financial assets and financial liabilities are classified in the following categories.

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

Investments in equity securities other than investments in subsidiaries, associates and jointly controlled entities are classified as available-for-sale financial assets. In prior years, these investments are classified as investment securities.

Available-for-sale financial assets are measured at the fair value, with any resultant gain or loss being recognised directly in equity until the investments are sold, collected or otherwise disposed of, or until the investments are determined to be impaired, at which time the cumulative gain or loss previously recognised directly in equity is recognised in income statement.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(i) Financial instruments (Cont'd)

(i) *Available-for-sale financial assets* (Cont'd)

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) *Convertible bonds*

Convertible bonds that can be converted into share capital at the option of the holders, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. The liability component of the convertible bonds 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 equity component is recognised in the capital reserve until either the bond is converted (in which case it is transferred to share premium) or the bond is redeemed (in which case it is released directly to retained earnings). The finance cost recognised in the income statement is calculated using the effective interest method.

(iii) *Accounts and other receivables*

Accounts and other receivables are stated at amortised cost less impairment losses. Advances and receivables without fixed or determinable repayment terms are stated at cost less impairment losses. A provision for impairment of accounts and other receivables are established when there are objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the assets' carrying amount and the present value of estimated future cash flow, discounted at the effective interest rate. The amount of provision is recognised in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(i) Financial instruments (Cont'd)

(iv) *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in income statement over the period of the borrowings using the effective interest method.

(v) *Trade and other payables*

Trade and other payables are stated at amortised cost using effective interest method where the effect of discounting would be material.

(j) Impairment loss

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amounts of its tangible and intangible assets (other than goodwill) 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.

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.

(k) 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.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(l) Cash and cash equivalents and short-term bank 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 know 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 at acquisition are classified as short-term deposits.

(m) 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 revised 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 (2004: Same) first-to-occur limited warranty. Zhonghua sedans are sold with 36-month or 60,000 kilometres (2004: Same) first-to-occur limited warranty. Zunchi sedans are sold with 10-year or 200,000 kilometres (2004: Nil) first-to-occur limited warranty. During the warranty period, the Group pays service stations for parts and labour 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)

(m) Provisions (Cont'd)

The reconciliation of the changes in the provision of warranty for the year is as follows:

	2005 RMB'000	2004 RMB'000
Balance at 1st January,	**21,058**	23,643
Accrual for warranties issued during the year	**32,396**	45,088
Settlement made during the year	**(30,994)**	(47,673)
Balance at 31st December,	**22,460**	21,058

(n) Government grants

Conditional government grants are 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 cost of construction-in-progress, 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.

(o) 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.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(p) 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.

(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 consolidated 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 36.

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

(iv) *Share options granted to directors and employees*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is charged to income statement on a straight-line basis over the vesting period with a corresponding increase in capital reserve in equity.

At the time when the share options are exercised, the amount previously recognised in capital reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in capital reserve will be transferred to retained earnings.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(q) Income tax

Income tax on the income statement for the year comprises current and deferred tax. 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.

(r) 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.

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(s) Revenue recognition

Revenue is recognised when it is probable that the 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 has 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(n) to the financial statements.

(t) 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 ceases when substantially all activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(u) Segment reporting

In accordance with the Group's internal financial reporting, management has determined that business segments be presented as the primary reporting format. As the whole of the Group's sale and manufacture is located in the PRC, management considered 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.

(v) 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. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new HKFRSs and HKASs and Interpretations, which are generally effective for accounting periods beginning on or after 1st January, 2005. The Group has adopted the following HKFRSs and HKASs which are pertinent to its operations and have an effect on the current period or any prior period. The 2004 comparatives have been restated as required, in accordance with the relevant requirements.

HKAS 1	Presentation of financial statements
HKAS 17	Leases
HKAS 21	The effects of changes in foreign exchange rates
HKAS 27	Consolidated and separate financial statements
HKAS 32	Financial instruments: disclosure and presentation
HKAS 36	Impairment of assets
HKAS 37	Provisions, contingent liabilities and contingent assets
HKAS 38	Intangible assets
HKAS 39	Financial instruments: recognition and measurement
HKFRS 2	Share-based payment
HKFRS 3	Business combinations

These HKFRSs and HKASs prescribe new accounting measurement and disclosure practices. The major effects of the adoption of these HKFRSs and HKASs on the Group's accounting policies and on amounts disclosed in the financial statements are summarised as follows:

(a) The adoption of HKAS 17 has resulted in a change in accounting policy relating to the classification of leasehold land. Leasehold land and buildings were previously carried at cost less accumulated depreciation and accumulated impairment losses. Following the adoption of HKAS 17, a lease of land and building is split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. Premiums paid for acquiring the land are treated as operating leases and stated at cost and amortised on a straight-line basis over the period of the lease. The amortisation charge is recognised in the income statement immediately. Any buildings held for own use which are situated on such leasehold land continue to be accounted for as a part of property, plant and equipment.

HKAS 17 has been adopted retrospectively. At 1st January, 2004 and 31st December, 2004, land use rights with net book values of RMB71,972,000 and RMB76,126,000 respectively, was reclassified from property, plant and equipment to land lease prepayments.

3. CHANGES IN ACCOUNTING POLICIES (Cont'd)

(b) In prior years, no amounts were recognised when employees, including directors, were granted options to purchase shares of the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1st January, 2005, in order to comply with HKFRS 2, the Group recognises the fair value of such share options as an expense in the income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in the capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised, the related capital reserve is transferred directly to retained earnings.

The new accounting policy has been applied retrospectively. However, the Group has taken advantage of the transitional provisions set out in the paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options:

(i) all options granted to employees on or before 7th November, 2002; and

(ii) all options granted to employees after 7th November, 2002 but which had vested before 1st January, 2005.

As all the existing outstanding share options of the Company were granted before 7th November, 2002, the adoption of HKFRS 2 has no effect to the financial statements of the Group by taking advantage of the transitional provisions.

(c) The adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill. In prior years, the Group's positive goodwill arising from acquisitions was capitalised and amortised on a straight-line basis over its expected useful life and was subject to impairment testing when there were indications of impairment.

3. CHANGES IN ACCOUNTING POLICIES (Cont'd)

(c) (Cont'd)

With effect from 1st January, 2005, in accordance with HKFRS 3 and HKAS 36, the Group no longer amortises positive goodwill. Instead, such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

The new policy in respect of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. As a result, comparative amounts have not been restated, the cumulative amount of amortisation at 1st January, 2005 has been offset against the cost of the goodwill and no amortisation charge for goodwill has been recognised in the consolidated income statement. The adoption of this new policy reduced the net loss for the year by RMB22,217,000.

(d) With effect from 1st January, 2005, in order to comply with HKAS 21, any goodwill mentioned in note 2(e)(i) arising from the acquisition of a foreign operation is treated as an asset of the foreign operation. Thus it is expressed in the functional currency of that foreign operation and is retranslated at the closing rate at each balance sheet date. Any resulting exchange difference is recognised directly in the reserve, together with any other differences arising from the translation of the net assets of the foreign operation.

In accordance with the transitional provisions in HKAS 21, this new policy has not been adopted retrospectively and will only be applied to acquisitions occurring on or after 1st January, 2005. As the Group has not acquired any new foreign operations since that date, the change in policy has had no impact on the financial statements for the year.

Other requirements of HKAS 21 have already been adopted by the Group and there is no material effect to the financial statements.

(e) In prior years, the Group's accounting policy for investment in equity securities, which are now classified as available-for-sale financial assets, held on a continuing basis with an identified long-term purpose are stated at cost less provision for impairment loss that is expected to be other than temporary.

With the adoption of HKAS 39 with effect from 1st January, 2005, all non-trading investments are classified as available-for-sale financial assets. They are carried at fair value and the changes in fair value are recognised in equity. If there is objective evidence that an individual investment has been impaired, any amount held in the investment revaluation reserve in respect of the investment is transferred to the income statement for the period in which the impairment is identified. Any subsequent increase in the fair value of the available-for-sale financial assets is recognised directly in equity.

3. CHANGES IN ACCOUNTING POLICIES (Cont'd)

(e) (Cont'd)

Available-for-sale financial assets which are unquoted and the fair value cannot be measured reliably are carried at cost less impairment. Such impairment is recognised in the income statement and are not reversed in the subsequent period.

This change was adopted by way of an adjustment to increase the opening balance of investment revaluation reserve at 1st January, 2005 by RMB15,410,000. No comparative amounts have been restated as this is prohibited by the transitional arrangements in HKAS 39. The adoption of the new policy decreased the fair value of the available-for-sale financial assets at 31st December, 2005 by RMB27,227,000.

(f) In prior years, the Group's convertible bonds were stated in the balance sheet at face value plus accreted redemption premium, and the issuing costs were capitalised as deferred expenses and amortised over the term of the bonds. With effect from 1st January, 2005, in accordance with HKAS 39, convertible bonds issued, net of issuing costs, are split into their liability and equity components.

At initial recognition, the liability component is measured at its fair value and the equity component is assigned the residual amount after deducting fair value of the financial liability component from the fair value of the convertible bond as a whole.

The liability component is subsequently carried at amortised cost. The equity component is recognised in the equity until the bond is either converted (in which case it is transferred to share premium) or the bond is redeemed (in which case it is released directly to retained earnings).

The change was adopted by way of the opening balance adjustments. Accordingly, the opening balance of equity at 1st January, 2005 increased by RMB114,205,000 and retained earnings decreased by RMB44,134,000. In accordance with HKAS 32, comparative amounts have been restated.

As a result of the adoption of this new policy, net loss for the year increased by RMB43,575,000.

(g) From 1st January, 2005 onward, the Group measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24 Accounting for investment securities) at amortised cost using effective interest rate method in accordance with the requirements of HKAS 39.

3. CHANGES IN ACCOUNTING POLICIES (Cont'd)

(h) In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1st January, 2005, in order to comply with HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented on consolidated balance sheet in equity, separately from the equity attributable to the equity holders of the Company, and minority interests in the results of the Group for the year are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between the minority interests and the equity holders of the Company.

(i) In prior years, the Group's share of taxation of associates and jointly controlled entities accounted for using the equity method was included as part of the Group's income tax in the consolidated income statement. With effect from 1st January, 2005, in accordance with the implementation guidance in HKAS 1, the Group has changed the presentation and includes the share of taxation of associates and jointly controlled entities accounted for using the equity method in the respective shares of results reported in the consolidated income statement before arriving at the Group's profit or loss before taxation. These changes in presentation have been applied retrospectively with comparatives restated.

3A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the consolidated balance sheet and consolidated income statement for the current and prior year are as follows:

	Consolidated Balance Sheet		Consolidated Income Statement	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
HKAS 17 in respect of land lease prepayments				
Decrease in property, plant and equipment	**(124,157)**	(76,126)	**—**	—
Increase in land lease prepayments	**124,157**	76,126	**—**	—
Decrease in depreciation	**—**	—	**3,886**	2,369
Increase in amortisation of land lease prepayments	**—**	—	**(3,886)**	(2,369)
HKAS 32 and HKAS 39 in respect of convertible bonds				
Decrease in deferred expenses — current & non-current portions	**(25,273)**	(34,193)	**—**	—
Decrease in convertible bonds	**51,769**	148,398	**—**	—
Increase in equity component of convertible bonds	**(114,205)**	(114,205)	**—**	—
Decrease in retained earnings	**87,709**	—	**—**	—
Decrease in amortisation of deferred expenses	**—**	—	**8,920**	—
Decrease in accreted redemption premium	**—**	—	**12,419**	—
Increase in amortised finance cost	**—**	—	**(64,914)**	—
HKAS 39 in respect of available-for-sale financial assets				
Decrease in investment securities	**(34,501)**	—	**—**	—
Increase in available-for-sale financial assets	**22,684**	—	**—**	—
Decrease in investment revaluation reserve	**11,817**	—	**—**	—
HKFRS 3, HKAS 36 and HKAS 38 in respect of goodwill				
Decrease in amortisation of goodwill in subsidiaries	**—**	—	**24,290**	—
Decrease in amortisation of goodwill in jointly controlled entities	**—**	—	**21,486**	—
Decrease in amortisation of goodwill in associates	**—**	—	**1,777**	—
Increase in impairment on goodwill of a subsidiary	**—**	—	**(9,563)**	—
Increase in impairment on goodwill of a jointly controlled entity	**—**	—	**(15,773)**	—
Total effect	**—**	—	**(21,358)**	—
Effect to basic and diluted loss per share (RMB)			**(0.0058)**	—

4. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE FOR THE YEAR

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the current accounting year and which have not been early adopted in these financial statements:

	Effective for accounting periods beginning on or after
HKFRS 6, Exploration for evaluation of mineral resources	1st January, 2006
HK(IFRIC) 4, Determining whether an arrangement contains a lease	1st January, 2006
HK(IFRIC) 5, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	1st January, 2006
HK(IFRIC) 6, Liabilities arising from participating in a specific market — Waste electrical and electronic equipment	1st December, 2005
HK(IFRIC) 7, Applying the restatement approach under HKAS 29, financial reporting in hyperinflationary economies	1st March, 2006
Amendment to HKAS 19, Employee benefits — Actuarial gains and losses, group plans and disclosures	1st January, 2006
Amendment to HKAS 39, Financial instruments:	
Recognition and measurement:	
— Cash flow hedge accounting of forecast intragroup transactions	1st January, 2006
— The fair value option	1st January, 2006
— Financial guarantee contracts	1st January, 2006
Amendment to HKAS 21, The effects of changes in foreign exchange rate: Net investment in a foreign operation	1st January, 2006
HKFRS 7, Financial instruments: Disclosures	1st January, 2007
Amendment to HKAS 1, Presentation of financial statements: Capital disclosures	1st January, 2007

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of HKFRS 6, HK(IFRIC) 5, 6 and 7 are not applicable to any of the Group's operations. The Group is not yet in a position to determine the impact on the financial position of the Group on the adoption of the rest of them although the Group does not expect they will have a material effect on the results of operations.

5. 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 source 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 also discussed below.

Depreciation and amortisation

The Group's net book value of property, plant and equipment at 31st December, 2005 was approximately RMB3,901 million. The Group depreciates the 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, commencing from the date the equipment is available for use. The estimated useful life 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.

Impairment test of assets

The Group determines whether an asset is impaired at least on 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.

The details of the basis and assumptions in estimating the recoverable amounts of the Group's intangible assets, goodwill in subsidiaries, associates and jointly controlled entities are set out in notes 16(e) and 24.

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

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.

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.

Warranty provisions

The Group makes provisions under the warranties it gives on sale of its mini-buses 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 recent 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(m).

Income taxes

The Group reviews the carrying amount of deferred tax assets at each balance sheet date and reduces the amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. This requires an estimation of the availability of future taxable profits.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and notes receivable, other receivables, trade 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

All operating subsidiaries, associates and jointly controlled entities of the Group operate in the PRC and trade and other receivables are largely denominated in Renminbi. Although certain trade and other 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 trade and other 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 currency less expensive for the Group in terms of Renminbi, thereby marginally improving its results of operations.

Similarly, the cost in Renminbi terms for potential redemption of the US$200 million zero coupon convertible bonds in 2006 would be lower. A devaluation of the Renminbi would have the opposite effect.

(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.

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

(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 35% of accounts and notes receivable were due from Shanghai Shenhua Holdings Co., Ltd.

In 2005, the sales to Shanghai Shenhua Holdings Co., Ltd. accounted for 26% of total sales of the Group.

(iv) Liquidity risk

At 31st December, 2005, the Group had net current liabilities of approximately RMB909 million which include convertible bonds of approximately RMB1,590 million subject under their terms to redemption at the option of the bond holders on 28th November, 2006. Therefore, the Group is exposed to liquidity risk. Management manages the exposure by obtaining financing for repaying the convertible bond that are expected to be repaid in due course and for additional working capital. Details of the Group's financing plans are disclosed in note 2(c).

7. 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:

	2005 RMB'000	2004 RMB'000 *(Restated)*
Turnover		
Sales of minibuses and automotive components	**4,605,850**	5,217,426
Sales of sedans	**863,140**	1,324,572
	5,468,990	6,541,998
Other revenue		
Subsidy income	**3,139**	1,815
Others	**132,793**	109,344
	135,932	111,159
Interest income *(Note 9)*	**60,189**	58,800
Total revenues	**5,665,111**	6,711,957

In accordance with the Group's internal financial reporting, the Group determined 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.

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

Business segments — 2005

	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:				
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)

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

Business segments — 2005 (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	8,608,811	4,387,245	—	12,996,056
Interests in associates	—	344,070	13,826	357,896
Interests in jointly controlled entities	538,853	—	601,478	1,140,331
Unallocated assets				312,663
Total assets				14,806,946
Segment liabilities	5,470,107	888,963	—	6,359,070
Unallocated liabilities				1,730,426
Total liabilities				8,089,496
Other disclosures:				
Capital expenditure	183,787	537,361	—	721,148
Depreciation of property, plant and equipment	257,112	140,528	—	397,640
Amortisation of land lease prepayments	3,021	865	—	3,886
Amortisation of intangible assets	4,883	154,037	—	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. TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

Business segments — 2004

	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
	(Restated)	*(Restated)*	*(Restated)*	*(Restated)*
Segment sales	5,546,263	1,324,572	—	6,870,835
Intersegment sales	(328,837)	—	—	(328,837)
	5,217,426	1,324,572	—	6,541,998
Segment results	517,998	(596,667)	—	(78,669)
Impairment losses on intangible assets	—	(300,000)	—	(300,000)
Unallocated costs				(58,754)
Operating loss				(437,423)
Interest income				58,800
Interest expense				(182,458)
Share of results of:				
Associates	—	55,887	(679)	55,208
Jointly controlled entities	28,179	—	19,611	47,790
Loss before taxation				(458,083)
Taxation				50,324
Loss for the year				(407,759)

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

Business segments — 2004 (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
	(Restated)	*(Restated)*	*(Restated)*	*(Restated)*
Segment assets	10,907,084	5,055,436	—	15,962,520
Interests in associates	—	358,828	13,157	371,985
Interests in jointly controlled entities	822,837	—	575,298	1,398,135
Unallocated assets				36,949
Total assets				17,769,589
Segment liabilities	7,325,527	721,854	—	8,047,381
Unallocated liabilities				1,659,767
Total liabilities				9,707,148
Other disclosures:				
Capital expenditure	228,362	1,002,524	—	1,230,886
Depreciation of property, plant and equipment	205,100	158,052	—	363,152
Amortisation of land lease prepayments	—	2,369	—	2,369
Amortisation of intangible assets and goodwill	48,458	225,136	—	273,594
Impairment losses on property, plant and equipment	10,000	—	—	10,000
Impairment losses on intangible assets	—	300,000	—	300,000

8. OPERATING LOSS

Operating loss is stated after charging and crediting the following:

	Note	**2005** **RMB'000**	2004 RMB'000 *(Restated)*
Charging:			
Depreciation of property, plant and equipment	18	**397,640**	363,152
Amortisation of land lease prepayments	20	**3,886**	2,369
Amortisation of goodwill included in:			
— General and administrative expenses		**—**	24,290
— Share of results of:			
— Associates		**—**	1,777
— Jointly controlled entities		**—**	21,486
Amortisation of intangible assets (a)	16	**158,920**	226,041
Amortisation of deferred expenses (b)		**—**	8,920
Impairment losses on property, plant and equipment (b)	18	**48,299**	10,000
Staff costs (excluding directors' emoluments)	14	**321,478**	322,990
Cost of inventories		**4,964,761**	5,487,043
Provision for inventories		**105,465**	66,832
Provision for doubtful debts:			
— Accounts receivable		**1,176**	2,527
— Other receivables		**42,252**	29,631
— Advances to affiliated companies		**7,275**	1,975
— Amounts due from affiliated companies		**5,000**	15,000
Bad debts written-off		**3,158**	6,346
Auditors' remunerations		**3,586**	5,270
Exchange loss, net		**—**	6,011
Research and development costs		**99,703**	176,434
Training expenses		**1,169**	1,820
Operating lease charges in respect of:			
— Land and buildings		**16,149**	15,816
— Machinery and equipment		**213**	13,242
Loss on disposal of property, plant and equipment, net		**—**	9,710
Loss on disposal of construction-in-progress		**—**	2,809

(a) included in cost of sales
(b) included in general and administrative expenses

8. OPERATING LOSS (Cont'd)

	2005	2004
	RMB'000	RMB'000
		(Restated)
Crediting:		
Gain on disposals of property, plant and equipment, net	**341**	—
Gain on disposal of a jointly controlled entity	**2,098**	—
Write back of provision for inventories sold	**39,638**	15,522
Write back of provision of doubtful debts:		
— Accounts receivable	**528**	1,000
— Other receivables	**6,931**	—
Write back of provision of impairment loss on investment securities	**—**	13,058
Exchange gain, net	**21,487**	—

9. INTEREST INCOME

	2005	2004
	RMB'000	RMB'000
		(Restated)
Interest income from bank deposits	**60,189**	58,800

10. INTEREST EXPENSE

	2005 RMB'000	2004 RMB'000
		(Restated)
Interest expense on		
Bank loans wholly repayable within one year	**14,738**	756
Discounted bank guaranteed notes	**161,743**	169,820
Convertible bonds	**64,914**	12,401
Finance lease obligations	**17,329**	17,850
Less: Interest expense capitalised in construction-in-progress at a rate of 3.3% (2004: 4.2%) per annum *(Note 19)*	**(23,875)**	(18,369)
	234,849	182,458

11. 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 amount of taxation charged (credited) to the consolidated income statement represents:

	2005 RMB'000	2004 RMB'000
		(Restated)
Current tax		
Hong Kong profits tax	**—**	—
PRC enterprise income tax		
Current year	**32,128**	11,340
Overprovision in prior year	**(44,250)**	—
	(12,122)	11,340
Deferred taxation		
Deferred taxation relating to the origination and reversal of temporary differences *(Note 35)*	**101,219**	(61,664)
Total income tax expense (income) in the consolidated income statement	**89,097**	(50,324)

11. TAXATION (Cont'd)

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

	2005	2004
	RMB'000	RMB'000
		(Restated)
Loss before taxation	**(1,156,445)**	(458,083)
Calculated at a weighted average statutory taxation rate in the PRC of 9.96% (2004: 19.07%)	**(115,217)**	(87,334)
Effect of tax holiday	**(36,715)**	(81,347)
Expenses not deductible for taxation purpose	**56,495**	56,897
De-recognition of previously recognised deferred tax assets	**101,219**	—
Unrecognised temporary differences	**26,587**	—
Unrecognised tax losses	**100,978**	61,460
Overprovision in prior year	**(44,250)**	—
Tax expense (income) for the year	**89,097**	(50,324)

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 profit 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.

11. TAXATION (Cont'd)

Income Tax (Cont'd)

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 was 15% for the year ended 31st December, 2005 (2004: 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 was 16.5% for the year ended 31st December, 2005 (2004: 16.5%).

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 were 16.5% for the year ended 31st December, 2005 (2004: 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. During 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 "encourage 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, during 2004 to 2010, the applicable state income tax rate for Mianyan Ruian is 15%. In addition, Mianyang Ruian is also exempted from state and local enterprise income taxes for two years starting from the first profitable year in 2001 followed by a 50% reduction of enterprise income tax for the next three years. Mianyang Ruian is also exempted from local enterprise income tax for the five-year period. As a result, the effective tax rate for Mianyang Ruian was 7.5% for the year ended 31st December, 2005 (2004: 7.5%).

11. TAXATION (Cont'd)

Income Tax (Cont'd)

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 current year, 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 0% for the year ended 31st December, 2005 (2004: 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% (2004: 17%).

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

12. (LOSS) PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated (loss) profit attributable to the equity holders of the Company includes a profit of approximately RMB184.2 million (2004: RMB467.3 million) dealt with in the financial statements of the Company.

13. DIVIDENDS

	2005	2004
	RMB'000	RMB'000
2005 interim dividends of nil (2004: HK$0.005) per ordinary share	**—**	19,450
Proposed final dividends of nil (2004: HK$0.005) per ordinary share	**—**	19,450
	—	38,900

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

(a) Staff costs (excluding directors' emoluments)

	2005	2004
	RMB'000	RMB'000
Wages, salaries and performance related bonuses	**230,775**	231,907
Pension costs — defined contribution plans	**33,071**	37,543
Staff welfare costs	**57,632**	53,540
	321,478	322,990

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

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

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

	Fees RMB'000	Salaries and other benefits RMB'000	Bonus RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2005					
Executive directors					
Mr. Wu Xiao An (also known as Mr. Ng Siu On)	—	3,978	—	13	3,991
Mr. Qi Yumin	—	—	—	—	—
Mr. He Guohua	—	358	—	—	358
Mr. Wang Shiping	—	—	—	—	—
Mr. Lei Xiaoyang	—	—	—	—	—
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
	—	7,254	—	25	7,279
Non-executive directors					
Mr. Wu Yong Cun	—	—	—	—	—
Mr. Xu Bingjin	82	—	—	—	82
Mr. Song Jian	65	—	—	—	65
Mr. Jiang Bo	103	—	—	—	103
	250	—	—	—	250
	250	7,254	—	25	7,529

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

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

The aggregate amounts of emoluments paid and payable to the directors of the Company during 2004 are as follows:

	Fees RMB'000	**Salaries and other benefits** RMB'000	**Bonus** RMB'000	**Pension scheme contributions** RMB'000	**Total** RMB'000
2004					
Executive directors					
Mr. Wu Xiao An (also known as Mr. Ng Siu On)	—	3,591	—	13	3,604
Mr. Lin Xiaogang	—	—	—	—	—
Mr. Hong Xing	—	3,298	—	13	3,311
Mr. Su Qiang (also knwon as Mr. So Keung	—	3,277	—	13	3,290
Mr. He Tao (also known as Mr. Ho To)	—	3,160	—	12	3,172
Mr. Yang Mao Zeng	—	—	2,866	—	2,866
	—	13,326	2,866	51	16,243
Non-executive directors					
Mr. Wu Yong Cun	106	—	—	—	106
Mr. Lei Xiaoyang	106	—	—	—	106
Mr. Xu Bingjin	125	—	—	—	125
Mr. Song Jian	41	—	—	—	41
Mr. Jiang Bo	—	—	—	—	—
Mr. Yi Min Li	41	—	—	—	41
Mr. Chen Jianming	—	—	—	—	—
	419	—	—	—	419
	419	13,326	2,866	51	16,662

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

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

All directors of the Company are eligible for share options under the share option scheme adopted by the Company.

During both 2004 and 2005, no option was granted to any of the directors of the Company. Details of the Company's share option schemes are disclosed in note 37(b).

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 (2004: Same).

No directors waived their emoluments during the year (2004: 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.

Employees are rewarded on a performance-related basis, and eligible for share options under the share option scheme adopted by 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 will be taken into account:

- Remuneration of executive directors shall comprise of a 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 will be 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 will be 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 will be compensated with reference to the level of compensation awarded to independent non-executive directors by other companies listed on the Stock Exchange; 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 Company by the relevant independent non-executive director.

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

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

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

(c) Five highest paid individuals

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

	2005	2004
	RMB'000	RMB'000
Salaries and other benefits	**10,439**	13,326
Performance related bonus	**818**	2,866
Contributions to pension schemes	**38**	51
	11,295	16,243
Number of directors	**2**	5
Number of employees	**3**	—

The emoluments represent the amount paid to or receivable by the individuals in the respective financial year and exclude the benefits derived from the share options granted to or exercised by the individuals (Note 37 (b)).

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

	Number of employees	
	2005	2004
Emoluments bands		
HK$1,000,001 – HK$1,500,000	**2**	—
HK$2,500,001 – HK$3,000,000	**1**	—
	3	—

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

(c) Five highest paid individuals (Cont'd)

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 (2004: Same).

15. (LOSS) EARNINGS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to equity holders of the Company of approximately RMB649,608,000 (2004: basic earnings per share is based on net profit attributable to equity holders of the Company of RMB48,569,000), divided by the weighted average of 3,668,390,900 shares (2004: 3,668,390,900 shares) outstanding during the year.

Diluted loss per share is the same as the basic loss per share as the average market price of the Company's shares during the year was lower than the conversion price of the Group's convertible bonds (2004: Same) and the effect of the assumed conversion of the potential ordinary shares from exercising the Company's share options is anti-dilutive.

Diluted earnings per share for 2004 is calculated based on the profit attributable to equity holders of the Company of RMB48,569,000 and adjusted weighted average number of shares of the Company of 3,683,795,968 shares (basic weighted average number of shares of the Company of 3,668,390,900 plus the weighted average number of shares of 15,405,068 shares deemed to be issued at no consideration if all outstanding options had been exercised).

16. 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						
At 1st January, 2004	681,100	820,000	—	—	3,237	1,504,337
Additions	—	—	254,059	23,919	8,006	285,984
Transfer from long-term prepayments	—	—	—	131,732	—	131,732
At 31st December, 2004	681,100	820,000	254,059	155,651	11,243	1,922,053
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
At 31st December, 2005	**681,100**	**820,000**	**339,848**	**205,338**	**20,623**	**2,066,909**
Accumulated amortisation and impairment losses						
At 1st January, 2004	154,058	127,792	—	—	2,011	283,861
Amortisation	97,300	127,792	—	—	949	226,041
Impairment losses *(Note e)*	103,000	136,000	61,000	—	—	300,000
At 31st December, 2004	354,358	391,584	61,000	—	2,960	809,902
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 *(Note e)*	89,000	116,000	95,000	—	—	300,000
At 31st December, 2005	**509,933**	**594,882**	**156,000**	**—**	**8,007**	**1,268,822**
Net book value						
At 31st December, 2005	**171,167**	**225,118**	**183,848**	**205,338**	**12,616**	**798,087**
At 31st December, 2004	326,742	428,416	193,059	155,651	8,283	1,112,151

Notes:

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

16. INTANGIBLE ASSETS (Cont'd)

The Group (Cont'd)

(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 a new model of Zhonghua sedans in progress. As the new model has not been put into commercial production at 31st December, 2005, no amortisation is provided.

(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 operations in the manufacture and sale of Zhonghua sedans had continuously resulted in loss, the Group critically assessed the recoverable amounts of the intangible assets in relation to Zhonghua sedans mentioned in (a) to (c) on the basis of value in use calculations. The value in use calculations use cash flow projections covering a 5-year period approved by the Group's management. There are a number of assumptions used in estimating the recoverable amounts of the relevant intangible assets which have been determined based on past performance and management's expectations for market developments. Key assumptions include an estimated sales volume of approximately 30,000 units of sedans in 2006, and thereafter, projection by average 25% growth rate, as well as discount rates of 9%, to reflect the risks involved. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections.

The Company

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

17. GOODWILL

	2005	2004
	RMB'000	RMB'000
Cost, net of amortisation		
At 1st January,	**345,529**	365,884
Additions	**—**	3,935
Amortisation charges	**—**	(24,290)
At 31st December,	**345,529**	345,529
Accumulated impairment loss		
Provision for the year and at 31st December,	**50,000**	—
Net book value		
At 31st December,	**295,529**	345,529

18. PROPERTY, PLANT AND EQUIPMENT

The Group

	Land use rights RMB'000	Buildings RMB'000	Machinery and equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost						
At 1st January, 2004						
As previously stated	84,575	1,035,787	3,083,992	293,035	93,867	4,591,256
Reclassified to land lease prepayments *(Note 3(a) and 20)*	(84,575)	—	—	—	—	(84,575)
As restated	—	1,035,787	3,083,992	293,035	93,867	4,506,681
Additions	—	22,494	162,444	34,293	20,227	239,458
Transfer from construction-in-progress *(Note 19)*	—	145,954	240,604	60,676	4,451	451,685
Disposals	—	(82,836)	(47,765)	(8,032)	(16,830)	(155,463)
Reclassification	—	—	(10,259)	10,259	—	—
At 31st December, 2004	—	1,121,399	3,429,016	390,231	101,715	5,042,361
At 1st January, 2005 as restated	—	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 19)*	—	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	—
At 31st December, 2005	**—**	**1,255,426**	**4,079,464**	**419,037**	**117,498**	**5,871,425**

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

The Group

	Land use rights RMB'000	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						
At 1st January, 2004						
As previously stated	12,603	170,551	924,063	90,095	40,125	1,237,437
Reclassified to land lease prepayments *(Note 3 (a) and 20)*	(12,603)	—	—	—	—	(12,603)
As restated	—	170,551	924,063	90,095	40,125	1,224,834
Charge for the year	—	44,002	250,277	54,396	14,477	363,152
Eliminated on disposals	—	(11,575)	(27,309)	(4,411)	(9,943)	(53,238)
Reclassifications	—	—	(1,888)	1,888	—	—
Impairment loss	—	—	10,000	—	—	10,000
At 31st December, 2004	—	202,978	1,155,143	141,968	44,659	1,544,748
At 1st January, 2005 as restated	—	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)
Reclassifications	—	—	10,473	(10,556)	83	—
Impairment loss	—	—	46,693	1,606	—	48,299
At 31st December, 2005	**—**	**260,466**	**1,467,793**	**185,686**	**56,022**	**1,969,967**
Net book value						
At 31st December, 2005	**—**	**994,960**	**2,611,671**	**233,351**	**61,476**	**3,901,458**
At 31st December, 2004 (as restated)	—	918,421	2,273,873	248,263	57,056	3,497,613

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

Notes:

(a) All buildings are located in the PRC under a medium term leases 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 RMB142,556,000 (2004: RMB150,763,000) 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 of sale includes an option for BMW Brilliance to require Shenyang Automotive to purchase back such buildings at the purchase price less depreciation upon the occurrence of certain events, including the passing a valid resolution pursuant to the joint venture contract by the board of directors of BMW Brilliance. For financial reporting purposes, the buildings retained as assets on the balance sheet of the Group and the portion of consideration received from BMW Brilliance up to 31st December, 2005 amounting to approximately RMB74,605,000 is treated as a financing and will be partially offset against the lease rental payable in future years (Note 39(h)). The remaining balance of approximately RMB99,768,000 will be received from BMW Brilliance and will be accounted for as additional financing.

19. CONSTRUCTION-IN-PROGRESS

	2005	2004
	RMB'000	RMB'000
At 1st January,	**789,145**	570,233
Additions	**323,642**	673,406
Disposals	**—**	(2,809)
Transfer to property, plant and equipment *(Note 18)*	**(658,196)**	(451,685)
At 31st December,	**454,591**	789,145

Interest expense of approximately RMB23,875,000 (2004: RMB18,369,000) was capitalised in construction-in-progress during the year.

20. LAND LEASE PREPAYMENTS

The carrying value of land lease prepayments represents unamortised cost paid for land use rights in the PRC under medium term leases not more than 50 years. The amount to be amortised within the next twelve months after the balance sheet date amounting to RMB4,059,000 (2004: RMB3,886,000).

	RMB'000
Cost	
At 1st January, 2004	
As previously stated	—
Reclassified from property, plant and equipment *(Note 3(a) and 18)*	84,575
As restated	84,575
Additions	6,523
At 31st December, 2004	91,098
At 1st January, 2005, as restated	91,098
Additions	51,917
At 31st December, 2005	**143,015**
Accumulated amortisation	
At 1st January, 2004	
As previously stated	—
Reclassified from property, plant and equipment *(Note 3(a) and 18)*	12,603
As restated	12,603
Charge for the year	2,369
At 31st December, 2004	14,972
At 1st January, 2005, as restated	14,972
Charge for the year	3,886
At 31st December, 2005	**18,858**
Net book value	
At 31st December, 2005	**124,157**
At 31st December, 2004 (as restated)	76,126

21. INTERESTS IN SUBSIDIARIES

	2005 RMB'000	2004 RMB'000
Unlisted shares, at cost	**4,236,890**	4,361,090
Amounts due from subsidiaries:		
— Interest bearing *(Note a)*	**1,871,764**	2,258,892
— Non-interest bearing *(Note b)*	**1,673,352**	1,321,241
Accumulated impairment losses	**(25,456)**	(13,640)
	7,756,550	7,927,583

Notes:

(a) The amounts are interest-bearing at rates ranged between 3.063% to 5.841% (2004: 5.0% to 5.841%) per annum which are unsecured and repayable within 1 to 2 years.

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

21. INTERESTS IN SUBSIDIARIES (Cont'd)

Details of the Company's principal subsidiaries at 31st December, 2005 are as follows:

Name of company	Place of establishment/ incorporation	Registered capital/ issued and fully paid capital	Legal structure	Percentage of equity interest/voting right attributable to the Company: Directly	Indirectly	Principal activities
Shenyang Brilliance JinBei Automobile Co., Ltd.	Shenyang, the PRC	US$444,160,000	Equity joint venture	51%	—	Manufacture, assembly and sale of minibuses and sedans
Ningbo Yuming Machinery Industrial Co., Ltd.	Ningbo, the PRC	US$2,500,000	Wholly foreign owned enterprise	—	100%	Manufacture and sale of automotive components
Shenyang XingYuanDong Automobile Component Co., Ltd.	Shenyang, the PRC	US$150,000,000	Wholly foreign owned enterprise	100%	—	Manufacture and trading of automotive components
Ningbo Brilliance Ruixing Auto Components Co., Ltd.	Ningbo, the PRC	US$5,000,000	Wholly foreign owned enterprise	100%	—	Manufacture and trading of automotive components
Mianyang Brilliance Ruian Automotive Components Co., Ltd.	Mianyang, the PRC	US$5,000,000	Wholly foreign owned enterprise	100%	—	Manufacture and trading of automotive components
Shenyang Brilliance Dongxing Automotive Component Co., Ltd.	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

21. INTERESTS IN SUBSIDIARIES (Cont'd)

Name of company	Place of establishment/ incorporation	Registered capital/ issued and fully paid capital	Legal structure	Percentage of equity interest/voting right attributable to the Company: Directly	Percentage of equity interest/voting right attributable to the Company: Indirectly	Principal activities
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
Shenyang ChenFa Automobile Component Co., Ltd.	Shenyang, the PRC	US$8,000,000	Wholly foreign owned enterprise	100%	—	Development, Manufacture and sale of engines components
Shenyang XinJinBei Investment and Development Co., Ltd. ("SXID")	Shenyang, the PRC	RMB1,500,000,000	Company with limited liabilities	—	99%	Investment holding
Shenyang JinBei Automotive Industry Holdings Co., Ltd. ("SJAI")	Shenyang, the PRC	RMB1,500,000,000	Company with limited liabilities	—	98.01%	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%	Dormant and intended for manufacture and sale of power train

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

22. INTERESTS IN ASSOCIATES

	2005	2004
	RMB'000	RMB'000
Share of net assets other than goodwill	**331,242**	345,331
Goodwill, net of accumulated amortisation	**26,654**	26,654
	357,896	371,985

Details of the Group's associates at 31st December, 2005 are as follows:

Name of company	**Place of principal operations and establishment**	**Registered capital/issued and paid up capital**	**Legal structure**	**Percentage of equity interest/ voting right held indirectly**	**Principal activities**
Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd. ("Shenyang Aerospace") *(Note)*	Shenyang, the PRC	RMB738,250,000	Equity joint venture	12.77%	Manufacture and sale of automotive engines
Chongqing FuHua Automotive Sales Service Co., Ltd.	Chongqing, the PRC	RMB30,000,000	Equity joint venture	29.403%	Trading of sedans and minibuses
Chongqing Baosheng Automotive Sale and Service Co., Ltd.	Chongqing, the PRC	RMB15,000,000	Equity joint venture	29.403%	Trading of BMW sedans

22. INTERESTS IN ASSOCIATES (Cont'd)

Unaudited combined financial information of the associates for the year ended 31st December, 2005 is summarised as follows:

	2005	2004
	RMB'000	RMB'000
Non-current assets	**2,020,235**	1,509,527
Current assets	**908,750**	1,135,531
Current liabilities	**(940,641)**	(743,600)
Non-current liabilities	**(470,967)**	(396,927)
Net assets	**1,517,377**	1,504,531
Turnover	**1,807,849**	2,200,407
Net profit	**131,955**	275,460
Net profit attributable to the Group	**29,055**	55,208

Note: On 29th September, 2005, the Group has 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 after the date of the financial statements.

23. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2005	2004
	RMB'000	RMB'000
Share of net assets other than goodwill	**992,717**	1,071,491
Goodwill, net of accumulated amortisation	**326,644**	326,644
Accumulated impairment loss *(Note)*	**(179,030)**	—
	147,614	326,644
	1,140,331	1,398,135

Note: The amount represents impairment loss on goodwill relating to Shenyang Xinguang Brilliance Automobile Engine Co., Ltd. (Note 24).

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

Details of the Group's jointly controlled entities at 31st December, 2005 are as follows:

Name of company	Place of principal operations and establishment	Registered capital/issued and paid up capital	Legal structure	Percentage of equity interest/ voting right held indirectly	Principal activities
Mianyang Xinchen Engine Co. Ltd.	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 Automotive Ltd.	Shenyang, the PRC	US$174,000,000	Equity joint venture	49.005%	Manufacture and sale of BMW sedans

Note: During the year, two jointly controlled entities, Shenyang HuaBao Automotive Sales Service Co., Ltd. and Shanghai Kowin Automobile Component Co., Ltd. had been disposed of.

Extracts of the financial information of BMW Brilliance for the year ended 31st December, 2005 based on its financial statements audited by certified public accountants other than Moores Rowland Mazars are as follows:

	2005 RMB'000	2004 RMB'000
Non-current assets	**1,269,342**	1,003,859
Current assets	**3,364,290**	5,799,388
Current liabilities	**(2,987,117)**	(5,315,993)
Non-current liabilities	**(420,000)**	(320,000)
Net assets	**1,226,515**	1,167,254
Turnover	**5,864,005**	3,707,111
Net profit	**59,260**	41,542
Net profit attributable to the Group	**31,582**	21,764

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

Unaudited combined financial information of the other jointly controlled entities for the year ended 31st December, 2005 is summarised as follows:

	2005	2004
	RMB'000	RMB'000
Non-current assets	**241,398**	278,408
Current assets	**674,354**	886,520
Current liabilities	**(418,630)**	(619,817)
Net assets	**497,122**	545,111
Turnover	**733,043**	1,362,912
Net (loss) profit	**(25,706)**	93,893
Net (loss) profit attributable to the Group	**(11,642)**	26,026
Impairment loss on goodwill	**(179,030)**	—
	(190,672)	26,026

24. IMPAIRMENT OF GOODWILL

The Group uses business segments as its primary segments for reporting segment information. For the purpose of impairment testing, goodwill in a subsidiary, an associate and a jointly controlled entity set out in notes 17, 22 and 23 have been allocated to the following two individual cash generating units ("CGUs"). The carrying values of goodwill, net of accumulated amortisation, at 31st December, 2005 allocated to these CGUs are as follow:

	2005			2004		
	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**	345,529	—	345,529
An associate	**—**	**26,654**	**26,654**	—	26,654	26,654
A jointly controlled entity	**147,614**	**—**	**147,614**	326,644	—	326,644
	443,143	**26,654**	**469,797**	672,173	26,654	698,827

The recoverable amounts of goodwill in the CGUs are determined based on value in use calculations. The business valuations of the subsidiary, associate and jointly controlled entity were conducted by an independent business valuer annually based on financial budgets and cash flow projections approved by the Group's management covering a five-year period.

There are a number of assumptions and estimates involved for the preparation of cash flow projections. Key assumptions include expected growth in revenues, ranging from 7.2% to 24.5%, expected gross margins, ranging from 15.7% to 20.5%, and discount rates, ranging from 12% to 18%, to reflect the risks involved. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections.

24. IMPAIRMENT OF GOODWILL (Cont'd)

Based on the value in use calculations, the following impairment losses are provided for the year.

	2005			2004		
	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 23)	**179,030**	**—**	**179,030**	—	—	—
	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.

25. PREPAYMENTS FOR A LONG-TERM INVESTMENT

On 29th December, 2003, SJAI (a 98.01% indirectly-owned subsidiary of the Company) and SXID (a 99.0% indirectly-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. SAIAM is interested in 29.9% and SXI in 11% 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 and was determined after arm's length negotiations between the parties taking into account the respective financial positions 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 40.13% of the equity interests of JinBei.

At 31st December, 2005 and 2004, 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 in JinBei and are satisfied that the carrying amount of the prepayments is supported by the fair value of the underlying shares by reference to a valuation conducted by an investment bank.

26. AVAILABLE-FOR-SALE FINANCIAL ASSETS/INVESTMENT SECURITIES

	2005	2004
	RMB'000	RMB'000
Unlisted, at cost	**4,138**	4,138
Listed in Hong Kong, at fair value (2004: at cost)	**18,546**	30,363
	22,684	34,501
Market value of listed equity securities	**18,546**	45,773

The unlisted equity investment is stated at cost less impairment losses because it does not have a quoted market price in an active market. The fair value cannot be measured reliably as the range of reasonable fair value estimates is significant and the probabilities of various estimates cannot be reasonably assessed.

27. PLEDGED SHORT-TERM BANK DEPOSITS

Pledged short-term bank deposits at 31st December, 2005 were pledged for the following purposes.

	2005	2004
	RMB'000	RMB'000
Issue of bank guaranteed notes to trade creditors *(Note)*	**1,450,451**	2,375,191
Bank loans granted to an affiliated company of BHL	**—**	300,000
Bank loans granted to JinBei *(Note 42(b))*	**311,461**	102,000
Bank loans granted to the Group	**170,737**	—
	1,932,649	2,777,191

Note: In addition to short-term bank deposits pledged, at 31st December, 2005, the Group also pledged bank guaranteed notes received from third parties and affiliated companies of approximately RMB238 million (2004: RMB614 million) for issue of bank guaranteed notes to third parties and affiliated companies.

28. INVENTORIES

	2005 RMB'000	2004 RMB'000
Raw materials	**659,742**	926,962
Work-in-progress	**64,312**	99,892
Finished goods	**501,776**	663,378
	1,225,830	1,690,232
Less: provision for inventories	**(179,012)**	(113,184)
	1,046,818	1,577,048

At 31st December, 2005, the carrying amount of inventories that are stated at fair value less costs to sell amounted to approximately RMB340.1 million (2004: RMB241.2 million).

29. ACCOUNTS RECEIVABLE

An aging analysis of accounts receivable is set out below:

	2005 RMB'000	2004 RMB'000
Less than six months	**111,536**	29,033
Between six months to one year	**997**	8,825
Between one to two years	**3,081**	11,452
Above two years	**57,711**	54,040
	173,325	103,350
Less: provision for doubtful debts	**(48,367)**	(47,718)
	124,958	55,632

A substantial amount of the accounts receivable are denominated in RMB. The Group's credit policy is set out in note 6.

30. NOTES RECEIVABLE

All notes receivable are denominated in RMB and are primarily notes received from customers for settlement of trade receivable balances. At 31st December, 2005, all notes receivable were guaranteed by established banks in the PRC and have maturities of six months or less from 31st December, 2005.

31. OTHER RECEIVABLES

	2005	2004
	RMB'000	RMB'000
Advance to SAIAM *(Note)*	**300,000**	300,000
Receivable from a jointly controlled entity	**50,510**	61,839
Others	**159,512**	155,460
	510,022	517,299
Less: provision for doubtful debts	**(78,003)**	(42,682)
	432,019	474,617

All other receivables are denominated in RMB.

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 25.

32. ACCOUNTS PAYABLE

An aging analysis of accounts payable is set out below:

	2005	2004
	RMB'000	RMB'000
Less than six months	**889,390**	676,652
Between six months to one year	**5,343**	27,608
Between one to two years	**24,045**	3,390
Above two years	**10,114**	25,328
	928,892	732,978

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

33. CONVERTIBLE BONDS

	2005	2004
	RMB'000	RMB'000
		(Restated)
Convertible bonds as previously stated	**1,667,888**	1,667,888
Issuing cost *(Note 3(f))*	**(34,193)**	(34,193)
Equity component reclassified to reserves *(Note 3(f) and 38)*	**(114,205)**	(114,205)
Accumulated amortised cost *(Note 3(f))*	**109,048**	—
Exchange difference arising on translation	**(38,924)**	—
Balance at amortised cost (2004: cost plus accreted redemption premium)	**1,589,614**	1,519,490

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

The Bonds 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 Bonds previously have been redeemed or previously have matured.

(a) The Bonds 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 Bonds 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 Bonds has been converted, redeemed or purchased and cancelled. Unless previously converted, redeemed or purchased and cancelled, the Bonds will be redeemed at 100% of their outstanding principal amount on 28th November, 2008.

(b) All or some of the Bonds may be redeemed at the option of the relevant holder on 28th November, 2006 at 102.27% of their principal amount. The Bonds 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 Bonds 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.

At 31st December, 2005, none of the Bonds had been converted into the ordinary shares of the Company.

33. CONVERTIBLE BONDS (Cont'd)

The proceeds received, net of direct expenses incurred for the issuance of Bonds, by Brilliance China Automotive Finance Ltd. were advanced to the Company for purpose mentioned in Note 34.

34. 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, 2005. The advances were used to finance certain subsidiaries of the Company.

35. 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.

The movements on the deferred tax assets account are as follows:

	2005	2004
	RMB'000	RMB'000
At 1st January,	**101,219**	39,555
Deferred taxation (charged) credited to income statement *(Note 11)*	**(101,219)**	61,664
At 31st December,	**—**	101,219

The movements in deferred tax assets during the year are as follows:

	Provisions and accruals		**Provision for impairment of property, plant and equipment**		**Amortisation and provision for impairment of intangible assets**		**Research & development costs**		**Total**	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
At 1st January,	**50,662**	30,181	**1,045**	2,751	**43,288**	6,623	**6,224**	—	**101,219**	39,555
(Charged) Credited to income statement	**(50,662)**	20,481	**(1,045)**	(1,706)	**(43,288)**	36,665	**(6,224)**	6,224	**(101,219)**	61,664
At 31st December,	**—**	50,662	**—**	1,045	**—**	43,288	**—**	6,224	**—**	101,219

35. DEFERRED TAXATION (Cont'd)

At 31st December, 2005, the Group has unrecognised temporary differences and tax losses of approximately RMB852,032,000 (2004: Nil) and RMB1,239,123,000 (2004: RMB409,736,000), respectively, available to offset against future taxable profits. The unrecognised temporary differences do not expire under current legislation but the unrecognised tax losses of RMB565,939,000 (2004: RMB409,736,000) and RMB673,184,000 (2004: Nil) will be expired in year 2009 and year 2010 respectively.

36. 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 rate of 20% (2004: 20% to 23.5%) 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, 2005 were approximately RMB33.1 million (2004: RMB37.5 million).

37. SHARE CAPITAL AND SHARE OPTIONS

(a) Share capital

	2005		2004	
	Number of shares '000	**Amount '000**	Number of shares '000	Amount '000
Authorised:				
Ordinary shares of US$0.01 each	**5,000,000**	**US$50,000**	5,000,000	US$50,000
Issued and fully paid:				
Ordinary shares of US$0.01 each				
At 1st January, and 31st December,	**3,668,391**	**RMB303,388**	3,668,391	RMB303,388

(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.

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

(b) Share options (Cont'd)

Original share option scheme approved in 1999 (Cont'd)

A summary of the movements of outstanding share options granted under the Original Scheme during the year is as follows:

	Number of share options	
	2005	2004
At 1st January,	**14,490,000**	15,490,000
Cancelled/Lapsed during the year	**(11,690,000)**	(1,000,000)
At 31st December,	**2,800,000**	14,490,000

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

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 share option scheme adopted by the Company on 18th September, 1999 (as described above) was terminated. Any new share option granted after 15th July, 2002 will be in accordance with the terms of the New Scheme, but the outstanding share option 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 relevant Stock Exchange as stated in such Stock Exchange's quotation sheet on the date of the offer of grant, which must be a trading date;

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

(b) Share options (Cont'd)

New share option scheme approved in 2002 (Cont'd)

(ii) the average closing price of the shares on the relevant Stock Exchange as stated in such Stock Exchange'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.

At 31st December, 2005, no share option has been granted under the New Scheme (2004: Nil).

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 (also known as Mr. Ng Siu On), 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.

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

(b) Share options (Cont'd)

New share option scheme approved in 2002 (Cont'd)

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.

None of the call options were exercised in 2005 (2004: Nil).

38. 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	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
At 1st January, 2004	—	2,038,423	—	39,179	112,168	120,000	4,239,609	38,885	6,588,264	1,709,886	8,298,150
Dividends declared during the year	—	—	—	—	—	—	(19,450)	19,450	—	—	—
Dividends distributed by a subsidiary	—	—	—	—	—	—	—	—	—	(121,204)	(121,204)
Profit (Loss) for the year	—	—	—	—	—	—	48,569	—	48,569	(456,328)	(407,759)
Distributions during the year	—	—	—	—	—	—	—	(58,335)	(58,335)	(83,987)	(142,322)
Transfer to dedicated capital	—	—	—	—	46,184	—	(46,184)	—	—	—	—
Acquiring interests of minority interests in a subsidiary	—	—	—	—	—	—	—	—	—	(6,064)	(6,064)
Due to minority interests reclassified from advances from affiliated companies	—	—	—	—	—	—	—	—	—	24,047	24,047
Dividends proposed subsequent to year end	—	—	—	—	—	—	(19,450)	19,450	—	—	—
At 31st December, 2004, as previously stated	—	2,038,423	—	39,179	158,352	120,000	4,203,094	19,450	6,578,498	1,066,350	7,644,848
Opening balance adjustment:											
— Equity component of convertible bonds reclassified form non-current liabilities *(Note 3(f) and 33)*	114,205	—	—	—	—	—	—	—	114,205	—	114,205
At 31st December, 2004, as restated	114,205	2,038,423	—	39,179	158,352	120,000	4,203,094	19,450	6,692,703	1,066,350	7,759,053
At 1st January, 2005, as previously stated	—	2,038,423	—	39,179	158,352	120,000	4,203,094	19,450	6,578,498	1,066,350	7,644,848
Opening balance adjustments:											
— Available-for-sale financial assets restated at fair value *(Note 3(e))*	—	—	15,410	—	—	—	—	—	15,410	—	15,410
— Convertible bonds restated at amortised cost *(Note 3(f))*	—	—	—	—	—	—	(44,134)	—	(44,134)	—	(44,134)
— Equity component of convertible bonds reclassified from non-current liabilities *(Note 3(f) and 33)*	114,205	—	—	—	—	—	—	—	114,205	—	114,205
At 1st January, 2005, as restated	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 *(Note 3(e))*	—	—	(27,227)	—	—	—	—	—	(27,227)	—	(27,227)
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**

(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, 2005, appropriations of approximately RMB9.3 million (2004: RMB46.2 million) to the general reserve fund were made by subsidiaries of the Company. No appropriation to the enterprise expansion fund was made by the subsidiaries (2004: Nil). Under HKFRSs, the appropriation for the staff welfare and incentive bonus fund is charged to income statement.

38. RESERVES (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. Dollars and are translated at the prevailing unified exchange rate in the PRC. Total accumulated distributable profits of these subsidiaries under HKFRSs at 31st December, 2005 amounted to approximately RMB927.1 million (2004: RMB813.9 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	Investment revaluation reserve	Cumulative translation adjustments reserve	Retained earnings	Proposed dividend	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January, 2004	2,038,423	—	39,179	3,619,281	38,885	5,735,768
Dividends declared during the year	—	—	—	(19,450)	19,450	—
Distributions during the year	—	—	—	—	(58,335)	(58,335)
Profit for the year	—	—	—	467,263	—	467,263
Dividends declared subsequent to year end	—	—	—	(19,450)	19,450	—
At 31st December, 2004	2,038,423	—	39,179	4,047,644	19,450	6,144,696
At 1st January, 2005, as previously stated	2,038,423	—	39,179	4,047,644	19,450	6,144,696
Opening balance adjustments:						
— Available-for-sale financial assets restated at fair value *(Note 3(e))*	—	15,410	—	—	—	15,410
At 1st January, 2005, as restated	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 *(Note 3(e))*	—	(27,227)	—	—	—	(27,227)
Distributions during the year	—	—	—	—	(19,450)	(19,450)
Profit for the year	—	—	—	184,178	—	184,178
At 31st December, 2005	**2,038,423**	**(11,817)**	**39,179**	**4,231,822**	**—**	**6,297,607**

The directors consider that the Company had approximately RMB4,259.2 million (2004: RMB4,106.3 million) available for distribution to shareholders.

39. RELATED PARTY TRANSACTIONS

(a) Name and relationship

Name	Relationship
Shenyang JinBei Automotive Company Limited ("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.

Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2005

39. 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:

	2005 **RMB'000**	2004 RMB'000
Sales of goods:		
— JinBei and its affiliated companies	**69,432**	38,127
— Shanghai Shenhua and its affiliated companies	**1,469,402**	1,895,881
— Jointly controlled entities	**63,180**	161,685
— Associates	**7,825**	44,164
Purchases of goods:		
— JinBei and its affiliated companies	**383,808**	764,311
— Shanghai Shenhua and its affiliated companies	**85,354**	214,467
— Affiliated companies of BHL	**66,441**	89,690
— Jointly controlled entities	**382,059**	578,055
— Associates	**142,162**	320,859
— Affiliated companies of the joint venture partner of Ningbo Yuming	**—**	342
— Affiliated companies of the joint venture partner of Xinguang Brilliance	**761**	—
— A joint venture partner of Shenyang Aerospace	**1,987**	39,019
Consideration paid to the joint venture partner of Ningbo Yuming for acquisition further interests in Ningbo Yuming	**—**	10,000
Purchase of intangible asset from an affiliated company of the joint venture partner of Ningbo Yuming	**—**	6,940
Purchase of machinery from affiliated companies of JinBei	**—**	58,089
Interest to a jointly controlled entity	**17,329**	17,850
Operating lease rental on machinery and equipment charged by a jointly controlled entity	**2,206**	12,840
Operating lease rental from a jointly controlled entity	**15,078**	15,364
Subcontracting charge to a jointly controlled entity	**112,160**	178,685
Service income from a jointly controlled entity	**43,671**	—
Proceeds from sale of property, plant and equipment		
— JinBei and its affiliated companies	**—**	4,407
— a jointly controlled entity	**263**	1,105

39. RELATED PARTY TRANSACTIONS (Cont'd)

(b) (Cont'd)

The sale and purchase transactions above 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.

(c) At 31st December, 2005, amounts due from affiliated companies arising from trading activities consisted of the following:

	2005	2004
	RMB'000	RMB'000
Due from related parties:		
— Shanghai Shenhua and its affiliated companies	**276,763**	386,710
— Affiliated companies of JinBei	**62,877**	58,312
— Affiliated companies of BHL	**54,222**	—
— Jointly controlled entities	**13,380**	26,643
— A joint venture partner of Shenyang Aerospace	**1,505**	882
— BMW Brilliance		
— Trade receivable	**192,185**	48,581
— Consideration receivable arising from the disposal of machinery and equipment	**269,003**	269,003
	869,935	790,131
Less: provision for doubtful debts	**(29,720)**	(24,720)
	840,215	765,411

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

39. RELATED PARTY TRANSACTIONS (Cont'd)

(c) (Cont'd)

(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:

	2005	2004
	RMB'000	RMB'000
Less than six months	**474,141**	403,314
Between six months to one year	**26,320**	3,619
Between one to two years	**321,817**	370,630
Over two years	**47,657**	12,568
	869,935	790,131

(d) At 31st December, 2005, the notes receivable from affiliated companies arising from trading activities consisted of the following:

	2005	2004
	RMB'000	RMB'000
Notes receivable from related parties:		
— Affiliated companies of JinBei	**9,446**	22,500
— Shanghai Shenhua	**328,482**	601,348
— Associates	**1,000**	19,323
— Jointly controlled entities	**42**	1,972
	338,970	645,143

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, 2005.

39. RELATED PARTY TRANSACTIONS (Cont'd)

(e) At 31st December, 2005, the advances to affiliated companies consisted of:

	2005	2004
	RMB'000	RMB'000
Advances to related parties:		
— Associates	**7,199**	2,163
— Jointly controlled entities	**27**	20,365
— BHL and its affiliated companies	**15,273**	—
— Shanghai Shenhua	**9,045**	—
— Affiliated companies of JinBei	**16,185**	16,786
— Other affiliated companies	**452**	138
	48,181	39,452
Less: provision for doubtful debts	**(9,250)**	(1,975)
	38,931	37,477

Advances to affiliated companies are unsecured, non-interest bearing and have no fixed repayment terms (2004: same except an advance to a jointly controlled entity of RMB6.5 million which was interest bearing at 5.841% per annum).

(f) At 31st December, 2005, amounts due to affiliated companies arising from trading activities consisted of the following:

	2005	2004
	RMB'000	RMB'000
Due to related parties:		
— Associates	**28,747**	42,820
— Jointly controlled entities	**436,276**	234,131
— Shanghai Shenhua and its affiliated companies	**4,191**	40,570
— JinBei and its affiliated companies	**142,438**	195,166
— Affiliated companies of BHL	**22,025**	8,705
— Other affiliated companies	**130**	1,330
	633,807	522,722

39. RELATED PARTY TRANSACTIONS (Cont'd)

(f) (Cont'd)

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:

	2005	2004
	RMB'000	RMB'000
Less than six months	**568,692**	516,188
Between six months to one year	**64,563**	5,275
Between one to two years	**335**	119
Over two years	**217**	1,140
	633,807	522,722

(g) At 31st December, 2005, the notes payable to affiliated companies arising from trading activities consisted of the following:

	2005	2004
	RMB'000	RMB'000
Notes payable to related parties:		
— Shanghai Shenhua	**—**	4,116
— Affiliated companies of BHL	**43,462**	—
— Affiliated companies of JinBei	**8,139**	24,229
— Associates	**486**	4,582
— Jointly controlled entities	**22,005**	87,310
— Other affiliated companies	**—**	925
	74,092	121,162

39. RELATED PARTY TRANSACTIONS (Cont'd)

(h) At 31st December, 2005, the advances from affiliated companies consisted of:

	2005 RMB'000	2004 RMB'000
Advances from related parties:		
— Associates	**607**	—
— Affiliated companies of BHL	**28,558**	14,319
— Affiliated company of Shanghai Shenhua	**236**	230
— Affiliated companies of JinBei	**1,088**	945
— Financing received from BMW Brilliance *(Note 18(b))*	**74,605**	74,605
— Other affiliated companies	**—**	382
	105,094	90,481

Saved for the advances from BMW Brilliance as detailed in Note 18(b), other advances from affiliated companies are unsecured, non-interest bearing and have no fixed repayment terms.

(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.

	2005 RMB'000	2004 RMB'000
— Short-term employee benefits	**5,404**	7,433

40. CASH GENERATED FROM (USED IN) OPERATIONS

	2005 **RMB'000**	2004 RMB'000 (Restated)
Loss before taxation	**(1,156,445)**	(458,083)
Share of results of:		
Jointly controlled entities	**(19,940)**	(47,790)
Associates	**(29,055)**	(55,208)
Interest income	**(60,189)**	(58,800)
Interest expense	**234,849**	182,458
Write back of provision for inventories sold	**(39,638)**	(15,522)
Depreciation of property, plant and equipment	**397,640**	363,152
Amortisation of intangible assets	**158,920**	226,041
Amortisation of land lease prepayments	**3,886**	2,369
Amortisation of goodwill of subsidiaries	**—**	24,290
Amortisation of deferred expenses	**—**	8,920
Provision for impairment losses on goodwill of a subsidiary	**50,000**	—
(Gain) Loss on disposals of property, plant and equipment	**(341)**	9,710
Gain on disposal of a jointly controlled entity	**(2,098)**	—
Government grant recognised	**(941)**	—
Loss on disposals of construction-in-progress	**—**	2,809
Write back of impairment loss on investment securities	**—**	(13,058)
Write back of provision for doubtful debts	**(7,459)**	(1,000)
Provision for inventories	**105,465**	66,832
Provision for impairment losses on goodwill of an interest in a jointly controlled entities	**179,030**	—
Provision for impairment losses on property, plant and equipment	**48,299**	10,000
Provision for impairment losses on intangible assets	**300,000**	300,000
Provision for doubtful debts and write off of bad debts	**1,176**	55,292
Provision for advances to affiliated companies	**7,275**	—
Provision for amount due from affiliated companies	**5,000**	—
Provision for other receivables	**42,252**	—
(Increase) Decrease in accounts receivable	**(69,974)**	32,858
Decrease in notes receivable	**243,394**	206,553
Decrease (Increase) in notes receivable from affiliated companies	**306,173**	(117,968)
Increase in amounts due from affiliated companies	**(79,804)**	(10,157)
(Increase) Decrease in other receivables	**(4,701)**	31,335
Decrease in prepayments and other current assets	**28,069**	193,277
Decrease (Increase) in inventories	**464,057**	(394,986)
Decrease in notes and accounts payable	**(333,250)**	(391,075)
Decrease in notes payable to affiliated companies	**(47,070)**	—
Increase (Decrease) in amounts due to affiliated companies	**171,871**	(162,132)
Increase in customer advances	**53,489**	48,656
Increase (Decrease) in other payables	**43,423**	(145,367)
(Decrease) Increase in accrued expenses and other current liabilities	**(8,277)**	85,409
Increase (Decrease) in other tax recoverable	**39,702**	(41,468)
Increase (Decrease) in other taxes payable	**75,304**	(148,334)
Unrealised gain on exchange	**(39,001)**	—
Cash generated from (used in) operations	**1,061,091**	(210,987)

41. COMMITMENTS

(a) Capital commitments

	2005 **RMB'000**	2004 RMB'000
Contracted but not provided for:		
— Construction projects	**58,544**	265,920
— Acquisition of plant and machinery	**112,396**	233,254
— Others	**77,318**	52,010
	248,258	551,184
Authorised but not contracted for:		
— Construction projects and acquisition of plant and machinery	**1,532,703**	1,585,781

(b) Operating lease commitments

At 31st December, 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of leased properties as follows:

	2005 **RMB'000**	2004 RMB'000
Within one year	**13,501**	10,510
In the second to fifth years inclusive	**22,996**	14,840
Over five years	**35,944**	39,211
	72,441	64,561

41. COMMITMENTS (Cont'd)

(c) Future operating lease arrangements

At 31st December, 2005, the Group had future aggregate minimum lease receivable under non-cancellable operating leases as follows:

	2005	2004
	RMB'000	RMB'000
Within one year	**14,152**	19,579
In the second to fifth years inclusive	**56,607**	56,607
Over five years	**104,960**	119,112
	175,719	195,298

42. CONTINGENCIES

(a) At 31st December, 2005, the Group had bank guaranteed notes of approximately RMB1,128 million (2004: RMB1,345 million) which were endorsed or discounted but not yet honored.

(b) At 31st December, 2005, the Group had provided the following guarantees:

— Corporate guarantees for revolving bank loans and bank guaranteed notes of approximately RMB120 million (2004: RMB296 million) drawn by affiliated companies of Shanghai Shenhua;

— A joint and several corporate guarantee with a joint venture partner of Shenyang Aerospace on a long-term bank loan of approximately RMB111 million (2004: RMB221 million) drawn by Shenyang Aerospace which will expire in 2008;

— Corporate guarantees for bank loans amounting to RMB295 million (2004: RMB100 million) drawn by JinBei. Bank deposits of RMB311 million (2004: RMB102 million) was pledged as a collateral for the corporate guarantee as detailed in Note 27.

42. CONTINGENCIES (Cont'd)

(c) On 21st January, 2003, a writ dated 21st January, 2003 (the "Writ") brought by Broadsino Finance Company Limited ("Broadsino"), as the Plaintiff, was filed with the Supreme Court of Bermuda (the "Supreme Court") which alleged that the interest of the Chinese Financial Education Development Foundation (the "Foundation") in 1,446,121,500 shares of the Company (the "Sale Shares") was held in trust for Broadsino and was improperly transferred to Huachen Automotive Group Holdings Company Limited ("Huachen").

In the course of legal proceedings with Broadsino, the Company achieved the following:

(i) overturning on 11th February, 2003 an ex parte Court Order dated 22nd January, 2003 which had restrained the Company from, amongst other things, registering the transfer of the Sale Shares by the Foundation to Huachen and/or Huachen to certain directors of the Company; (ii) initiating on 10th March, 2003, a Strikeout Summons at the Supreme Court to have the Writ and the statement of claim struck out, which proceedings were duly heard before the Supreme Court, and which resulted on 31st December, 2003 in that court issuing a judgement to strike-out the Writ; (iii) challenging Broadsino's attempts for appeal to the Court of Appeal of Bermuda, Civil Appellant jurisdiction which appeal was then dismissed by that court's judgement of 14th March, 2005 which ruled in the Company's favour; (iv) Broadsino's further attempts for leave to appeal to the Privy Council in the United Kingdom with respect to the Court of Appeal's judgement being challenged at all stages by the Company; and (v) Broadsino seeking a grant of leave on 10th November, 2005 in the Court of Appeal in Bermuda to withdraw its leave to appeal to the Privy Council and the Company being awarded its costs of the leave application.

The directors of the Company do not believe the proceedings with Broadsino will have any significant impact on the financial position of the Company and of the Group.

(d) 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").

42. CONTINGENCIES (Cont'd)

(d) (Cont'd)

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.

Further interlocutory steps are in progress. There have been no other material developments 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.

43. APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on pages 44 to 132 were approved and authorised for issue by the Board of Directors on 21st April, 2006.