

Report of Directors

The directors of the Company present this report together with the audited financial statements of the Group for the year ended 31st December, 2006.

PRINCIPAL ACTIVITIES

The Company is a holding company. The principal activities of its subsidiaries are set out in note 19 to the financial statements. The operating businesses of the Group are divided primarily into the manufacture and sale of (1) minibuses and automotive components and (2) sedans.

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

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

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

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

On 27th March, 2003, the Company, through its indirect subsidiary, Shenyang JinBei Automotive Industry Holdings Co., Ltd. ("SJAI"), entered into a joint venture contract with BMW Holding BV to produce and sell BMW-designed and branded sedans in the PRC. The registered capital and total investment cost of the joint venture is Euro 150 million and Euro 450 million, respectively. At that time, the Company's effective interests in SJAI and the joint venture with BMW were 81.0% and 40.5%, respectively. On 28th April, 2003, the Company increased its effective interests in SJAI from 81.0% to 89.1% and thereby increased its effective interests in the joint venture with BMW from 40.5% to 44.55%. On 16th December, 2003, the Company further increased its effective interests in SJAI from 89.1% to 99.0% and thereby increased its effective interests in the joint venture with BMW from 44.55% to 49.5%.

On 29th December, 2003, the Company entered into agreements in relation to the proposed acquisition of an indirect 40.1% interests in JinBei, the joint venture partner of Shenyang Automotive and a supplier of automotive components for the Group's minibuses and sedans. JinBei is an A-share company listed on the Shanghai Stock Exchange. As a result of JinBei's recent share reform, which took place in August 2006 converting all issued shares of JinBei into tradable shares, the

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Company's 40.1% interest in JinBei has been reduced to 33.05%. Upon obtaining the approvals from the relevant government authorities and completion of the proposed acquisition, the Company's effective interests in Shenyang Automotive will increase from 51.0% to approximately 63.9%.

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

On 7th August, 2006, the Company, through its wholly owned subsidiary, Southern State Investment Limited ("Southern State"), entered into an agreement for the disposal of 3.5% equity interest in Mianyang Xinchun by Southern State to an independent third party. Upon obtaining the approvals from the relevant government authorities and completion of the proposed transfer, the Company's effective interests in Mianyang Xinchun will decrease from 50.0% to 46.5%.

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TURNOVER AND CONTRIBUTION

The Group's turnover and contribution to loss from operations for the year ended 31st December, 2006, analysed by product category, are as follows:

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

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FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2006 are set out in the financial statements of the Group on page 44.

CASH FLOW POSITION

The cash flow position of the Group for the year ended 31st December, 2006 is set out and analysed in the consolidated cash flow statement on pages 48 and 49 and in note 39 to the financial statements.

DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year ended 31st December, 2006 (2005: nil).

CLOSURE OF REGISTER OF MEMBERS

The Hong Kong branch register of members of the Company will be closed from Wednesday, 20th June, 2007 to Friday, 22nd June, 2007, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending the forthcoming annual general meeting of the Company, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 18th June, 2007.

FIVE-YEAR FINANCIAL SUMMARY

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

RESERVES

Movements in the reserves of the Group and the Company during the year ended 31st December, 2006 are set out in note 37 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment of the Group for the year ended 31st December, 2006 are set out in note 16 to the financial statements.

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Particulars of the subsidiaries, associates and jointly controlled entities are set out in notes 19, 20 and 21, respectively to the financial statements.

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SHARE CAPITAL

Details of the Company's share capital as of 31st December, 2006 are set out in note 36(a) to the financial statements.

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

SHARE OPTIONS

1999 Share Option Scheme

With an aim to provide incentives and rewards to eligible participants who contribute to the success of the Group, on 18th September, 1999, shareholders of the Company adopted a share option scheme which came into effect on 20th October, 1999 (the "1999 Share Option Scheme").

Pursuant to the 1999 Share Option Scheme, the directors of the Company may, at their discretion, invite employees, including executive directors, of the Company and/or any of its subsidiaries, to take up options to subscribe for ordinary shares of par value of US\$0.01 each in the share capital of the Company (the "Shares").

A consideration of HK\$1.00 is payable on acceptance of the offer of grant of an option.

The maximum number of Shares in respect of which options may be granted under the 1999 Share Option Scheme (and any other share option scheme of the Company and its subsidiaries) shall not exceed 10% of the issued share capital of the Company from time to time, excluding any Shares allotted and issued on exercise of options granted pursuant to the 1999 Share Option Scheme.

No option shall be granted to any one person which if exercised in full would result in the total number of Shares already issued and issuable to him/her under all the options previously granted to him/her would exceed 25% of the aggregate number of Shares for the time being issued and issuable under the 1999 Share Option Scheme.

The subscription price per Share in respect of any option granted under the 1999 Share Option Scheme shall be determined by the directors at their absolute discretion, but in any event shall not be less than the higher of (a) 80% of the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the relevant offer date or (b) the nominal value of a Share of the Company.

On 28th June, 2002, the 1999 Share Option Scheme was terminated. Pursuant to clause 13.1 of the 1999 Share Option Scheme, all the share options granted and remained outstanding prior to such termination shall continue to be valid and exercisable in accordance with the terms of the grant and the 1999 Share Option Scheme.

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Details of the share options outstanding as at 31st December, 2006 under the 1999 Share Option Scheme are set out as follows:

Category and name of participant	Number of share options					Outstanding as at 31st December, 2006	Option period	Subscription price per Share of the Company (HK\$)
	Outstanding as at 1st January, 2006	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year			
Director								
Wu Xiao An	2,800,000 <i>(Note)</i>	—	—	—	—	2,800,000	2nd June, 2001 to 1st June, 2011	1.896
Total	2,800,000	—	—	—	—	2,800,000		

Note: The share options were granted on 2nd June, 2001 and vested immediately upon the grant and are exercisable within a period of 10 years.

As none of the above share options had been exercised during the year ended 31st December, 2006, the weighted average closing price of the Shares immediately before the dates on which the share options were exercised is not disclosed herein.

The directors consider that it is not appropriate to state the value of the outstanding share options granted under the 1999 Share Option Scheme given that the variables which are critical for the calculation of the value of such outstanding share options cannot be determined. The variables which are critical for the determination of the value of such share options include the subscription price for the Shares upon the exercise of the subscription rights attaching to the share options, which may be adjusted under certain circumstances, and whether or not such share options will be exercised by the grantees. The directors are of the view that the value of the share options depends on a number of variables which are either difficult to ascertain or can only be ascertained subject to a number of theoretical bases and speculative assumptions, and accordingly, believe that any calculation of the value of the share options would not be meaningful.

New Share Option Scheme

To comply with the amendments to Chapter 17 of the Listing Rules, which came into effect on 1st September, 2001, the Company adopted a new share option scheme on 28th June, 2002 (the "New Share Option Scheme"). The purpose of the New Share Option Scheme is to provide incentives or rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest (the "Invested Entity"). The New Share Option Scheme came into effect on 15th July, 2002.

Pursuant to the New Share Option Scheme, the directors of the Company may, at their absolute discretion, invite the following persons to take up options to subscribe for Shares of the Company: (a) any eligible employee as defined in the New Share Option Scheme; (b) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity; (c) any supplier of goods or services to any member of the Group or any Invested Entity; (d) any customer of the Group or any Invested Entity; (e) any person or entity acting in their capacities as advisers or consultants that provides research, development or other technological support to the Group or any Invested Entity; and (f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity determined by the directors of the Company having contributed or may contribute to the development and growth of the Group and any Invested Entity.

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A consideration of HK\$1.00 is payable on acceptance of the offer of grant of an option.

The maximum number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the New Share Option Scheme and any other share option scheme of the Company) to be granted under the New Share Option Scheme and any other share option scheme of the Company must not in aggregate exceed 10% of the Shares in issue as at the date of approval of the New Share Option Scheme (i.e. 366,605,290 Shares, representing 9.99% of the total number of Shares in issue as at the date of this annual report).

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the New Share Option Scheme and any other share option scheme of the Company (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of options in excess of the 1% limit shall be subject to shareholders' approval in general meeting with such participant and his associates abstaining from voting.

The subscription price per Share in respect of any option granted under the New Share Option Scheme shall be a price determined by the directors, but shall not be lower than the higher of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a trading day; (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of grant; or (c) the nominal value of a Share of the Company.

The New Share Option Scheme will remain in force for a period of 10 years from 15th July, 2002. The period during which an option may be exercised will be determined by the directors in their absolute discretion, save that no option shall be exercised later than 10 years from the date of grant.

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Details of the share options outstanding as at 31st December, 2006 under the New Share Option Scheme are set out as follows:

Category and name of participants	Number of share options					Outstanding as at 31st December, 2006	Option period	Subscription price per Share of the Company (HK\$)
	Outstanding as at 1st January, 2006	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year			
Directors								
Wu Xiao An	—	8,000,000 <i>(Note)</i>	—	—	—	8,000,000	28th December, 2006 to 27th December, 2016	1.32
Qi Yumin	—	7,000,000 <i>(Note)</i>	—	—	—	7,000,000	28th December, 2006 to 27th December, 2016	1.32
He Guohua	—	3,000,000 <i>(Note)</i>	—	—	—	3,000,000	28th December, 2006 to 27th December, 2016	1.32
Wang Shiping	—	3,000,000 <i>(Note)</i>	—	—	—	3,000,000	28th December, 2006 to 27th December, 2016	1.32
Lei Xiaoyang	—	3,000,000 <i>(Note)</i>	—	—	—	3,000,000	28th December, 2006 to 27th December, 2016	1.32
Employees (in aggregate)	—	8,750,000 <i>(Note)</i>	—	—	—	8,750,000	28th December, 2006 to 27th December, 2016	1.32
Others (in aggregate)	—	3,000,000 <i>(Note)</i>	—	—	—	3,000,000	28th December, 2006 to 27th December, 2016	1.32
Total	—	35,750,000	—	—	—	35,750,000		

Note: The share options were granted on 28th December, 2006 and vested immediately upon the grant and are exercisable within a period of 10 years. The closing price of the Shares immediately before the date on which the options were granted is HK\$1.28 per Share.

As none of the above share options had been exercised during the year ended 31st December, 2006, the weighted average closing price of the Shares immediately before the dates on which the share options were exercised is not disclosed herein.

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The fair value of the share options granted under the New Share Option Scheme during the year was calculated using the Black-Scholes option pricing model. The following assumptions were used to determine the fair value of the share options at the date of grant:

Date of grant	28th December, 2006
Closing share price at the date of grant	HK\$1.32
Exercise price	HK\$1.32
Risk-free interest rate	3.480%–3.509%
Expected life of option	1–2 years
Expected volatility	42.64%
Expected dividend yield	0%

The value of an option varies with different variable of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

The Group recognised total expenses of RMB11,281,000 for the year ended 31st December, 2006 (2005: Nil) in relation to share options granted by the Company under the New Share Option Scheme.

DIRECTORS

The directors of the Company who held office during the year ended 31st December, 2006 and up to the date of this annual report are:

Executive directors:

Mr. Wu Xiao An (<i>Chairman</i>)	
Mr. Qi Yumin (<i>Chief Executive Officer</i>)	(appointed on 6th January, 2006)
Mr. He Guohua	
Mr. Wang Shiping	
Mr. Lei Xiaoyang (<i>Chief Financial Officer</i>)	
Mr. Lin Xiaogang	(resigned on 6th January, 2006)

Non-executive director:

Mr. Wu Yong Cun	(retired on 23rd June, 2006)
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Independent non-executive directors:

Mr. Xu Bingjin
Mr. Song Jian
Mr. Jiang Bo

Pursuant to bye-law 99 of the bye-laws of the Company, Mr. Xu Bingjin and Mr. Lei Xiaoyang will retire by rotation at the forthcoming annual general meeting of the Company.

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Each of Mr. Xu Bingjin and Mr. Lei Xiaoyang, being eligible, will offer himself for re-election and the Board has recommended them for election at the forthcoming annual general meeting of the Company.

Details of the directors standing for re-election at the forthcoming annual general meeting are set out in a circular to be sent to the shareholders together with this annual report in late April 2007.

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

As at 31st December, 2006, so far as is known to the directors or chief executives of the Company, the following persons other than a director or chief executive of the Company had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (the "SFO"):

Name of shareholders	Number of Shares held/Approximate shareholding percentage					
	Long position	%	Short position	%	Lending pool	%
Huachen	1,446,121,500	39.42	—	—	—	—
Templeton Asset Management Ltd. (Note 1)	222,446,000	6.06	—	—	—	—
Brandes Investment Partners, L.P. (Note 2)	333,852,000	9.10	—	—	—	—
The Northern Trust Company (ALA)	—	—	—	—	190,012,000	5.18
Deutsche Bank Aktiengesellschaft (Note 3)	252,551,134	6.88	59,307,300	1.62	—	—

Notes:

- The 222,446,000 Shares are held in the capacity as investment manager.
- The 333,852,000 Shares are held in the capacity as investment manager.
- The 252,551,134 Shares are held as to 1,094,000 Shares in the capacity as beneficial owner and as to 251,457,134 Shares as security interest. The 59,307,300 Shares are held as to 1,053,400 Shares in the capacity as beneficial owner and as to 58,253,900 as security interest. 176,629,234 Shares in long position represent underlying interest in physically settled derivatives listed or traded on a stock exchange or traded on a futures exchange and 744,000 Shares in short position represent underlying interest in cash settled unlisted derivatives.

Save as disclosed herein, as at 31st December, 2006, there was no other person so far known to the directors or chief executives of the Company, other than a director or chief executive of the Company as having an interest or a short position in the Shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

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DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31st December, 2006, the interests and short positions of each director, chief executive and their respective associates in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange, are set out below:

Name of directors	Type of interests	Number of Shares held		Approximate shareholding percentage %	Number of share options granted
		Long position	Short position		
Wu Xiao An	Personal	—	—	—	2,800,000 (Note 1)
	Personal	—	—	—	8,000,000 (Note 2)
Qi Yumin	Personal	—	—	—	7,000,000 (Note 2)
He Guohua	Personal	—	—	—	3,000,000 (Note 2)
Wang Shiping	Personal	—	—	—	3,000,000 (Note 2)
Lei Xiaoyang	Personal	—	—	—	3,000,000 (Note 2)

Notes:

1. The options to subscribe for 2,800,000 Shares were exercisable at any time during the 10-year period from 2nd June, 2001 at the subscription price of HK\$1.896 per Share.
2. The options were exercisable at any time during the 10-year period from 28th December, 2006 at the subscription price of HK\$1.32 per Share.

Save as disclosed above, as at 31st December, 2006, none of the directors, chief executives of the Company or their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

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DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year ended 31st December, 2006 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate; and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' SERVICE CONTRACTS

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

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

On 1st July, 2004, Mr. He Guohua, an executive director as at the date of this annual report, entered into an employment contract for senior technician/management with the Company in relation to his appointment to the senior management of the Company for a term of three years commencing from 1st July, 2004.

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

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

Except as disclosed in the section headed "Liquidity and Financial Resources", neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the year.

ANALYSIS OF INTEREST CAPITALISED

Details of interest capitalised are set out in note 9 to the financial statements.

PRE-EMPTIVE RIGHTS

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

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MAJOR CUSTOMERS AND SUPPLIERS

During 2006, the aggregate sales attributable to the Group's five largest customers, excluding the Group's associates and jointly controlled entities, represented approximately 21.49% of the Group's turnover while the sales attributable to the Group's largest customer was approximately 8.16% of the Group's turnover. The aggregate purchases attributable to the Group's five largest suppliers, excluding the Group's associates and jointly controlled entities, during the year represented approximately 17.52% of the Group's total purchases and the purchases attributable to the Group's largest supplier represented approximately 5.69% of the Group's total purchases.

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

PUBLIC FLOAT

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

CONNECTED TRANSACTIONS

Continuing Connected Transactions

The Group is engaged in the manufacture and sale of minibuses and automotive components and sedans. On 16th December, 2005, members of the Group entered into certain framework agreements with JinBei and/or Shenyang Automotive for the purchase and/or sale of automobiles, materials and automotive components for a period of three financial years ending 31st December, 2008. At the time of entering into of the framework agreements, Shenyang Automotive was owned as to 51% by the Company and as to 49% by JinBei. Each of JinBei, its subsidiaries and associates (other than Shenyang Automotive) and Shenyang Automotive are connected persons of the Company within the meaning of the Listing Rules. At a special general meeting held on 10th February, 2006 (the "2006 SGM"), independent shareholders of the Company approved, among others, the entering into of the said continuing connected transactions pursuant to Chapter 14A of the Listing Rules (the "Continuing Connected Transactions") and the annual caps of the Continuing Connected Transactions for the three financial years ending 31st December, 2008.

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Details of the Continuing Connected Transactions and the actual monetary value for the financial year ended 31st December, 2006 are set out below:

Continuing Connected Transactions	Major type of products	Actual monetary value for the financial year ended 31st December, 2006 RMB'000
A. Purchases of materials and automotive components by members of the Group (including Shenyang Automotive) from JinBei and its subsidiaries and associates (other than Shenyang Automotive)		
1. Purchases of materials and automotive components by Shenyang Automotive from JinBei and its subsidiaries and associates (other than Shenyang Automotive)	Seats, steering systems, fuel pumps and driving shafts	719,016
2. Purchases of materials and automotive components by Xing Yuan Dong from JinBei and its subsidiaries and associates (other than Shenyang Automotive)	Axles, torsion bars, gear boxes, seats and rubber products	145,825
3. Purchases of materials and automotive components by Dongxing Automotive from JinBei and its subsidiaries and associates (other than Shenyang Automotive)	Rubber products	16,701
4. Purchases of materials and automotive components by Ningbo Yuming from JinBei and its subsidiaries and associates (other than Shenyang Automotive)	Inside cutting, outside cutting and moulding	10,344
5. Purchases of materials and automotive components by Shenyang ChenFa from JinBei and its subsidiaries and associates (other than Shenyang Automotive)	Driving shafts	3,569
B. Purchases of materials and automotive components by members of the Group (other than Shenyang Automotive) from Shenyang Automotive		
1. Purchases of materials and automotive components by Shenyang ChenFa from Shenyang Automotive	Gear boxes	91,029
2. Purchases of materials and automotive components by Dongxing Automotive from Shenyang Automotive	Component parts for rear axles and steel panels	45,031

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Continuing Connected Transactions	Major type of products	Actual monetary value for the financial year ended 31st December, 2006 RMB'000
3. Purchases of materials and automotive components by Shenyang Brilliance Power from Shenyang Automotive	Engine assembly and gear boxes	14,582
C. Sale of automobiles, materials and automotive components by members of the Group to connected persons		
1. Sale of automobiles and automotive components by Shenyang Automotive to JinBei and its subsidiaries and associates (other than Shenyang Automotive)	Press parts	166,284
2. Sale of materials and automotive components by Xing Yuan Dong to JinBei and its subsidiaries and associates (other than Shenyang Automotive)	Engines, gear boxes and seats	11,452
3. Sale of materials and automotive components by Ningbo Yuming to Shenyang Automotive	Side windows, floor depression bars and moulding	140,361
4. Sale of materials and automotive components by Dongxing Automotive to Shenyang Automotive	Rear axles, press parts, welding parts, paints and special vehicle modification	245,618
5. Sale of materials and automotive components by Xing Yuan Dong to Shenyang Automotive	Power trains, driving axle assembly, rear heaters and water tank assembly	1,872,914
6. Sale of materials and automotive components by Shenyang ChenFa to Shenyang Automotive	Power trains	1,216,488
7. Sale of materials and automotive components by Shenyang Brilliance Power to Shenyang Automotive	Power trains	3,763

The independent non-executive directors of the Company have reviewed and confirmed that the Continuing Connected Transactions have been entered into:

1. in the ordinary and usual course of business of the Group;

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2. either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
3. in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Due to the unforeseen significant increase in the demand for the new model of the sedans of the Group since the second quarter of 2006 and other reasons as set out in the circular of the Company dated 19th January, 2007, the directors of the Company expected the actual monetary value of certain Continuing Connected Transactions for the financial year ended 31st December 2006 and/or one or both of the two financial years ending 31st December, 2008 will exceed the caps as approved by the shareholders at the 2006 SGM (the "Relevant Continuing Connected Transactions"). As stated in the announcement of the Company dated 15th December, 2006 and the circular dated 19th January, 2007, the directors proposed, among other things, to revise the maximum annual monetary value of the Relevant Continuing Connected Transactions for the two financial years ending 31st December, 2008 (*Note*). Relevant approval from independent shareholders was obtained at a special general meeting held on 12th February, 2007.

The auditors of the Company have reviewed the Continuing Connected Transactions and confirmed to the directors that the Continuing Connected Transactions:

1. have received the approval of the directors;
2. are in accordance with the pricing policies of the Group;
3. have been entered into in accordance with the relevant agreements governing the transactions; and
4. have not exceeded the 2006 annual caps as approved by the shareholders at the 2006 SGM, except for the monetary values of the Continuing Connected Transactions A1, A3, A4, A5, B1, B2, C1, C4 and C6 as mentioned above (*Note*).

Note: Please refer to the announcements of the Company dated 15th December, 2006 and the circular dated 19th January, 2007.

Financial assistance for 2006

On 16th December, 2005:

Xing Yuan Dong and Shenyang Automotive entered into an agreement for the provision of cross guarantee in respect of each other's banking facilities in the amount of RMB350 million for a term of one year commencing from 1st January, 2006 to 31st December, 2006; and

Xing Yuan Dong and JinBei entered into an agreement for the provision of cross guarantee in respect of each other's banking facilities in the amount of RMB385 million for a term of one year commencing from 1st January, 2006 to 31st December, 2006.

At the time of entering of the above agreements, Xing Yuan Dong was a wholly owned subsidiary of the Company whereas Shenyang Automotive was owned as to 51% by the Company and as to 49% by JinBei. Each of Shenyang Automotive and JinBei are connected persons of the Company within the meaning of the Listing Rules. At the 2006 SGM, independent shareholders of the Company approved the provision of the above cross guarantees for a period of one year from 1st January, 2006 to 31st December, 2006.

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During 2006, Shenyang Automotive provided a guarantee in respect of Xing Yuan Dong's banking facilities in the amount of RMB150 million while Xing Yuan Dong provided a guarantee in respect of Shenyang Automotive's banking facilities in the amount of RMB350 million. Xing Yuan Dong also provided a guarantee in respect of JinBei's banking facilities in the amount of RMB295 million.

Post balance sheet events

— *Additional continuing connected transactions for 2007 and 2008*

On 12th February, 2007, independent shareholders of the Company approved, among other things, the entering into of a number of additional continuing connected transactions pursuant to Chapter 14A of the Listing Rules (the "Additional Continuing Connected Transactions") by certain subsidiaries of the Company for the two financial years ending 31st December, 2008:

- Purchases of materials and automotive components by each of Xing Yuan Dong and Shenyang Jindong from Shenyang Automotive;
- Sale of materials and automotive components by Shenyang Jindong to JinBei and its subsidiaries and associates (other than Shenyang Automotive); and
- Sale of materials and automotive components by each of Ningbo Ruixing, Shanghai Hidea, Mianyang Ruian and Shenyang Jindong to Shenyang Automotive.

Particulars of the materials and automotive components to be purchased from/sold to the connected parties and the maximum monetary value of the Additional Continuing Connected Transactions for 2007 and 2008 are set out in the circular of the Company dated 19th January, 2007.

— *Financial assistance for 2007*

On 12th February, 2007, independent shareholders of the Company also approved the entering into of agreements by certain subsidiaries of the Company with connected parties for provision of the following financial assistance for a term of one year commencing from 1st January, 2007 to 31st December, 2007:

- Provision of cross guarantees between Xing Yuan Dong and Shenyang Automotive for each other's banking facilities in the amount of RMB1.5 billion; and
- Provision of cross guarantee between Xing Yuan Dong and JinBei for each other's banking facilities in the amount of RMB500 million.

Save as disclosed above, in the opinion of the directors, the transactions disclosed as related party transactions in note 38 to the financial statements do not constitute connected transactions as defined under the Listing Rules in force at the timing of the entering into of the relevant transactions.

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AUDITORS

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

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

By order of the Board

Wu Xiao An

(also known as Ng Siu On)

Chairman

Hong Kong,

20th April, 2007